# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 40-F

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

**x ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2011** **Commission File Number 000-13727**

# Pan American Silver Corp.

(Exact name of Registrant as specified in its charter)

| **British Columbia** | **1044** | **Not Applicable** |
|---|---|---|
| (Province or other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No..) |

**1500 – 625 Howe Street**
**Vancouver, British Columbia**
**V6C 2T6**
**(604) 684-1175**
(Address and telephone number of Registrant's principal executive offices)

**C T Corporation**
**111 Eighth Avenue, 13th Floor**
**New York, NY 10011**
**(212) 590-9070**
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Shares, No Par Value | The NASDAQ Stock Market |

Securities registered or to be registered pursuant to Section 12(g) of the Act.
**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
**None**

For annual reports, indicate by check mark the information filed with this Form:

x Annual information form x Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by this annual report:

**The Registrant had 104,492,743 Common Shares outstanding as at December 31, 2011**

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes o 82- No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12

months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No o

**CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING**
**ESTIMATES OF MEASURED, INDICATED AND INFERRED MINERAL RESOURCES**

Unless otherwise indicated, all reserve and resource estimates included in this Annual Report on Form 40-F (this "Annual Report") have been prepared in accordance with Canadian National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("NI 43-101") and the Canadian Institute of Mining, Metallurgy and Petroleum classification system. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission (the "SEC"), and reserve and resource information included herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, this Annual Report uses the terms "measured resources," "indicated resources" and "inferred resources." U.S. investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. The requirements of NI 43-101 for the identification of "reserves" are also not the same as those of the SEC, and reserves reported by the Registrant in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. U.S. investors are cautioned not to assume that any part of a "measured resource" or "indicated resource" will ever be converted into a "reserve." U.S. investors should also understand that "inferred resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of "inferred resources" exist, are economically or legally mineable or will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. In addition, disclosure of "contained ounces" in a mineral resource is permitted disclosure under Canadian regulations. However, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade, without reference to unit measures. Accordingly, information concerning mineral deposits set forth in this Annual Report may not be comparable with information made public by companies that report in accordance with U.S. standards.



**A. Disclosure Controls and Procedures**

Disclosure controls and procedures are defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), as those controls and other procedures that are designed to ensure that information required to be disclosed by the Registrant in reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Rule 13a-15(e) also provides that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Registrant is accumulated and communicated to the Registrant's management as appropriate to allow timely decisions regarding required disclosure.

As of December 31, 2011, the end of the period covered by this report, the Registrant carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2011, the Registrant's disclosure controls and procedures were effective. See "Disclosure Controls and Procedures" in Management's Discussion and Analysis for the fiscal year ended December 31, 2011, filed as Exhibit No. 1.2 to this Annual Report on Form 40-F.

**B. Management's Annual Report on Internal Control Over Financial Reporting**

See "Management's Report on Internal Control over Financial Reporting" that accompanies Management's Discussion and Analysis for the fiscal year ended December 31, 2011, filed as Exhibit 1.2 to this Annual Report on Form 40-F.

**C. Attestation Report of the Independent Registered Public Accounting Firm**

The attestation report of Deloitte & Touche LLP, the Registrant's Independent Registered Chartered Accountant, on the Registrant's internal control over financial reporting is included in the "Report of the Independent Registered Chartered Accountants" that accompanies the Registrant's Audited Consolidated Financial Statements for the fiscal year ended December 31, 2011, filed as Exhibit 1.3 to this Annual Report on Form 40-F.

**D. Changes in Internal Control Over Financial Reporting**

There was no change in the Registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**E. Notice of Pension Fund Blackout Period**

The Registrant was not required by Rule 104 of Regulation BTR to send any notice to any of its directors or executive officers during the fiscal year ended December 31, 2011.

**F. Audit Committee Financial Expert**

The Registrant's board of directors has determined that Michael Carroll, an individual serving on the audit committee of the Registrant's board of directors, is an audit committee financial expert, as that term is defined in General Instruction B(8)(b) of Form 40-F and is independent under the rules and regulations of the Nasdaq Stock Market .

The Commission has indicated that the designation of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liabilities on such person that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee or board of



directors.

**G. Code of Ethical Conduct**

The Registrant has adopted a global code of ethical conduct (the "Code") that applies to all directors, officers and employees. A copy of the Code may be obtained at www.panamericansilver.com. The Registrant will provide a copy of the Code without charge to any person that requests a copy by contacting the General Counsel, Robert Pirooz, at the address on the cover of this Annual Report on Form 40-F. No waivers from the requirements of the Code were granted in the fiscal year ended December 31, 2011.

The Registrant amended the Code in August 2011 to add provisions regarding the Registrant's record keeping and control systems and employee relations. The Registrant also added provisions to ensure compliance with legal, regulatory and policy requirements in such areas as political and charitable contributions, bribery and fraud and communications with the media and other members of the public. The Registrant also made other minor amendments to the Code. See "Global Code of Ethical Conduct", filed as Exhibit 14.1 to this Annual Report on Form 40-F.

**H. Principal Accountant Fees and Services and Audit Committee Pre-Approval Policies**

Information about the Registrant's principal accountant fees and services and a description of the Registrant's pre-approval policies and procedures is included under the heading "External Auditor Service Fees" of the Registrant's Annual Information Form for the fiscal year ended December 31, 2011, filed as Exhibit 1.1 to this Annual Report on Form 40-F .

**I. Off-Balance Sheet Arrangements**

The Registrant is not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**J. Tabular Disclosure of Contractual Obligations**

The required disclosure can be found under the heading "Contractual Commitments and Contingencies" of Management's Discussion and Analysis for the fiscal year ended December 31, 2011, filed as Exhibit 1.2 to this Annual Report on Form 40-F.

**K. Critical Accounting Policies**

A discussion of the Registrant's critical accounting policies can be found under the heading "Critical Accounting Policies and Estimates" of Management's Discussion and Analysis for the fiscal year ended December 31, 2011, filed as Exhibit 1.2 to this Annual Report on Form 40-F.

**L. Nasdaq Exemptions**

On March 16, 2005, the Registrant informed the Nasdaq Stock Market that as permitted by Rule 4350(a)(1) of the Nasdaq Marketplace Rules, it intended to follow British Columbia practice with respect to quorum requirements in lieu of those required by Rule 4350(f) of the Nasdaq Marketplace Rules (which provides that a quorum for a shareholder meeting of a Nasdaq-listed company must be at least 33-1/3% of the outstanding common shares of the company). The Registrant's by-laws provide that the minimum quorum for a meeting of holders of Common Shares is one individual who is a shareholder, proxy holder or duly authorized representative of a corporate shareholder personally present and representing shares aggregating not less than 5% of the issued shares of the Registrant carrying the right to vote. The Registrant's quorum requirements are not prohibited by the requirements of the *Business Corporations Act* (British Columbia) and the Registrant intends to continue to comply with the requirements of the *Business Corporations Act* (British Columbia). The rules of the Toronto Stock Exchange, upon which the Common Shares are also listed, do not contain specific quorum requirements.



**M. Identification of the Audit Committee**

The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are David Press, Michael J.J. Maloney and Michael Carroll . David Press, Michael J.J. Maloney and Michael Carroll are independent as such term is defined under the rules and regulations of the Nasdaq Stock Market. Further information about the Registrant's audit committee can be found under the heading "Audit Committee" of the Registrant's Annual Information Form, filed as Exhibit 1.1 to this Annual Report on Form 40-F .

**N. Interactive Data File**

The Registrant is not currently required to submit to the Commission, nor post to its corporate Web site, an Interactive Data File.

**O. Mine Safety**

The Registrant is not currently required to disclose the information required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.



## UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

**A. Undertaking**

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

**B. Consent to Service of Process**

The Registrant has previously filed with the Commission a Form F-X in connection with its Common Shares. Any change to the name and address of the agent for service of process shall be communicated promptly to the Commission by an amendment to Form F-X.



## EXHIBITS

The following exhibits are filed as part of this report:

| Exhibit Number | Title |
|---|---|
| 1.1 | Annual Information Form for the fiscal year ended December 31, 2011. |
| 1.2 | Management's Discussion and Analysis for the fiscal year ended December 31, 2011. |
| 1.3 | Audited Consolidated Financial Statements for the fiscal year ended December 31, 2011, prepared in accordance with International Financial Reporting Standards. |
| 14.1 | Global Code of Ethical Conduct. |
| 23.1 | Consent of Deloitte & Touche LLP. |
| 23.2 | Consent of Martin Wafforn. |
| 23.3 | Consent of Michael Steinmann. |
| 23.4 | Consent of Pamela De Mark. |
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |



## SIGNATURE

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**PAN AMERICAN SILVER CORP.**

Dated: March 22, 2012

/s/ Geoffrey A. Burns
By: Geoffrey A. Burns
Title: President and Chief Executive Officer



## EXHIBIT INDEX

| Number | Document |
|---|---|

| | |
|---|---|
| 1.1 | Annual Information Form for the fiscal year ended December 31, 2011. |
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**Exhibit 1.1**



# Pan American SILVER CORP.

**Annual Information Form**

**For the Year Ended December 31, 2011**

March 22, 2012

1500-625 Howe Street
Vancouver, British Columbia
V6C 2T6

*www.panamericansilver.com*

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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements and information in this Annual Information Form and in the documents incorporated by reference herein constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of applicable Canadian provincial securities laws. All statements, other than statements of historical fact, are forward-looking statements or forward-looking information. When used in this Annual Information Form and the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "expect", "intend", "target", "plan", "forecast", "strategies", "objectives", "budget", "may", "schedule" and other similar words and expressions, identify forward-looking statements or information. These forward-looking statements or information relate to, among other things:

- the price of silver and other metals;
- the sufficiency of Pan American's (as defined below) current working capital, anticipated operating cash flow or its ability to raise necessary funds;
- the accuracy of Mineral Reserve and Mineral Resource estimates, estimates of future production and future cash, and total costs of production, as applicable, at Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo, Navidad, San Vicente or other properties;
- estimated production rates for silver and other payable metals produced by Pan American, timing of production and estimated cash and total costs of production at Pan American's properties, including forecasted cash costs per ounce of production;
- the estimated cost of and availability of funding for ongoing capital replacement, improvement or remediation programs;
- access to and availability of funding for the future construction and development of Pan American's projects;
- estimated costs of construction, development and ramp-up of Pan American's projects;
- future successful development of the Navidad property and other development projects of Pan American;
- the effects of laws, regulations and government policies affecting Pan American's operations, including, without limitation, expectations relating to or the effect of certain highly restrictive laws and regulations applicable to mining in the Province of Chubut, Argentina;
- the estimates of expected or anticipated economic returns from a mining project, as reflected in feasibility studies or other reports prepared in relation to development of projects;
- estimated exploration expenditures to be incurred on Pan American's various silver exploration properties;
- compliance with environmental, health, safety and other regulations;
- forecast capital and non-operating spending;
- future sales of the metals, concentrates or other products produced by Pan American;
- continued access to necessary infrastructure, including, without limitation, access to power, lands and roads to carry on activities as planned;
- Pan American's plans and expectations for its properties and operations, including, without limitation, the production estimates, forecasts regarding Pan American's investment activities, and other matters discussed under the heading "Outlook for 2012";
- the completion of Pan American's proposed acquisition of Minefinders Corporation Ltd. ("Minefinders") discussed under the heading "Outlook for 2012";
- the expected contribution of Minefinders' Dolores project in Mexico to Pan American's total silver production upon completion of the proposed acquisition of Minefinders;
- the expected reduction in Pan American's overall cash costs from those currently forecast in connection with the proposed acquisition of Minefinders;



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- the expected results of long hole mining at the Huaron mine;
- the expected development rates and production levels at the Morococha mine; and

- the expected investment and development activities at the Alamo Dorado mine.

These statements reflect Pan American's current views with respect to future events and are necessarily based upon a number of assumptions and estimates that, while considered reasonable by Pan American, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this Annual Information Form and documents incorporated by reference, and Pan American has made assumptions based on or related to many of these factors. Such factors include, without limitation: fluctuations in spot and forward markets for silver, gold, base metals and certain other commodities (such as natural gas, fuel oil and electricity); risks relating to Pan American's operations in Peru, Mexico, Argentina, Bolivia and other foreign jurisdictions where Pan American may operate; restrictions on mining in the jurisdictions in which Pan American operates; laws and regulations governing Pan American's operation, exploration and development activities; Pan American's ability to obtain or renew the licenses and permits necessary for the operation and expansion of its existing operations and for the development, construction and commencement of new operations; risks and hazards associated with the business of mineral exploration, development and mining (including environmental hazards, industrial accidents, unusual or unexpected geological or structural formations, pressures, cave-ins and flooding); the speculative nature of mineral exploration and development; diminishing quantities or grades of Mineral Reserves as properties are mined; the inability to determine, with certainty, the production of metals or the price to be received before Mineral Reserves or Mineral Resources are actually mined; the inability to determine, with certainty, production and cost estimates; inadequate or unreliable infrastructure (such as roads, bridges, power sources and water supplies); environmental regulations and legislation; reclamation requirements; risks relating to the creditworthiness and financial condition of Pan American's suppliers, refiners and other third parties; fluctuations in currency markets (such as the Peruvian sol, Mexican peso, Argentine peso and Bolivian boliviano versus the U.S. dollar and Canadian dollar); the volatility of the metals markets, and its potential to impact Pan American's ability to meet its financial obligations; the inability to recruit and retain qualified personnel; employee relations; disputes as to the validity of mining or exploration titles or claims or rights, which constitute most of Pan American's property holdings; Pan American's ability to complete and successfully integrate acquisitions; increased competition in the mining industry for properties, equipment and qualified personnel; Pan American's ability to acquire critical resources; relations with and claims by indigenous populations; relations with and claims by local communities and non-governmental organizations; the effectiveness of Pan American's internal control over financial reporting; claims and legal proceedings arising in the ordinary course of business activities; and those factors identified under the captions "Outlook for 2012" and "Competitive Conditions" and "Risks Related to Pan American's Business" in this Annual Information Form and the documents incorporated by reference herein. Investors are cautioned against attributing undue certainty to forward-looking statements. Although Pan American has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, described or intended. Pan American does not intend, and does not assume any obligation, to update these forward-looking statements or information to reflect changes in assumptions or changes in circumstances or any other events affecting such statements or information, other than as required by applicable law.

Please see "Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources" on page 3 of this Annual Information Form.



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## INTRODUCTION

In this Annual Information Form, the term "Company" refers to Pan American Silver Corp. and the term "Pan American" refers to the Company and its direct and indirect subsidiaries.

### Reporting Currency

The Company's reporting currency is the United States dollar. Unless otherwise indicated, all currency amounts in this Annual Information Form are stated in United States dollars. References to "C$" are to Canadian dollars.

### Accounting Policies and Financial Information

Financial information contained in this Annual Information Form is presented in accordance with international financial reporting standards ("IFRS") as issued by the International Accounting Standards Board unless otherwise indicated. The Consolidated Financial Statements of the Company for the year ended December 31, 2011 are incorporated by reference herein and are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Accounting Standards Board ("AcSB") adopted IFRS as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The Company reported its first consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting with accounting policies consistent with IFRS for the three months ended March 31, 2011, with comparative figures for the corresponding period for 2010. In addition, the adoption date of January 1, 2011 required the restatement, for comparative purposes, of amounts reported by the Company for its year ending December 31, 2010, and restatement of the opening balance sheet as at January 1, 2010. In March 2012, the Company filed its first audited consolidated annual financial statements prepared in accordance with IFRS for the period ended December 31, 2011.

This Annual Information Form refers to various non-IFRS measures, such as "cash and total cost per ounce of silver", which are used by the Company to manage and evaluate operating performance at each of Pan American's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, please refer to the Company's Management's Discussion and Analysis for the year ended December 31, 2011 where detailed descriptions and reconciliations, where applicable, have been provided.

### Glossary of Terms

The glossary of terms set forth under the heading "Glossary of Terms" of this Annual Information Form contains definitions of certain terms used herein.



### Conversion Table

In this Annual Information Form, metric units are used with respect to mineral properties located in Peru, Mexico, Argentina, Bolivia and elsewhere, unless otherwise indicated. Conversion rates from imperial measures to metric units and from metric units to imperial measures are provided in the table set out below.

| Imperial Measure | = | Metric Unit | Metric Unit | = | Imperial Measure |
|---|---|---|---|---|---|
| 2.47 acres | | 1 hectare | 0.4047 hectares | | 1 acre |
| 3.28 feet | | 1 metre | 0.3048 metres | | 1 foot |
| 0.62 miles | | 1 kilometre | 1.609 kilometres | | 1 mile |
| 0.032 ounces (troy) | | 1 gram | 31.1 grams | | 1 ounce (troy) |

| | | | |
|---|---|---|---|
| 1.102 tons (short) | 1 tonne | 0.907 tonnes | 1 ton |
| 0.029 ounces (troy)/ ton (short) | 1 gram/tonne | 34.28 grams/tonne | 1 ounce (troy)/ton (short) |

**Scientific and Technical Information**

Scientific or technical information in this Annual Information Form relating to Mineral Reserves or Mineral Resources, except for Mineral Resources relating to the Navidad property, is based on information prepared under the supervision of, or has been reviewed by, Michael Steinmann, P.Geo., Executive Vice President, Geology and Exploration of the Company and Martin Wafforn, P.Eng., Vice President, Technical Services of the Company. Scientific or technical information relating to the geology of particular properties, and the exploration programs described in this Annual Information Form, are prepared and/or designed and carried out under the supervision of Michael Steinmann. Scientific and technical information herein relating to the Navidad property is based on information contained in the Navidad Technical Report (as defined below) and the disclosure in this Annual Information Form relating thereto has been reviewed and consented to by Michal Steinmann, Martin Wafforn and Pamela De Mark, P.Geo., Director of Resources for the Company, the experts involved in the preparation of the applicable sections of the Navidad Technical Report. In particular, scientific or technical information in this Annual Information Form relating to the estimation of Mineral Resources for the Navidad property was prepared by Pamela De Mark. All other disclosures of scientific and technical information contained in the descriptions of Pan American's mineral properties were prepared under the supervision of Michael Steinmann and Martin Wafforn.

Each of Michael Steinmann, Martin Wafforn, and Pamela De Mark is a "Qualified Person" as defined in National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* ("NI 43-101"). A "Qualified Person" means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these, that has experience relevant to the subject matter of the mineral project, and is a member in good standing of a professional association.

Scientific and technical disclosure in this Annual Information Form for the Company's material properties is based on Technical Reports prepared for those properties in accordance with NI 43-101 (collectively, the "Technical Reports"). The Technical Reports have been filed on SEDAR at www.sedar.com. The technical information in this Annual Information Form has been updated with current information where applicable. The Technical Reports are as follows:

- a report entitled "43-101 Technical Report — Huaron Property, Cerro de Pasco, Peru" dated effective December 31, 2006 (the "Huaron Report") relating to the Huaron mine;
- a report entitled "Morococha Property Technical Report, Yauli Province, Peru" dated effective December 30, 2007 (the "Morococha Report") relating to the Morococha mine;
- a report entitled "Technical Report for the Quiruvilca Property, La Libertad, Peru" dated effective July 31, 2007 (the "Quiruvilca Report") relating to the Quiruvilca mine;



- a report entitled "Feasibility Study Volume I — NI-43-101 Technical Report for Alamo Dorado Project, Alamos, Sonora, Mexico" dated March 31, 2005 (the "Alamo Report") relating to the Alamo Dorado mine;
- a report entitled "Technical Report for the La Colorada Property, Zacatecas, México" dated effective September 30, 2007 (the "La Colorada Report") relating to the La Colorada mine;
- a report entitled "Manantial-Espejo Project Canadian Standard NI 43-101, Santa Cruz Province, Argentina" dated March 2006 (the "Manantial Report") relating to the Manantial Espejo mine;
- a report entitled "Technical Report for San Vicente Mine Expansion Project, Potosi, Bolivia" dated effective June 6, 2007 (the "San Vicente Report") relating to the San Vicente mine; and
- a report entitled "Pan American Silver Corp.: Navidad Project, Chubut Province, Argentina: Preliminary Assessment" dated January 14, 2011 (the "Navidad Technical Report") relating to the Navidad property.

**Classification of Mineral Reserves and Resources**

In this Annual Information Form, the definitions of Proven and Probable Mineral Reserves and Measured, Indicated and Inferred Mineral Resources are those used by Canadian provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") in the "CIM Standards on Mineral Resources and Reserves — Definitions and Guidelines" adopted on November 27, 2010.

**Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources**

This Annual Information Form and the documents incorporated by reference herein have been prepared in accordance with the requirements of Canadian provincial securities laws, which differ from the requirements of U.S. securities laws. Unless otherwise indicated, all Mineral Reserve and Mineral Resource estimates included in this Annual Information Form and the documents incorporated by reference herein have been prepared in accordance with NI 43-101 and the CIM classification system. NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the U.S. Securities and Exchange Commission (the "SEC"), and information with respect to mineralization and Mineral Reserves and Mineral Resources contained or incorporated by reference herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, these documents use the terms ''Measured Resources'', ''Indicated Resources'' and ''Inferred Resources''. U.S. investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. The requirements of NI 43-101 for identification of ''reserves'' are not the same as those of the SEC, and reserves reported by the Company in compliance with NI 43-101 may not qualify as ''reserves'' under SEC standards. U.S. investors should also understand that ''Inferred Resources'' have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. **U.S. investors are cautioned not to assume that any part of a**

**''Measured Resource'' or ''Indicated Resource'' will ever be converted into a ''reserve''. It cannot be assumed that all or any part of ''Inferred Resources'' exist, are economically or legally mineable or will ever be upgraded to a higher category.** Under Canadian securities laws, ''Inferred Resources'' may not form the basis of feasibility or pre-feasibility studies except in certain cases. Disclosure of ''contained ounces'' in a Mineral Resource is a permitted disclosure under Canadian securities laws, however, the SEC normally only permits issuers to report mineralization that does not constitute ''reserves'' by SEC standards as in place tonnage and grade, without reference to unit measures. Under U.S. standards, mineralization may not be classified as a ''reserve'' unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Accordingly, information concerning mineral deposits set forth in this Annual Information Form and the documents incorporated by reference herein may not be comparable with information made public by companies that report in accordance with U.S. standards.



## CORPORATE STRUCTURE

### Incorporation

The Company is the continuing corporation of Pan American Energy Corporation, which was incorporated under the *Company Act* (British Columbia) on March 7, 1979. The Company underwent two name changes by way of amendment to its memorandum, the last occurring on April 11, 1995, when the present name of the Company was adopted. Amendments to the memorandum of the Company to date have been limited to name changes and capital alterations. In May 2006, the Company obtained shareholder approval to amend its memorandum and articles, including the increase in its authorized share capital from 100,000,000 to 200,000,000 common shares, in connection with the Company's required transition under the *Business Corporations Act* (British Columbia).

The Company's head office is situated at 1500 - 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6 and its registered and records offices are situated at 1200 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, Canada, V7X 1T2.

The Company's web site can be found at www.panamericansilver.com.

### Capital Structure

The Company's authorized share capital consists of 200,000,000 common shares without par value. The holders of common shares are entitled to: (i) one vote per common share at all meetings of shareholders; (ii) receive dividends as and when declared by the directors of the Company; and (iii) receive a pro rata share of the assets of the Company available for distribution to the shareholders in the event of the liquidation, dissolution or winding-up of the Company. There are no pre-emptive, conversion or redemption rights attached to the common shares.



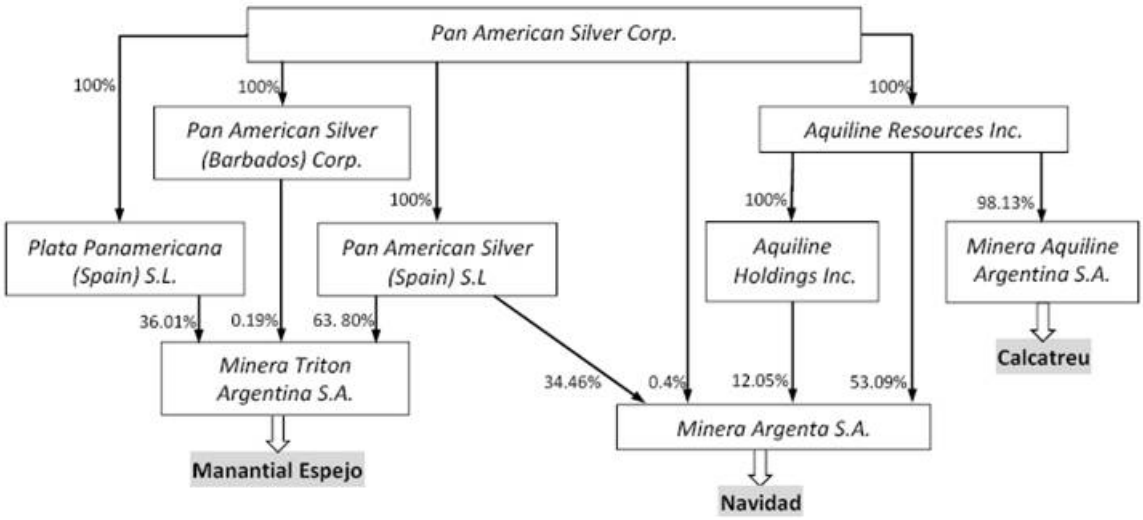
### Subsidiaries

A significant portion of the Company's business is carried on through its various subsidiaries. The following table and charts (set out by jurisdiction of the respective mineral properties) show, as at December 31, 2011, the significant subsidiaries of the Company, including their respective jurisdictions of incorporation and the percentage of voting securities in each that are held by the Company directly or indirectly:

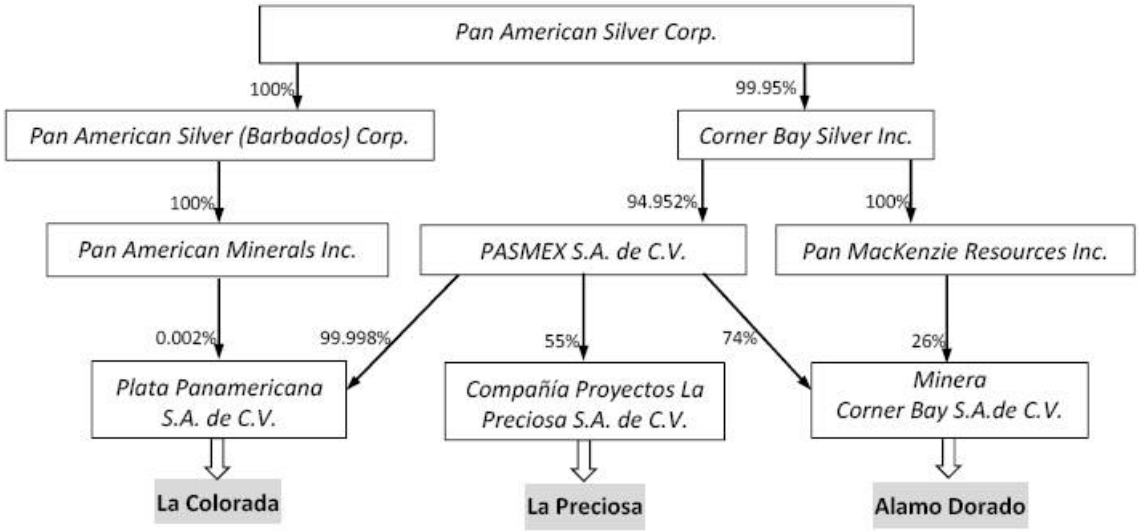
| Name | Jurisdiction |
|---|---|
| Corner Bay Silver Inc. (“Corner Bay”) | Canada |
| Aquiline Resources Inc. (“Aquiline”) | Ontario |
| Absolut Resources Inc. (“Absolut”) | Yukon |
| Pan American Minerals, Inc. (“Pan American U.S.”) | Nevada |
| Pan MacKenzie Resources Inc. | Delaware |
| Pan American Silver (Barbados) Corp. (“Pan American Barbados”) | Barbados |
| Aquiline Holdings Inc. (“Aquiline Barbados”) | Barbados |
| Pico Machay Cayman Limited (“PM Cayman”) | Cayman Islands |
| Plata Panamericana (Spain) S.L. | Spain |
| Pan American Silver (Spain) S.L. | Spain |
| Minera Triton Argentina S.A. (“MTA”) | Argentina |
| Minera Aquiline Argentina S.A. (“MAA”) | Argentina |
| Minera Argenta S.A. (“MASA”) | Argentina |
| PASMEX, S.A. de C.V. (“PASMEX”) | Mexico |
| Minera Corner Bay S.A. de C.V. (“MCB”) | Mexico |
| Plata Panamericana S.A. de C.V. (“Pan American Mexico”) | Mexico |
| Compañía Proyectos Mineros La Preciosa, S.A. de C.V. | Mexico |
| Pan American Silver Peru S.A.C. (“Pan American Peru”) | Peru |
| Pan American Silver S.A. Mina Quiruvilca (“Mina Quiruvilca”) | Peru |
| Compañía Minera Argentum S.A. (“Argentum”) | Peru |
| Minera Calipuy S.A.C. (“Minera Calipuy”) | Peru |
| Minera Pico Machay S.A.C. (“MPM”) | Peru |
| Pan American Silver (Bolivia) S.A. (“PASB”) | Bolivia |

**Corporate Structure**

***Argentina Properties***

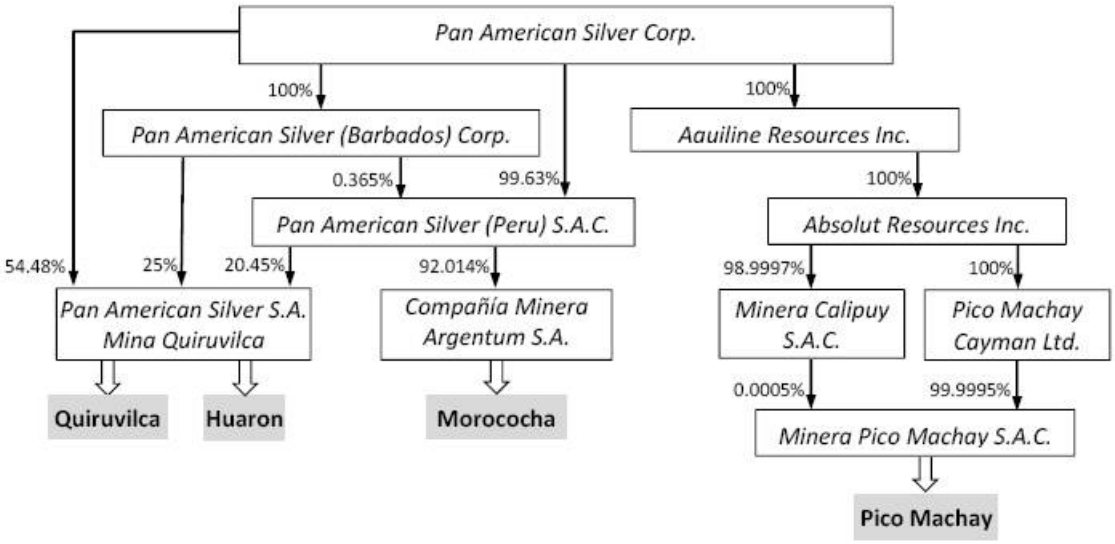



***Mexico Properties***

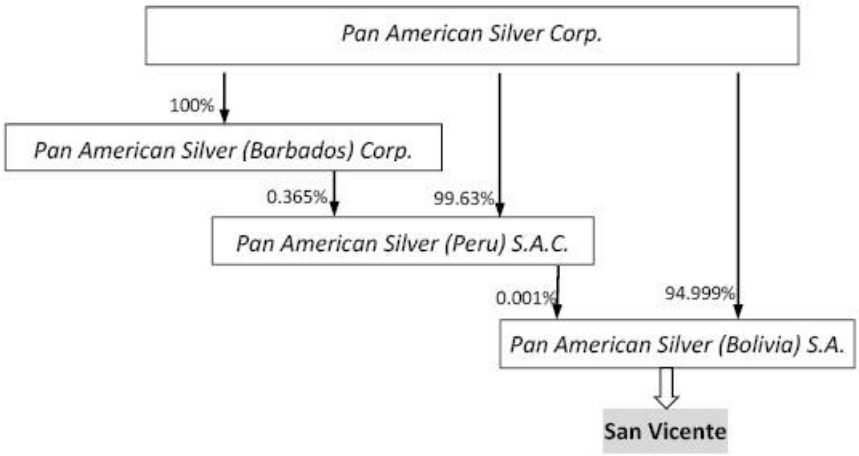





***Peru Properties***




***Bolivia Properties***




Note: In some jurisdictions in which Pan American operates, laws require that a company operating mineral properties must have more than one owner. As such, in some cases, a nominal interest may be held in trust for Pan American by an individual or other entity. Percentages shown indicate common share interests and do not include holdings of investment shares in Peru.



## GENERAL DEVELOPMENT OF THE BUSINESS

**Business of Pan American**

Pan American is principally engaged in the operation and development of, and exploration for, silver producing properties and assets. Pan American's principal product is silver, although gold, zinc, lead, and copper are also produced and sold. At present, Pan American carries on mining operations or is developing mining projects in Mexico, Peru, Argentina and Bolivia, and has control over non-producing silver assets in each of those jurisdictions and in the United States. Exploration work is carried out in all of the aforementioned countries, as well as elsewhere throughout the world.

**Corporate Strategy and Financial Objectives**

Pan American's corporate strategy is to continuously strengthen its position as one of the world's leading primary silver mining companies by acquiring or discovering silver resources that have the potential to be developed economically and to add meaningfully to Pan American's production profile while lowering consolidated unit costs of production.

The key elements of Pan American's strategy are to:

- **Increase silver production** — After acquiring its first operating mine (Quiruvilca in Peru) in 1995, Pan American increased its annual silver production for 15 consecutive years, including an increase of approximately 87% from approximately 13 million ounces in 2006 to approximately 24.3 million ounces in 2010. This growth has been accomplished through a combination of acquisition, development and expansion efforts. During 2011, Pan American's silver production decreased to 21.9 million ounces, however, Pan American continues

to pursue its goal of increased silver production. Pan American's proposed acquisition of Minefinders is expected to make a noticeable contribution to Pan American's total silver production through the addition of production from Minefinders' Dolores mine in Mexico. Please refer to the section entitled "Outlook for 2012" for more information on Pan American's proposed acquisition of Minefinders.

- **Increase Mineral Reserves and Mineral Resources** — Historically, Pan American has consistently seen annual increases in its Mineral Reserves and Mineral Resources through exploration and acquisitions. In 2011, Pan American discovered and defined approximately 29.3 million ounces of new Proven and Probable silver Mineral Reserves, which was more than sufficient to replace the approximately 24.7 million contained ounces that were mined in 2011. At December 31, 2011 Proven and Probable silver Mineral Reserves for Pan American were approximately 235.3 million ounces, which represents a small increase from the previous year's total of 230.7 million ounces. Pan American's Measured and Indicated Mineral Resources were reduced slightly from the previous year to approximately 708.8 million ounces as at the end of 2011, while Inferred Mineral Resources increased by approximately 26.5 million ounces over the previous year to approximately 271.7 million ounces.

- **Continue to be a "Low Cost Producer"** — Full year 2011 consolidated cash costs to produce an ounce of silver were approximately $9.44, net of by-product credits. Consolidated cash costs increased in 2011 primarily as a result of the industry-wide escalation of energy, labour, consumable and material costs, but also as a result of increases in tariffs and royalties. Pan American's growth strategy continues to emphasize reducing overall unit production costs. To keep production costs down, Pan American has added newer more mechanized mines (such as Alamo Dorado and Manantial Espejo) to its portfolio of assets, and will continue to review mining plans at its operating mines in order to find greater productivities and efficiencies as well as develop financial strategies to reduce exposure to foreign currency exchange fluctuations and base metal price fluctuations. Cash costs for 2012 are forecast at between $12.50 and $13.50 per ounce, net of by-product credits, for the full year. The projected increase



is partially as a result of expected upward-inflationary operating cost pressures and slight declines in by-product credits due to reductions in base metal by-product production. Pan American's proposed acquisition of Minefinders is expected to result in a meaningful reduction in Pan American's overall cash costs from those currently forecast through the addition of low-cost production from Minefinders' Dolores mine.

- **Acquire additional silver exploration properties** — Pan American actively investigates and evaluates strategic opportunities to acquire promising silver production, development and exploration properties in those jurisdictions where Pan American is presently active as well as elsewhere throughout the world. For example, Pan American's proposed acquisition of Minefinders would not only add a producing asset in the Dolores mine, but also several notable exploration properties to its portfolio, such as the La Bolsa and La Virginia properties, also in Mexico. In addition, Pan American completed its acquisition of the Navidad, Calcatreu and Pico Machay properties pursuant to its acquisition of all of the issued and outstanding shares of Aquiline in January 2010. Pan American's exploration and acquisition focus is on silver properties with bulk mineable targets that have the possibility of possessing over 50 million ounces of silver mineralization.

- **Generate sustainable profits from mining operations** — Financial performance is monitored annually against targets for operating earnings and cash flow from operations, as well as against operating measures such as production and cash costs. Pan American continuously develops and implements tax planning strategies and seeks to organize its corporate structure and activities to optimize its overall tax position.

- **Continue to be a responsible company, committed to sustainable development** — Pan American is committed to operating its business in accordance with the highest standards of governance and ethics, and the principles of sustainable development. It also places a high priority and particular emphasis on the health and safety of its personnel. Pan American has operations in a number of countries and across diverse cultures which have the potential to impact their host communities and nearby populations both positively and negatively. Pan American's goal is to minimize the negative impacts and maximize the benefits garnered to local populations, while at the same time achieving success from a business perspective. Pan American conscientiously strives to operate within a framework of moral principles and values and to engage and interact regularly, and in an open and honest way, with governments, shareholders, employees, local communities, business partners and other stakeholders affected by Pan American's operations. Pan American has adopted, among other things, a Global Code of Ethical Conduct and a Global Anti-Corruption Policy which formalize how it must conduct its business and interact with stakeholders and others. Pan American is aware that its business is in many ways dependent on these various stakeholders and views establishing relationships of mutual trust and respect as important. By building such relationships and conducting itself in a transparent manner, Pan American can further the exchange of information, address specific concerns of stakeholders and work cooperatively and effectively towards achieving mutual goals. Pan American reports annually on its sustainable development performance with the current report available in the company website.

**Developments Over the Last Three Financial Years**

This section describes how Pan American's business has developed over the last three financial years.

***2009***

During 2009, Pan American (i) increased annual consolidated silver production to approximately 23.0 million ounces; (ii) acquired control of Aquiline pursuant to a friendly take-over offer in the fourth quarter of 2009 and thereby became the owner of the Navidad property, one of the largest undeveloped silver deposits in the world; (iii) completed an equity financing, the gross proceeds of which totalled approximately $103.5 million; (iv) entered into a joint venture arrangement with Orko Silver Corp. to obtain a 55% interest in the early-stage La

Preciosa project in Mexico; (v) completed its first full year of production at the Manantial Espejo mine, which produced approximately 3.8 million ounces of silver and nearly 72,000 ounces of gold for the year; (vi) completed the expansion and commenced commercial production at the San Vicente mine; and (vii) conducted over 98,930 metres of exploration drilling on Pan American's existing mine sites and exploration properties, contributing to a 5% increase in Pan American's Proven and Probable Mineral Reserves.

***2010***

During 2010, Pan American (i) increased annual consolidated silver production to approximately 24.3 million ounces, the largest contributor remaining Alamo Dorado, which produced approximately 6.7 million ounces of silver in 2010; (ii) completed the acquisition of Aquiline by way of compulsory acquisition; (iii) invested approximately $37.5 million in, and substantially completed a preliminary assessment on, the Navidad project; (iv) invested approximately $10 million in exploration and delineation drilling, metallurgical testing, and engineering activities on the La Preciosa joint-venture; (v) completed the first full year of production from the expanded San Vicente mine, which produced approximately 3.2 million ounces of silver for the year, 3.0 million of which was attributed to Pan American; (vi) performed a tax consolidation of certain of the Company's Mexican subsidiaries and completed the merger of Minera Triton Argentina S.A. with Minera Alto Valle S.A., both subsidiaries of the Company that held and operated the Manantial Espejo mine; (vii) increased the availability under Pan American's corporate credit facility from $70 million to $150 million; and (viii) conducted over 110,000 metres of diamond drilling on Pan American's existing mine sites.

***2011***

During 2011, Pan American (i) produced approximately 21.9 million ounces of silver, the largest contributors being the Alamo Dorado and La Colorada mines, which produced approximately 5.3 million ounces and 4.3 million ounces of silver, respectively, in 2011; (ii) completed a preliminary assessment on the Navidad project; (iii) invested a total of $33.3 million in development activities at Navidad, not including $17 million the Company spent to purchase equipment for the future Navidad processing plant; (iv) invested a total of $2.4 million at La Preciosa in connection with its work to complete a feasibility study for the project; and (v) spent approximately $25.1 million in direct exploration, completing over 190,000 metres of diamond drilling at Pan American's existing mine sites and selected greenfield projects.

**Outlook for 2012**

In 2012, Pan American expects to produce between 21.5 and 22.5 million ounces of silver and 75,000 to 80,000 ounces of gold. Pan American has not included any production forecasts from Minefinders' Dolores mine. Pending the successful completion of the Minefinders acquisition at or about the end of March 2012 as described below, the Company expects to update its forecast to incorporate production from the Dolores mine.

Pan American is planning to invest approximately $87.7 million in sustaining capital at its seven operating mines, including $12.5 million in brownfield exploration. In addition, Pan American expects to spend approximately $8.4 million in greenfield exploration activities at selected properties in Mexico, Peru and Argentina. Pan American intends to invest approximately $22.8 million in 2012 towards the completion of a feasibility study on the Navidad project.

On January 23, 2012, the Company and Minefinders announced that they had entered into a definitive agreement in connection with the Company's proposed acquisition of the issued and outstanding common shares of Minefinders by way of a plan of arrangement. The terms and conditions of the proposed transaction are summarized in the management information circulars delivered to the Company's shareholders and Minefinders' securityholders. The proposed acquisition is subject to approval by the Company's shareholders and Mindefinders' securityholders. The Company expects that the special meeting of the Company's shareholders will take place on March 26th, 2012. If approved by the Company's shareholders and Minefinders' securityholders, the Company expects to complete the proposed transaction on or about March 30, 2012.



Pan American's proposed acquisition of Minefinders is expected to create the world's leading, growth-oriented silver producer, with a combined market capitalization of approximately $4 billion (calculated as at the date of the transaction's announcement), an exceptional growth profile, and a geographically diversified portfolio of operating and development properties. Once the transaction is completed, Pan American intends to undergo a detailed analysis and review of Minefinders and its operations and hopes to unlock further benefits of the arrangement through efficiencies, synergies and the application of fresh ideas to the Minefinders projects.

Pan American will continue to investigate, evaluate and, where appropriate, acquire additional silver production, exploration and development properties.

## NARRATIVE DESCRIPTION OF THE BUSINESS

**Principal Products and Operations**

Pan American's principal products and sources of sales are silver and gold doré and silver bearing zinc, lead, and copper concentrates. In 2011, the Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo and San Vicente mines accounted for virtually all of Pan American's production of concentrates and doré.

Consolidated production for the year ended December 31, 2011 was as follows:

| | Huaron | Morococha(1) | Quiruvilca | Alamo Dorado | La Colorada(2) | San Vicente(3) | Manantial Espejo | Total |
|---|---|---|---|---|---|---|---|---|
| Tonnes milled | 614,000 | 483,000 | 295,000 | 1,848,000 | 405,000 | 283,000 | 697,000 | 4,626,000 |
| Grade | | | | | | | | |
| Silver - g/t | 177 | 128 | 114 | 105 | 369 | 382 | 185 | N/A |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gold - g/t | 0.31 | 0.33 | 1.47 | 0.33 | 0.43 | — | 2.48 | N/A |
| % Zinc | 2.46 | 2.74 | 3.06 | — | 2.36 | 2.26 | — | N/A |
| % Lead | 1.02 | 0.90 | 1.00 | — | 1.18 | — | — | N/A |
| % Copper | 0.33 | 0.44 | 0.53 | — | — | 0.32 | — | N/A |
| Production(4) | | | | | | | | |
| Ounces silver | 2,769,000 | 1,712,000 | 295,000 | 5,300,000 | 4,296,000 | 3,130,000 | 3,767,000 | 21,854,000 |
| Ounces gold | 1,300 | 1,700 | 1,700 | 16,600 | 4,100 | — | 53,000 | 78,400 |
| Tonnes zinc | 9,600 | 10,700 | 7,700 | — | 4,500 | 4,800 | — | 37,200 |
| Tonnes lead | 4,900 | 3,100 | 2,400 | — | 2,400 | — | — | 12,700 |
| Tonnes copper | 1,300 | 1,500 | 1,000 | 100 | — | 600 | — | 4,500 |

Notes:
(1) Morococha data represents Pan American's 92.2% interest in mine production.
(2) La Colorada zinc and lead grades are for sulphide ore only.
(3) San Vicente data represents Pan American's 95% interest in mine production.
(4) Production figures rounded.



Pan American's revenue by product category for the financial years ended December 31, 2011 and December 31, 2010 was as follows:

| Product Revenue | 2011 ($000's) | 2010 ($000's) |
|---|---|---|
| Silver and Gold Doré | 432,634 | 313,286 |
| Zinc Concentrate | 67,037 | 75,345 |
| Lead Concentrate | 156,960 | 97,538 |
| Copper Concentrate | 198,644 | 160,384 |
| **Total** | **855,275** | **646,553** |

Additional information related to Pan American's segmented information is set forth in Note 18 to the Consolidated Financial Statements and is referred to in the Management's Discussion and Analysis of the Company for the year ended December 31, 2011 (the "MD&A") under the heading "Operating Performance".

***Silver and Gold Doré***

Pan American's principal buyers of silver and gold doré from its Alamo Dorado, La Colorada, and Manantial Espejo mines, once refined, are international bullion banks and traders. Silver and gold doré is delivered to refineries in Mexico, Germany, and the United States, and subsequently transferred to the accounts of its buyers.

***Zinc, Lead and Copper Concentrates***

Pan American's principal markets for copper concentrates are Peru, Japan and Canada. The majority of the Peruvian copper concentrates and all stockpile ore were traditionally sold to Doe Run Peru's metallurgical complex in La Oroya, Peru. However, in 2009, the Doe Run Peru complex experienced financial difficulties and Pan American was unable to continue sales to the smelter. As a result, Pan American entered into a number of contracts with other smelters and traders for these concentrates.

Pan American's principal markets for zinc concentrates are Peru, Korea, Brazil, Mexico and Spain. Zinc concentrate is delivered to Peruvian and Mexican customers by truck. Zinc concentrates are delivered to customers in Japan, Brazil, and Spain first via truck to ports in Peru, Chile, and Mexico, and from there by ship.

Pan American's principal markets for lead concentrates are Peru, China, and Belgium. Lead concentrates are delivered by truck to the port of Callao, Peru, and Altamica, Mexico and from there by ship

Please see the discussion under "Risks Relating to Pan American's Business — Smelter Supply Arrangements" and "Risks Relating to Pan American's Business — Trading Activities and Credit Risk".

**Competitive Conditions**

The mining industry is intensely competitive, particularly in the acquisition of additional Mineral Reserves and Mineral Resources in all of its phases of operation, and Pan American competes with many companies possessing similar or greater financial and technical resources.

Pan American's competitive position is largely determined by its costs compared to other producers throughout the world and its ability to maintain its financial integrity through the lows of the metal price cycles. Costs are governed to a large extent by the location, grade and nature of Pan American's Mineral Reserves as well as by operating and management skills. In contrast with diversified mining companies, Pan American focuses on silver production, development, and exploration, and is therefore subject to unique competitive advantages and disadvantages related to the price of silver and to a lesser extent, the price of base metal by-products. If silver prices substantially increase, Pan American will be in a relatively stronger competitive position than diversified

mining companies that produce, develop and explore for other minerals in addition to silver. Conversely, if silver prices substantially decrease, Pan American may be at a competitive disadvantage to diversified mining companies.

**Economic Dependence**

Pan American has 16 customers that account for 100% of its concentrate and doré sales revenue. . Pan American has four customers that accounted for 27%, 25%, 17% and 9% of total sales in 2011, and four customers that accounted for 24%, 22%, 18% and 11% of total sales in 2010. The loss of certain of these customers or curtailment of purchases by such customers could have a material adverse affect on Pan American's results of operations, financial condition, and cash flows.

**Employees**

At the end of 2011, Pan American had over 5,400 employees and approximately 2,200 contractors. The majority of those employees and contractors were working at Pan American's operations in South America and in Mexico, although the Company had 42 employees at its head office in Vancouver as at December 31, 2011. Pan American's Peruvian operations had approximately 5,000 total employees and contractors, while its Bolivian operations had over 500 employees and contractors, its Argentinean operations had approximately 950 employees and contractors and its Mexican operations had approximately 1,100 employees and contractors.

Some employees of Pan American and its contractors are unionized. In particular, unions have been established at its operations in Peru, Argentina, and Bolivia. Although Pan American has reached agreements with its various unions and places significant emphasis on maintaining positive relationships with the unions and employees, it has experienced labour strikes and work stoppages in the past. Should they occur, some labour strikes and work stoppages have the potential to materially affect Pan American's operations and thereby adversely impact Pan American's future cash flows, earnings, production, and financial conditions.

**Research and Development**

Pan American conducts research and development activities through its feasibility work in order to develop improved production processes and exploration techniques. Costs associated with this work are expensed as incurred. Pan American did not incur any significant research and development costs during 2009, 2010 or 2011.

**Environment**

All phases of Pan American's operations are subject to environmental regulation in the various jurisdictions in which it operates. To the best of management's knowledge, Pan American's activities in 2011 were, and continue to be, in compliance in all material respects with such environmental regulations applicable to its mining operations, development, and exploration activities. The Company has implemented an environmental policy and a health and safety policy in which the Company accepts its corporate responsibility to practice environmental protection and provide a safe and healthy workplace for its employees, and commits to comply with all relevant industry standards, environmental legislation and regulations in the countries where it carries on business.

During 2010 and 2011, reviews of the environmental performance of all the operations and projects were conducted by the Company's Director, Environmental Affairs**.** The reviews included inspections of the mine and project sites with key operations personnel, a review of environmental monitoring program procedures and results and a review of principal environmental issues related to each of these operations. The key observations and recommendations from the reviews are reported monthly to senior management and quarterly to the Board of Directors. In addition to the periodic reviews, detailed Corporate Social Responsibility ("CSR") Audits are conducted periodically. These audits review environmental compliance and environmental and social



performance. During 2010, CSR Audits were conducted of the operations at Morococha, Huaron, Quiruvilca, and San Vicente and in 2011, CSR Audits were undertaken at Alamo Dorado, La Colorada, and Manantial Espejo.

Pan American's Huaron, Morococha, Quiruvilca, La Colorada, Alamo Dorado, Manantial Espejo and San Vicente operations were all inspected by government agencies in 2011 and no material issues were observed during these inspections.

Peru has proposed changes to its liquid effluent discharge limits. Pan American has implemented a baseline assessment at each of its three operating mines in Peru in order to assess the potential impact of these changes to water treatment practices at each operation. Pan American has proactively implemented changes in order to be in a better position to meet new discharge limits and will present a three-year effluent discharge limit compliance plan to the Peruvian government in Q3 2012.

Some other recent developments in this area include:

- Pan American's sustainability report for 2010 was completed according to the Global Reporting Initiative standard.
- Pan American's environmental impact assessment ("EIA") for the new Morococha process plant was approved by the Peruvian Ministry of Mining. A modification to the mines closure plan to include the new plant was submitted and approved.
- An EIA for the expansion of a tailings dam at Huaron mine was approved. The expansion will allow for another 12 years of production.
- Results from the trial of molasses-based treatment of acid generating underground workings at Quiruvilca indicate that passive water treatment with wetlands may be a viable long term alternative.
- 28 hectares of forage crops were planted in the San Vicente area as part of a program to improve local agricultural production.

- The hydrological baseline for the Navidad project was completed and published. The project proved the existence of large groundwater reserves in the project area. A future mine would use less than 2% of these reserves.

- Pan American began construction of gas-fired power station at the Manantial Espejo mine that will reduce greenhouse gas emissions at the property by 35%.

- Pan American completed construction of a greenhouse project at the Alamo Dorado mine that aims to test the technical and economic feasibility of vegetable production and export as an ongoing sustainable activity for the local community that would continue after mine closure.

- The EIA for the new tailings dam at La Colorada, which will be used for sulfides tailings, was approved. Dam construction has commenced in accordance with the terms of the approval.

- Pan American conducted baseline data collection at the La Preciosa project and commenced work on the project EIA.

- Pan American finalized its Corporate Social Responsibility Policy.

In the financial year-end dated December 31, 2011, Pan American's environmental expenditures for concurrent reclamation were approximately $1.48 million. The Company contracted SRK Consulting Inc. to assist with the preparation of the 2011 asset retirement obligation ("ARO") and training of company staff. The ARO estimates were prepared using the standard reclamation cost estimator methodology developed in the State of Nevada, USA, using quantity estimates and cost data obtained at each mine site. The Company has estimated the



aggregate present value of expenditures required for closure and reclamation costs in respect of the Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo, and San Vicente mines to be approximately $65.9 million, which is a decrease from the previous estimate at December 31, 2010. The slight decrease in estimated closure and reclamation costs is due to the improved estimation method used in 2011.

Other than specific environmental concerns discussed in this Annual Information Form, the Company is not aware of any material environmental matter requiring significant capital outlays in the immediate future. Closure and reclamation costs and actual costs may vary, perhaps materially, from estimates and investors are cautioned against attributing undue certainty to these estimates. The reclamation and closure costs estimate for each of the operating mines and development projects was updated to reflect the conditions as of December 31, 2011.

**Health and Safety**

The Company has implemented a health, safety and environment policy in which Pan American accepts its corporate responsibility to provide a safe and healthy workplace for its personnel, and commits to comply with all relevant industry standards, legislation, and regulations in the countries where it carries on business. The policy is reviewed annually to ensure that it remains current, if not ahead, of industry standards and best practices.

In 2005, the Company introduced regular, informal safety audits at all of its operations, increased the frequency of, and requirements for, training programs, and purchased more advanced mine rescue equipment. Periodically, formal corporate health and safety audits are also conducted at Pan American's operating mines and active development properties. As with previous years, in 2011, each of Pan American's operating mines was subject to an informal safety audit where particular focus was placed on a review of emergency preparedness, health and safety systems, safety training, and the general condition of each mine. The Company's Director of Health and Safety participates in the formal audits, as well as safety managers and operations supervisors from other Pan American operations. Management reports health and safety findings and mitigation progress to the Company's Board of Directors on a regular basis.

During 2011, Pan American continued to focus on introducing new safety programs and training at its operating mines in Peru as well as maintaining excellent safety records at the other mines and development projects. Total hours worked at operating mines and active development and exploration projects increased by approximately 9% versus 2010 while the number of lost time injuries ("LTI") decreased by approximately 8%. Pan American recorded a lost time injury frequency ("LTIF") of 1.99 during 2011, versus 2.33 during 2010 and 1.79 during 2009. LTIF is calculated as follows:

$$LTIF = \frac{(\#\ of\ accidents) * (1{,}000{,}000)}{Total\ hours\ worked}$$

In 2005, the Company introduced the "Chairman's Safety Award" that is presented to the Pan American mine with the best overall safety performance. In 2010, the winner of the award was the Manantial Espejo mine which, amongst other accomplishments, operated the entire year without a single LTI. In 2011, the Manantial Espejo mine repeated this honor by achieving another full year LTI-free while operating in a challenging environment. Although not the winner of the Chairman's Safety Award in 2011, the Company's Alamo Dorado mine also completed the year LTI free, therefore, marking its second year in a row without an LTI.

During 2010, the Alamo Dorado and La Colorada mines were each awarded the "Casco de Plata" trophy by CAMIMEX for being the mines with the best safety record in Mexico in the categories of open pit mine with less than 5,000 employees and underground mine with more than 500 employees, respectively.

Pan American will continue to make substantial investments in its safety programs throughout 2012, particularly through the implementation of more training programs, and will continue safety audits as required in order to measure and adjust the success of these programs.

**Operating and Development Properties**

Pursuant to National Instrument 51-102 — *Continuous Disclosure Obligations* ("NI 51-102"), the following properties and projects have been identified by Pan American as being material: the Huaron mine, the Morococha mine, the Alamo Dorado mine, the La Colorada mine, the Manantial Espejo mine, the San Vicente mine and the Navidad property. The Company does not consider the Quiruvilca mine to be a material property for the purposes of NI 51-102. In addition, the Company does not consider the stockpiles or any of Pan American's other development or investment properties, including the La Preciosa project, to be material properties for the purposes of NI 51-102.

***Mineral Reserve and Mineral Resource Estimate Information***

The process for economic assessment of the Mineral Reserves and Mineral Resources at Pan American's operating mines and those development projects that have previously been the subject of a positive feasibility study and/or a NI 43-101 technical report is as follows:

(i) Each resource block at each mine or project is assigned a resource confidence rating based on CIM Definition Standards, as well as estimated tonnes and metal grades, typically using MineSight, Datamine, AutoCAD, database and/or Excel software.

(ii) Mining parameters such as dilution and ore losses due to pillars or mining constraints are applied to the resource blocks. These parameters are based on observation and data interpretation and experience with the expected mining method for the block at the particular mine or, in the case of projects, based on engineering studies. These factors are reviewed and adjusted at least annually using information from a number of geologic and engineering observations including reconciliation data to the tonnes and grades measured in the process plant.

(iii) For the Huaron, Morococha, La Colorada, and San Vicente mines, metal price factors are calculated for each mine using a Microsoft Excel spreadsheet to interpret the data. A factor is calculated for each of the metals of economic significance at the particular mine. These metals (not necessarily in order of overall economic significance) are: silver, zinc, lead, copper, and gold. The key inputs used in order to determine the factors are: metal prices established for Mineral Reserve and Mineral Resource estimation each year, metallurgical recovery for each metal in each concentrate, expected grade of concentrate, any elements that are present that detract from the value, the costs of smelting and or refining, escalator and de-escalator for each metal, the percentage of each metal payable by the smelter or the refinery, the cost of transporting concentrate or doré to the smelter or refinery including insurance and other costs that may be incurred in the process of selling the product like port fees and cost of concentrate storage and handling. In the case of the Huaron mine, individual factors are determined separately for each group of ore veins or structures in order to account for variances in metallurgical recovery. The La Colorada mine has separate factors for oxide and sulphide ores as these two types of ore are processed in separate plants.

(iv) The factors are applied to the metal grades in each of the resource blocks and summated in order to estimate a net smelter return value per tonne for each of the blocks in the resource model. In order to determine if a block can reasonably be considered to be economic, the net smelter return must be higher than the estimated mine operating costs value per tonne. The mine operating costs are estimated for each block in each area of the mine and are used to determine the economic cut off.

(v) Economic blocks that are in the Measured and Indicated category that form part of a previously created mine plan are then converted to Proven and Probable Reserves. Measured resource blocks are converted into either Proven or Probable Reserves, and Indicated resource blocks are converted into Probable Reserves. This is done following the CIM guidelines and using the discretion of, and based on the experience of, Michael Steinmann, Executive Vice President, Geology and Exploration, Martin Wafforn, Vice President, Technical Services, and Pamela De Mark, Director, Resources. Measured and Indicated



resource blocks that do not fit into a mine plan are either in an area of the mine where a development decision has not been made, are in an area where more information is required to determine mineability, or are below cut off, remain as Measured and Indicated resource blocks as long as they are considered potentially economic. Inferred resource blocks remain as Inferred Resources until the classification can be updated with additional information and as long as the estimated grade is such that they will be potentially economic.

The metal prices used for the December 31, 2011 Mineral Reserve and Mineral Resource estimations are as follows (1):

| | | | |
|---|---|---|---|
| Silver | US$/ounce | $ | 25.00 |
| Zinc | US$/tonne | $ | 1,750 |
| Lead | US$/tonne | $ | 1,850 |
| Copper | US$/tonne | $ | 6,500 |
| Gold | US$/ounce | $ | 1,350 |

Note:
(1) Metal prices valid for all Pan American mines except:
(a) Navidad, which used $12.52 per ounce of silver and $1,102 per tonne of lead to estimate Mineral Resources.
(b) Calcatreu, which used $12.50 per ounce of silver and $650 per ounce of gold to estimate Mineral Resources.

The cut-off (in $/tonne) for Mineral Reserve and Mineral Resource factors at the Huaron, Morococha, La Colorada, Manantial Espejo,

San Vicente, and Quiruvilca underground mines are shown in the following table:

| | Mineral Reserve Cut-Off ($/tonne) | Mineral Resource Cut-Off ($/tonne) |
|---|---|---|
| Huaron – Above 500 level | 75.00 | 70.00 |
| Huaron – 250 to 500 levels | 77.00 | 70.00 |
| Huaron – Below 250 level | 80.00 | 70.00 |
| Morococha – Average | 75.00 | 68.00 |
| La Colorada – Candelaria oxide | 92.20 | 92.20 |
| La Colorada – Candelaria sulphide | 81.07 | 81.07 |
| La Colorada – Estrella oxide | 80.87 | 80.87 |
| La Colorada – Recompensa sulphide | 69.34 | 69.34 |
| Manantial Espejo – Open Pit | 61.71 | 61.71 |
| Manantial Espejo – Underground | 201.71 | 61.71 |
| San Vicente – Shrinkage | 94.72 | 62.00 |
| San Vicente – Avoca longhole | 84.71 | 56.00 |
| Quiruvilca – Average | 103.40 | 50.00 |

The cut-off values per tonne for the Huaron mine are separated by level in the mine; the cut-off costs below the 250 level are higher in order to account for the cost of pumping water up to the drainage level as well as additional haulage and ventilation. The cut-off value per tonne for the Morococha mine is the average applied for the mine; there are seven mining areas at the Morococha mine that have individual cut-off value per tonne estimates. La Colorada has specific cut-offs for oxide and sulphide ore and are also separated by operating mine. With the exception of Manantial Espejo, Quiruvilca, and San Vicente, these are all values that pay at a minimum the variable costs of production (incremental ore). As the average value per tonne of the Mineral Reserve is higher than these minimum values, the mine plans at each operation are designed to ensure that the fixed costs of the operation are paid by the higher-grade ore. At each of the operations shown in the table, the current throughput capacity of the process plant(s) is either greater than the capacity of the mine, or the mine would not be able to produce enough ore to keep the mill operating at full capacity without the addition of incremental ore. The cut-off



values per tonne for San Vicente are based on the full expected operating costs from the shrinkage and the Avoca mining methods. The cut-off values per tonne for Manantial Espejo are based on the full expected operating costs for the underground operation and as estimated by industry standard optimization software for the open pit.

The Mineral Reserves for the Alamo Dorado open pit mine were estimated using industry standard optimization software. In general, the cut-off grade is equal to the sum of the processing, general and administration costs divided by the sales price net of refining and divided by the metallurgical recovery. Metallurgical recoveries are typically 85% for gold and 85% for silver. The silver equivalent cut-off grade derived from these costs and recoveries for 2012 was 40 g/t. Mineral Resources at Alamo Dorado were estimated in a similar manner to the Mineral Reserves except that the pit optimization was based on the higher silver price of $40 per ounce (versus $25 per ounce of silver used to estimate Mineral Reserves, the same gold price of $1,350 per ounce was used for both).

For all ores at Manantial Espejo, the metallurgical recovery of the plant was assumed to be 95% for gold. Metallurgical recovery of silver for the Melissa deposit was assumed to be 85% and for all other ores to be 91%. Payable amounts in the doré product of the mine are assumed to be 99.8% for silver and gold. The nominal value per tonne cut-off used to define all underground ores was $201.71 per ore tonne. In all Mineral Reserves, the cited cut-offs were converted to a silver equivalent grade using a silver to gold equivalency ratio of 57.76 to 1 with the exception of Melissa where a silver to gold equivalency ratio of 61.96 to 1 was used. This ratio accounts for differences between the two metals in terms of plant recovery and smelting cost. The silver equivalent cut-off grades for underground ore were 305 g/t AgEq for Maria ore and 327 g/t AgEq for Melissa ore. The Mineral Reserve panels were then visually defined using the cited cut-offs with a long section display of silver equivalent grade. However, once the Mineral Reserve panels were defined, all recovered material inside of the Reserve panels was defined as ore regardless of grade of individual block model blocks (i.e. 100% of the Reserve panels will be mined with the exception of pillars that are excluded when the stoping blocks are designed). The Mineral Reserves for open pit ores at Manantial Espejo were estimated using industry standard optimization software. Pits were then designed and the resultant information summarized. In general, the total of the mine re-handling, processing, and administration costs used for estimation of the Mineral Reserves in the open pit mines was $61.71 per ore tonne. The open pit ore cut-off derived from these costs was 94 g/t AgEq, applied to each block model block contained in the open pit designs. For the small Melissa open pit reserve, a cutoff of 101 g/t AgEq was applied.

Mineral Resources for all deposits at Navidad are reported above a cut-off grade of 50 g/t AgEq. The most likely cut-off grade for these deposits is not known at this time and must be confirmed by the appropriate economic studies. Silver equivalent grades are determined without consideration of variable metal recoveries for silver and lead. A silver price of $12.52 per ounce and lead price of $0.50 per pound were used to derive the following equivalence formula:

$$AgEq = Ag + (Pb * 10,000 / 365).$$

Mineral Resources for Pico Machay are reported above a nominal 0.2 g/t Au cut-off grade.

Mineral Resources for Calcatreu are a summation of three sets of assumptions for being potentially economic, namely (i) open pit and processing plant with Mineral Resources reported above a cut-off of 1.04 g/t Au; (ii) heap leach ore with a cut-off of 0.34 g/t Au, and (iii) underground and processing plant with a cut-off of 2.1 g/t AuEq with gold equivalence determined as follows:

$$AuEq = Au + (Ag/63.2).$$

Although Pan American believes that its Mineral Reserve and Mineral Resource estimates will not be materially impacted by external factors such as metallurgical, safety, environmental, permitting, legal, taxation, and other factors disclosed in this Annual Information Form, there

can be no assurance that they will not be so impacted. There are numerous uncertainties inherent in estimating Mineral Reserves and Resources. The accuracy of any Mineral Reserve and Mineral Resource estimation is the function of the quality of available data



and of engineering and geological interpretation and judgment. Results from drilling, testing, and production, as well as a material change in metal prices or a change in the planned mining method, subsequent to the date of the estimate, may justify revision of such estimates and may differ, perhaps materially, and investors are cautioned against attributing undue certainty to Mineral Reserves and Mineral Resources.

**I. Operating Properties**

**A. Peru**

**(i) Huaron Mine**

***Ownership and Property Description***

The Huaron mine is owned and operated by Mina Quiruvilca, an entity in which the Company as at December 31, 2011, indirectly through its subsidiaries, owned 99.93% of the outstanding voting shares and 99.83% of the total outstanding equity. Mina Quiruvilca was formed effective January 2006 through a merger between Pan American Silver S.A.C. Mina Quiruvilca and Compañía Minera Huaron.

The Huaron mine is an underground silver mine located in the Department of Pasco, Province of Pasco, District of Huayllay in central Peru, 320 kilometres northeast of Lima. The property consists of 252 concessions spanning over 63,822.2 hectares. Pan American has the exclusive right on all of these concessions to explore, develop and exploit as well as the right to market the products. To the Company's knowledge, all permits and licences required for the conduct of mining operations at Huaron are currently in good standing.

Certain statements in the following summary of the Huaron property are based on and, in some cases, extracted directly from the Huaron Technical Report.

***Location, Access, Climate and Infrastructure***

The Huaron mine lies on the eastern flank of the West Cordillera branch of the Andean mountain range from an elevation of 4,250 metres to 4,800 metres above sea level. Access to the Huaron mine is by a continuously maintained 285 kilometre paved highway between Lima and Unish and a 35 kilometre road between Unish and the Huaron mine. A program by the Peruvian government to upgrade the road to a paved highway between Unish and the Huaron mine is mostly complete.

The topographical relief at the mine site is hilly and uneven with local slopes of more than sixty degrees. Natural vegetation consists mainly of grasses forming meadows. These meadows have permitted development of varied livestock operations. The climate at the mine site is classified as "cold climate" or "boreal" with average annual temperatures ranging from three to ten degrees Celsius. The Huaron mine operates throughout the entire year.

The primary source of power for the Huaron mine is the Peruvian national power grid. The supply of water has been abundant and is provided by local lakes and rivers.

Peru's economy is dependent on mining and currently there is a sufficient local source of mining personnel and related infrastructure.

***Royalties and Encumbrances***

To the best of Pan American's knowledge, the Huaron mine is not subject to any royalties or encumbrances other than the mining royalty tax described under "Taxation" in the following Huaron mine section of this Annual Information Form.



***Taxation***

The principal taxes of Peru affecting the Huaron mine include income tax, employee profit sharing taxes, annual fees for holding mineral properties, various payroll and social security taxes, refundable value added tax, Peruvian mining royalty tax and a Special Mining Tax.

The Huaron operation generated income tax provisions (recoveries) of approximately $9.3 million, $5.4 million and $(0.2) million in 2011, 2010 and 2009, respectively. 2010 and 2009 amounts have been updated in accordance with IFRS. In addition, employee profit sharing taxes of approximately $2.6 million, $1.4 million and $0.2 million were generated in 2011, 2010 and 2009, respectively.

Huaron's revenue for 2011 was approximately $99.7 million and operating income was $33.2 million. In September 2011, Peru's Congress approved a new bill effective October 1, 2011, which revised the existing mining royalty tax and introduced a new special mining tax (the "SMT"). The previous royalties were payable on Peruvian mine production at the following progressive rates: (i) 1.0% for companies with sales up to $60 million; (ii) 2.0% for companies with sales between $60 million and $120 million; and (iii) 3.0% for companies with sales greater than $120 million. The revised royalty is applied on a company's operating income rather than sales and is based on a sliding scale with marginal rates ranging from 1% to 12% with a minimum royalty rate of 1% of sales regardless of its profitability. The SMT is applied on a company's operating mining income based on a sliding scale with progressive marginal rates ranging from 2% to 8.40%. Both the royalty and the SMT are deductible for corporate income tax purposes. The total royalty and tax on Huaron's production amounted to approximately $1.4

million in 2011, $1.2 million in 2010 and $0.8 million in 2009.

***History***

The Huaron mine is an underground mine with narrow and wide veins of silver-rich base metal sulphides, as well as replacement mineralization in conglomerates and dissemination in sediments. The mine, mill and supporting villages were originally built and operated by a subsidiary of the French Penarroya company from 1912 to 1987. In 1987 the mine was sold to Mauricio Hochschild and Cia Ltda. Prior to its acquisition by Pan American, approximately 22 million tonnes of silver-rich base metals sulphide ore were mined from the Huaron property. Silver was the main constituent, contributing about 49% of the historic sales value, with zinc, lead and copper, 33%, 15% and 3% respectively, making up the remainder. Ore from the mine was processed on-site by crushing, grinding, and differential flotation to produce copper, lead and zinc concentrates.

In April 1998, a portion of the lakebed of nearby Lake Naticocha collapsed and water from the lake flowed into the adjacent Animon mine (operated by an unrelated company) and, through interconnected tunnels, the water entered and flooded the Huaron mine, causing its closure.

After the April 1998 flooding, the Huaron mine operations were shut down, the labour force was terminated, the village closed, and work was undertaken to clean up the flood damage, drain the workings and prepare for an eventual mine re-opening. The water level in the lake, which provided the source of floodwater, is currently maintained well below the level where it flooded into the old workings and the Company does not expect a threat of further flooding. The Animon mine, in accordance with a settlement agreement reached with Cía. Minera Huaron S.A., in September 2000, constructed a channel to route water around the lake to provide water for the Huaron mine operation and to reduce the water in upstream lakes to prevent agricultural flooding which had created local social pressures.

***Geology and Mineralization***

The main lithology in the area of the Huaron mine is a sequence of continental “redbeds” consisting of interbedded sandstones, limestones, marls, conglomerates, breccias and cherts of the Abigarrada and Casapalca Formations of Upper Cretaceous to Lower Tertiary age. These rocks unconformably overlay massive marine limestones of the Upper Cretaceous Jumasha Formation. To the west of the mine, a series of andesites and dacites



are outcropping, which are part of the mid to lower Tertiary Calipuy Formation. A series of sub-vertical porphyritic quartz monzonite dykes, generally strike north-south and cut across the mine stratigraphy.

The rocks in the central part of the mine and at lower elevations are principally thinly bedded marls and sandstones known as the lower redbeds. In the eastern side of the mine the upper redbeds occur consisting of a calcareous Sevilla chert that overlies sandstones and marls. The bottom of this sequence consists of the Barnabe quartzite conglomerate. On the western side of the mine, the stratigraphy consists of a series of interbedded conglomerates and sandstones. The conglomerate contains poorly sorted limestone and quartz clasts in a sandy matrix.

The Huaron mine is located within an anticline formed by east-west compressional forces. The axis of the anticline is approximately north-south striking and gently plunging to the north. There are two main fault systems: (i) north-south striking thrust faults, parallel to the axis of the anticline; and (ii) east-west striking tensional faults. The intrusives strike in two principal directions: N70°E and S10°E. Most of the area is covered with recent soils except where the more resistant cherts and conglomerates form ridges parallel to the flanks of the anticline. These outcrops are discontinuous and frequently offset by the crosscutting east-west faults.

The Huaron mine is a polymetallic deposit (hosting silver, lead, zinc, and copper) consisting of mineralized structures probably related to Miocene monzonite dykes principally within, but not confined to the Huaron anticline. Mineralization is encountered in veins parallel to the main fault systems, in replacement bodies associated with the calcareous sections of the conglomerates and other favourable stratigraphic horizons, and as dissemination in the monzonitic intrusions at vein intersections.

The first pulse of mineralization was associated with the emplacement of intrusive bodies and the subsequent opening of structures, during which zinc, iron, tin, and tungsten minerals were deposited. This was followed by a copper, lead, and silver rich stage, and finally by an antimony/silver phase associated with quartz.

More than 95 minerals have been identified at Huaron with the most important economic minerals being tennantite-tetrahedrite (containing most of the silver), sphalerite and galena. The principal gangue minerals are pyrite, quartz, calcite and rhodochrosite. Enargite and pyrrhotite are common in the central copper core of the mine and zinc oxides and silicates are encountered in structures with deep weathering. Silver is also found in pyrargyrite, proustite, polybasite and pearceite.

There is a definite mineral zoning at Huaron and the mine has been divided into seven separate zones. There is a central copper core (Zone 5) where the principal economic mineral is enargite. The structures contain copper with pyrite and quartz. This area was extensively mined by previous operators but, because of the high arsenic and antimony content and poor metal recoveries, further mining in this area could be problematic. To the east and west of the central core are Zones 2, 3, and 4 where silver, lead, and zinc are found in carbonates; principally calcite and rhodochrosite. Zone 1 to the north of the central core contains silver, lead, and zinc associated with pyrite. Zone 6 is along the west side of the axis of the anticline and south of Zone 2 is principally lead and zinc with lower silver values within carbonates. Zone 7 is a narrow band running north-south along the general axis of the anticline and to the south of Zone 3 and contains principally sphalerite and sulfosalts with rhodochrosite.

The central core of the district has adularia-sericite alteration overprinted by strong silicification and epidote-pyrite. This core is surrounded by a zone containing epidote-pyrite-quartz that grades outwardly to a zone containing chlorite and magnetite. The mineralized structures are concentrated in the central core of the district but important structures continue into the outer zones.

***Exploration, Drilling, Sampling and Analysis***

Exploration at Huaron is conducted using a combination of underground drilling and drifting. Generally, underground drillholes that intersect promising ore grade mineralization are followed up by drifting for Mineral



Resource and Mineral Reserve definition. During 2011, 25,754 metres were drilled using five drill rigs. In addition, 3,046 metres of underground drifting were completed for Mineral Resource and Mineral Reserve definition.

Drill core is split with half remaining on-site for further reference. Assaying, for both drill samples and underground channel samples, is done at the mine laboratory. The quality assurance/quality control ("QA/QC") program includes sample checks performed at an outside lab and the submission of standards to the mine lab.

Additionally, there is a QA/QC program supervised by the geology department. It includes the submission of at least one certified standard and blank per day as well as tertiary lab check assays on 2 to 5% of the samples and 1 to 2% of the check samples.

All of the geologic activities, including sampling, are conducted under the direct supervision of the Chief Geologist at the Huaron mine.

***Strategic Restructuring***

In the fall of 2003, Pan American initiated a technical and economic evaluation to determine the benefits of re-engineering the main haulage system at the Huaron mine. As a result of that evaluation, an electric locomotive haulage system was installed in expanded tunnels on the 500 level for haulage from the upper parts of the mine. In addition, an evaluation was undertaken in 2006 to determine whether to use the existing mine shafts (not operative) to replace diesel trucks and reduce mine haulage costs from the lower levels of the mine. During 2009, work to refurbish the D shaft continued and a decline to access the 180 level below the primary 250 drainage level was successfully completed with the construction of a permanent pumping station and back-up power supply.

During 2010, the D shaft refurbishment was completed and the shaft was put into operation. In 2011, an electric locomotive haulage system was installed on the 250 level to connect the D shaft with the North zone and to continue to develop the 180 level.

***Mineral Reserves***

The Company's management estimates Proven and Probable Mineral Reserves at the Huaron mine, as at December 31, 2011, are as follows:

**Huaron Mineral Reserves (1), (2)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Lead | % Copper |
|---|---|---|---|---|---|
| Proven | 6.1 | 188 | 2.97 | 1.51 | 0.35 |
| Probable | 4.2 | 177 | 2.95 | 1.51 | 0.31 |
| TOTAL | 10.3 | 183 | 2.96 | 1.51 | 0.33 |

Notes:
(1) Estimated using a price of $25 per ounce of silver, $1,750 per tonne of zinc, $1,850 per tonne of lead and $6,500 per tonne of copper. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(2) Mineral Reserve estimates for Huaron were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101.

The Huaron mine has Proven and Probable Mineral Reserves which indicate a projected mine life of at least fifteen years at current production rates.



***Mineral Resources***

The Company's management estimates that Mineral Resources at the Huaron mine, as of December 31, 2011, are as follows:

**Huaron Mineral Resource Estimate (1), (2)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Lead | % Copper |
|---|---|---|---|---|---|
| Measured | 1.0 | 157 | 3.30 | 2.11 | 0.19 |
| Indicated | 0.7 | 157 | 3.31 | 1.97 | 0.24 |
| Inferred | 7.1 | 176 | 2.82 | 1.56 | 0.32 |

Notes:
(1) These Mineral Resources are in addition to Huaron Mineral Reserves. Estimated using a price of $25 per ounce of silver, $1,750 per tonne of zinc, $1,850 per tonne of lead and $6,500 per tonne of copper. See also information in this Annual Information Form under the heading

"Mineral Reserve and Mineral Resource Estimate Information".

(2) Mineral Resource estimates for Huaron were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101.

***Mining***

The main mine access is via a four metre by four metre ramp which is used for truck haulage that has been recently extended below the main 250 drainage level to the 180 level and an electric locomotive haulage system on the 500 level to extract ore out of the mine. There are two existing shafts on the property, one remains out of service. However, during 2010, the mine completed the refurbishment of the D shaft in order to reduce mine haulage costs associated with the operation of diesel haul trucks and to allow another method of access to Mineral Reserves that are somewhat remote to the main haulage ramp.

In 2011, ore was extracted from 37 stopes on multiple veins with approximately 24 stopes being active at any given time (in a range of 22 to 27 active stopes in a given month). The mining method is predominantly cut and fill using mill tailings as backfill, trial production from long hole stoping started in January, 2009 and has been increasing in importance since then. As is common in central Peru, conventional captive cut and fill mining is typically conducted in the very narrow veins where mining widths can be one meter. Mechanized cut and fill is used as the veins increase in width especially in those areas where crossing veins can be mined simultaneously. Long hole mining was started in some of the wider veins (three meters or wider) with the expectation of improved productivity and safety, and reduced operating costs. Since then, efforts have focussed on refining the method to suit the conditions at the Huaron mine and on implementing this extraction method. In 2011, a total of 81,900 tonnes were extracted from long hole stopes on the Llacsacocha, Tapada and Alianza veins, representing 14% of the total mine production. During 2012, long hole mining of the Farallon, Tapada, Llacsacocha and Productora veins is expected to reach 35% of the total production from underground.

Following the completion of the ramp to the 180 level, which is nominally 70 meters below the drainage level, some schedule delays were experienced in 2009 and 2010 with the completion of the permanent pumping station and due to some local areas with worse than expected ground conditions. During 2011, the mine focussed on an aggressive program of definition drilling, expanding some mine sections to allow more efficient haulage and utilization of mining equipment, improving the overall mine services such as compressed air supply and ventilation, and rationalizing and reducing the number of mine contractors on site. These efforts caused some delays in the mine's development and the mine's total underground production which was reduced from 706,400 tonnes in 2010 to 600,900 tonnes in 2011.



***Milling***

The concentrator plant processed 614,400 tonnes of ore in 2011, down from the 704,100 tonnes processed in 2010. The plant has operated basically the same circuits of crushing, ball mill grinding, selective flotation and filtering since it started in 2001.

***Environment***

Before Pan American acquired its interest in the Huaron mine, Minera Huaron had filed a program to administer and maintain the environment ("PAMA") with the government on July 26, 1996 in compliance with Peruvian regulations. The PAMA addressed, among other things, stability of tailings impoundments, water quality and the fact that liquid effluents from the mine exceeded certain permissible levels of metals, as well as the required revegetation of a historic tailings area near the adjacent town. The PAMA set forth an implementation time line of nine months for Huaron to make certain expenditures to address the environmental issues raised. In January 1997 and March 1998, the Peruvian Ministry of Energy and Mines ("MEM") consented to the modification of certain expenditures under the PAMA and an extension of the implementation timeline.

As a result of the 1998 flood of the adjacent Animon mine, waters inundated portions of the Huaron mine, causing the closure of the mine. For this reason, Minera Huaron was not able to satisfy all of its obligations under the PAMA in accordance with the established implementation timeline. Given the magnitude of the incident, in December 2001, the MEM granted a further extension of the execution period of the PAMA. At the same time, the Minister of Energy and Environment approved a special program to manage the environment ("PEMA") to continue until the end of 2005.

On December 30, 2006, third party consultants submitted their report on the field inspection conducted on the PAMA and PEMA projects. Minera Huaron completed the requirements under the PAMA program, and compliance and expenditures have been audited by third party consultants. PEMA accreditation has been received and the PAMA has been approved.

In October 2003, the Peruvian government passed legislation requiring active mining operations to file closure plans within six months of the date of passage of the legislation. Administrative rules associated with this legislation which laid out detailed closure requirements, including bonding and tax deductibility of reclamation and rehabilitation expenses, were promulgated in October 2005. These rules require that detailed closure plans and cost estimates be compiled by a certified third party consultant by October 2006. The original closure plan for the Huaron mine was filed by mid-year 2004.

In August of 2006, Pan American submitted a comprehensive closure plan for the Huaron mine to the MEM in accordance with that ministry's regulations. The closure plan was prepared by third party consultants registered with the Peruvian authorities as qualified to present closure plans to the MEM. The closure plan includes a summary of the proposed closure scheme for each of the major areas of impact such as mine water, tailings areas, wasterock dumps, plantsite infrastructure, and underground mine. A detailed cost estimate was prepared based on Pan American's and the consultant's shared experience with closure works over the past 12 years and experience with other projects in Peru. As required by the MEM, the costs were summarized in three phases: concurrent closure, final closure and post closure. Updated closure plans are filed as required.

The most significant environmental issues currently associated with the mine are relatively high metal concentrations in the waters discharged from the mine and localized areas of acid rock drainage from the mine's tailings deposit areas. Mine dewatering water is treated in a

treatment plant to achieve compliance with discharge limits.

The current present value of closure expenditures at Huaron as at December 31, 2011 is estimated at $10.4 million. See “Narrative Description of the Business — Environmental Protection” for further disclosure regarding forward looking statements related to reclamation costs.



***Health and Safety***

Following its purchase of the mine, Pan American implemented a modified version of the third party safety and training program for employees and contractors used successfully at its Quiruvilca mine. In May 2007, June 2009, June 2010 and again in June 2011, formal safety audits were conducted by the Company’s Director of Health and Safety and safety managers from other Pan American operations at the Huaron mine. All Huaron mine employees are required to undergo safety and environmental training and all new underground employees are required to undergo task specific training prior to being assigned to their first position. In addition, some of the supervisors attended the Centromin Peru (“Centromin”) “Basic Mining Concepts and Safety” training in Lima, Peru. In 2011, the Huaron mine established a training center at the San Jose camp in order to provide employees with a higher level of training and to comply with new Peruvian mining legislation. During the year personnel at the Huaron mine attended a total of approximately 123,700 hours of training.

***Capital Expenditures***

In 2011, capital expenditures at the Huaron mine increased to approximately $13.0 million from $6.6 million in 2010. The expenditures consisted primarily of: (i) equipment replacement and improvement and (ii) mine capital development.

***Marketing***

The Huaron mine produces silver rich zinc, lead, and copper concentrates which are sold under contracts that are with arm’s length smelters and concentrate traders. Huaron receives payment for an agreed percentage of the silver, zinc, lead, or copper contained in the concentrates it sells after deduction of smelting and refining costs.

The revenue per type of concentrate produced by the Huaron mine for the past three years were as follows:

| | Revenue(1), (2) | Tonnes |
|---|---|---|
| **2011** | | |
| Zinc Concentrate | $ 16.3 million | 19,534 |
| Lead Concentrate | $ 34.0 million | 10,000 |
| Copper Concentrate | $ 48.9 million | 5,528 |
| **2010** | | |
| Zinc Concentrate | $ 14.8 million | 24,618 |
| Lead Concentrate | $ 24.7 million | 13,097 |
| Copper Concentrate | $ 37.5 million | 7,580 |
| **2009** | | |
| Zinc Concentrate | $ 9.9 million | 23,960 |
| Lead Concentrate | $ 16.0 million | 12,928 |
| Copper Concentrate | $ 36.4 million | 11,003 |

Notes:
(1) Consists of sales to arm’s length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty in securing contracts for the sale of Huaron concentrates; however, there can be no certainty that it will always be able to do so or what terms will be available at the time.



Please see “Risks Related to Pan American’s Business — Smelter Supply Arrangements” and “Risks Related to Pan American’s Business — Trading Activities and Credit Risk”.

**(ii) Morococha Mine**

***Ownership and Property Description***

The Morococha mine is owned and operated by Argentum, a Peruvian company in which the Company, through its subsidiary Pan American Peru, has a 92.01% voting interest (the remaining interest is held by Alejandro Gubbins and Compañía Minera Casapalca S.A.). In addition, the Company has 96.4% of the non-voting investment shares resulting in a total ownership interest of approximately 92.2% as at December 31, 2011.

The Morococha property is located in the Morococha District, Yauli Province, Junin Department, Peru, on the east side of the continental divide just below Ticlo summit, approximately 38 kilometres west of the city of La Oroya and 137 kilometres east of Lima. The Morococha property’s general coordinates are latitude 11° 36’ South and longitude 76° 10’ West.

The Morococha property is comprised of three economic administrative units ("UEA") and various concessions held outside of these UEAs. The three UEAs contain 458 mining concessions owned outright by Argentum, 11 concessions have been transferred to Argentum from Silver Lead Mining Company (public registry pending) and 5 concessions have been transferred to Argentum from Sociedad Minera Corona ("SMC") (public registry pending). There are 37 concessions under a lease agreement with Corporación Minera Sacracancha S.A. for a grand total of 12,192.01 hectares. In addition, there are 21 mining concessions held with different third party participations covering 106.23 hectares. The majority of the mining concessions comprising the Morococha property are contiguous. All known mineralized zones in which mining operations are currently conducted, and in which known Mineral Reserves exist, are contained within the boundaries of these concessions.

Argentum did not hold registered legal title of most of the surface lands that overlie the mining concessions which comprise the Morococha property. These rights were all formerly owned by Centromin, the Peruvian national mining company. Centromin granted Argentum a right to use certain of Centromin's surface lands throughout the useful life of its mining operations, provided such use does not interfere with the development of a mine in respect of the Toromocho disseminated copper system, which overlies certain of Argentum's mining concessions and underground mining operations. Argentum had an obligation to pay Centromin $60,000 (which amount will be adjusted annually to account for inflation) quarterly commencing May 28, 2003 as consideration for this right. The Morococha property's process plants, shafts and access roads are all located on lands of which Pan American did not hold legal title and was not given specific rights by Centromin. Argentum's and its predecessors' use of these surface lands have been exercised for decades with Centromin's knowledge and Argentum's claim to its continued use of these surface rights was based on concepts of rights acquired through long term use often referred to as adverse possession.

Peru Copper Inc. ("Peru Copper"), a copper mining company carrying on business in Peru, acquired mining concessions and surface rights to the Toromocho property from Centromin.

In June 2007, Aluminum Corporation of China ("Chinalco") purchased 100% of the outstanding shares in Peru Copper, and formed Minera Chinalco Peru ("MCP").

In the past, Centromin had voiced a number of complaints with respect to certain surface lands over which Argentum had exercised use for years. Beginning in 2005, Pan American, with the opposition of Centromin, engaged in a number of administrative and judicial proceedings to obtain legal title to surface lands and underground access that comprise part of the rights that were acquired by Peru Copper from Centromin. Following Peru Copper's acquisition of Centromin's rights, Pan American began preliminary discussions with Peru Copper, and later with Chinalco and MCP, in respect of negotiating a resolution to the surface rights issues between the parties.



In June 2010, Pan American reached an agreement with MCP which clearly defined each party's long term surface rights and therefore provides certainty to the land situation for Pan American's Morococha property. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP's Toromocho copper project. Under the terms of the agreement, Argentum will relocate the core Morococha facilities, including the administration offices, warehouse, maintenance facilities, mine compressors, and some camp facilities and construct a new concentrator over a 5 year period and transfer certain mineral concessions and access rights to MCP that it needs in order to proceed with the development of Toromocho, including the surface lands within the planned open pit mining area of the Toromocho project. In exchange, Argentum will receive a package of surface rights, easements, and other rights to relocate the facilities and to continue uninterrupted operations, and will also obtain rights to a number of mineral concessions outside the planned Toromocho pit area where high-grade silver veins have been identified. Lastly, Argentum will receive periodic cash payments from MCP totalling $40 million, which will off-set a portion of the capital required for the facility relocation. The transfer of lands and rights and the cash payments will occur over a period of time in accordance with meeting certain milestones. In addition to the foregoing, the parties agreed to dismiss the judicial and administrative claims between them.

Please see "Risks Related to Pan American's Business — Title to Assets".

Certain statements in the following summary of the Morococha property are based on and, in some cases, extracted directly from the Morococha Technical Report.

***Location, Access, Climate and Infrastructure***

The Morococha mine is accessible via Peru's paved central highway, by travelling approximately 137 kilometres east of Peru's capital city of Lima, then 1.7 kilometres south via a public, all-weather gravel road. Rail service from Lima is also available via a national rail line that passes adjacent to the operations.

The topography of the mine operating area is characterized by steep, rugged ridges and peaks ranging in elevation from 4,400 metres to over 5,100 metres above sea level. Vegetation is sparse and wildlife is limited to mostly birds and small mammals, amphibians, and reptiles. The climate of the operations area is typical of the Andean Cordillera in Peru, with two distinct seasons — wetter summer months (November through March) and dryer, colder winter months (April through October). Because all mining currently takes place underground, climate has minimal effect on ore production at the Morococha mine.

Mining has taken place on the Morococha mine and nearby areas (Casapalca, Cerro de Pasco) for more than 100 years, resulting in a well-developed regional transportation and power infrastructure and a large local labour pool. Water for processing is plentiful, and tailings disposal areas are adequate. Several mine development waste disposal sites exist on the Morococha mine and are sufficient to meet the needs of mining operations. The existing processing plant sites are sufficient for all proposed operations.

Peru's economy is dependent on mining and currently there is a sufficient local source of mining personnel and related infrastructure.

***Royalties and Encumbrances***

To the best of Pan American's knowledge, the Morococha mine is not subject to any royalties or encumbrances, other than the mining

royalty tax described under “Taxation” in the Morococha mine section of this Annual Information Form below.

***Taxation***

The principal taxes of Peru affecting Argentum include income tax, employee profit sharing taxes, annual fees for holding mineral properties, various payroll and social security taxes, a refundable value added tax, Peruvian mining royalty tax and the SMT.



The Morococha mine generated income tax provisions of approximately $4.7 million, $5.7 million, and $0.7 million in 2011, 2010 and2009 respectively. The 2010 and 2009 amounts have been updated for IFRS. In addition, employee profit sharing taxes of approximately $1.9 million, $3.0 million and $0.4 million were generated in 2011, 2010 and 2009, respectively.

Morococha sales in 2011 were approximately $83.5 million and operating income was $16.7 million. Pursuant to the revised royalty tax rate and the implementation of the new SMT, the total royalties and taxes amounted to approximately $0.9 million in 2011, 1.2 million in 2010 and $0.6 million in 2009 See “Huaron Mine — Taxation” for a description of the Peruvian SMT and revised mining royalty tax.

***History***

Mining began in the region around the Morococha mine before the 1500s, and production has been continuous in the district since the late 1800s.

Between 1915 and 1918, much of the district was reorganized and incorporated into the Cerro de Pasco Mining Company (“Cerro de Pasco”). By 1924, Cerro de Pasco was producing at a rate of 1,500 tonnes per day from primarily copper ores containing 6% copper. Between 1929 and 1934, Cerro de Pasco excavated the 11.5 kilometre Kingsmill Tunnel, successfully dewatering all of the Morococha district mine workings above the 4,020 metre tunnel elevation. The Kingsmill Tunnel is still in use and is a vital feature of the Morococha mining district.

In the 1940s, the Gubbins family began operating mines in the Morococha district through Minera Santa Rita S.A. and Minera Yauli S.A., which were subsequently consolidated in the late 1990s into SMC. Cerro de Pasco continued to operate in other areas around the Morococha district until 1974, when its mines were nationalized by the Peruvian government. Production from the Cerro de Pasco mines in the district continued under the Peruvian national mining company, Centromin, until 2003, when SMC acquired these operations from Centromin through privatization.

On January 20, 2004, the Company entered into an agreement with 14 individuals, estates and companies, all of whom were arm’s length to the Company and are members of the Gubbins family or entities in which members of the Gubbins family hold beneficial interests (the “Morococha Vendors”), to purchase 92.014% of the voting shares of Argentum, a *sociedad anónima* organized under Peruvian company law, for $35,425,390 in cash. Argentum acquired, through a corporate restructuring undertaken under Peruvian company law, the Anticona and Manuelita mining units and related infrastructure and processing assets from SMC. At the time of acquisition, Argentum held in its treasury as cash, all profits earned by SMC’s Anticona and Manuelita mining operations since November 1, 2003. The transaction was subject to regulatory approval and a number of conditions, including: (i) the completion of the corporate restructuring; (ii) the listing on the Lima Stock Exchange of 100% of the shares of Argentum, including those issued in connection with the corporate restructuring; and (iii) Pan American successfully undertaking a public bid for not less than 92.014% of the voting shares of Argentum through the Lima Stock Exchange.

On February 24, 2004, the Company entered into a further agreement with the Morococha Vendors to purchase all of the issued and outstanding shares of Empresa Minera Natividad S.A. (“Natividad”), a corporation organized under Peruvian company law which holds mining concessions and operations that are complementary to the Anticona and Manuelita mining units, for $1.5 million in cash. Closing of the acquisitions of Argentum and Natividad occurred contemporaneously in August 2004, with effect as of July 1, 2004 and in 2005, Argentum amalgamated with Natividad. Argentum made all necessary applications for delisting its shares from the Lima Stock Exchange and the delisting process was completed in 2006. In addition, Pan American Peru is currently making a bid to acquire the labour shares in Argentum. The labour shares were created as a means through which workers would be able to take part in Pan American’s success (but do not afford the holders of such shares influence over the decision-making of Pan American, as they are non-voting), and are held either by current workers, former workers or by third parties who have bought labour shares in the free market.



***Geology and Mineralization***

A 2,000 metre thick Palaeozoic-Mesozoic sequence of schists, volcanic rocks, and predominantly carbonate sediments cut by a series of Upper Tertiary intrusions provide the host rocks for the mineralization in the Morococha district. The structures that account for the majority of the vein mineralization in the Morococha district trend predominantly northeast to east-northeast. Mineralization includes epi-mesothermal silver-lead-copper-zinc veins and bedded silver-base metal replacements or mantos (which together account for the majority of the past and present economic mineralization at the Morococha property), intrusive-sediment contact skarns, and the quartz porphyry-hosted Toromocho disseminated copper system. The size and geometry of individual ore shoots in the veins can range up to 400 metres in length and more than 800 metres down plunge. Undiluted district vein width averages are on the order of 1.2 metres. Replacement manto mineralization is generally restricted to receptive stratigraphic horizons where favourable lithologies are intersected by mineralized veins or are proximal to pre-mineral intrusives. Mantos can have a significant strike extent where the veins are closely spaced, and can range from less than one metre in width up to 12 metres. Intrusive contact related skarn bodies, while common locally, are generally small and irregular, with disseminated rather than massive sulphide mineralization.

Ore and gangue mineralogy is similar in veins and mantos but it varies considerably across the property. Sphalerite, galena, and

chalcopyrite are the most important primary minerals for zinc, lead, and copper and silver is generally present as freibergite (silver-tetrahedrite) or argentiferous galena. Gangue generally consists of quartz, calcite, barite and rhodochrosite, the latter having a strong correlation with higher silver grades.

As with most of the large Peruvian polymetallic deposits, Morococha exhibits a distinct lateral and vertical metal zonation. A central copper zone centered on the Toromocho copper deposit grades outward through a lead-zinc-minor silver zone and then into an outermost zone that is richer in silver but still containing significant lead-zinc contents. There is also a distinct trend for higher silver grades at higher elevations on the west side of the Morococha mine. Individual silver assays of greater than 2,200 g/t are not uncommon above 4,800 metres in certain areas, and greater than 300 g/t silver ore grades also are common in the outer silver-lead-zinc zone above the 4,400 metre elevation in certain areas. In veins that have been mined over significant vertical extents (such as those in Manuelita), silver grades tend to decrease as zinc grades increase with depth. However, several of the major veins currently being mined on the 4,020 metre Kingsmill Tunnel level still contain silver grades in the 200 g/t to 250 g/t range. The hydrothermal alteration present at Morococha is typical for central Peruvian zoned polymetallic deposits.

***Exploration***

Historically, SMC conducted only minimal exploration in the Morococha district since the late 1990s. However, exploration potential is considered to be excellent throughout the district due to the significant vertical extent (over 800 metres) of economic veins and the prevalence of multiple carbonate units favourable for replacement mineralization. Shortly after acquiring the Morococha mine, Pan American started aggressive exploration programs based on underground and surface diamond drilling. From late 2004 to September 2007, a total of 743 underground diamond drill holes and 110 surface diamond drill holes were completed for a grand total of 146,402 metres of diamond drilling. There are no core or sample recovery issues which could have materially impacted the accuracy and reliability of the assay results. During 2008, 32,111 metres were drilled, 16,744 metres were drilled in 2009, and 36,171 metres in 2010.

Based on positive exploration results in 2008, 2009 and 2010, the Morococha mine was able to mine approximately 513,000 tonnes during 2011, and process approximately 524,000 tonnes at the Amistad mill (consuming some of the stockpile accumulated). In 2011, average monthly production was approximately 43,700 tonnes.



***Drilling, Sampling and Analysis***

SMC utilized surface and underground diamond drilling only to test for potential ore-grade mineralization in the various veins, replacement mantos, and skarn bodies. Once the results of drilling determined the presence of ore grade mineralization, the vein or manto was accessed by underground crosscutting and drifting for further exploration and delineation of Mineral Resources and Mineral Reserves. Thus, assay data generated by SMC's drilling was seldom used in block grade estimations for Mineral Resources and Mineral Reserves. Since September 2004, exploration at the Morococha mine has been conducted using a combination of diamond drilling and underground drifting. Currently, four diamond drills are in continuous operation at the property, drilling AQ, BQ, NQ, and HQ sized holes between 50 and 350 metres in length. This is generally followed by underground development. During 2009, a total of 16,744 metres of drilling was conducted, in 2010, a total of 36,171 metres, and in 2011, a total of 38,926 metres were drilled.

Diamond drill core is split in half, with one half sent for assaying and one half retained in a secure on-site facility. The veins in the cross-cuts are channel sampled, and a two to three kilogram sample is sent for analysis.

The mine laboratory conducts a routine internal QA/QC program that includes external check samples and the routine submission of standards.

Additionally, there is a QA/QC program supervised by the geology department. It includes the submission of at least one certified standard and one blank sample per day as well as tertiary lab check assays on 2 to 5% of the samples and 1 to 2% of the check samples.

All sampling, whether from diamond drill core or channel sampling, is done under the direct supervision of the Morococha mine geology department.

The data used for the estimation of Mineral Resources and Mineral Reserves at the Morococha mine were derived from underground channel samples from the backs of drifts, the ribs of crosscuts, the backs of stopes, the ribs of raises, and from diamond drill core samples. Channel samples are taken every two metres across the veins or mantos in exploration drifts. Stopes are sampled at least once a month on two metre centers along strike.

All samples from both the Morococha mine and mill are first run for silver, lead, copper, and zinc using an atomic absorption ("AA") unit. Samples with initial AA analyses for silver greater than 500 grams per tonne are rerun by fire assay, using assay charges that vary in size from 15 to 50 grams depending on the grade of the initial AA assay (the larger the AA assay value, the larger the fire assay charge). Wet chemical analysis for lead and zinc is reserved for concentrate samples or base metal grades over 10%.

In 2005, Argentum hired a third party laboratory (MINLAB) in order to ensure the appropriate analysis standards were applied to the mineral samples obtained from the Morococha mine. In addition, a laboratory information management system has been installed in the lab to assure an automated quality control of standards, blanks and check samples.



***Mineral Reserves***

Pan American's management estimates that the Proven and Probable Mineral Reserves for the Morococha mine, as at December 31, 2011, are as follows:

**Morococha Mineral Reserves (1), (2), (3)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Lead | % Copper |
|---|---|---|---|---|---|
| Proven | 4.3 | 153 | 3.19 | 1.17 | 0.40 |
| Probable | 3.3 | 177 | 3.41 | 1.41 | 0.40 |
| TOTAL | 7.7 | 163 | 3.28 | 1.28 | 0.40 |

Notes to Morococha Mineral Reserves:

(1) Estimated using a price of $25 per ounce of silver, $1,750 per tonne of zinc, $1,850 per tonne of lead and $6,500 per tonne of copper. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(2) Mineral Reserve estimates for Morococha were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons, as that term is defined in NI 43-101.
(3) Tonnes are shown for 100% of the Morococha property. Pan American, through its subsidiary Pan American Peru, has a 92.2% interest in the Morococha property.

***Mineral Resources***

Pan American's management estimates that the Mineral Resources at the Morococha mine, as at December 31, 2011, are as follows:

**Morococha Mineral Resource Estimate (1), (2), (3)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Lead | % Copper |
|---|---|---|---|---|---|
| Measured | 1.5 | 124 | 2.83 | 1.15 | 0.28 |
| Indicated | 2.3 | 173 | 2.45 | 1.20 | 0.52 |
| Inferred | 8.1 | 159 | 3.01 | 1.22 | 0.38 |

Notes:

(1) These Mineral Resources are in addition to Mineral Reserves. Estimated using a price of $25 per ounce of silver, $1,750 per tonne of zinc, $1,850 per tonne of lead and $6,500 per tonne of copper. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(2) Mineral Resource estimates for the Morococha mine were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101.
(3) Tonnes are shown for 100% of the Morococha property. Pan American, through its subsidiary Pan American Peru, has a 92.2% voting interest in the Morococha property.

***Mining***

Underground mining operations at the Morococha mine consist primarily of typical overhand cut and fill, shrinkage, and mechanized room and pillar methods using classified tailings or waste rock for backfill where needed. Holes are drilled in the mining face using jacklegs or jumbo drills (in Codiciada) which are loaded with explosives and blasted between shifts twice per day. Slushers are used in the cut and fill and shrink stopes and scoop trams are used in the room and pillar stopes and some of the wider cut and fill stopes to transport the broken rock to chutes that report to levels with track haulage. Locomotives transport the ore in rail cars from the chutes to one of three shafts for hoisting. Highway dump trucks then haul the ore from shaft coarse ore bins to mill stockpiles. In addition to the three main shafts, some ore is also transported from certain sectors of the mine to stockpiles using LHD's (scoop trams). The mine operates two eight hour shifts per day, six days a week. The



Mineral Reserves comprise estimates from approximately 129 different structures distributed throughout the Morococha property. Typically stopes from 25 of these structures are in production in a given year.

The Yauli (also referred to as the Manuelita), Maria and Central production shafts provide access down to the Kingsmill drainage tunnel level at an elevation of 4,020 metres. The Central shaft is located approximately 1,500 metres west of the Maria shaft and 2,500 metres west of the Yauli shaft. The Maria and Central shafts, which were part of the Centromin Morococha acquisition, are equipped with above ground head frames, hoists, and ore bins. The Maria shaft has a single split drum hoist with two 2.0-tonne skips. The Central shaft is larger with two split drum hoists. One hoist is fitted with two 3.5-tonne production skips and the other is used for personnel and materials. The Yauli shaft (which was used by SMC prior to the Pan American Morococha acquisition) is equipped with two 2.6-tonne skips and its collar is located beneath the surface. Ore from the Yauli shaft feeds into chutes from where it is then transported in rail cars by a small locomotive to an adjacent subsurface truck loading facility. The three shafts have a combined capacity to support production schedules in excess of 700,000 tonnes per year.

There are two process plant facilities on the property, approximately five kilometres apart. The Sacracancha plant was the primary milling facility for SMC until the acquisition of the Amistad plant which is currently the only process facility in use. Some of the processing equipment from the Sacracancha plant has been removed to be used at other Pan American Peru plants. Both process plants are conventional selective flotation facilities capable of producing individual copper, lead, and zinc concentrates, which are then shipped to third party smelters for final refining. The tailings from both plants are deposited sub-aqueously in the Huascacocha Lake to the north of the Sacracancha plant. The

facility contains tailings storage capacity for over 20 years. The Peruvian government is investigating the possibility of using the Huascacocha water for human consumption in Lima, Peru. No change of the tailings area has been contemplated in the economic study, as the chance for execution of such a project is considered very remote and would likely happen in the distant future.

Pan American continues to develop and explore the Morococha mine in accordance with its long term mine plan. During 2008, the Sierra Nevada ramp was completed to the manto Italia area and a new rail haulage tunnel was started on the 400 level to develop from the Codiciada / Alapampa area in the north to access the high silver grade veins in the Yacumina zone. The development will also allow the exploration of a large area to the west of the Toromocho property. During 2010, the development of the 400 level haulage drift continued towards Yacumina and was connected with Sierra Nevada - manto Italia via a new ramp.

During 2011, the mine focussed on definition diamond drilling in the Alapampa and Yacumina areas, reducing and rationalizing mining contractors, improving services such as ventilation and compressed air, upgrading rail tracks, and improving personnel transport to some of the remote areas of the mine. The combined effect of these efforts reduced underground production to 513,600 tonnes in 2011 from the 658,800 tonnes produced in 2010. Mine development rates were increased in the second half of 2011 and mine production increased slightly in the fourth quarter to 44,000 tonnes per month from an average of 42,000 tonnes per month in the third quarter. Development rates will be further increased in 2012 and an aggressive stope preparation program is planned in the Codiciada and Manuelita areas which is expected to lead to production starting to pre-2011 levels over the course of the next few years.

***Milling***

During 2011, the Amistad concentrator plant processed 524,100 tonnes (100% basis) of ore.

***Environment***

The most significant environmental liability identified at the Morococha mine is the mine's potential share of the cost to operate the Kingsmill Tunnel water treatment plant which was built and is currently being operated by MCP to treat the 1.5 to 1.8 cubic metres per second of water draining from the Kingsmill Tunnel into the Rio Yauli. Morococha's share of the cost was defined by a hydrogeological study completed in 1997 by Water Management Consultants ("WMC"), which apportioned responsibility for the costs of constructing and operating



the treatment plant as follows: (i) Centromin (72.2%); (ii) Pan American's Morococha operations (12.3%); (iii) Soc. Minera Puquiococha (8.5%); (iv) Soc. Minera Austria Duvaz (4.9%); and (v) Minera Centrominas (2.1%). Subsequent to the apportionment of costs, it appears that in connection with the acquisition by MCP of the mining concessions near Morococha, MCP assumed the cost of the construction of the Kingsmill water treatment plant.

The treatment and operating costs for the water treatment facility are directly proportional to both constituent load and flow determined in the 1997 WMC study. The distribution of responsibility stated in the 1997 study has been accepted by all involved parties. Pan American's potential share of the responsibility for treatment of the baseline flows, 12.3%, was included in the terms of its purchase of the applicable mining concessions. As the Natividad purchase contract establishes that the purchaser is responsible for incremental flows in those concessions, subsequent studies in 2004 by WMC were carried out to further characterize the baseline flow conditions in order to establish benchmarks for the determination of responsibility for potential future increases. The results of this study estimated that 38.46% of the baseline flows were derived from Natividad and Corona concessions now under the control of Pan American; however they have been challenged by Pan American and have not been accepted. The scope of the study and the resulting recommendations exceeded the terms of the study and presented conclusions that conflicted with previous conclusions and the terms of Pan American's purchase of the applicable concessions. Pan American has included the estimated costs for 12.3% of the operations of the water treatment facility in its closure and reclamation estimates.

The Huascacocha Lake, which is adjacent to the Morococha mining operations, has been used for tailings disposal since 1960. WMC completed a study in 2001 to determine what may be required to mitigate the historical tailings. The WMC plan includes raising the dyke to submerge a larger portion of tailings and covering the remaining beach tailings with topsoil. Construction of the raise started in late 2005 and was completed in late 2006. With this raise the facility has the capacity to store 15 years of tailings production.

In October 2003, the Peruvian government passed legislation requiring active mining operations to file closure plans within twelve months of the date of passage of the legislation. Administrative rules associated with this legislation which laid out detailed closure requirements, including bonding and tax deductibility of reclamation and rehabilitation expenses, were promulgated in October 2005. These rules required detailed closure plans and cost estimates to be compiled by a certified third party consultant by October 2006.

In August of 2006, Pan American submitted a comprehensive closure plan for the Morococha mine to the MEM in accordance with that ministry's regulations. The closure plan was prepared by third party consultants registered with the Peruvian authorities as qualified to present closure plans to the MEM. The closure plan includes a summary of the proposed closure scheme for each of the major areas of impact such as mine water, tailings areas, wasterock dumps, plant site infrastructure, and underground mine. A detailed cost estimate was prepared based on Pan American's and the consultant's experience with closure works over the past 12 years and experience with other projects in Peru. As required by the MEM, the costs were summarized in three phases: concurrent closure, final closure and post closure.

The current present value of closure expenditures at Morococha has been updated as at December 31, 2011 to approximately $8.2 million. See "Narrative Description of the Business — Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

***Health & Safety***

In May 2006, a formal safety audit was conducted at the Morococha mine by a third party consultant and the Company's Director of Health and Safety. In October 2006, supervisory safety training was conducted at the Morococha mine by a third party consultant. Follow-up audits were conducted in June 2007, June 2010 and again in July 2011 by the Company's Director of Health and Safety and safety managers

from other Pan American operations. During 2011, personnel employed at Morococha attended a total of approximately 147,900 hours of training.



***Capital Expenditures***

In 2010, capital expenditures at the Morococha mine were approximately $17.3 million. In 2011, capital expenditures at the Morococha mine remained at approximately $11.2 million and consisted mainly of: (i) mining equipment purchases and mine development and (ii) exploration with diamond drilling including mine and surroundings.

In addition to the foregoing, Pan American also incurred approximately $26.2 million in capital expenditures related to the relocation of the Morococha processing plant and infrastructure pursuant to its agreement with MCP. A portion of these capital expenditures were offset by funds received from MCP under the terms of the agreement. Please see “Ownership and Property Description” in the Morococha section above.

***Marketing***

The Morococha mine produces silver-rich zinc, lead, and copper concentrates which are sold under contracts that are negotiated periodically with arm’s length smelters and concentrate traders. Morococha receives payment for an agreed percentage of the silver, zinc, lead, and copper contained in the concentrates it sells, after the deduction of smelting and refining costs.

The revenue per type of concentrate produced by the Morococha mine for the past three years were as follows:

| | Revenue(1), (2) | Tonnes |
|---|---|---|
| **2011** | | |
| Zinc Concentrate | $ 47.3 million | 25,087 |
| Lead Concentrate | $ 18.5 million | 6,211 |
| Copper Concentrate | $ 17.7 million | 7,873 |
| **2010** | | |
| Zinc Concentrate | $ 25.5 million | 34,143 |
| Lead Concentrate | $ 22.5 million | 9,114 |
| Copper Concentrate | $ 41.9 million | 7,744 |
| **2009** | | |
| Zinc Concentrate | $ 15.0 million | 40,196 |
| Lead Concentrate | $ 18.9 million | 12,137 |
| Copper Concentrate | $ 30.2 million | 9,916 |

Notes:
(1) Consists of sales to arm’s length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty securing contracts for the sale of Morococha concentrates; however, there can be no certainty that it will always be able to do so or what terms will be available at the time.

Please see “Risks Related to Pan American’s Business — Smelter Supply Arrangements” and “- Trading Activities”.



**B. Mexico**

**(i) Alamo Dorado**

***Ownership and Property Description***

In 2003, the Company completed an acquisition of Corner Bay and its subsidiaries, which originally held the rights to conduct exploration activity on the Alamo Dorado mineral deposit. Today, the Alamo Dorado mine is managed and operated through Pan American’s wholly owned Mexican subsidiary, MCB.

The Alamo Dorado mine is located 45 kilometres south-southeast of the town of Alamos in the southeast corner of the State of Sonora, near the border with the State of Sinaloa in northwest Mexico at 26°, 44’, 44.2’’ North latitude and 108°, 40’, 00.7’’ West longitude.

The Alamo Dorado mine consists of two contiguous mining concessions, the 509 hectare Alamo Ocho concession and the 4,865 hectare Alamo Dorado concession, and five exploration concessions covering 6,014 hectares, and surface rights covering 763.64 hectares. All of the Mineral Reserves and Mineral Resources for the Alamo Dorado mine lie within the boundaries of the Alamo Ocho and Alamo Dorado concessions and these surface rights.

To the Company’s knowledge, MCB has in its possession all of the principal permits necessary for the operation of Alamo Dorado.

A qualified workforce is available in the community and the operation is currently fully staffed.

Certain statements in the following summary of the Alamo Dorado mine are based on and, in some cases, extracted directly from the Alamo Technical Report.

***Location, Access, Climate and Infrastructure***

The Alamo Dorado mine can be accessed from the Mexican toll highway 15 which is a well-maintained, four-lane, paved road that starts at the border town of Nogales, Sonora and heads south through Hermosillo, Ciudad Obregon, and into Navojoa. From Navojoa, the road to Alamos, Sonora, is an overwidth two-lane paved road (upgraded in 2006). The mine is 40 kilometres southeast of the town of Alamos and is accessed primarily via a moderately maintained dirt road which was upgraded by MCB. A secondary access route exists that is used for heavy deliveries and shipments. There are water crossings that are impassable for short periods during heavy local downpours in the rainy season. During these periods, personnel access the site solely via a route which includes a bridge suitable for passenger vehicles, but is not used for bulk consumable shipments. Major airports in the state of Sonora are located in Hermosillo in the central sector of the state, and Ciudad Obregon to the south of Hermosillo. The airport at Ciudad Obregon is approximately 75 kilometres north of Navojoa or 125 kilometres northwest of the Alamo Dorado mine. The town of Alamos also has a sealed airstrip.

The climate of the Alamo Dorado mine area is transitional between the tropical climates further south and the subtropical desert lands typical of the Pacific coast of Baja, California. The area is generally dry with the warmest period typically occurring between June and September. Precipitation occurs during a short but intense rainy season that typically extends from July through September. The mine operates year round.

The terrain in the vicinity of the Alamo Dorado mine consists of moderate to steep foothills that characterizes the area located between the coastal plain of the Sea of Cortez to the west and the Sierra Madre Occidental mountain range to the east. Local relief ranges from 300 metres above sea level to approximately 550 metres above sea level at the top of Cerro Colorado Ridge in which the Alamo Dorado deposit occurs. The tops of the hills consist primarily of unmineralized bedrock exposures with flanks that are covered by coarse intrusive. Drainages in the nearby valleys are typically incised about two to four metres in depth, indicative of shallow bedrock and relatively high rainfall runoff.



Construction of the Alamo Dorado mine was completed by the end of 2006 and the site now has the following facilities in full operation: mobile mine equipment shop, warehouse facility, and laboratory facilities completed in 2005; explosives magazine constructed in 2004; fully developed open pit mine following pre-stripping activities completed during 2004 and 2005; precious metals processing plant completed by the end of 2006, including but not limited to, the crusher, grinding mills, leach tanks, filter plant, refinery and an acidification, volatilization and reneutralization ("AVR") plant; installation of a 115 kV power transmission line from the Miguel Hidalgo hydroelectric station 35 kilometres away completed in 2006; development of three water supply wells 27 kilometres to the southwest complete with pumps and a pipeline completed in 2006; administration and communication facilities completed in 2006; and a tailings embankment constructed in 2006. Commercial production was declared at Alamo Dorado on April 1, 2007 upon the completion of commissioning.

***Royalties and Encumbrances***

To the best of Pan American's knowledge, the Alamo Dorado mine is not subject to any royalties or encumbrances.

***Taxation***

The principal taxes of Mexico affecting Alamo Dorado include income tax, asset tax, annual fees for holding mineral properties, various payroll and social security taxes, and a refundable value added tax. The Alamo Dorado mine generated an income tax expense of approximately $36.3 million and 29.9 million in 2011 and 2010 respectively and tax benefits of approximately $6.5 million in 2009. The 2010 and 2009 amounts have been updated for IFRS.

On October 1, 2007, the Mexican taxing authority enacted a new business flat tax ("IETU") that became effective in 2008. The IETU is defined as a minimum tax in respect to income tax, but with a wider taxable base as many of the tax deductions authorized for income tax purposes are not permissible for IETU. The transitional provision establishes the rate for 2008 at 16.5% and 17% for 2009. Effective from 2010, the rate is 17.5%. The tax will be computed by applying the applicable rate to the amount resulting from deducting expenses related to the deductions authorized by the law from the total income earned in the year.

***History***

Prior to 1997, there is no record of any modern exploration conducted on the Alamo Dorado mine nor are there any records of production, although there is evidence of a few old adits in the general area. All recorded drilling at the property has been undertaken since 1997.

Geologists from MCB visited the property in 1997 and collected some grab samples from various locations along the north trending ridge. Encouraged by the positive assay results from those samples, MCB began a systematic surface sampling program and eventually obtained an agreement to purchase the Alamo Ocho concession from the owners. The surface sampling program outlined a 300-metre-long north-south trending silver-gold anomaly situated along the east side of the Cerro Colorado Ridge.

Exploration at Alamo Dorado has been comprised primarily of reverse circulation drill campaigns conducted annually from 1998 to 2001. A structural geology examination of the property was undertaken in 2000 through mapping of surface exposures along drill access roads. A more comprehensive 1:2500 scale geologic mapping program was conducted in 2001 over an area of about four square kilometres in the project area. The results established surface extents of the volcanic lithologic units, cross cutting dykes and alteration patterns and provided a linkage for the interpretation of the drilling geological data. Exploration that was completed through 2002 formed the basis for Mintec, a company that offers mining software services, to create a resource model for the property.

On February 20, 2003, the Company acquired Corner Bay pursuant to a plan of arrangement under the *Canada Business Corporations Act*, and in connection therewith the Company issued 7,636,659 common shares



and 3,818,329 common share purchase warrants exercisable for a period of up to five years at a price of C$12.00 per common share. The Company also granted options to purchase up to 553,847 common shares of the Company to former employees of Corner Bay and its subsidiaries.

In September 2004, Pan American commenced an update of the Alamo Dorado feasibility study for a new project based upon the revised resource model, and a conventional milling and leaching circuit. A number of consulting firms were engaged to collaborate on the study.

In 2005, the Company's board of directors approved a $76.6 million project to construct the Alamo Dorado mine.

On site construction began in April 2005 and construction of the open pit mine and processing facility was completed in the fourth quarter of 2006. Total construction costs for the project amounted to approximately $81.5 million. In addition, costs to build the initial ore stockpile and in-circuit silver inventories, which totalled approximately $2.3 million, were recorded as current working capital. Silver production began in the first quarter of 2007 and the mine has become Pan American's largest silver producing mine, sustaining normal operations since reaching design capacity in late 2007.

***Geology and Mineralization***

The Alamo Dorado mine is located in the Sierra Madre Occidental Range, a late Cretaceous to Tertiary age volcanic province that extends for hundreds of kilometres through northwestern Mexico. The intrusives overlie a basement of Palaeozoic and Mesozoic metamorphic rocks that have been locally intruded by various Cretaceous intrusions. The volcanic sequence is grouped into lower and upper units based on the different styles of volcanism that are present. The Lower Volcanic Sequence is of late Cretaceous to early Tertiary age and consists of up to 1,000 metres of tuffs, flows, and volcanic breccias that are andesitic to dacitic in composition. The Upper Volcanic Sequence is of middle Tertiary (Oligocene-Miocene) age and consists of more than 1,000 metres of ash flow and ash fall tuffs of rhyolite to dacite composition that lie unconformably upon the Lower Volcanic Sequence.

A period of particularly active tectonism, including intrusion and uplift, occurred between the deposition of the Lower Volcanic Sequence and the Upper Volcanic Sequence. Uplift and faulting of the Sierra Madre Occidental province was accompanied by the intrusion of felsic to mafic composition dykes, along with the local emplacement of intrusive stocks and batholiths. Mining districts in the Sierra Madre Occidental province are typically located along sheared and faulted structural zones formed in the Lower Volcanic Sequence, and to a lesser extent, within the underlying granitic intrusive. After emplacement of the granitic body, the area continued to be a center of igneous activity, as at least seven distinct dykes or plugs appear to post-date the granitic intrusion.

Uplift of the Sierra Madre Occidental province continued following Tertiary volcanism. Erosion of the uplifted area has resulted in deep canyons and rugged topography.

In the Alamo Dorado concession, the Upper Volcanic Sequence is present in the higher parts of the surrounding mountains, but has largely been removed by extensive erosion in the region. Near the eastern boundary of the Alamo Dorado concession there are relatively undeformed, gently dipping stratified rocks, which are probably Oligo-Miocene in age and are part of the Upper Volcanic Sequence.

The host rocks at the Alamo Dorado mine consist of a sequence of ductile deformed, steeply dipping, Mesozoic epiclastic marine rocks that contain minor intercalated siliceous exhalite and pillow basalt.

During the early Tertiary, the marine sediments were accreted onto the fore arc terrain of a north-west trending magmatic arc. The Laramide orogenic event probably caused at least the first phase of ductile deformation which resulted in the development of a strong penetrative planar fabric and the metamorphism of the sediments to greenschist facies.



Deformation of the rocks at Alamo Dorado was episodic and progressed before, during and after deposit formation. Alteration of the metasedimentary rocks to an assemblage of quartz-muscovite occurred in and marginal to major fault zones.

The metamorphosed marine sedimentary rocks were intruded by dacite dykes, a diorite feldspar porphyry dyke, a hornblende phyric intermediate dyke, at least two phases of granodiorite stocks and minor aplite dykes.

Mineralization and alteration at Alamo Dorado is controlled by an early cryptic structural zone that has since been transposed and kink folded by the regional ductile deformation events. The current shape of the orebody is controlled by a combination of the post-mineral ductile deformation events, and the relatively late, northwest trending block faults, which compartmentalize different portions of the deposit. Silver and gold mineralization may have been associated with the emplacement of the diorite feldspar porphyry dyke and/or first phase granodiorite stock, both of which display hydrothermal alteration and contain silver mineralization.

Hypogene silver mineralisation occurs predominantly as argentite with fine (50 µm to 0.1 µm) disseminated pyrite in clear glassy quartz veins, within quartz crystals of siliceous gangue and within fractures in siliceous gangue. It also occurs as tetrahedrite inter-grown with pyrite, galena and sphalerite.

In a high grade pervasively silicified-pyritised rock, silver mineralization is reported as acanthite intergrown with and rimming galena in a

late quartz-sphalerite-pyrite-galena-chalcopyrite vein, in addition to an unidentified silver sulphosalt intergrown with chalcopyrite.

Within a sample of diorite feldspar porphyry dyke, trace silver mineralization occurring as a silver sulphosalt is recognized with disseminated pyrite-chalcopyrite-galena in altered mafic minerals and a quartz-chlorite groundmass gangue.

The occurrence and mineralogy of gold mineralization is unclear, due to the low gold grades within the deposit, it is difficult to find gold grains within samples. One 4 µm grain of gold was observed with argentite in fractures within clusters of pyrite.

In the oxide environment silver is very mobile, evidenced by strong leaching of silver mineralization especially from the top 15 metres of the Alamo Dorado deposit. Within the oxide horizon silver mineralization occurs in the form of silver chloride mineral chloroargyrite, in this environment acanthite and silver sulphosalts are also stable. Due to the deep weathering of the deposit in the area of the pit, chloroargyrite is a dominant silver mineral.

***Exploration, Drilling, Sampling and Analysis***

The Alamo Dorado mine has been evaluated in various drilling campaigns using reverse circulation ("RC") drilling techniques and diamond drill coring methods. A total of 79 drill holes were drilled on the property in 1997: 75 RC holes and four core holes. The 19 discovery drill holes were drilled in 1998 and 11 of the 19 holes were deepened in 1999. An additional 23 RC drill holes were drilled in 1999, along with four large diameter core holes. The core drilling was specifically for metallurgical testing. In 2000, 14 previously drilled holes were deepened and 25 new RC holes were drilled. Eight more RC holes were drilled in 2001. In 2004, infill core holes were drilled for confirmation of the new resource model, and for samples needed for milling, leaching and pilot plant testing.

In 2008 exploration drilling resumed with a total of 1,736 metres of drilling at the north end of the open pit. Exploration continued in 2009 with of 6,301 metres as a combination of diamond and RC drilling targeting zones in the south, southeast and north part of the pit. Standard logging and sampling conventions were used to capture information from the cuttings and drill core. There was no drilling in 2010.

In 2011, 10,766 metres of diamond drilling was completed, including additional delineation of Phase 3 mineralization to increase the reliability of the geological interpretation and resource estimate in the area of the Phase 3 pit, infill of Phase 2 mineralization and three geotechnical holes. This information was used to re-estimate



Mineral Resources, re-estimate the Mineral Reserves, re-analyse the geotechnical parameters including pit wall requirements, and re-optimize the pit shell and design.

Data verification and QA/QC checks were performed on various occasions by retained consultants on different vintages of the Alamo Dorado database. The bulk of the assays in the database were examined in 2002 as a part of a feasibility study that was undertaken by MCB. In addition, samples were selected from 21 drill holes so that independent third parties could perform an assay verification check. These holes were selected from all of the major drill campaigns and were spatially located throughout the deposit. These QA/QC checks met industry standards.

Based on these various data verifications that have been conducted, the Alamo Dorado assay database has been shown to be accurate and suitable for use in estimating Mineral Resources. Very few errors have been found with respect to the assay values that are stored in the electronic database versus certified assays.

For mining, samples are taken from the Ingersoll Rand blast-hole cones using two trays inserted under the drill shroud. The samples do not contain sub-drill material. The blast-holes are drilled on a four by five metre staggered pattern. The sample tray material is combined and single pass split at the rig to a minimum weight of five kg (normal average eight kg). The samples are analysed on site at the Alamo Dorado laboratory. The samples are split, dried, pulverized, split, and fire assayed with AA finish for Ag and Au. Duplicate samples are analysed for every 20th sample and all duplicates are also assayed by external laboratory (principally ALS Chemex). A certified standard is inserted to every batch or a minimum of 1:20 samples. Every 100th sample is tested for Net Acid Producing Potential as an assurance process. Every 20th sample is also sampled for minor elements copper, iron, manganese, lead and zinc. These sample results are used for grade control purposes and are not used in Mineral Reserve estimation.

***Mineral Reserves***

The Company's management estimates that the Proven and Probable Mineral Reserves for the Alamo Dorado mine, as at December 31, 2011, are as follows:

**Alamo Dorado Mineral Reserves (1), (2)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold per tonne |
|---|---|---|---|
| Proven | 7.0 | 88 | 0.28 |
| Probable | 2.1 | 89 | 0.52 |
| TOTAL | 9.1 | 88 | 0.34 |

Notes:

(1) Estimated using a price of $25 per ounce of silver and $1,350 per ounce of gold.

(2) Mineral Reserve estimates for Alamo Dorado were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".

***Mineral Resources***

The Company's management estimates that Mineral Resources at Alamo Dorado, as at December 31, 2011, are as follows:



**Alamo Dorado Mineral Resource Estimate (1), (2)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold per tonne |
|---|---|---|---|
| Measured | 1.0 | 49 | 0.22 |
| Indicated | 2.1 | 82 | 0.35 |
| Inferred | 0.4 | 57 | 0.91 |

Notes:

(1) These Mineral Resources are in addition to Alamo Dorado Mineral Reserves. Mineral Resources were constrained within a pit shell using a price of $25 per ounce of silver and $1,350 per ounce of gold.

(2) Mineral Resource estimates for Alamo Dorado were prepared under the supervision of, or were reviewed by, Pamela De Mark, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".

***Mining***

Alamo Dorado is a conventional surface mine that utilizes a 7.5 cubic metre hydraulic shovel, a 6.5 cubic metre front end loader and eight 53 tonne mechanical trucks for the principal earthmoving. During 2011, the average mining rate was 14,725 tonnes per day with 4,600 tonnes per day being delivered to the plant crusher and the remainder being delivered to the ore stockpiles or the waste dumps. Silver production in 2011 was 5.3 million ounces which is consistent with the production planned for 2012 of 5.1 to 5.4 million ounces. A successful exploration diamond drilling program in 2011 partially replaced the ore mined in 2011 and requires the pit to be expanded in the areas of the west wall and the north east corner of the existing phase 2 pit. At the end of 2011, there were 9,095,000 tonnes of Proven and Probable Mineral Reserves comprised of 5,830,000 tonnes of ore remaining to be mined and 3,265,000 tonnes in ore stockpiles. The new pit design totals approximately 22.6 million tonnes of ore and waste remaining to be mined. As a result of the addition of new Mineral Reserves the overall strip ratio has increased from 1.3 : 1 at the end of 2010 to 2.9 : 1 at the end of 2011. During 2012, the company plans to invest approximately $5 million to purchase the mining equipment necessary to mine this additional ore and waste. The Company will also evaluate a new life of mine plan to develop a third phase in the pit that would see a substantial push back of the pit wall to the north west. The life cycle of the existing mining equipment and the cost to expand or replace all or part of that fleet will be considered as part of that new plan.

The mine stockpiles low grade and mineralized waste category material. The high grade cut-over was selected to maximize return on investment by processing higher grade material earlier on the mine life. The low grade material is above the incremental break even cut-off.

After mining is completed, processing of the low grade stockpiles will commence. Processing of the mineralized waste is not a component of the life of mine plan and would only be done if metal prices reach a level to make such processing economical. Stockpiled material in the mineralized waste category is estimated to contain 982,000 ounce of silver. This material remains in Measured Resources. The Company intends to conduct metallurgical tests on this material in 2012.

***Milling***

Ore from the Alamo Dorado deposit is treated by conventional crushing and SAG/ball mill grinding to –74 mm, followed by thickening, agitated cyanide leaching, leach residue filtration, direct electrowinning to produce a cathode sludge, AVR cyanide recovery and recirculation, leach residue washing with AVR product solutions, dry stack tailings and conventional silver and gold doré bar production from melting of the cathode sludge. The nominal design treatment rate is 4,000 tonnes per day of ore on a 24-hour per day schedule. The mine's tailings treatment process recovers approximately 97.5% of the sodium cyanide used and also neutralizes mill tailings, thus reducing the mine's environmental impact and reclamation costs.



During 2008, the process plant milled 1,478,400 tonnes of ore and produced 6,115,800 ounces of silver and 16,800 ounces of gold. During 2009, the process plant milled 1,671,300 tonnes of ore and produced 5,320,600 ounces of silver and 18,200 ounces of gold. During 2010, the process plant milled a total of 1,676,000 tonnes of ore and produced 6,721,300 ounces of silver and 16,800 ounces of gold. During 2011, the process plant milled 1,685,200 tonnes of ore (an average of 4,600 tonnes per day) and produced 5,300,000 ounces of silver and 16,600 ounces of gold. The increased processing rate over the nominal design capacity resulted in a decrease in the retention time in the leach tanks and a resultant decrease in the silver recovery. Although small, this decrease was sufficient to justify the construction of two additional leach tanks. These tanks were constructed in 2011 and put into service in early 2012 to return silver recoveries to feasibility levels.

The dry stackable tailings facility consists of downstream constructed embankment that buttresses the moist tailings cake placement. The impoundment area for tailings placement is not lined given the design expectation that the moist cake meets the permit specification following the AVR treatment and filter plant wash. As at the end of 2006, the first phase embankment under-drains and channel seepage beneath the facility into a lined collection pond below the embankment were constructed. The collection pond beneath the tailings impoundment facility is equipped with a pump that returns collected solutions back to the mill.

***Environment***

The original environmental permitting work considered options developed for the 2002 feasibility study, and was provided by Corner Bay in conjunction with Agauyo Consultoría Ambiental, Corner Bay's environmental consultant and coordinator. An EIS and risk assessment study, as well as ancillary documents were submitted by Corner Bay to SEMARNAT to identify potential major deficiencies and for appropriateness for permitting Alamo Dorado. SEMARNAT recommended a finding of no significant impact in the original impact statement/permitting document. Following completion of the updated feasibility study, the original EIS and risk assessment study documents were revised, resubmitted and approved by SEMARNAT. Project construction commenced in 2005 based on the approved EIS and an improved modification of the SEMARNAT Temporary Land Use Permit for the operation of a milling operation and disposal of non-toxic tailings in a dry stack tailings area.

MCB had an agreement with SEMARNAT for compensation activities for mitigation of the environmental impact of the Alamo Dorado project. MCB conducted its compensation activities on schedule during the term of the agreement (2005-2007) and within the framework of its agreement with SEMARNAT. Confirmation was received in August 2007 from SEMARNAT acknowledging the end of the third and final stage of the agreement.

During 2008, a sewage treatment plant was constructed and put into operation at Alamo Dorado. During 2009, a new landfill was constructed and put into operation.

Pan American has estimated the present value of reclamation costs for the Alamo Dorado property at December 31, 2011 to be approximately $3.4 million. See "Narrative Description of the Business — Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

***Health and Safety***

In 2005, an Emergency Response Plan ("ERP") was developed for the Alamo Dorado project. The detailed plan outlines responses to safety and environmental emergencies. In 2006, Alamo Dorado completed MSHA (Mine Safety and Health Administration) training for all Pan American employees. In February 2007, a formal safety audit of the Alamo Dorado mine was completed by a third party consultant and the Company's Director of Health and Safety, followed annual audits including an internal audit conducted in October 2011. During 2011, personnel employed at Alamo Dorado attended 7,900 hours of safety related training. Alamo Dorado was awarded the "Casco de Plata" award in the open pit category for the best safety record in Mexico during 2008 and during 2010, was awarded the "Casco de Plata" once again for safety excellence in 2009. The mine operated the entire 2009, 2010 and 2011 calendar years without a single LTI and has recorded only one LTI since the start of the project.



***Capital Expenditures***

Construction of the Alamo Dorado mine was completed by year end 2006. In 2010, capital expenditures totalled approximately $2.1 million. In 2011, total capital expenditures at Alamo Dorado increased to approximately $8.3 million, primarily for equipment and plant upgrades including the construction of two additional leach tanks to increase residency time and future recoveries.

***Marketing***

Most production from the Alamo Dorado mine is in the form of doré bars, which is refined at arm's length refineries prior to the sale of refined silver and gold to bullion banks and traders. Pan American has entered into multi-year refining contracts with two refiners for the production from Alamo Dorado.

Alamo Dorado also produces a small amount (approximately 5% of total silver production) of silver and gold in the form of a copper-lead rich precipitate from the AVR circuit. This material is typically sold to concentrate traders under annual contracts.

The revenue per type of concentrate and doré produced by the Alamo Dorado mine for the past three years were as follows:

| | Revenue(1), (2) | Quantity |
|---|---|---|
| **2011** | | |
| Silver and Gold in Doré | $ 167.3 million | 4,476,030 ounces of silver<br>12,826 ounces of gold |
| AVR Cu/Ag Concentrates | $ 7.1 million | 711 tonnes |
| **2010** | | |
| Silver and Gold in Doré | $ 141.7 million | 6,509,868 ounces of silver<br>16,649 ounces of gold |
| AVR Cu/Ag Concentrates | $ 5.8 million | 482 tonnes |
| **2009** | | |
| Silver and Gold in Doré | $ 86.5 million | 4,824,397 ounces of silver<br>17,852 ounces of gold |
| AVR Cu/Ag Concentrates | $ 11.8 million | 1,123 tonnes |

Notes:
(1) Consists of sales to arm's length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty in securing contracts for the sale of Alamo Dorado doré and concentrates, however, there can be no certainty that it will always be able to do so or what terms will be available at the time.

Please see "Risks Related to Pan American's Business — Smelter Supply Arrangements" and "Risks Related to Pan American's Business — Trading Activities and Credit Risk".



**(ii) La Colorada Mine**

***Ownership and Property Description***

Pan American Silver's wholly-owned subsidiary, Pan American Mexico, owns and operates the La Colorada mine.

The La Colorada mine is comprised of 37 mining claims totalling approximately 2,864.1 hectares. In addition, Pan American also has control over approximately 571 hectares of surface rights covering the main workings, namely the Candelaria, Campaña, Recompensa and Estrella/Amolillo mines.

To the Company's knowledge, all permits and licences required for the conduct of mining operations at La Colorada are currently in good standing.

Certain statements in the following summary of the La Colorada property are based on and, in some cases, extracted directly from the La Colorada Technical Report.

***Location, Access, Climate and Infrastructure***

The La Colorada mine is located in the Chalchihuites district in Zacatecas State, Mexico, approximately 156 kilometres northwest of the city of Zacatecas and 99 kilometres south of the city of Durango. The main municipality in the district is the city of Chalchihuites, 16 kilometres northwest of the La Colorada Mine, with a population of approximately 1,000. The district's general coordinates are longitude 23°, 23' North and latitude 103°, 46' West. Topographic relief near the Candelaria, Recompensa and Campaña Mine sites is between 2,100 metres and 2,550 metres.

The La Colorada mine is accessed primarily from the city of Durango by a continuously maintained 120 kilometre all-weather, paved, two lane highway (Highway 45) and a 23 kilometre public, all weather, gravel road. The mine is also accessible from the city of Zacatecas by similar types of roads.

The physiography of the region is characterized by wide flat valleys and narrow, relatively low mountain ranges and hills.

The climate at the project site is arid to semi-arid and vegetation typically includes mesquite and cactus. The rainy season is from July to September. Precipitation during this rainy season can be extreme and causes regional flooding and wash-outs. However, in general, precipitation in the area is quite low and the mine is able to operate year round.

Electrical power is supplied from the Mexican national power grid and a 1.8 MW diesel power station that feeds the mine property distribution system. However, as a result of the heavy demands the Mexican national power grid suffers random power outages at the mine. An additional 9 MW, 34.5 kV power line was constructed running 54 kilometres from Sombrerete to the La Colorada mine and was completed by the end of 2007 with startup in the first quarter of 2008, however, due to delays in commissioning, the full capacity of the new line was not available until later in the year. In 2009, diesel consumption was significantly reduced as the diesel power station and diesel air compressors were designated for back-up use only and the power grid became available.

Water sufficient to support the mining operation is available on site and is supplied from the underground mine dewatering. As permitted by Mexican law, underground water is pumped to surface head tanks for use in the milling process, as well as for domestic services. Underground water is also pumped to a water treatment plant, which was constructed in 2002, to provide potable water. The potable water treatment plant was upgraded in 2008. Pan American estimates that the current volume of water supply meets the existing and planned future requirements of the project.

There is a long history of silver mining in Zacatecas State and as a result there is adequate infrastructure and currently a sufficient experienced workforce in the area.



***Royalties and Encumbrances***

To the best of Pan American's knowledge, the La Colorada mine is not subject to any royalties or encumbrances.

***Taxation***

The principal taxes of Mexico affecting the La Colorada mine include income tax, assets tax, annual fees for holding mineral properties, various payroll and social security taxes and a refundable value added tax. The La Colorada mine generated an income tax expense of approximately $30.5 in 2011, $14.1 million in 2010 and $5.0 million in 2009. The 2010 and 2009 amounts have been updated for IFRS.

On October 1, 2007, the Mexican taxing authority enacted the IETU that became effective starting in 2008. The IETU is defined as a minimum tax in respect to income tax, but with a wider taxable base as many of the tax deductions authorized for income tax purposes are not permissible for IETU. The transitional provision established the rate for 2008 at 16.5% and 17% for 2009. Effective from 2010, the rate is 17.5%. The tax will be computed by applying the applicable rate to the amount resulting from deducting expenses related to the deductions authorized by the law from the total income earned in the year.

***History***

The production history of the Chalchihuites district began during pre-colonial times when natives produced silver and malachite. During the 16th century Spanish colonization, the village of Chalchihuites was founded and intermittent exploitation of the mineral deposits in the area commenced. By the 19th century, the Spanish mines were operating continuously and important silver production was recorded. The War of Independence curtailed production from this and many other silver producing areas between 1910 and 1920.

In 1925, the Dorado family operated mines at two locations on the La Colorada property. From 1929 to 1955, Candelaria y Canoas S.A., a subsidiary of Fresnillo S.A., installed a 100 tonne per day flotation plant and worked the old dumps of two previous mines on the La Colorada property. From 1933 to the end of World War II, La Compañía de Industrias Peñoles also conducted mining operations on a single breccia pipe on the property. From 1949 to 1993, Compañía de Minas Victoria Eugenia S.A. de C.V. operated a number of mines on the La Colorada property.

In 1994, Minas La Colorada S.A. de C.V. (“MLC”) acquired the exploration and exploitation claims and surface rights of Compañía de Minas Victoria Eugenia S.A. de C.V. Until 1997, MLC conducted mining operations on three of the old mines on the La Colorada property. Production was at a rate of approximately 150 tonnes per day.

Pan American acquired the La Colorada mine in April 1998.

***Geology and Mineralization***

The La Colorada mine is located on the eastern flanks of the Sierra Madre Occidental at the contact between the lower volcanic complex and the upper volcanic supergroup.

The oldest rocks exposed in the mine area are Cretaceous carbonates and calcareous clastic rocks of the Cuesta del Cura and Indidura Formations. Overlying the calcareous rocks is a conglomerate unit containing clasts derived mostly from the sub-adjacent sedimentary rocks. Most of the outcrop in the mine area is represented by intermediate to felsic volcanic rocks of the regional lower volcanic complex.

The stratigraphically highest rocks in the mine area are felsic tuffs correlated with the upper volcanic sequence. These tuffs unconformably overlie the trachyte along the southern property boundary, and are distinctly maroon coloured and show varying degrees of welding.



Thirteen breccia pipes have been mapped on the surface or in underground workings. All of the pipes are located along or to the south of the No Conocida Poniente (NCP/NC2) vein complex. The pipes are round to ovoid in shape, up to 100 metres in diameter, and can extend vertically more than 400 metres below the surface. The breccias contain clasts of limestone and trachyte (often mineralized) in an altered trachyte matrix. The ratio of limestone to trachyte clasts varies from pipe to pipe. Clasts of vein material have been found in the breccias suggesting that they postdate the vein emplacement.

East to northeast striking faults form the dominant structures in the project area and play a strong role in localizing mineralization. Most of these faults dip moderately to steeply to the south and juxtapose younger hangingwall strata against older footwall rocks. Evidence suggests down-dip motion on these faults; however, most of the faults have been reactivated at some point so the movement direction during the initial formation is uncertain. Stratigraphic contacts are displaced from tens to over a hundred metres lower on down-dropped blocks.

The trachyte unit displays an eastward tilting that may reflect displacements on regional, orogen-parallel structures outside the project area. This tilting probably reflects the final episode of deformation.

La Colorada represents a typical epithermal silver/gold deposit, with a transition in the lower reaches of the deposit to a more base metal predominant system. There are indications of what might be skarn style mineralization in the deepest holes on the property.

There are four dominant styles of mineralization at La Colorada: (i) breccia pipes; (ii) vein-hosted mineralization; (iii) replacement mantos within limestone; and (iv) deeper seated transitional mineralization (transition zone).

Mineralization in the breccia pipes generally has lower silver values and elevated base metal values. Mineralization is associated with intense silicification and occurs as disseminated galena and sphalerite with minor chalcopyrite and bornite. Sulphides are found in the clasts and the matrix.

Most mineralized veins on the property strike east to northeast and dip moderately to steeply to the south. Veins occur in the trachyte and limestone units and cut across the bedding and contacts with little change in the width or grades of the vein. Mineralized widths in the veins are generally less than two metres, but may be wider if there is a halo of replacement or brecciated material. The NCP Corridor strikes east-

west and dips moderately to the south, with true widths of approximately up to 15 metres, but most of the economic mineralization is located in quartz veins, which are on average one to two metres wide. In some cases vein fillings consist of quartz, calcite, and locally barite and rhodochrosite. Where the veins are unoxidized, galena, sphalerite, pyrite, native silver and silver sulfosalts are present. The major mineralised veins, including the NCP Corridor, are strongly brecciated and locally oxidized, obscuring original textural features. Less deformed veins show mineralogical layering, crystal-lined open vugs, and hydrofracture vein breccias, indicating typical multi-stage growth.

The depth to the surface and the permeability of the mineralized zone control the level of oxidation in the veins. These factors result in an uneven but generally well-defined redox boundary.

Manto style mineralization is found near vein contacts where the primary host rock is limestone. At Recompensa, the mantos appear to be controlled by thrust faulting adjacent to the veins, and can form bodies up to six metres wide. Most commonly, they occur in the footwall north of the steeply dipping vein, but depending on the orientation of the fault they can occur in the footwall, the hanging wall, or both. The mineralogy of the mantos is characterized by galena and sphalerite with minor pyrite and chalcopyrite. Gangue minerals are quartz, rhodochrosite, pyrolusite and other manganese oxides.

The deep seated transition mineralization consists of both vein type mineralization and more diffuse stockwork and breccia zones.



The current Mineral Resource and Mineral Reserve contains vein and manto hosted mineralization. The Mineral Reserve and Mineral Resource ore zones at La Colorada as well as their orientation (strike/dip) and style of mineralization are as follows:

- *NCP and NCP Corridor* - Average orientation 075/60S 60° dip. The Corridor consists of the NCP footwall and NCP hangingwall structures. There are currently two hangingwall structures defined named HW and HW2. These zones are characterized by a broad mineralized shear within limestone containing one or more quartz veins parallel to the orientation of the shear. The majority of the silver mineralization is found in the quartz veins which in the NCP footwall vein are on average 2.9 metres wide and in the NCP hangingwall vein HW1 are on average 2.4 metres wide. HW2 vein is on average 2.0 metres wide and Split is 2.2 metres wide. Mining is in progress on various sublevels down to the 438 level. The NCP veins are economically the most important and contain over 40% of the Mineral Resource and Mineral Reserve ounces of silver.
- *NC2* — Average orientation 045/70S 60° dip. NC2 is a narrow (one-to-two metre) mainly sulphide and partly oxide vein that contains an important part of the current sulphide resources. It has a strike length of over 700 metres and is open to the east where there is a wedge of Inferred material below the east mine fault. NC2 is developed down to the 390 level and has been drilled to below the 495 level where Inferred Mineral Resources have been estimated. The NC2 vein is the most important source of sulphide mineralization and contains 29% of the Mineral Resource and Mineral Reserve ounces of silver.
- *Amolillo Vein (Estrella Mine)* — Average orientation 45/70S 59° dip. The Amolillo Vein is an oxide vein located 500 metres north of the NC2 and NCP vein complex and to the east of the Recompensa vein with an average width of 2.2 metres. The vein lies mostly within the trachyte host rock and limestone at depth.
- *Recompensa* — Average orientation is 090/80N 75° dip. Recompensa is a combination of vein and manto mineralization located more than one kilometre northwest of the NC2 and NCP vein complex. The vein mineralization is narrow (less than one metre and averages 1.8 metres for the economic zone). Recompensa contains a minor amount of oxide but mostly sulphide material. A high gold grade manto (Manto Yuri) has been discovered at the interaction of two veins that are currently being developed for mining in 2009 and 2010. Although small in tonnage (approximately 100,000 tonnes), Manto Yuri is an important discovery as it consists of high grade silver and gold mineralization containing over 1.6 million ounces of silver and over 14,000 ounces of gold.
- *4235* — Average orientation 090/75N 65° dip. 4235 is a narrow (approximately one metre) vein which occurs in the hanging wall of the NCP and NC2 vein systems counter to the orientation of these major veins. It has a strike length of approximately 140 metres, and has been exposed by development on the 295 level and by drilling above and below that level. The western half of 4235 is sulphide and the eastern half is oxide.
- *San Juan/Santa Juana Veins* — These veins lie at the intersection of the San Fermin Breccia.
- *Inversa* — This vein is a smaller version of the counter vein orientation 4325. Vein widths are around 2.3 metres. This vein has been defined by mining development on the 335 and 355 levels and has been partially mined in 2007.

***Exploration and Drilling***

The bulk of Pan American's exploration of the La Colorada property has been conducted through diamond drilling (surface and underground) and underground drifting on the veins and mineralized zones.

Prior to Pan American's involvement in the La Colorada mine, previous operators had drilled 131 holes for a total of 8,665 metres. These holes were not used in Pan American's Mineral Resource or Mineral Reserve estimates, with the exception of four holes where the original core was found and assayed by Pan American.

The holes generally range in length from 100 to 300 metres with dips of plus 45° to minus 90°. Standard logging and sampling processes have been used to record information from the holes drilled by Pan American.



Interval samples have been cut with a diamond saw and the remaining half core is stored on-site. Hole collars have been surveyed by total station survey equipment.

Recovery in the drill holes has generally been high (plus 80%), with the exception of holes drilled into the NCP Corridor ore zone where the recovery averaged 67%. There was no significant bias in the drill holes that had poorer recovery.

Underground drifting along the mineralized structures is the second method of exploration. Annually, the mine operation completes over 3,500 metres of drifting along structure. The drifting allowed detailed mapping and structural interpretation of the ore zones, as well as providing key grade information.

During 2011, a total of 22,717 metres were drilled targeting various areas throughout the property. There were many successful holes at the depth extension of the NC2 and NC3 sulphides which resulted in an increase of the Proven and Probable Reserves of over 10.6 million ounces.

***Sampling and Analysis***

The La Colorada mine database consists of two types of samples — underground channel samples and diamond drill core samples.

The sampling method for the underground exploration development along mineralized structures consists of channel sampling the back of drifts every three metres. Vein and wall rocks are sampled separately. Sample lines are marked by the geologist and then the sample is taken by a helper using a hammer and chisel. Sample size is approximately three kilograms. To provide an accurate representation of vein grades, samples are taken regardless of whether the vein appears to be above cut-off grade or not.

In addition to the samples taken from development, the database includes stope samples. Stope sampling methodology is the same as the development sampling, except that stope samples are taken at five metre intervals. The reason for the five metre spacing as opposed to the three metre spacing is that the stope samples normally represent a smaller tonnage.

Drill holes are sampled and logged according to industry-accepted standards. A staff geologist logs the holes for lithology, alteration, mineralogy, and recovery. Sample intervals are marked by the geologist who also assigns a sample number. As with the underground sampling, the samples are selected by geology and vein and wall rock are sampled separately. Samples are split using a diamond-bladed saw.

Pan American has used four commercial labs in the past for exploration assaying at La Colorada: Bondar Clegg (Vancouver, B.C.), ALS Chemex (Vancouver, B.C.), Luismin (Durango, Mexico) and ALS Chemex de México (Guadalajara, México). All assaying by the commercial labs for gold and silver has been done using fire assay with either an AA or gravimetric finish on a one-assay tonne charge. Base metals were assayed using acid solution and AA determination. Some exploration and all mining samples are completed at the La Colorada lab which uses fire assay for gold and silver on a ten gram charge with a gravimetric finish. Base metals are assayed using acid digestion and AA determination.

The QA/QC program at La Colorada includes the submission of tertiary lab check assays on 2 to 5% of the samples and 1 to 2% of check samples. All of the drilling, sampling and QA/QC programs were conducted under the direct supervision of Pan American's geology staff.



***Mineral Reserves***

The Company's management estimates that Mineral Reserves at La Colorada, as at December 31, 2011, are as follows:

**La Colorada Mineral Reserves (1), (2), (3), (4)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold Per tonne | % Zinc | % Lead |
|---|---|---|---|---|---|
| Proven | 1.8 | 399 | 0.44 | 2.16 | 1.08 |
| Probable | 1.8 | 383 | 0.41 | 2.86 | 1.45 |
| TOTAL | 3.5 | 391 | 0.43 | 2.51 | 1.26 |

Notes:
(1) Estimated using a price of $25 per ounce of silver, $1,350 per ounce gold, $1,750 per tonne of zinc and $1,850 per tonne of lead.
(2) Mineral Reserves for La Colorada have been prepared under the supervision or were reviewed by, Michael Steinmann, P. Geo., and Martin Wafforn, P. Eng., as Qualified Persons as that term is defined in NI 43-101.
(3) The La Colorada mine applies incremental cut-off grades as the combined process plants currently have more capacity than the mines. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(4) Lead and zinc grades shown are the average for the deposit. However, the base metals are only payable in the concentrates produced from the sulphide ores and not in the doré produced from the oxide ores. The sulphide portion of the Proven and Probable Reserves total 2.7M tonnes grading 405 g/t silver, 0.46 g/t gold, 1.65% lead and 3.28% zinc.

Considerable exploration success during the year has extended the life of mine plan. Pan American currently anticipates that the mine will operate beyond 2021.

***Mineral Resources***

The Company's management estimates that Mineral Resources at La Colorada, as at December 31, 2011, are as follows:

**La Colorada Mineral Resource Estimate (1), (2), (3)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold Per tonne | % Zinc | % Lead |
|---|---|---|---|---|---|
| Measured | 0.2 | 194 | 0.18 | 1.24 | 0.97 |

| | | | | | |
|---|---|---|---|---|---|
| Indicated | 1.0 | 370 | 0.39 | 0.72 | 0.50 |
| Inferred | 3.4 | 275 | 0.28 | 2.71 | 1.44 |

Notes:

(1) These Mineral Resources are in addition to La Colorada Mineral Reserves. Estimated using a price of $25 per ounce of silver, $1,350 per ounce gold, $1,750 per tonne of zinc and $1,850 per tonne of lead. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".

(2) Mineral Resource estimates for La Colorada have been prepared under the supervision, or were reviewed by, Michael Steinmann, P. Geo., and Martin Wafforn, P. Eng., as Qualified Persons, as that term is defined in NI 43-101.

(3) Lead and zinc grades shown are the average for the deposit. However, the base metals are only payable in the concentrates produced from the sulphide ores and not in the doré produced from the oxide ores. The sulphide portion of the Measured and Indicated resources total 0.7 M tonnes grading 385 g/t silver, 0.47 g/t gold, 1.02% lead and 1.41% zinc.



***Mining***

The mining method utilized for the oxide and sulphide ore is mechanized cut and fill from the property's vein systems located in the Candelaria, Estrella (previously called Amolillo), and Recompensa mines. Fill material is sourced from waste development, waste slashed from walls in the stopes and surface stockpiled material. During 2011, Pan American constructed and put into operation a small cycloning plant and the necessary underground piping to allow the coarse fraction of classified tailings from the sulphide plant to be poured into some of the stopes as backfill. Split sets are used throughout for ground support with the addition of mesh, cemented split sets, and shotcrete depending on ground support requirements in specific areas.

Mechanized equipment includes 3.75 cubic metre, two cubic metre and 1.5 cubic metre capacity scoop trams, low profile nine to twelve tonne capacity trucks for haulage in ramps, jack-legs and one boom electric hydraulic jumbos for drilling. Dump trucks are used for the haulage of ore from the shaft bin in the case of the Candelaria mine and from dumps near to the mine portals in the case of the Estrella and Recompensa mines to the crusher dump pocket. The replacement of the main hoist winch of the Candelaria mine was completed in early 2007.

In June 2004, La Colorada stopped producing sulphides when the sulphide resource was exhausted above the dewatered level of the mine. A dewatering study was conducted and new higher capacity pumping stations were built that allowed the production of sulphides to recommence in July, 2006. The dewatering system is expanded each year in order to keep pace with the ramp development as it is deepened to access deeper portions of the veins.

In 2008, the oxide mill processed on average 580 tonnes per day ("tpd") whereas the sulphide mill processed on average 455 tonnes per day. During 2009, the oxide mill processed an average of 476 tpd whereas the sulphide mill processed an average of 415 tpd. During 2010 the oxide mill processed an average of 453 tpd whereas the sulphide mill processed an average of 494 tpd. During 2011, the oxide mill processed an average of 464 tpd while the sulphide mill processed an average of 644 tpd. This trend where the proportion of sulphides in the total production increases is expected to continue as the ore body in general contains less oxidized mineralization at depth.

***Milling***

Milling consists of a 650 tpd conventional cyanide recovery plant for oxide ore as well as a sulphide ore processing plant that was designed at 250 tpd but has since been expanded providing maximum throughputs as high as 700 tpd. The sulphide plant processes sulphide ore valuable for its silver, lead, gold and zinc content. These metals are recovered as concentrate via crushing, grinding and selective lead and zinc froth flotation circuits. The oxide plant produces a silver doré from crushing, grinding, cyanide leach, Merrill Crowe zinc precipitation and on-site refining circuits.

***Environment***

An EIS and risk assessment on the La Colorada property was submitted to Mexican environmental authorities in early March 1999. The EIS described the impact of proposed development and mining activities and provides conceptual plans for closure and remediation. The EIS was approved by the Mexican authorities in November 1999 and renewed late 2010. The new permit is valid for five years.

To the best of Pan American's knowledge, Pan American's operations at the La Colorada mine currently comply in all material respects with applicable Mexican environmental laws. Pan American has taken additional steps to ensure its good environmental management and is participating in a voluntary certification process managed by the Federal Attorney for Environmental Protection called the "Clean Industry" program. The La Colorada mine obtained its first certification under the program in December 2007, which was valid for two years. The certification was renewed in July of 2010 and is valid for two more years.



The three most significant environmental issues associated with the La Colorada property are the stability of operating tailings facility, stability of abandoned tailings facilities on the property and mine water discharges. In addition, domestic waste water discharge from on-site buildings and operation of an uncovered solid waste landfill on the western portion of the La Colorada mine are closely monitored by the site environment department. The waste water treatment facility was upgraded in 2007 with the installation of a treatment facility. The existing lined tailings facility Tailings Dam #6 completed a fourth stage of expansion in 2008. Approval was received for tailings dam #7 in 2010 and construction of the future dam commenced.

Pan American has estimated the present value of the final site reclamation costs for the La Colorada property to be approximately $3.7 million. During 2005, Pan American began reclamation work concurrent with mining operations by reclaiming old tailings on the property. This work allows efficient use of people and equipment on-site for operations. See “Narrative Description of the Business — Environmental Protection” for further disclosure regarding forward looking statements related to reclamation costs.

***Health and Safety***

A formal safety audit was conducted in December of 2006 at the La Colorada mine by a third party consultant and the Company’s Director of Health and Safety. Subsequent audits were conducted annually, including February 2011, by the Company’s Director of Health and Safety and safety managers from some of Pan American’s other mines. In 2006, all protocols and procedures were updated at the mine as a result of a safety audit investigation conducted by the Company’s Director of Health and Safety. In 2008, La Colorada was the recipient of the prestigious “Casco de Plata” award for the best safety record during 2007 for underground mines in Mexico with in excess of 500 employees. In 2010, La Colorada was again the recipient of the “Casco de Plata” award for excellent safety performance in 2009. During 2011, personnel employed at the mine attended 24,700 hours of training.

***Capital Expenditures***

In 2010, capital expenditures at La Colorada totalled approximately $9.1 million. In 2011, capital expenditures at La Colorada increased substantially and totalled approximately $13.3 million. The capital expenditures in 2011 consisted of: (i) mine equipment replacement and improvement and the construction of a backfill plant; (ii) mine development; (iii) a new tailings storage facility; and (iv) diamond drilling.

***Marketing***

All of La Colorada’s concentrate production is sold under contracts, which are negotiated periodically, to arm’s length smelters and concentrate traders. All silver doré produced from the oxide mill at La Colorada is sent for refining to arm’s length refineries and subsequently sold to various banks and traders dealing in bullion.



The revenue per type of concentrate and doré produced by the La Colorada mine for the past three years were as follows:

| | Revenue(1), (2) | Quantity |
|---|---|---|
| **2011** | | |
| Silver and Gold in Doré | $ 49.9 million | 1,368,405 ounces of silver<br>1,320 ounces of gold |
| Lead Concentrate | $ 88.2 million | 5,935 tonnes |
| Zinc Concentrate | $ 9.5 million | 7,410 tonnes |
| **2010** | | |
| Silver and Gold in Doré | $ 31.5 million | 1,554,500 ounces of silver<br>1,718 ounces of gold |
| Lead Concentrate | $ 36.7 million | 3,769 tonnes |
| Zinc Concentrate | $ 5.2 million | 5,175 tonnes |
| **2009** | | |
| Silver and Gold in Doré | $ 23.5 million | 1,500,221 ounces of silver<br>1,525 ounces of gold |
| Lead Concentrate | $ 27.7 million | 3,994 tonnes |
| Zinc Concentrate | $ 3.1 million | 4,350 tonnes |

Notes:
(1) Consists of sales to arm’s length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty in securing contracts for the sale of the La Colorada concentrates or doré, however, there can be no certainty it will always be able to do so or what terms will be available at the time.

Please see “Risks Related to Pan American’s Business — Smelter Supply Arrangements” and “Risks Related to Pan American’s Business — Trading Activities and Credit Risk”.

**C. Argentina**

**(i) Manantial Espejo**

***Ownership and Property Description***

On April 12, 2006, Pan American completed the acquisition from Silver Standard Resources Inc. ("SSR") of that company's 50% joint venture interest in the Manantial Espejo mine, which is located in southern Argentina. As a result of the acquisition, Pan American became 100% owner of the mine. The mine is being operated through two Argentine companies, MTA and Alto Valle.

The Manantial Espejo mine consists of 17 mineral concessions granted by the Mining Authority of the Province of Santa Cruz to MTA and Alto Valle, covering a total of 25,533 hectares and extending approximately 36 kilometres east-west and 19 kilometres north-south. The mineral concessions forming Manantial Espejo are, by law, subject to minimum expenditure requirements with respect to which Pan American had entered an alternate agreement with the government of Argentina. Pan American believes that MTA has continuously been in compliance with such agreement. The good standing of the mineral concessions held by each of MTA and Alto Valle, and which make up the Manantial Espejo mine, was confirmed by the Mining Authority of Santa Cruz in February 2006. In March 2006, the Argentine government approved the EIS submitted to it by Pan American, effectively recognizing MTA and Alto Valle's title to the property and authorizing construction of the mine. In April 2006, initial mine development activities were initiated.



The property includes ownership of three surface properties purchased by MTA to facilitate support and improve the performance of its mining and exploration activities. These surface rights cover an area of 43,207 hectares and at this time all mining and processing related activities occur within these properties.

Certain statements in the following summary of the Manantial Espejo property are based on, and in some cases has been, extracted directly from, the Manantial Technical Report.

***Location, Access, Climate and Infrastructure***

The Manantial Espejo mine is located in the Province of Santa Cruz, Argentina, centered at the geographical coordinates of 69° 30' West longitude and 48° 46' South latitude. The nearest major urban centers are Puerto San Julian, located on the Atlantic coast, and Gobernador Gregores, which are located 160 kilometres 60 kilometers, respectively, away from the property. Puerto San Julian has a population of 5,500. The main access is via the provincial Route 25, a wide gravel secondary road that connects the project with Puerto San Julian and Gobernador Gregores. Access to the site is by an eight kilometre gravel road off provincial highway Route 25.

The climate at the project area is dry to arid continental. The average monthly temperatures vary between 1° Celsius (June and July) and 15° Celsius (January and February). This area of Argentina is well known for fierce westerly winds, particularly from August to October when westerly daily winds can gust to between 120 to 170 kph. The highest average monthly precipitation at Manantial Espejo occurs in the month of June, with 21 millimetres. Snow frequently accumulates on site between June and August, and infrequent snowfall events can range up to about 50 millimetres or more based on limited data.

The topography of the region is generally characterized by relatively low-lying mesas with broad flat valleys, containing no, or poorly developed, drainage channels. To the north, the Deseado massif area is characterized by bedrock knolls and hills of moderate relief, with interspersed "deflationary" (probably wind-eroded) basins, containing flat-bottomed playas and often ephemeral shallow ponds and lakes with internal drainage. The project site is extremely arid and has very limited development of soils and vegetation. The elevation of the project site is situated between 350 and 400 metres above sea level. The southern portion of the site is dominated by a broad, flat valley known as the Pampa which trends east-southeast and lies between the Deseado Massif to the north and a volcanic plateau to the south. Both the Pampa and the mesa on the southern portion of the camp are largely formed of Tertiary and Quaternary aged glacially-derived gravel and cobble deposits.

The property is in a remote area with a limited population which increases the challenge of finding experienced personnel. Pan American has been able to attract and retain employees based on competitive benefits and rates, Pan American's community involvement, and by offering housing developed by Pan American.

***Royalties and Encumbrances***

Production from the Manantial Espejo property is subject to royalties to be paid to Barrick according to the following: (i) $0.60 per metric tonne of ore mined from the property and fed to process at a mill or leaching facility to a maximum of 1 million tonnes; and (ii) one-half of one percent (0.5%) of net smelter returns derived from the production of minerals from the property.

In addition, MTA has negotiated a royalty equal to 3.0% of operating cash flow payable to the Province of Santa Cruz.

***Taxation***

The principal taxes of Argentina affecting MTA include income tax of 35% and an export duty of 5%. The export duty can potentially be reduced by a silver doré export credit of 2.05%. The MTA mine generated an income tax expense of approximately $14.7 million in 2011, $8.4 million in 2010 and $3.3 million in 2009. The 2010 and 2009 amounts have been updated for IFRS.



***History***

Reconnaissance exploration on the Manantial Espejo property was first carried out in the 1970s by the Argentinean government and in

1989, ownership of the original interest in the mineral properties constituting the Manantial Espejo project was acquired by Mr. Roberto Schupbach. Pursuant to an agreement entered into in 1991 between Mr. Schupbach and Compañía Minera San Jose S.A. (a wholly owned subsidiary of St. Joe Minerals), Mr. Schupbach sold his mineral property rights to Minera San Jose. Later in the same year, St. Joe Minerals was acquired by Lac Minerals Ltd., and then in 1994 Barrick Exploraciones Argentina S.A. acquired Lac Minerals Ltd. and assumed ownership.

In 1996, Triton Mining Corporation ("Triton") entered into an option agreement with Barrick to earn the right to acquire an 80 percent interest in the project for a total cost of $2.5 million, such right Triton then assigned to its wholly owned subsidiary MTA.

In 1998, MTA completed making the required payments under the option agreement. Barrick and MTA subsequently incorporated Compañía Minera Alto Valle for the purpose of holding beneficial title to the properties, and pursuant to a shareholders' agreement, Barrick held 20 percent and MTA held 80 percent of the shares of Alto Valle, respectively, and MTA was designated operator of the project.

In 1998, Blackhawk Mining Inc. ("Blackhawk") purchased all of the issued shares of Triton, which was a public company with shares traded on the Toronto Stock Exchange.

Also, in 1998, SSR entered into an option agreement with Triton to acquire a 50% interest in MTA. Then, in April of 2001, SSR acquired Barrick's 20% interest in Alto Valle (2,400 shares), half of which it agreed to sell to Blackhawk in consideration for an interest in an unrelated mining venture.

In 2002, SSR acquired Triton's remaining 50% interest in MTA, as well as Blackhawk's 1,200 shares in Alto Valle. Concurrently, SSR agreed to sell to Pan American 50% of the shares of MTA and half of the shares (1,200) it held in Alto Valle directly. The Company acquired this 50% interest in the project for a purchase price of $1,912,433, which consisted of a cash payment in the amount of $662,433 and a transfer of 231,511 common shares in the capital of the Company valued at $1,250,000. In addition, the Company agreed to pay 50% of $200,000 in order to eliminate a 1.2% net smelter return royalty payable by SSR to Blackhawk and agreed to fund the first $3 million of joint venture expenditures following the issuance of a production notice. In March 2006, the Company negotiated and entered into a purchase agreement with SSR to acquire SSR's 50% interest in MTA and Alto Valle, respectively, thus becoming a 100% owner of the Manantial Espejo project.

In March 2006, Pan American completed the Manantial Technical Report for the Manantial Espejo mine based upon the revised resource model, combination open pit and underground mine plan, and a conventional milling and leaching circuit.

In March 2006, the Company's board of directors approved a $130.4 million project to construct and initiate operations of the Manantial Espejo mine. Simultaneously, the Company received approval of the EIS from the Santa Cruz Province of Argentina and signed an agreement with the Federal Government of Argentina and the Province of Santa Cruz to bring grid electrical power to the town of Gobernador Gregores with a sub-connection to Manantial Espejo. The capital cost estimate was updated to $170 million in April 2007 as a direct result of industry-wide cost escalations for construction materials and equipment, coupled with significantly higher in-country costs for labour. For similar reasons, the capital cost estimate was further updated to $185 million in February 2008.

In June 2006, MTA entered into an agreement with Ausenco International Pty Ltd. ("Ausenco") of Queensland, Australia to complete a basic engineering design and long lead item procurement services for the processing plant and site infrastructure components of the Project and later extended these services to engineering, procurement and construction management (EPCM") for the project. In addition, MTA entered into an agreement with Montgomery Watson Harza of Buenos Aires, Argentina to provide EPCM services for the tailings pond. By year-end 2006, detailed design had been completed and initial site preparation had begun. In



April 2006, mine development activities were initiated. Activities during 2006 included the following: (i) construction of project access and other critical mine construction roads; (ii) upgrade and expansion of the existing accommodation camp to support early construction; (iii) completing additional water exploration and installation of production mine supply and dewatering wells; (iv) Maria West underground portal and initial ramp development; (v) Melissa portal development, and the installation of a temporary mine equipment shop and warehouse facilities; (vi) purchase of all major underground and open pit mine equipment; (vii) recruitment of experienced management and operational staff who successfully initiated underground development at the Maria West and Melissa deposits; (viii) finalization of project infrastructure designs and solicitation of construction proposals; (ix) initiation of construction of a 30 home and a 12 unit apartment complex in Gobernador Gregores to support mine development and long term operations; (x) expanded administrative offices in Gobernador Gregores to support project construction; and (xi) award of major construction camp, camp catering and construction supply contracts.

2008 was the final year of construction for Manantial Espejo, with mining operations in the two open pits and the two underground mines continuing during the year. Ausenco continued as the EPCM contractor, and completed its activities in mid-December 2008. By year end 2008, a total of 239,900 tonnes of ore was stockpiled on site in preparation for plant operations. Construction resources were allocated so that critical plant circuits required for initial commissioning and production would be completed first. The commissioning of the Manantial Espejo plant began with dry commissioning activities in August 2008. The mills, leach circuits, counter-current-decantation ("CCD"), Merrill Crowe and refinery were commissioned and commenced operations in mid-December 2008. Final completion and commissioning of the primary crusher, recycle pebble crusher and concentrate circuits were underway by mid-January 2009.

The Company celebrated the official inauguration of the Manantial Espejo gold and silver mine on March 16, 2009. The first doré was poured in mid-December 2008 and the mine commenced commercial production in January 2009. The mine quickly achieved design capacities and produced 3.8 million ounces of silver and 72,000 ounces of gold during 2009. Manantial Espejo produced approximately 4.0 million ounces of silver and 63,000 ounces of gold in 2010 and approximately 3.8 million ounces of silver and 53,000 ounces of gold in 2011.

***Geology and Mineralization***

Silver and base metal mineralization in the Manantial Espejo district is spatially and genetically related to a large bimodal igneous province, the Deseado Massif, which is dominated by acid volcanics and their resedimented products of the Chon Aike and La Matilde Formations (Upper Jurassic), and andesites of the Bajo Pobre Formation (Middle Jurassic). The older volcanics form the basement unit and are

locally mineralized. The Chon-Aike and La Matilde Formations host mineralization, which occurs at the faulted contacts of volcanic facies as well as at contacts of volcanic stages.

The ore deposits at the Manantial Espejo mine are predominantly veins with short strike slip and larger down dip displacements. Styles of mineralization include massive quartz veins, vein breccias, sheeted and stockwork veining, and minor dissemination. Quartz is the main infill mineral, displaying distinctive textures indicating the overprinting of hydrothermal events which occurred in the area.

Mineralization is interpreted as occurring at the intersection of west-northwest trending fault zones and arcuate structures that could be related to a possible volcanic center. Gold occurs mainly as electrum in pyrite while the silver occurs in a number of forms including argentiferous galena and silver sulphosalts. Sulfides account for up to 3 to 5% of the rock mass as veinlets and disseminations.

Mineralization at Manantial Espejo is hosted in four main veins: the Maria Vein, Karina/Union Vein, Melissa Vein and Concepción Vein. The majority of the mineralization outlined to date is in the Maria Vein. The vein is a thick multiphase silica vein exposed on surface for more than one kilometre and has been intersected at a depth of up to 275 metres. This vein averages 7.8 metres in true width ranging from 0.63 metres to 20 metres. The vein is open to the east and at depth.



The Maria Vein exhibits two quartz textures: older quartz which may also contain grey silica, amethyst and vuggy quartz and younger sulphide-rich vein quartz breccia that often crosscuts the earlier vein and carries fragments of it. Sulphide content is low and is primarily three to five percent pyrite. Minor amounts of galena, sphalerite, chalcopyrite, bornite, chalcocite and covellite have been observed. The Maria vein structure shows excellent continuity, with little evidence for significant transverse fault offsets. Combined outcrop and drill data show vein continuity over 1,000 metres along strike and over 250 metres along dip. Ore-grade mineralization of the vein is less continuous. Open pit ore-grade zones measure tens to hundreds of metres in longitudinal dimension. Underground ore-grade zones measure tens of metres in longitudinal dimension, with over 100 metres of vertical extent in the Maria West area.

Silver occurs as electrum along with minor amounts of argentite, acanthite, sulfosalts, and proustite-pyrargyrite. Gold occurs as electrum inclusions contained in pyrite. Very minor visible gold in the 200-micron size has been observed in drill core along goethite-coated fractures.

The Karina/Union Vein is exposed on surface for a distance of 850 metres and has been drilled to a depth of 150 metres. The host rocks, alteration, and mineralogy of the vein are similar to the Maria Vein. Several interconnected high grade silver-gold epithermal veins produce drill intersections in excess of 20 metre true widths.

The Melissa Vein has a faint surface expression that rarely outcrops. The trend of the 1.5 to 2.5 metre-wide high-grade silver-gold epithermal Melissa system has an 80 degree strike with a steep northerly dip. The mineralization and host geology is very similar to that encountered at the Maria Vein. Structurally, Melissa is thought to be the extensional component to the Maria shear system. The Melissa Vein has been defined by drill holes along a 300 metre strike length and 200 metres down dip.

The Concepción Vein is a single quartz vein. Mineralization occurs over a strike length of 600 metres and is open at depth and at both ends. The host rocks, mineralogy and alteration are similar to the other veins on the property.

The Maria Vein has been exposed by underground development and by open pit mining, the Karina/Union Vein by open pit mining and the Melissa Vein by underground development. The Maria underground was reinterpreted in 2010, from a large single vein, to the higher grade footwall and localized high grade hangingwall zones which better represent how the ore is being mined. Reconciliations show a slightly lower mined grade than the reserve in the open pit.

***Exploration, Drilling, Sampling and Analysis***

Reconnaissance exploration on the Manantial Espejo mine was first carried out in the 1970s by the Argentinean government.

Exploration on the property was advanced in 1996 by Barrick, which completed 62 diamond drill holes on the property totalling 9,653 metres on the Maria Vein. In 1997, an additional 42 core drill holes were completed totalling 6,795 metres and Kilborn Engineering Pacific Ltd. (“Kilborn”) was retained to prepare a pre-feasibility study for the construction of an open pit mine and cyanidation mill processing facility to treat and recover silver and gold from the Maria Vein resource.

Drilling on the Manantial Espejo mine has been accomplished using diamond core, reverse circulation and wagon-mounted percussion drilling. For the entire Manantial Espejo mine, this drilling totals 1,043 drillholes and approximately 93,867 metres. The diamond core samples were considered to be of superior quality and representative of the deposits. Therefore, with the exception of five reverse circulation holes in the Maria Vein, recent resource modeling evaluations have been based upon core samples from 662 diamond drill holes representing approximately 65,896 metres. The typical core sampling procedure is to half-saw the HQ core after descriptive geological and geotechnical logging. Half of the core is submitted for analysis, while the remaining half is stored on the Manantial Espejo site.



All MTA core has been HQ diameter (approximately six centimetres), with the exception of re-entry into Barrick holes for deepening, for which NQ diameter was used. Diamond drillholes are located and oriented by geologists in the field to obtain drill spacing in the 25 to 50 metre range on vein, with closer spacing in the higher grade zones.

Project drilling, sample handling, assaying, data handling, and resource modeling were reviewed in April 2001 on behalf of SSR by Pincock, Allen, and Holt (“PAH”), mining consultants, who found that assaying and security procedures to date had been carried out according to accepted industry standards using accepted practices.

In 2003, a 4,472 metre diamond drilling program was completed in the Maria and Karina-Union Veins focusing on gathering geotechnical stability data.

In 2005, MTA completed 20,832 metres (187 holes) of additional diamond core and RC drilling to infill selected areas of known resources, to investigate the potential for economic mineralization outside of the current resource area, to continue the water exploration program, and to improve the geotechnical database for the feasibility tailings design. In 2006, a further 1,525 metres of diamond drilling were completed with 800 metres of that total for exploration and condemnation drilling and the remainder for geotechnical holes. RC drilling was conducted for water supply wells and for the mine dewatering both as part of the construction program. Due to the construction and development activities at the site, there was no additional exploration drilling conducted in 2007 or 2008 but exploration was reactivated in 2009 with a total of 11,625 metres of diamond drilling. Exploration activities have been expanded in 2010 including 24,384 metres of surface and underground diamond drilling. In 2011 an additional 27,626 meters of diamond drilling was completed.

Manantial Espejo drilling data are used for metals exploration, resource modeling, geotechnical studies, metallurgical studies, and hydrological exploration/studies.

***Mineral Reserves***

A Mineral Reserve summary by open pit bench was derived for each pit by extracting the pit volume out of the appropriate Mineral Resource block model. Dilution was applied according to the mining method to be used. The underground Reserve was derived from the Resource block model diluted for the appropriate underground mining method. Underground Reserves were derived from these models assuming an 85% mining recovery to account for typical mining losses such as in pillars. The large increase in operating cost has increased the cut off between 2010 and 2011, causing losses of 3.0 million ounces of lower grade reserves. Pan American's management estimates the Mineral Reserves at Manantial Espejo, as at December 31, 2011, are as follows

**Manantial Espejo Mineral Reserves (1), (2)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold per tonne |
|---|---|---|---|
| Proven | 4.2 | 144 | 2.17 |
| Probable | 2.2 | 135 | 2.13 |
| TOTAL | 6.4 | 141 | 2.16 |

Notes:
(1) Estimated using prices of $25 per ounce of silver and $1,350 per ounce of gold.
(2) Mineral Reserve estimates for Manantial Espejo were prepared under the supervision of, or were reviewed by Martin G. Wafforn, P.Eng., who is a Qualified Person as that term is defined in NI 43-101.

***Mineral Resources***

Pan American's management estimates that Mineral Resources at Manantial Espejo, as at December 31, 2011, are as follows:



**Manantial Espejo Mineral Resource Estimate (1), (2)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | Grams of Gold per tonne |
|---|---|---|---|
| Measured | 2.2 | 98 | 1.16 |
| Indicated | 3.7 | 85 | 1.01 |
| Inferred | 1.6 | 89 | 1.07 |

Notes:
(1) These Mineral Resources are in addition to Manantial Espejo Mineral Reserves using prices of $25 per ounce of silver and $1,350 per ounce of gold.
(2) Mineral Resource estimates for Manantial Espejo were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., who is a Qualified Person as that term is defined in NI 43-101.

***Mining***

The optimum mine plan approach for the Manantial Espejo mine consists of a combination of open pit and underground mining methods. The surface mining method is conventional open pit mining using 54 tonne off-road trucks and a mix of front end rubber tired loaders and track loading equipment.

The considerable variation in dip and thickness of the various mineralized zones throughout the property require a number of different underground mining methods to be utilized to maximize the profitability and recovery of the Mineral Reserves. The underground mining operations consist of either long-hole, cut and fill, or shrinkage methods to accommodate the geometry and accessibility. Underground mining equipment includes 20 tonne capacity low profile haul trucks, 1.5 to 4.6 cubic metre capacity scooptram, development face and long hole drill jumbos and service equipment including personnel transport, scissor lift and shotcrete machine.

In some areas, the open pits will also be used for underground access via in-pit portals. The open pits are being mined using five metre

high, horizontal benches in ore and where possible ten metre high benches in waste. Ore and waste is transported out of the pits by truck haulage via ramps built into the walls of the pits. Truck haulage will continue from the open pit ramp exit points on surface roads leading to waste dumps and the primary crusher ore feed stockpile. Open pits have been constructed for portions of the Maria, Karina-Union, and Concepción deposits. In 2011, a total of 8.1 million tonnes of non-mineralized material and 592,500 tonnes of ore were mined and removed from the open pits, and a total of 137,900 tonnes were mined from the underground mines. During 2011, the mine decided to accelerate open pit mining to approximately 900,000 tonnes per month in order to access higher grade ores earlier in the life of mine plan (and to stockpile lower grade ores for later processing). This equipment has now been purchased and is in operation.

A total of four portals and associated declines will be required to access all of the underground mining reserves. Two are required for the Maria main structure, being Maria West and Maria East. One portal each is required for the Concepción area, and for the Melissa Vein. The Maria West and Melissa underground mines are now in full production. The underground mining at Manantial Espejo has been designed, developed and is being managed using modern underground mining techniques and for the most part mechanised equipment.

***Milling***

Ore from the Manantial Espejo deposits is treated by conventional crushing, SAG/ball mill grinding, bulk gravity concentration, intensive gravity concentrate agitation leaching, thickening, agitated cyanide leaching of the gravity tailings slurry, CCD thickening, Merrill Crowe zinc precipitation, sulphur dioxide cyanide neutralization, conventional pulp tailings disposal and conventional silver and gold doré bar production from melting of the Merrill Crowe precipitate. The nominal treatment rate at design capacity is 2,000 tonnes per day of ore on a 24-hour per day schedule and this design capacity rate was achieved early in 2009. During 2010, the plant processed a total of 717,500 tonnes (2,000 tonnes per day) and in 2011 the plant processed 697,200 tonnes. The small reduction in throughput was mainly due to an undetected primary ball mill lubrication system malfunction which



resulted in the failure of a critical trunion bearing. Critical spares of this nature are carried at the mine site and production resumed with approximately two weeks of plant down time in December.

***Health and Safety***

Formal safety audits were conducted in December 2008 and December 2009 at the Manantial Espejo mine by the Company's Director of Health and Safety and safety managers from some of Pan American's other mines. During 2010, personnel employed at the mine attended 9,318 hours of safety training. The personnel at the Manantial Espejo mine worked the entire years of 2010 and 2011 without a LTI and are the recipients of Pan American's Chairman's Safety Award for both years. Personnel at Manantial Espejo attended 8,000 hours of training during 2011.

***Environment***

An EIA for the project as required under the laws of the Province of Santa Cruz and the Argentine Republic was performed. The EIA includes all the items required under Argentine legislation, including a detailed report of the base line and the consulting steps taken with regard to the community and the authorities. The EIA performed for the project has not identified any severe environmental impact that could compromise its feasibility from the environmental viewpoint.

The identified environmental impacts set out in the EIA are in almost all cases low to moderate and can be reasonably mitigated by the Environmental Care and Management Plan implemented at the mine.

The EIA, mine design, tailing design, utility company interface, and water development studies were completed and the EIA was submitted to the provincial government in Argentina in November 2005 for its review. In March 2006, Pan American obtained clearance for the EIA from the Province of Santa Cruz, Argentina. In addition, Pan American entered into an agreement with the federal government of Argentina and the Province of Santa Cruz to bring grid electrical power to the town of Gobernador Gregores with a subconnection to Manantial Espejo.

No reclamation bond is currently required for mining operations in Argentina, however environmental reclamation insurance is required and the Company holds a policy for Manantial Espejo. A preliminary reclamation plan was developed for the project and included in the EIS submitted to the Argentine government during 2006. This plan is updated as required.

MTA has been granted all of the requisite environmental permits necessary to proceed with development of the property. At the end of 2008, the Manantial Espejo mine began production and in accordance with Argentine law and permit requirements, MTA communicated the start of operation to the authorities and initiated the corresponding operational environmental monitoring. An update of the mine EIA was prepared and presented to the Santa Cruz Government in early 2011.

Pan American has estimated the present value of reclamation costs for the Manantial Espejo mine to be approximately $6.7 million. See "Narrative Description of the Business — Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

***Capital Expenditures***

In 2010, capital expenditures were $7.0 million. In 2011, capital expenditures at Manantial Espejo totalled approximately $16.9 million and consisted primarily of: (i) camp upgrades; (ii) mine development; (iii) tailings dam improvements; and (iv) mine exploration works.

***Marketing***

Production from the Manantial Espejo mine is in the form of doré bars, which are refined at arm's length refineries prior to the sale of refined silver and gold to bullion bankers and traders. Pan American has entered into multi-year refining contracts with refiners in Europe and the USA.

During the past three years, the revenue produced by the Manantial Espejo mine was as follows:

| | Revenue(1), (2) | Quantity |
|---|---|---|
| **2011** | | |
| Silver and Gold in Doré | $ 223.2 million | 4,068,619 ounces of silver<br>55,976 ounces of gold |
| **2010** | | |
| Silver and Gold in Doré | $ 147.4 million | 3,611,422 ounces of silver<br>63,231 ounces of gold |
| **2009** | | |
| Silver and Gold in Doré | $ 111.2 million | 3,294,409 ounces of silver<br>61,816 ounces of gold |

Notes:
(1) Consists of sales to arm's length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty in securing contracts for the sale of Manantial Espejo doré, however, there can be no certainty that it will always be able to do so or what terms will be available at the time.

Please see "Risks Related to Pan American's Business — Smelter Supply Arrangements" and "Risks Related to Pan American's Business — Trading Activities and Credit Risk".

**D. Bolivia**

**(i) San Vicente**

***Ownership and Property Description***

The Company has a 95% interest in PASB, a Bolivian company that owns a 50% joint venture interest in, and is the operator of, the San Vicente project. The remaining interest in the joint venture project is held by Corporación Minera de Bolivia ("COMIBOL"), the Bolivian state mining company.

In 2007, the Company purchased a 40% interest in the project from Empresa Minera Unificada S.A. ("EMUSA"), increasing the Company's share of ownership from 55% to the current 95%. The remaining 5% of PASB is owned by Trafigura Baheer B.V. ("Trafigura") (which is described in more detail under "San Vicente - History").

The project consists of 15 concessions totalling 8,159 hectares. PASB has continually complied with the joint venture agreement (and various addendums thereto), and as a result the project and the concessions are in good standing. All mining property concessions of the San Vicente mine are in the name of COMIBOL, and PASB is contractually responsible for paying the yearly mining tenure tax. These payments are currently up to date.

Certain statements in the following summary of the San Vicente mine are based on and, in some cases, extracted directly from the San Vicente Technical Report.



***Location, Access, Climate and Infrastructure***

The San Vicente silver-zinc mine is located at latitude 21° 16´South and longitude 66° 19´West in the southern end of Bolivia in the Province of Sud-Chichas, Department of Potosí. The property is in the Andean High Plateau (Altiplano) at approximately 4,400 metres above sea level with semi-arid climatic conditions. The land is sterile and rugged.

San Vicente is located 460 kilometres south of the city of Oruro and 300 kilometres west of Tarija. The property is accessible by dirt road 100 kilometres west of the town of Tupiza and 150 kilometres south of Uyuni. Tupiza is connected to the rail system which serves Bolivia and connects with the ports of Arica and Antofagasta in Chile. Zinc concentrates are loaded to rail cars in Tupiza and transported by rail to Antofagasta, and the silver concentrates are trucked to Arica, Chile.

The terrain is rough with sparse vegetation. Daytime temperatures range from 4° Celsius in June and July to 14° Celsius in December and January. The winter months are May to September and nightly temperature are frequently below zero with extremes of minus 15°

Celsius. The rainy season is from December through February. Average annual rainfall is 190 millimetres. Rain is very uncommon from May to September as rainfall occurs mainly in the summer months, with up to 20 millimetres per day. With the exception of the miners employed at the San Vicente Mine, there are very few other inhabitants in the area.

Currently there is a sufficient local source of mining personnel and related infrastructure.

***Royalties and Encumbrances***

Pursuant to an option agreement entered into with COMIBOL (which is described in more detail under "San Vicente - History") with respect to the development of the San Vicente property, PASB is obligated to pay COMIBOL a participation fee of 37.5% (the "Participation Fee") of the operations cash flow. Once full commercial production of San Vicente began, the Participation Fee was reduced by 75% until PASB recovers its investment in the property. Thereafter, the Participation Fee will revert back to its original percentage. In 2011, the royalties to COMIBOL amounted to approximately $12.6 million.

A royalty is also payable to EMUSA, a former partner of PASB on the project. The royalty is a 2% net smelter royalty payable only after Pan American has recovered its capital investment in the project and only when the average price of silver in a given financial quarter is $9.00 per ounce or greater. Recovery of capital investment was not achieved as of December 31, 2011,

In December 2007, the Bolivian government introduced a mining royalty that affects the San Vicente project. The royalty is applied to gross metal value of sales (before smelting and refining deductions) and the royalty percentage is a sliding scale depending on metal prices. At current metal prices, the royalty is 6% for silver metal value and 5% for zinc and copper metal value of sales. The royalty is income tax deductible; however, it is not creditable.

***Taxation***

The principal tax of Bolivia affecting PASB is a 25% income tax payable based on annual accounting profits of the company. Accumulated losses can be deducted against this income tax without any time restrictions. Starting in 2008, a mining surtax of 12.5% on the annual income of mining companies has been implemented. The necessary regulation for this mining surtax was approved in late 2009. The San Vicente mine generated an income tax expense of approximately $15.0 million in 2011, $15.1 million in 2010 and $1.5 million in 2009. The 2010 and 2009 amounts have been updated for IFRS.

Regarding the previous Complementary Mining Tax, which had a tax levy of 1% to 6% based on gross metal value of minerals, this tax has been transformed into a royalty with a similar tax levy percentage but now is



not creditable against the corporate income tax when the international metal prices are above a certain price level (for example, $5.50 per ounce of silver), but is deductible for income tax purposes.

During 2007 and early 2008, two significant tax exemptions were granted to PASB. First, a value added tax ("VAT") and an import duty tax exemption on certain operating materials and supplies were granted in 2007. In 2008, under Regulation 877, the project was granted a VAT exemption on most imported equipment and duties associated with the importation of this equipment.

VAT on other project-related costs will be required to be paid; however, it is expected that these taxes will be recovered.

There are no other significant taxes affecting PASB.

***History***

There has been sporadic mining activity in the area since colonial times. Initial exploitation was the mining of oxidized silver from exposed veins. The first written records of mining activity were made in 1820, when the area was named the Guernica Mine. Several different owners operated the mine from 1911 through 1950. From 1950 until 1952, the mine was operated by the Aramayo Mining Company. In 1952, the Bolivian government nationalized the mine and placed it under the control of COMIBOL.

Following the discovery of new silver and zinc veins in the late sixties, COMIBOL constructed the Vetillas concentrating plant in 1972 with a capacity of 400 tonnes per day. Only one product, a zinc concentrate rich in silver, was produced. Mine infrastructure at the site included an underground mine, Vetillas flotation mill, power and water supplies, and worker housing.

The mine was operated by COMIBOL until 1993, at which time mining was suspended pending the privatization of mining in Bolivia. In 1995, the San Vicente mine was offered as part of a joint-venture contract by COMIBOL. On June 21, 1999, the Company signed a joint-venture agreement (Contrato de Riesgo Compartido) with COMIBOL. At that time, PASB was a 100% subsidiary of the Company. The mine was maintained by COMIBOL until the joint venture contract was signed.

In late 2001, PASB and COMIBOL entered into a two-year toll mining agreement with EMUSA to process up to 250 tonnes of San Vicente's ore per day at EMUSA's nearby Chilcobija mill. In late 2005, PASB and COMIBOL entered into an additional seven month toll mining agreement with EMUSA to process up to 250 tonnes of San Vicente's ore per day at EMUSA's Chilcobija mill. This toll mining agreement was renewed in 2006 (for a total of 150,000 tonnes of ore), and again in January 2008 (for an additional 100,000 tonnes of ore). The 100,000 tonne program was completed in January 2009.

In 2003, PASB entered into a share purchase agreement with EMUSA, whereby EMUSA could acquire up to 49% of the outstanding shares of PASB. This agreement required EMUSA to fund feasibility and development related expenses to an aggregate of $2.5 million by May 1, 2005. By year end 2004, EMUSA had invested $2.34 million of the $2.5 million required to vest as a 49% owner of PASB, and EMUSA indicated it intended to proceed with the remaining investment to acquire a 49% interest.

In the fourth quarter of 2005, the Company negotiated a shareholders' agreement with EMUSA and Trafigura (a minority stakeholder of EMUSA), which agreement contemplated an increase in Pan American's shareholding in PASB from 50% to 55%. Pursuant to this shareholders' agreement, which was signed in January 2006, EMUSA would hold 40% of the shares of PASB and Trafigura would hold the remaining 5%.

In July 2006, PASB and COMIBOL renegotiated the terms of the main joint venture contract, changing COMIBOL's participation fee to a fixed percentage participation fee of 37.5% of the operating cash flow subject to certain deductions in respect of development costs. The contract has a 30 year term. The original contract stated that for PASB to maintain its participation in the contract it should invest a minimum of $20 million dollars in the



San Vicente project. Pursuant to an amendment to the contract signed in June 2006, PASB committed to build a new mill, tailings dam and other civil works at San Vicente during an 18 month time period with a minimum additional investment of $23 million. In addition, PASB committed to present a report on the engineering advance. In January 2007, the report was presented by PASB and was reviewed by COMIBOL. COMIBOL officially approved the report in a Board Meeting on July 9, 2007 and the 18 month construction period commenced on June 10, 2007.

In 2007, the Company purchased EMUSA's 40% interest in the project, increasing Pan American's share ownership from 55% to the current 95%. The remaining 5% of PASB continues to be owned by Trafigura.

During 2008, the Company substantially advanced construction of a new 750 tpd selective flotation plant and infrastructure as well as continued mining and toll treating ores under an agreement with COMIBOL.

The San Vicente expansion was 92% complete by the end of 2008. During 2009, the Company completed the construction of the flotation plant and the expansion of the mine and announced the commencement of commercial production at the end of the first quarter. During the full year of production in 2010, the mine produced (on a 100% basis) 3,192,680 ounces of silver and 4,900 tonnes of zinc.

***Geology and Mineralization***

San Vicente is a polymetallic vein deposit located 2.5 kilometres west of a prominent thrust fault. This north-south striking San Vicente fault forms the eastern limit of the intermountain Bolivian Altiplano basin. Mineralization at the mine site is hosted by conglomerates of Late Oligocene age. The clastic sediments are overthrusted by an Ordovician turbidite sequence, outcropping on the east side of the mine. Igneous activity at the site is represented by intermediate to acid volcanism related to a volcanic complex of mid-Miocene age.

The regional sedimentary sequence consists of a basement of Palaeozoic marine siliciclastic sediments. This sequence was folded and later unconformably overlain by non-continuous Cretaceous continental sediments, and a thick sequence of Tertiary continental clastic sediments (Potoco and San Vicente formations). Sedimentation in the Tertiary basin was controlled during the Upper Oligocene and Lower Miocene by thrust faults to the east and west and contains various thin volcanic flows with an intermediate composition. A sequence of felsic volcanics forms the top of the Tertiary basin in the southern part.

An important lithology in the project area is the fanglomerates of the San Vicente formation which are in contact with Ordovician shales along the strike of the San Vicente fault. The fanglomerate consists of poorly sorted conglomerate with sub angular fragments of Palaeozoic sediments cross cut by younger quartz veins. The matrix is red in colour and consists of iron-bearing sandstone.

Mineralization is related to hydrothermal systems associated with repeated calc-alkaline intrusions and their extrusive products forming vein type and disseminated polymetallic deposits.

The structural environment of the mine area consists of a series of pre-mineral faults dipping 50 to 80 degrees and striking west-northwest. Mineralization in the district is known to cover an area of three by four kilometres to a depth of 300 metres. It consists of replacement veins filling pre-existing faults, brecciated conglomerates in the San Vicente fault and mineralization in dacitic dykes.

***Exploration, Drilling, Sampling and Analysis***

The PASB exploration program began in 1999 following the execution of the joint venture agreement with COMIBOL. The work started with mapping and sampling the surface and was followed by the construction of drill access roads and platforms. A total of 21 holes (3,831 metres) were drilled from surface using HQ-sized core and a further eight holes (405 metres) from inside the mine using NQ-sized core. These holes targeted the old stoping areas, continuations of the principal veins along strike and at depth, and other veins to the northeast and south of the mine. Since the start of the exploration program, a total of 109 diamond core holes have been drilled, with 2,575 vein intercepts sampled with lengths varying from 0.2 metres to 7.14 metres.



In addition to the diamond drilling, a sampling program was started in the mine. An initial 41 channel samples were taken in four of the principal structures (6 de Agosto, Adela, Litoral and Unión). The results of the surface drilling showed wider intersections than had previously been mined underground and so the channel samples were unable to explore the full width of each vein. After this realization, mining work was undertaken to develop small cross section cross cuts (1.5 metres by 2.0 metres) at a maximum of 75 metres apart along strike in the four veins on levels 0, -30, -70 and -110 in order to explore the full economic width of each vein. Some 5,807 channel samples were taken by COMIBOL and 4,371 of these channel samples taken by COMIBOL remain in the database. The remainder have been excluded due to uncertainties over their location or replaced by PASB samples. A further 2,223 channel samples taken by PASB are included in the database. Some of the PASB

channel samples replace the COMIBOL channel samples where the vein width is actually greater than was initially thought by COMIBOL.

Exploration activities continued in 2004 with 13,919 metres of surface and underground diamond drilling, 2,983 metres of underground development and resampling of historical reserve blocks for the purposes of resource definition and exploration. Mine development and production to supply the Chilcobija mill continued in 2005, 2006 and 2007 and provided additional channel sample data for the resource database.

Exploration drilling restarted at the end of 2009 with surface diamond drilling, continued during 2010 and 2011, targeting the vertical and lateral extensions of the main mineralised structures. During 2011, a total of 14,452 metres were drilled.

***Mineral Reserves***

Pan American's management estimates that Proven and Probable Mineral Reserves at the San Vicente mine, as at December 31, 2011, are as follows:

**San Vicente Mineral Reserves (1), (2), (3)**

| Reserve Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Copper |
|---|---|---|---|---|
| Proven | 1.7 | 449 | 2.60 | 0.35 |
| Probable | 0.9 | 380 | 2.56 | 0.42 |
| TOTAL | 2.6 | 426 | 2.58 | 0.37 |

Notes:
(1) Estimated using a price of $25 per ounce of silver and $1,750 per tonne of zinc. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(2) Mineral Reserve estimates for the San Vicente mine were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., and Martin G. Wafforn, P.Eng., as Qualified Persons as that term is defined in NI 43-101.
(3) Tonnes are shown for 100% of the San Vicente property. Pan American has a 95% interest in PASB.



***Mineral Resources***

Pan American's management estimates that the Measured and Indicated Mineral Resources at the San Vicente mine, as at December 31, 2011, are as follows:

**San Vicente Mineral Resource Estimate (1), (2), (3), (4)**

| Resource Category | Tonnes (Mt) | Grams of Silver per tonne | % Zinc | % Copper |
|---|---|---|---|---|
| Measured | 0.5 | 120 | 1.70 | 0.16 |
| Indicated | 0.2 | 112 | 1.92 | 0.21 |
| Inferred | 3.0 | 353 | 2.17 | 0.32 |

Notes:
(1) These Mineral Resources are in addition to San Vicente Mineral Reserves.
(2) Estimated using a price of $25 per ounce of silver and $1,750 per tonne of zinc. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".
(3) Mineral Resource estimates for San Vicente were prepared under the supervision of, or were reviewed by, Michael Steinmann, P.Geo., who is a Qualified Person as that term is defined in NI 43-101.
(4) Tonnes are shown for 100% of the San Vicente property. Pan American has a 95% interest in PASB.

***Feasibility Study and Capital Expenditures***

Pan American completed and submitted a feasibility study on the San Vicente mine to COMIBOL in mid-January 2006. The objective of the feasibility study was to identify the optimal configuration to mine and process ore from the San Vicente mine. The feasibility study includes Mineral Reserve estimates, proposed mining methods and rates, milling options, infrastructure requirements, capital and economic estimates, as well as socioeconomic and environmental analyses.

In late 2006, PASB completed an updated feasibility study that projected the costs of the project to be $40.5 million. Pan American revised the estimate in early 2008 to approximately $65.0 million, net of non-recoverable taxes.

As at March 31, 2009, the San Vicente mine expansion project was considered complete. Capital expenditures in 2009 totalled approximately $19.0 million, bringing the total project cost as at the end of March 31, 2009 to approximately $72.0 million excluding recoverable VAT taxes.

***Mining***

The existing mine was designed and built to extract steeply dipping narrow veins using conventional shrinkage stoping. Levels were established at 30 to 40 metre intervals and include the +70, +35, 0, -30, -70, and -110 levels. For reference, the 0 level is at an elevation of

4,439 metres above sea level. The main accesses to the mine are via the San Jose adit at the 0 level and the San Juan adit on the -30 level. Track drift dimensions in the majority of the mine are 2.4 by 2.3 metres and therefore mine cars and locomotives are restricted to 40 cubic feet and six tonnes, respectively.

The discovery by diamond drilling of the extension of the Litoral zone has provided a wide and high grade addition to the mine resource base. PASB determined that a significant portion of the Mineral Reserve was amenable to lower cost longhole mining, warranting the introduction of longhole mining methods. Longhole mining will allow a reduction in mine operating costs and a higher mining recovery of the wider ore zones than could be achieved through shrinkage mining. Going forward, the San Vicente mine will utilize underground mining methods consisting of a combination of shrinkage stoping (continuing with track equipment with ore hoisting through the Pelayo shaft) and longhole mining (mechanized equipment with ore extracted utilizing a ramp to surface). A haulage and services ramp from surface has commenced development in order to develop and extract



the mineral slated for longhole mining. By the end of 2008, the ramp had been completed to the -230 level which is the current bottom of the Litoral zone. Longhole mining operations have now been successfully started.

A used hoist was purchased for the Pelayo shaft, and refurbishment of the hoist and replacement of the hoist electrics was conducted in Canada in 2007. The replacement hoist is currently at the mine on standby pending further evaluation of the ability of the existing hoist to continue to operate. The use of the existing hoist for personnel transport was discontinued in 2010 with the majority of personnel now accessing the mine via the ramp.

Mobile mining equipment for the mechanized longhole mining includes 20 tonne capacity low profile haul trucks, scooptrams, drill and long hole jumbo drill as well as miscellaneous equipment for services and personnel transport. Prior to the start of the new processing plant, PASB conducted several small scale mining programs with ore being treated under toll milling arrangements at the Chilcobija mill. These programs, conducted under addendums to the original joint-venture contract signed in 1999, have more than offset the project's holding costs. COMIBOL receives benefit from the programs by way of royalties paid on net cash flow generated.

Production for 2009 totalled 175,800 tonnes of ore processed, grading 537 g/t silver and 2.26% zinc.

Production for 2010 totalled 285,800 tonnes of ore processed, grading 389 g/t silver, 2.29% zinc, and 0.25% copper.

Production for 2011 totalled 297,900 tonnes of ore processed, grading 382 g/t silver, 2.26% zinc, and 0.32% copper.

***Milling***

The Vetillas processing plant was constructed by COMIBOL in the early 1970s. The plant and mine were designed for the extraction and treatment of 400 tonnes of ore per day. COMIBOL operated the San Vicente mine and Vetillas plant until 1993, at which time mining was suspended pending the privatization of the mine. Since 1993, the Vetillas Mill has received no maintenance and has not been in operation.

In 2007, PASB entered into a 100,000 tonne toll milling agreement with EMUSA in order to process ore at EMUSA's Chilcobija facility in 2008.

In 2009, 5,800 tonnes were milled at Chilcobija under the old agreement.

In 2007, detailed engineering on the new processing plant was performed, and construction of the facility commenced. Orders for processing equipment were placed. The construction of the plant continued throughout 2008 and at the end of the year, construction was approximately 92% complete. Following commissioning, start-up began in March 2009 and commercial production was declared in April 2009.

The 750 tpd plant uses a standard flotation process to produce two concentrates: a zinc-silver concentrate and a copper-silver concentrate. On a daily basis, approximately 40 tonnes of zinc concentrate and 10 tonnes of copper concentrate are produced. The majority of the silver is in the copper concentrate.

Ore from the mine passes through a jaw crusher at the plant, and then is fed into a SAG mill — ball mill grinding circuit. Following the concentration process in the flotation circuit, the concentrates are thickened and dewatered in filter presses prior to shipping.

Water is recycled from both the tailings thickener overflow and the tailings area. Lock-cycle tests performed in 2007 indicated that this water recycle should not adversely affect the plant recovery. In order to supply the make-up water needs for the plant, as well as for the San Vicente community and the camp, a new water line has been installed from the Angosta Mica water source, approximately 18 kilometres from the plant site. The water pumps required to make this operative were installed in early 2009.



A tailings impoundment area was constructed in 2008 approximately 1.5 kilometres from the concentrator. The initial dam height will be sufficient for approximately two full years of operation, following which subsequent dam lifts will be necessary.

A new power transmission line approximately 20 kilometres in length has been constructed from the main grid line at Portugalete to supply sufficient power for the plant, as well as the mining operations. The plant sub-station has been installed and the remaining sub-stations were completed during the first half of 2009**.**

In 2009, 170,000 tonnes of ore were milled at the new plant at San Vicente. During 2010, a total of 285,800 tonnes were processed in

the new plant, an average of 800 tonnes per day. During 2011, a total of 297,900 tonnes were processed in the San Vicente plant, an average of 816 tonnes per day.

***Community***

As part of the plant construction and mine expansion project, upgrades to the existing San Vicente town infrastructure were also necessary. The town is essentially a COMIBOL owned facility. Pan American constructed 10 new houses for employees and their families as well as repaired some of the existing housing in the town. The local school has been expanded with the addition of new classrooms and a laboratory facility, and new domestic water and sewer services were installed throughout the community. PASB will continue to maintain a close relationship with the community during the operation of the plant and the mine.

***Environment***

In 2002, in order to conduct small-scale mining and pilot toll milling operations PASB was required to obtain an environmental license by means of the acquisition of a Ficha Ambiental ("FA") and an EIA from the Bolivian Ministry of Environment. This license was valid for a period of up to four years and pertained to the extraction and treatment of up to 300 tonnes of ore per day. In February 2005, PASB filed applications with the Ministry of Environment in order to update the environmental license to allow for an increase in the permitted volume of ore that could be mined and toll milled at the Chilcobija mill. In June 2005, the environmental license was upgraded to allow the mining and processing of 600 tonnes per day.

Compliance with the environmental license requires bi-monthly monitoring of water, soil and air quality in the San Vicente sector and quarterly monitoring of water, soil and air quality in the Vetillas sector.

In compliance with the Environmental Regulation for Mining Activities, PASB commissioned MINCO SRL, a Bolivian consulting firm, to conduct a base line environmental audit ("ALBA") of the San Vicente mine, as well as other environmental studies in satisfaction of Bolivian laws and regulations. The ALBA sets out the present situation of the environment at the project and identifies environmental liabilities regarding pre-existing waste rock dumps and the environmental impact on soil, water, vegetation and solid residues caused by previous mining activities conducted on the property.

The most significant environmental issues currently associated with the San Vicente mine are related to the waste dumps, the need to pump low pH water from the mine, the permanent drainage from the Pelayo waste rock dump that runs into the San Vicente River and water discharge from the San Juan and San Francisco adits. PASB has constructed and put into operation an active chemical treatment system with an alkali material to improve the water quality and comply with its environmental permits.

In order to remediate environmental hazards or concerns caused by previous owners of the San Vicente mine, PASB has focused on the recommendations of MINCO outlined in the EIA, together with the complementary studies of Health and Industrial Safety, the Handling of Solid Residues procedures, the Closure and Rehabilitation Plan and the Contingency Plan. As per the joint venture agreement between COMIBOL and PASB, the equipment, facilities and infrastructure become the property and responsibility of COMIBOL upon the cessation of operations.



Construction of the new processing plant, tailings facility and ancillary facilities at San Vicente required another update to the environmental licence. To this end, PASB presented the FA in 2007 and was advised by the Bolivian authorities that a comprehensive EIA would be required for the proposed projects due to the scope and nature of the proposed changes to the operations. After a public consultation period, PASB submitted a comprehensive EIA in December 2007. Review of the EIA was initiated by the Bolivian authorities and the environmental license was granted for the San Vicente mine in May 2008.

Pan American has estimated the present value of reclamation costs for the San Vicente property to be approximately $4.1 million at December 31, 2011. The Company has not accrued any amounts for any prior existing environmental liabilities. See "Narrative Description of the Business — Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

***Health and Safety***

Formal safety audits were conducted in October 2009 and January 2011 at the San Vicente mine by the Company's Director of Health and Safety and safety managers from some of Pan American's other mines. During 2010, personnel employed at the mine attended approximately 10,800 hours of safety training.

***Capital Expenditures***

Capital expenditures in 2010 totalled approximately $6.0 million. In 2011, capital expenditures at San Vicente totalled approximately $5.0 million and consisted primarily of: (i) equipment and plant upgrades; (ii) mine development; and (iii) community and other surface infrastructure.

***Marketing***

The San Vicente mine produces zinc-silver and copper-silver concentrates. Contracts are currently in place for these concentrates until mid-2011 with a concentrate trading company. Both the zinc-silver and the copper-silver concentrates are taken by truck and rail to the port of Antofagasta in Chile for shipment.

The revenue per type of concentrate produced by the San Vicente mine for the past three years were as follows:

| | Revenue(1), (2) | Quantity |
|---|---|---|

| | | |
|---|---|---|
| **2011** | | |
| Zinc Concentrate | $ 12.1 million | 6,895 tonnes |
| Copper Concentrate | $ 73.3 million | 4,092 tonnes |

| | Revenue(1), (2) | Quantity |
|---|---|---|
| **2010** | | |
| Zinc Concentrate | $ 10.0 million | 9,671 tonnes |
| Copper Concentrate | $ 57.1 million | 3,994 tonnes |

| | Revenue(1), (2) | Quantity |
|---|---|---|
| **2009** | | |
| Zinc Concentrate | $ 6.4 million | 5,523 tonnes |
| Copper Concentrate | $ 35.2 million | 2,716 tonnes |

Notes:
(1) Consists of sales to arm's length customers.
(2) Calculated as gross revenue less treatment and refining charges.

To date, Pan American has not had any difficulty in securing contracts for the sale of the San Vicente concentrates, however, there can be no certainty it will always be able to do so or what terms will be available at the time.



Please see "Risks Related to Pan American's Business — Smelter Supply Arrangements" and "Risks Related to Pan American's Business — Trading Activities and Credit Risk".

**II. Development Properties**

**(i) Navidad Property**

As a result of the Company's acquisition of Aquiline in January 2010, Pan American obtained the rights to the Navidad property. Certain statements in the following summary of the Navidad property are based on and, in some cases, extracted directly from the Navidad Technical Report.

***Property Description and Location***

The Navidad property is located in Gastre Department in the Province of Chubut, southern Argentina, at approximately 42°24'54"S and 68°49'12"W.

The Navidad property is flanked by the communities of Gastre to the northwest, Gan Gan to the east and Blancuntre and Lagunita Salada to the southwest. Blancuntre is the closest recognised indigenous community to the Navidad property.

Land Tenure

The main Navidad property block, containing all of the current resources, has been granted *Manifestación de Descubrimiento* ("MD") permits. An MD is an exploration permit granted to properties on which mineralization has been discovered. The four main MDs at the Navidad Property are known as Navidad Oeste, Navidad Este, Navidad Oeste 1, and Navidad Este 1 (with MD registration numbers 14340/04, 14341/04, 14902/06, and 14903/06 respectively), each of which is 2,500 ha in area. Minera Argenta (MASA) holds the rights to additional MD's in the Province of Chubut. Several of these additional MD's are located adjacent to or near the main Navidad claim block along strike of the mineralized trend, but most are located in three different areas approximately 50 km to 150 km to the south. All of these MD's are in good standing with the mining authorities of the Chubut Province.

Pan American's tenements are subject to Argentinean law and policy, which may in the future result in surrender of certain of its tenements outright and/or the reduction in area of its holdings.

Agreements and Encumbrances

Silver Wheaton Corp., through its subsidiary, Silverstone Resources (Barbados) Corp., has the right to purchase 12.5% of the life of mine payable silver produced at the Loma de La Plata deposit pursuant to a convertible debenture that, upon conversion, committed the parties to a future "silver stream" agreement. This agreement is currently being negotiated by Silver Wheaton Corp. and the Company.

There is a provincial royalty of 3% of the "Operating Income" in the Province of Chubut. Operating Income is defined as revenue minus production cost (not including mining costs), treatment and transportation charges.

The Navidad property is not subject to any other royalties, back-in rights, payments, encumbrances or similar agreements.

Environmental Liabilities

Environmental and social baseline studies are in the process of being completed for the Navidad property. The bulk of baseline work done to date has been contracted to local Argentine consultants working under the supervision of international firms including MWH, Schlumberger Water Services, Golder Associates, SENES Consultants, Ground Water International, On Common Ground Consultants Inc., M3

Crippen Berger Ltd. MWH is finalising the baseline work and preparing the EIA for the future mine. The Company holds environmental reclamation insurance for the Navidad property in accordance with Argentinean law.

Pan American has estimated the present value of reclamation costs for the Navidad development property to be approximately $0.5 million at December 31, 2011. See “Narrative Description of the Business — Environmental Protection” for further disclosure regarding forward looking statements related to reclamation costs.

Permits

Drilling at the Navidad property requires a separate permit for each affected tenement valid for one year, subject to the submission of an EIS update within a one year period from the date of granting each successive permit. An update EIS is required to cover the exploration activities, environmental impacts and mitigation/monitoring actions implemented in the period following the last permit. The level of the exploration activity dictates the level of study required.

The Navidad property is in an advanced exploration stage involving drilling activities. The most recent EIS update was submitted in January 2011 and is currently being evaluated by the Chubut Ministry for the Environment and Control of Sustainable Development. This drilling permit allows for the operation of up to eight drill rigs. Rehabilitation of the drilling platforms and impacted areas is carried out continuously and Pan American maintains an extensive environmental management and monitoring program on site.

Water rights are treated separately from environmental permits. Two extraction wells have been permitted for use in exploration activities.

Pan American is currently preparing an Environmental and Social Impact Assessment report for the mining of the Navidad property for presentation to the provincial Chubut government. There are currently laws in the Province of Chubut which, among other things, prohibit open pit mining and the use of cyanide in mineral processing across the entire Province. The status of this law banning open pit mining methods would need to be changed before permits for the development of Navidad can be obtained.

Please see the discussion below under “Risks Relating to Pan American’s Business — Restrictions on Mining”.

***Accessibility, Climate, Infrastructure, Local Resources and Physiography***

Accessibility

The communities nearest to the Navidad property are Gastre, with a population of approximately 800 inhabitants, 35 km to the northwest, and Gan Gan, with a population of approximately 900 inhabitants, about 47 km to the east. Both communities are located on Provincial Highway #4, a gravel highway that passes just north of the Property. The Property is accessible year round.

Daily flights are available from Buenos Aires to Trelew, located about 370 km by road from the site to the southeast near the Atlantic coast. The nearest airport, which also has regularly scheduled flights, is located in Esquel, about four hours’ drive to the southwest by gravel road. The provincial capital of Rawson is located 20 km east of Trelew. Pan American currently has offices in Buenos Aires, Trelew, Gan Gan and Gastre to service the Navidad Project.

Climate

The climate is semi-arid with average monthly temperatures ranging from 1°C to 20°C. High winds frequently occur from October through December, but may also occur at other times throughout the year. Monthly average precipitation ranges between 7 mm and 29 mm, with the highest precipitation during the winter



months from May to August that may occur as either rain or snow. Field activities run throughout the year and are typically not curtailed by weather conditions.

Infrastructure and Local Resources

Pan American’s base of operations for the Navidad property is in Gastre and Gan Gan. Facilities include offices, modular living facilities, and core-storage warehouses. Communications are provided by land-line telephone service and satellite internet. The Gastre modular living facilities provide lodging and meals for up to 20 people. The Gastre warehouses include three drill core storage sheds, a logging and sampling shed, metal shop, vehicle workshop, and a regional exploration office.

In Gan Gan, Pan American has built two core storage facilities as well as an office on land purchased on the western edge of town in 2007. The office serves as a base of operation for its social and community relations personnel, while the warehouses contain older drill core from the Navidad property.

Near the Navidad property a small camp facility has been installed at an acquired farmhouse with electrical power provided by several small generators. Drilling contractors and consultants are also located in the temporary camp. Alex Stewart Assayers Argentina S.A. (Alex

Stewart) operates a sample preparation lab at the campsite. Communication is provided by a satellite internet uplink. Other infrastructure on site includes storage areas for drill supplies and contractors. There are several water supply bore holes authorized by the Chubut Provincial Water Institute to pump water for camp use and diamond drilling. Pan American has rented a portable package sewage treatment plant for the camp.

Land Access

Access to land for drilling and other exploration activities is allowed through outright surface ownership as well as through a series of easement contracts with neighbouring surface owners. Pan American holds large surface land rights covering all known mineral resources through its subsidiary Minera Argenta S.A. The remaining surface rights belong to several other land holders and access is either in negotiation or has been granted through agreements with the owners.

Physiography

The Property is located in the Patagonian Plateau region with steppe vegetation characterised by low and compact bushes of grass and by stocky shrubs of less than a metre high. Elevation ranges from 1,060 metres to 1,460 metres with gentle topographic relief interrupted by local structurally controlled ridges.

***History***

The first known exploration program that included the Navidad property area consisted of a preliminary regional geochemical sampling program conducted by Normandy Argentina (Normandy) in mid-2000 to locate additional deposits to supplement those known at its Calcatreu Property, a gold and silver deposit located approximately 80 km from Navidad. The program consisted of 1,200 bulk leach extractable gold (BLEG) stream sediment samples taken from drainage systems overlying Jurassic volcanic rocks in Chubut Province in the general vicinity of Calcatreu, Mina Angela, Gastre, Lagunita Salada, Gan Gan, and other areas. This program took place on what was then considered open exploration ground, and resulted in the identification by Normandy of various anomalies, including the Flamingo Prospect and Sacanana, which is today known as Navidad.

In January and February 2002, Newmont Mining (Newmont) purchased Normandy's worldwide mining interests, and in March 2002, Newmont decided to sell all of its interests in Argentina. In September 2002, IMA Exploration Inc. (IMA) signed a confidentiality agreement in order to obtain a copy of the Information Brochure and technical data related to Newmont's Argentinean interests, which included the Calcatreu Project. In December 2002, IMA applied for exploration concessions (cateos) over the area formerly known as Sacanana and now known as Navidad, utilizing and relying upon the Normandy BLEG data (known as BLEG A), and began undertaking a



regional exploration program over the Navidad area, including regional mapping and sampling. From December 2002 to July 2006, IMA conducted diamond drilling, geochemical sampling, geophysical exploration, and Mineral Resource estimates at Navidad.

In January 2003 Aquiline entered into an agreement with Newmont, which was completed in July 2003, to purchase all of the shares of Normandy and Newmont's 100% interest in Calcatreu, and acquired all of Newmont's assets including the BLEG A data. In May 2003 Aquiline reviewed the BLEG A data and found that the ground covered by the BLEG A data had already been claimed by IMA. After failure to receive a credible response from IMA as to how they could otherwise have made a legitimate discovery at Navidad without having breached the terms of the Confidentiality Agreement, Aquiline went on to file suit in the Supreme Court of British Columbia in March 2004.

The Supreme Court of British Columbia awarded ownership of the Navidad property to Aquiline on 14 July 2006 following a court case with IMA where IMA was found to have breached the Confidentiality Agreement. IMA subsequently appealed to the Court of Appeal for British Columbia, but lost the appeal by unanimous decision in June 2007. An Application for Leave to Appeal to the Supreme Court of Canada was filed by IMA in September 2007. Sole ownership rights were granted to Aquiline by the Supreme Court of Canada on December 20, 2007, subject to Aquiline making payment to IMA which would reimburse the latter for its accrued exploration expenditures up to the July 2006 court decision. Aquiline's final payment to IMA was made on February 8, 2008, giving Aquiline full ownership of the Navidad property.

From October 2006, Aquiline undertook diamond drilling, geophysical and geochemical exploration, metallurgical test work, resource estimates, and a preliminary assessment for Loma de La Plata.

On October 14, 2009, Pan American announced a friendly offer to acquire all of the issued and outstanding securities of Aquiline. On December 7, 2009, Pan American acquired approximately 85% of the issued and outstanding shares of Aquiline and extended its bid to December 22, 2009, and on that later date, Pan American took up approximately an additional 7% of the issued and outstanding shares in the capital of Aquiline. Since the offer to acquire the Aquiline shares was accepted by holders of more than 90% of the Aquiline shares, on December 23, 2009, Pan American provided notice to the remaining shareholders of its intention to exercise its right to acquire the remaining issued and outstanding Aquiline shares pursuant to the compulsory acquisition provisions of the Business Corporation Act (Ontario). Pursuant to the compulsory acquisition, Pan American has been deemed to have acquired the balance of the Aquiline shares not already owned by it on or about 22 January 2010.

Early in 2010, Pan American took possession of the Navidad property. Pan American continued with a rigorous drilling campaign, metallurgical testing, hydrologic analysis, environmental studies, and several other works on the Navidad property site during 2011. A preliminary assessment of the Navidad property deposits was completed in January 2011. Mineral Resource estimates based on the results of the 2010 and 2011 drilling and updated geological models are currently under way. Metallurgical testing of both older and new drill core continued at G&T in Kamloops, British Columbia. Crushing and grinding test work was completed at the SGS laboratories in Santiago, Chile.

***Geological Setting***

Regional Geology

The Navidad Project is located on the southwest edge of the Northern Patagonia Massif in southern Argentina. This boundary of the massif is coincident with the “Gastre Fault System”, a mega-structural feature believed to be the result of continental-scale northeast to southwest extension that produced through down-faulting a series of northwest to southeast trending half grabens and tectonic basins. Granitoid rocks of the basement in northern Chubut Province belong to the Palaeozoic age Mamil Choique and Lipetren formations. Locally these rocks are exposed at surface in windows through the overlying Mesozoic age volcanic and



sedimentary rocks. At Navidad the Mesozoic sequence consists of the Lonco Trapial Formation and overlying Cañadón Asfalto Formation. The latter of these formations hosts the Navidad mineralization.

Local and Property Geology

The oldest rocks are Palaeozoic (Mamil Choique Formation) and crop out along the west side of the area. They comprise red and grey granitoids, cut by aplite dykes and quartz-rich pegmatites. These crystalline basement rocks are overlain by a Jurassic sequence of volcanic (Lonco Trapial Formation), and sedimentary (Cañadón Asfalto Formation), rocks. These are the host for silver mineralisation at Navidad. The contact between the Mamil Choique and Lonco Trapial formations lies about 6.5 km southwest of Navidad.

The older rocks are overlain unconformably by the Cerro Barcino Formation (Chubut Group, Cretaceous), comprising continental sandstones, conglomerates and tuffs. The youngest rocks are plateau basalts of the Pire Mahuida Volcanic Complex (Miocene).

The oldest rocks at the Navidad Project comprise the Mamil Choique Formation. This is overlain by acid pyroclastics (ignimbrites), volcanic agglomerates, and lavas of the Lonco Trapial Formation. These rocks crop out on the southwest side of a complex, faulted sedimentary basin filled by sandstones, mudstones and limestones of the Cañadón Asfalto Formation. Lonco Trapial ignimbrites also occur on the northeast side of the basin. The basin includes, and is defined by, three northwest-striking major fault zones, generally referred to as ‘trends’. These comprise the Argenta, Esperanza, and Navidad trends. The Navidad Trend, which includes the bulk of the silver mineralisation, occurs in the immediate hanging wall of a major northeast-striking fault (Sauzal Fault). Most of the economic mineralisation is hosted by the upper of two trachytic andesite lava flows (referred to as ‘latite’ in the literature). The latites overlie an extensive andesite flow.

***Exploration***

The first exploration on the Navidad Project area consisted of a preliminary regional geochemical sampling program conducted by Normandy in mid-2000. The program consisted of 1,200 BLEG stream sediment samples taken from drainage systems overlying Jurassic age volcanic rocks in Chubut Province in the general vicinity of Calcatreu, Mina Angela, Gastre, Lagunita Salada, Gan Gan, and other areas. This program resulted in the identification of various anomalies, including the Flamingo Prospect and Sacanana, which is today known as Navidad.

IMA commenced the initial detailed outcrop mapping of the Navidad Project along the Navidad Trend in 2003 at both 1:500 and 1:5,000 map scales. During 2004 this mapping was expanded to cover a wider portion of the mineral tenement at 1:5,000 and 1:10,000 map scales. Commencing in 2002 and continuing through 2006, IMA collected soil, rock chip and stream silt samples over the Navidad Project. A total of 1,852 rock, 6,411 soil and 63 stream sediment geochemical samples are listed in the IMA database spatially related to the Project area. This work led to the identification of nearly all mineralised bedrock exposures known on the Property. The best example of soil geochemistry leading to the identification of a mineralised zone is that of Loma de La Plata. Collectively the anomalous rock chip samples clearly delineate the Navidad, Esperanza and Argenta trends, as does the soil geochemistry. Between 2003 and 2006, IMA completed 367 drillholes for 60,921 m on the property.

Between October 2006 and June 2009, Aquiline focused exploration efforts on identifying new exploration targets with diamond drilling, with delineation and infill drilling at the Loma de La Plata deposit, and with minor infill drilling of the other previously identified mineralised zones. Exploration for additional deposits through the use of fence drilling across prospective covered areas was also undertaken. Geological mapping and geophysical and geochemical exploration also progressed to provide data for structural interpretation. Prior to Pan American’s acquisition of the property, 950 drillholes for 188,881 m had been drilled on the property.

Pan American continued exploration drilling on several open or new targets along the mineralised trends during 2010 and 2011. Also, infill drilling was done for Loma de La Plata, Valle Esperanza, Barite Hill, Calcite Hill, Calcite NW, the Connector Zone, and Galena Hill during 2010 and 2011. These infill drillholes also provided new



samples for metallurgical analysis. In addition, condemnation and geotechnical drilling was conducted in the various planned facility areas during 2010. In 2010, Pan American completed 598 drillholes for 92,365 m. 2011 also saw an additional 37,095 metres of infill and extension drilling completed. Updates to the Mineral Resource estimates based on the 2010 and 2011 drilling results and updated geological interpretations are currently underway.

***Mineralization***

In all of the Navidad deposits the gangue minerals are principally calcite with minor barite. Silica is less important and occurs mostly as chalcedony and late amethyst. Ore minerals recognizable with a hand lens include: native silver, clots of black sulphide comprising argentite/acanthite, discrete grains of sphalerite, galena, chalcopyrite, cuprite, bornite, native copper and copper carbonates (malachite, azurite). Similar styles of mineralisation and a similar paragenesis occur in most of the deposits. However, the proportion of sulphides varies considerably. Loma de La Plata is silver-rich, but is sulphide-poor and contains very low levels of lead, zinc and copper. Various pulses of mineralisation are observed, principally at Galena Hill.

The principal metal association is Ag-Pb. Other associations include Ag-Pb-Cu and Cu-Ag and, more rarely, Ag-Zn. Occasionally there is Ag only, or Cu-Pb-Zn or simply isolated occurrences of these base metals. This suggests that deposition occurred through successive pulses of mineralisation. Gold appears to be totally absent from the system.

Mineralisation is mostly hosted in the upper latite, but important mineralisation occurs in the lower latite at Galena Hill. In a few places the underlying andesite also hosts high grade mineralisation. Deposits with mostly latite-hosted mineralisation include: Loma de La Plata, Valle Esperanza, Calcite Hill, and Galena Hill. Sedimentary rocks and volcaniclastics that overlie or are laterally equivalent to the upper latite also host significant mineralisation. Deposits where the mineralisation is dominantly hosted by these rock types include Calcite NW, Navidad Hill, Barite Hill, and Connector Zone.

High grade mineralisation mostly occurs in permeable host rocks. Examples of primary porosity include coarse volcaniclastic rocks and autobrecciated lava flows. Secondary porosity occurs as crackle brecciation of the brittle lava flows, hydrothermal eruption breccias, and tectonic breccias. At both Valle Esperanza and Loma de La Plata, the autobrecciated upper latite acted as an aquifer, sealed by overlying organic-rich sedimentary rocks (mudstones, limestones). The sediments were unconsolidated and are commonly slumped. Mixing of reduced water, derived from the organic-rich sediments, and rising metal-laden hydrothermal fluid probably triggered sulphide precipitation.

To date, the Navidad Project comprises eight individual mineral deposits in three separate mineralized trends (Navidad, Esperanza and Argenta trends). The six deposits of the Navidad Trend occur along strike over a distance of about 5.8 km and are essentially continuous. They comprise, from northwest to southeast: Calcite NW, Calcite Hill, Navidad Hill, Connector Zone, Galena Hill, and Barite Hill. The Valle Esperanza deposit occurs on the east flank of the Esperanza Trend and is found approximately 400 m south-southwest of Galena Hill. The Loma de La Plata deposit occurs in the north part of the Argenta Trend, approximately 2.2 km southwest from Calcite Hill.

Drilling

All diamond drilling on the Navidad Project undertaken by all operators since the first drillhole in November 2003 has been completed by Boart Longyear Connors Argentina S.A. of Mendoza, Argentina (subsequently taken over by Boart Longyear in 2007). Nearly all holes have been drilled at HQ3 diameter (61 mm) with 3 m long rods, except for rare instances where the drillhole was collared at HQ size diameter and subsequently reduced to NQ diameter down the drillhole and where larger diameter PQ holes were drilled in 2010 to collect metallurgical samples. As of the end of 2011, a total of 318,337 metres of drilling has been completed on the Project.



***Sampling and Analysis***

Sampling

Drill core is stored and well-maintained in wooden core boxes with a nominal capacity of approximately 3 m. The drillhole number, box number, and downhole interval are marked in felt tip marker on the side of the box. Wooden downhole core depth markers are placed in the core box by the driller indicating the drillhole number and end of run depth.

Staff geologists log the drill core in detail using standardized logging sheets on handheld computers for: lithology; alteration type, style, and intensity; mineralisation type, style, and intensity; and structural information. The entire drillhole is photographed prior to cutting. Geotechnical information including drill core recovery, RQD, weathering, texture, fracture frequency, type, roughness, infill, shape and angle, hardness, and other notes are recorded on a drill-run basis.

Samples are taken continuously downhole and supervised by the site geologist. After describing the geology, the geologist is in charge of defining what was sampled and the length of every core sample. In general, the entire drill core is cut in half with a diamond-bladed core saw, using recycled water decanted from a settling tank. Then, one half is sent for geochemical analysis and the other half remains in the core boxes at Pan American's core storage facilities in Gastre and Gan Gan for future reference.

Analysis

All diamond drill core samples at the Navidad property have been analysed by Alex Stewart Assayers Argentina S.A. ("Alex Stewart") of Mendoza, Argentina. Alex Stewart is ISO 9001:2000 accredited for the preparation and chemical analysis of mining exploration samples. On two separate occasions in 2003 and 2007, Smee and Associates conducted a laboratory inspection and considered the laboratory to conform to industry best practice methods for analysis.

All drill core samples at the Navidad property have been analysed by fire assay for silver with gravimetric finish and gold for AAS finish and ICP-ES for 19 elements using the ICP ORE technique.

For silver fire assay, a 30 gram charge is fused with 230 grams of flux in a furnace with temperature control at 1,050°C to produce lead buttons with a weight of at least 30 grams. The lead buttons are weighed and any sample with a button less than 30 grams is repeated. The cupellation of the lead buttons occurs in a furnace with temperature control at 950°C. Two standards of pure metallic silver are included in each cupellation batch to quantify the silver loss during the process. The prills are weighed in a microbalance and silver dissolved with nitric acid and gold with Aqua Regia.

Gold content is determined by AAS and the silver value is calculated as the difference between the weight of the AAS gold and silver. The final silver value considers silver lost by cupellation and adds silver based on the two metallic silver standards. Silver detection limits are two grams per tonne silver and occasionally one gram per tonne silver.

QA/QC

The QC protocol employed by Alex Stewart consists in batches of 50 samples for fire assay and up to 100 samples for ICP. Fire assay batches include one preparation blank, one analytical blank, one coarse duplicate, four pulp duplicates, one international certified standard for base metal and silver, one uncertified in-house standard, and two standards made from pure silver to calibrate losses in cupellation. ICP batches include two blanks, four standards, and 10% duplicates.

Certified standards, blanks, and field duplicates are routinely inserted with sample submissions as part of the project sample assay QA/QC programme. Analysis of QA/QC data is made to assess the reliability of sample assay data and the confidence in the data used for the resource estimation. Analysis of the QAQC samples



submitted with the geological samples used to estimate Mineral Resources at Navidad indicates that the results are of industry standard and that there is no significant source of bias, cross contamination, or inaccuracy.

***Mineral Resources and Mineral Reserve Estimates***

Pan American's management estimates that the Mineral Resources at the Navidad Property, as at April 2009, are as follows:

**Navidad Mineral Resource Estimate (1), (2)**

| Resource Category | Tonnes (Mt) | Grams of Silver equivalent per tonne | Grams of Silver per tonne | % Lead | % Copper |
|---|---|---|---|---|---|
| Measured | 15.4 | 177 | 137 | 1.44 | 0.10 |
| Indicated | 139.8 | 147 | 126 | 0.79 | 0.04 |
| Inferred | 45.9 | 97 | 81 | 0.57 | 0.02 |

Notes:

(1) Estimated and reported above a 50 g/t AgEQ using a silver equivalence formula of AgEQ = Ag + (Pb × 10,000/365) and a price of $12.52 per ounce of silver and $1,102 per tonne of lead. The most likely cut-off grade for these deposits is not known at this time and must be confirmed by the appropriate economic studies. The estimated metal content does not include any consideration of mining, mineral processing, or metallurgical recoveries. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".

(2) Mineral Resource estimates for Navidad were prepared by Pamela De Mark, P. Geo., as a Qualified Person as that term is defined in NI 43-101.

Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The Navidad property does not currently have any Mineral Reserves. See "Cautionary Note to United States Investors Concerning Estimates of Measured Indicated and Inferred Resources".

The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. Additional studies will be required to determine technical, economic, legal, environmental, socio-economic, and governmental factors.

Known Issues that Materially Affect the Mineral Resources

The Province of Chubut passed a law in 2003 (Law 5001) that prohibits open cut mining and the use of cyanide in mineral processing in the entire province. The law states that, in a period of 120 days, the Provincial Environment Committee (COPRAM) will determine the zoning of the Province for Mineral Resource exploitation with production methods authorized in each case. This determination will also define areas which are to be excluded from the open cut and cyanide prohibition. The law also requires that the proposed COPRAM zoning be passed as law. To date COPRAM has not made a rezoning proposal.

Please see the discussion below under "Risks Relating to Pan American's Business — Restrictions on Mining".

Exploration and Development

Approximately $37.5 million was spent on the Navidad property in 2010 while $33.2 million was spent in 2011. In addition, certain long lead equipment was purchased in 2011 for $17.0 million. Pan American will continue exploration drilling on several open or new targets along the mineralised trends. Infill drilling is planned for Loma de la Plata, Valle Esperanza, Barite Hill, and Galena Hill during 2011. These drillholes will also provide new samples for metallurgical analysis. Additional condemnation and geotechnical drilling is planned for potential future infrastructure sites.



## III. Non-Material Properties and Interests

***Operations***

On January 8, 2009, after a detailed review of all of its mines, Pan American announced its intention to initiate the process necessary to suspend operations at its Quiruvilca mine during 2009. Quiruvilca has become increasingly reliant on base metal production, particularly zinc, and declining base metal prices have resulted in a substantial decrease in its reserves. Pan American has significantly reduced underground

development, maximized existing developed ore and prioritized the most cost efficient areas of the mine. Based on the improvement of the price environment for metals beginning in 2009, production continued and the present intention is to operate the mine throughout 2011, while at the same time preparing the mine for care and maintenance should the price environment for metals deteriorate. Pan American no longer considers the Quiruvilca mine to be a material property for the purposes of NI 51-102.

The Company does not consider the stockpiles to be a material property for the purposes of NI 51-102.

***Exploration, Resource and Investment Properties***

In April 2009, Pan American announced that it had reached an agreement with Orko Silver Corp. on the terms under which they may jointly develop the La Preciosa silver project. Pursuant to the agreement, Pan American agreed to act as operator and, in order to retain a 55% interest in the project, to (i) make certain expenditures, (ii) prepare a feasibility study within 36 months, and (iii) contribute 100% of the funds necessary to develop and construct an operating mine. In October 2009, the parties entered into a formal joint venture agreement in respect of the La Preciosa project.

The La Preciosa project is located in Durango State, approximately 47 km northeast of the city of Durango. The property consists of a block of mineral exploitation concessions covering approximately 32,400 hectares. The La Preciosa property covers gold and silver bearing epithermal quartz veins, with barite and lesser quantities of base metals, primarily zinc and lead. In 2009, Pan American completed approximately 28,000 metres of diamond drilling. Pan American continued the exploration during 2010 with a total of 62,934 metres of diamond drilling. Pan American does not consider the La Preciosa property to be material for the purposes of NI 51-102.

Pan American also owns interests in other investment and resource properties in each of the jurisdictions in which it operates, and in Canada and the United States. The Company does not consider these investment and resource properties to be material properties for the purposes of NI 51-102.



**Mineral Property Expenditures**

The following table sets out Pan American's acquisition, exploration and development expenditures (rounded, in thousands) for the periods indicated:

| | | | 2011(1) | 2010(1) | 2009(1) |
|---|---|---|---|---|---|
| Acquisition | | | $ — | $ — | $ (942)(2) |
| Development | Huaron | | $ 13,021 | $ 6,606 | $ 6,970 |
| | Morococha | | 41,669 | 16,685 | 8,151 |
| | Quiruvilca | | 1,515 | — | — |
| | Alamo Dorado | | 8,287 | 2,132 | 1,266 |
| | La Colorada | | 13,301 | 9,118 | 3,078 |
| | Manantial Espejo | | 16,916 | 7,021 | 13,461 |
| | Navidad | | 39,143 | 21,039 | — |
| | San Vicente | | 4,975 | 6,007 | 18,991 |
| | Other | | 6,936 | 347 | 834 |
| | | TOTAL | $ 145,763(3) | $ 68,955(3) | $ 52,751(3) |
| Exploration | Huaron | | $ 303 | $ — | $ — |
| | Morococha | | 3,619 | — | — |
| | Quiruvilca | | — | — | — |
| | Alamo Dorado | | 2,098 | 25 | 762 |
| | La Colorada | | 845 | 598 | 1,223 |
| | Manantial Espejo | | 2,189 | 1,262 | 1,132 |
| | Navidad | | 11,100 | 8,551 | 631 |
| | San Vicente | | — | 1 | — |
| | La Preciosa | | 2,400 | 9,989 | 4,002 |
| | Other | | 5,173 | 4,103 | 2,184 |
| | | TOTAL | $ 27,727 | $ 24,527 | $ 9,934 |

Notes:
(1) Numbers may not add due to rounding.
(2) These numbers relate to the acquisition of net assets of Aquiline Resources Inc., the owners of the Navidad Project. Because this transaction was a 100% share based transaction, on a cash basis, Aquiline was acquired with the Company receiving net cash of $942,000.
(3) Gross cash based expenditures.

**Metals Trading**

Pan American does not engage in any forward sale of its silver production. Pan American has engaged in forward sales of base metals production from its mines:

- During 2009, the Company settled 9,125 tonnes of zinc forward sales at an average price of approximately $2,177 and 6,000 tonnes of zinc forward purchases at an average price of approximately $1,197.

- During 2009, the Company settled 6,000 tonnes of lead forward sales at an average price of approximately $2,377 and 6,000 tonnes of lead forward purchases at an average price of approximately $1,785.

- During 2010, the Company settled 2,450 tonnes of zinc forward sales at an average price of approximately $2,132 and 1,000 tonnes of lead forward sales at an average price of approximately $2,063.

- During 2011, the Company settled 3,250 tonnes of zinc in forward sales at an average price of approximately $2,090 and 1,125 tonnes of lead forward sales at an average price of approximately



$2,083. The Company realized a gain of approximately $680,820 from the settlement of zinc and lead contracts during 2011.

At December 31, 2011, Pan American had no open base metal forward sale contracts outstanding. Please see the discussion below under “Risks Related to Pan American’s Business — Trading Activities and Credit Risk”.

## RISKS RELATED TO PAN AMERICAN’S BUSINESS

*The Company’s securities should be considered a speculative investment due to the nature of its business. Investors should carefully consider all of the information disclosed in this AIF, including all documents incorporated by reference, before making an investment in the Company’s securities. There are numerous risk factors that could materially affect Pan American’s business, financial condition or results of operations and could cause actual events to differ materially from those described in forward-looking statements. In such an event, the market prices of the Company’s securities could decline and investors could lose all or part of their investments. The risks related to Pan American’s business include but are not limited to those set forth below.*

### Metal Price Fluctuations

The majority of Pan American’s revenue is derived from the sale of silver, zinc, gold, and, to a lesser degree, copper and lead, and therefore fluctuations in the price of these commodities represents one of the most significant factors affecting Pan American’s operations and profitability. In addition, since base metal and gold sales are treated as a by-product credit for the purposes of calculating cash costs per ounce of silver, this non-IFRS measure is highly sensitive to base metal and gold prices. From time to time, Pan American mitigates the risk associated with its base metal production by committing some of its forecast base metal production to forward sales and options contracts. The Board of Directors of the Company continually assesses the Company’s strategy towards its base metal exposure, depending on market conditions.

The price of silver and other metals are affected by numerous factors beyond Pan American’s control, including:

- global and regional levels of supply and demand;

- sales by government holders and other third parties;

- metal stock levels maintained by producers and others;

- increased production due to new mine developments and improved mining and production methods;

- speculative activities;

- inventory carrying costs;

- availability, demand and costs of metal substitutes;

- international economic and political conditions;

- interest rates, inflation and currency values; and

- reduced demand resulting from obsolescence of technologies and processes utilizing silver.

A decrease in the market price of silver, gold and other metals could affect the commercial viability of Pan American’s mines and its production assumptions. Lower prices could also adversely affect Pan American’s ability to finance future exploration and development of its mineral properties and mines, including the development of capital intensive projects such as Navidad, all of which would have a material adverse effect on Pan American’s financial condition, results of operations and future prospects. There can be no assurance that the market prices will remain at current levels or that such prices will improve. Declining market prices for these metals could materially adversely affect Pan American’s operations and profitability.



### Foreign Operations

All of Pan American’s current production and revenue is derived from its operations in Peru, Mexico, Argentina and Bolivia, where the majority of Pan American’s operations are conducted. As Pan American’s business is carried on in a number of developing countries, it is exposed to a number of risks and uncertainties, including:

- expropriation or nationalization without adequate compensation;
- economic and regulatory instability;
- military repression and increased likelihood of international conflicts or aggression;
- possible need to obtain political risk insurance and the costs and availability of this and other insurance;
- unreliable or undeveloped infrastructure;
- labour unrest;
- lack of availability of skilled labour;
- difficulty obtaining key equipment and components for equipment;
- regulations and restrictions with respect to import and export and currency controls;
- changing fiscal regimes;
- high rates of inflation;
- the possible unilateral cancellation or forced re-negotiation of contracts;
- unanticipated changes to royalty and tax regimes;
- extreme fluctuations in currency exchange rates;
- volatile local political and economic developments;
- uncertainty regarding enforceability of contractual rights;
- difficulty understanding and complying with the regulatory and legal framework respecting the ownership and maintenance of mineral properties, mines and mining operations, and with respect to permitting;
- violence and more prevalent or stronger organized crime groups;
- terrorism and hostage taking;
- difficulties enforcing judgments obtained in Canadian or United States courts against assets located outside of those jurisdictions; and
- increased public health concerns.

In most cases, the effect of these factors cannot be accurately predicted.

Local opposition to mine development projects has arisen in Peru in the past, and such opposition has at times been violent. In particular, in November 2004, approximately 200 farmers attacked and damaged the La Zanja exploration camp located in Santa Cruz province, Peru, which was owned by Compañía de Minas Buenaventura and Newmont Mining Corporation. One person was killed and three injured during the protest. There can be no assurance that similar local opposition will not arise in the future with respect to Pan American's foreign operations. If Pan American were to experience resistance or unrest in connection with its foreign operations, it could have a material adverse effect on Pan American's operations or profitability.

In September 2011, Peru's Parliament approved new laws to change the scheme for royalty payments and to introduce a new special mining tax, which are effective from October 1, 2011. Under the previous tax scheme, royalties were based on net revenue. Under the current law, royalties are based on operating profit and royalty rates that vary depending on operating margins. In the case that the calculated royalty payments are less than 1% of net revenue, then Pan American will pay a minimum royalty of 1% of net revenue. Additionally, a new special mining tax has been introduced which is also based on operating profits and a tax rate that also varies depending on operating margins.



In late 2005, a national election in Bolivia resulted in the emergence of a left-wing government. This has caused some concerns amongst foreign companies doing business in Bolivia due to the government's policy objective of nationalizing the oil and gas industries. There is no certainty the government of Bolivia will not take steps to implement such measures targeting the mining industry, and in early 2009, a new constitution was enacted that further entrenches the government's ability to amend or enact such laws, including those that may affect mining. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts and threatened expropriation of assets, all of which could have a material adverse impact on Pan American's operations or profitability.

In early 2011, media reports from Bolivia indicated that the Bolivian government was considering unilaterally terminating contracts and taking control of several privately-operated mines (formerly operated by the government). On May 1, 2011 Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the mining law. However, Mr. Morales made no reference to reviewing or terminating agreements with private mining companies. Operations at San Vicente have

continued to run normally under Pan American's administration and it is expected that normal operations will continue status quo. Pan American will take every measure available to enforce its rights under its agreement with COMIBOL, but there is no guarantee that governmental actions will not impact the San Vicente operation and its profitability.

On October 26, 2011, the Federal Government of Argentina promulgated an "economic emergency" decree requiring all oil, gas and mining exporters to repatriate 100% of revenue receipts, in an attempt to stem ongoing capital flight. Pan American is currently assessing the implications the new regulation will have on its Manantial Espejo mine and its development projects in Chubut and Rio Negro. Currently, Pan American believes that the likely impact would come in the form of additional transaction fees associated with the repatriation of funds; however, the precise methods of application of the decree are still being formulated by the Government and are being analyzed by the Company as further details are determined. The Government of Argentina has also instituted certain other currency and import and export controls which will likely have a negative impact on Pan American's operations in Argentina. Such governmental actions may have a material adverse impact on Pan American's operations and profitability.

**Restrictions on Mining**

Many of the jurisdictions in which Pan American operates have certain laws or policies that impose restrictions on mining. For example, there are currently laws in the Province of Chubut, Argentina which, among other things, prohibit open pit mining and the use of cyanide in mineral processing across the entire Province. As currently enacted, these laws in the Province of Chubut would likely render any future construction and development of the Navidad project uneconomic or not possible at all.

There is no guarantee that the present restrictions on mining will be removed or that they will not become more restrictive, or that new constraints will not be imposed. Such restrictions, particularly those affecting the development of the Navidad project, could have a material adverse impact on Pan American's future profitability, growth and value.

**Governmental Regulation**

In addition to restrictions on mining, Pan American's operations, exploration and development activities are subject to extensive Canadian, United States, Peruvian, Mexican, Argentinean, Bolivian, and other foreign federal, state, provincial, territorial, and local laws and regulations governing various matters, including:

- environmental protection;
- permitting;
- management and use of toxic substances and explosives;
- management of natural resources;



- exploration, development, production, and post-closure reclamation of mines;
- imports and exports;
- transportation;
- price controls;
- taxation;
- mining royalties;
- labour standards, employee profit-sharing and occupational health and safety, including mine safety; and
- historic and cultural preservation.

The costs associated with compliance with these laws and regulations can be substantial, and future laws and regulations, changes to existing laws and regulations (including the imposition of higher taxes and mining royalties which have been implemented or threatened in the countries in which Pan American does business) or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of Pan American's operations and delays in the development of its properties. Moreover, these laws and regulations may allow or encourage governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of Pan American's past and current operations, or possibly even those actions of parties from whom Pan American acquired its mines or properties, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. It is difficult understanding and complying with the regulatory and legal framework in some jurisdictions in which Pan American operates due to their arcane, inconsistent and sometimes unsophisticated nature. Pan American may inadvertently fail to comply with such laws. This non compliance can lead to financial restatements, fines, penalties, loss, reduction or expropriation of entitlements, the imposition of additional local or foreign parties as joint venture partners with carried or other interests and other material negative impacts on Pan American. Pan American may also be required to compensate private parties suffering loss or damage by reason of a breach of any such laws, regulations or permitting requirements.

**Obtaining and Renewing of Permits**

In the ordinary course of business, Pan American is required to obtain and renew governmental permits for the operation and expansion

of existing operations or for the development, construction and commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions and often involving public hearings and costly undertakings on Pan American's part. The duration and success of Pan American's efforts to obtain and renew permits are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting authority. Pan American may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what Pan American believes it can recover from a given property once in production. Any unexpected delays, failure to obtain such permits, a failure to comply with the terms of the permit or costs associated with the permitting process could delay the development or impede the operation of a mine, which could adversely impact Pan American's operations and profitability.

**Ownership and Operating Hazards and Risks**

The ownership, operation and development of a mine or mineral property involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include:

- environmental and health hazards;
- industrial accidents, explosions and third party accidents;
- the encountering of unusual or unexpected geological formations;
- ground falls and cave-ins;
- flooding;



- labour disruptions;
- mechanical equipment and facility performance problems;
- earthquakes; and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in:

- environmental damage and liabilities;
- work stoppages, delayed production and resultant losses;
- increased production costs;
- damage to, or destruction of, mineral properties or production facilities and resultant losses;
- personal injury or death and resultant losses;
- asset write downs;
- abandonment of assets
- monetary losses;
- claims for compensation of loss of life and/or damages by third parties in connection with accidents (for loss of life and/or damages and related pain and suffering) that occur on Pan American property, and punitive awards in connection with those claims; and
- other liabilities.

These risks could result in damage to, or destruction of, mineral properties, production facilities and other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. Advancements in science and technology and in mine design, methods, equipment and training have created the possibility of reducing some of these risks, but there can be no assurances that such occurrences will not take place and that they will not negatively impact Pan American, its operations and its personnel.

In addition to those other risks identified above, mining operations are also subject to ownership and operating risks relating to the valuable nature of the product being produced. Pan American's Mexican operations have both suffered from armed robberies of doré within the past two years. Pan American has instituted a number of additional security measures and a more frequent shipping schedule in response to these incidents. Pan American has subsequently renewed its insurance policy to mitigate some of the financial loss that would result from such criminal activities in the future, however a substantial deductible amount would apply to any such losses in Mexico.

Liabilities that Pan American incurs may exceed the policy limits of its insurance coverage or may not be insurable, in which case Pan American could incur significant costs that could adversely impact its business, operations, profitability or value.

**Exploration and Development Risks**

The long-term operation of Pan American's business and its profitability is dependent, in part, on the cost and success of its exploration and development programs. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that Pan American's mineral exploration and development programs will result in any discoveries of bodies of commercial mineralization. There is also no assurance that even if commercial quantities of mineralization are discovered that a mineral property will be brought into commercial production. Development of Pan American's mineral properties will follow only upon obtaining satisfactory exploration results. Discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations, including regulations relating to royalties,



allowable development and production, importing and exporting of minerals and environmental protection. Most of the above factors are beyond the control of Pan American. As a result, there can be no assurance that Pan American's acquisition, exploration and development programs will yield new Mineral Reserves to replace or expand current Mineral Reserves or that they will result in additional production. Unsuccessful exploration or development programs could have a material adverse impact on Pan American's operations and profitability.

**Replacement of Reserves**

The Quiruvilca, Huaron, Morococha, La Colorada, Alamo Dorado, Manantial Espejo and San Vicente mines are Pan American's current sources of metals production. In 2009, procedures were initiated at the Quiruvilca mine to suspend operations. Current life-of-mine plans provide for a defined production life for mining at the remainder of Pan American's mines. If Pan American's Mineral Reserves are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at its current operating mines or through the acquisition or development of additional producing mines, this could have an adverse impact on Pan American's future cash flows, earnings, results of operations and financial condition, and this may be compounded by requirements to expend funds for reclamation and decommissioning.

**Imprecision in Mineral Reserve and Mineral Resource Estimates**

There is a degree of uncertainty attributable to the estimation of Mineral Reserves and Mineral Resources. Until Mineral Reserves or Mineral Resources are actually mined and processed, the quantity of Mineral Resources and Mineral Reserve grades must be considered as estimates only and no assurances can be given that the indicated levels of metals will be produced or that Pan American will receive the price assumed in determining its reserves. These estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. By their nature Mineral Reserve and Mineral Resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences that may ultimately prove unreliable.

Furthermore, fluctuations in the market price of metals, as well as increased capital or production costs or reduced recovery rates may render Mineral Reserves uneconomic and may ultimately result in a reduction of Mineral Reserves. The extent to which Resources may ultimately be reclassified as Proven or Probable Mineral Reserves is dependent upon the demonstration of their profitable recovery. The evaluation of Mineral Reserves or Mineral Resources is always influenced by economic and technological factors, which may change over time. No assurances can be given that any resource estimate will ultimately be reclassified as Proven or Probable Mineral Reserves or that mineralization can be mined or processed profitably. If Pan American's Mineral Reserve or Mineral Resource figures are inaccurate or are reduced in the future, this could have an adverse impact on Pan American's future cash flows, earnings, results of operations and financial condition.

**Inaccuracies in Production and Cost Estimates**

Pan American prepares estimates of future production and future production costs for particular operations. No assurance can be given that production and cost estimates will be achieved. These production and cost estimates are based on, among other things, the following factors: the accuracy of Mineral Reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; equipment and mechanical availability; labour availability; access to the mine; facilities and infrastructure; sufficient materials and supplies on hand; and the accuracy of estimated rates and costs of mining and processing, including the cost of human and physical resources required to carry out Pan American's activities. Failure to achieve production or cost estimates, or increases in costs, could have an adverse impact on Pan American's future cash flows, earnings, results of operations and financial condition.

Actual production and costs may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term



operating factors relating to the Mineral Reserves **,** such as the need for sequential development of orebodies and the processing of new or different ore grades; risks and hazards associated with mining described above under "Ownership and Operating Hazards and Risks". In addition, there can be no assurance that silver recoveries or other metal recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production, or that the existing known and experienced recoveries will continue. Costs of production may also be affected by a variety of factors, including: changing stripping ratios, ore grade metallurgy, labour costs, costs of supplies and services (such as, for example, fuel and power), general inflationary pressures and currency exchange rates. Failure to achieve production estimates could have an adverse impact on the Pan American's future cash flows, earnings, results of operations and financial condition.

**Infrastructure**

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants for capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of Pan American's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of Pan American's projects will be commenced or completed on a timely basis, if at all; the resulting operations will achieve the anticipated production volume, or the construction costs and ongoing operating costs associated with the exploitation and/or development of Pan American's advanced projects will not be higher than anticipated. In addition, unusual weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect Pan American's operations and profitability.

The equipment on site at the Morococha property, particularly the Amistad plant, is old and may require higher capital investment than Pan American has estimated.

**Environmental Hazards**

All phases of Pan American's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation in almost all jurisdictions are evolving in a manner which will require stricter standards and will be subject to increased enforcement, fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Pan American and may cause material changes or delays in Pan American's intended activities. Changes in environmental regulation, if any, may adversely impact Pan American's operations and profitability. In addition, environmental hazards may exist on Pan American's properties which are currently unknown to Pan American. Pan American may be liable for losses associated with such hazards, or may be forced to undertake extensive remedial cleanup action or to pay for governmental remedial cleanup actions, even in cases where such hazards have been caused by previous or existing owners or operators of the property, or by the past or present owners of adjacent properties or natural conditions. The costs of such cleanup actions may have a material adverse impact on Pan American's operations and profitability.

Future operations of Pan American may involve heap leaching. Heap leaching often employs sodium cyanide, a hazardous material, to leach metal-bearing ore and then collect the resulting metal-bearing solution. There is an inherent risk of unintended discharge of hazardous materials in the operation of leach pads. Should sodium cyanide escape from a leach pad and collection infrastructure or otherwise be detected in the downstream surface and ground water points, Pan American could become subject to liability for remediation costs, which could be significant and may not be insured against. In addition, metal production could be delayed or halted to prevent further discharges and to allow for remediation. Such delays or cessations in production could be long-term or, in some cases, permanent and any interference with production could result in a significant reduction in, or loss of, cash flow and value for Pan American. While appropriate steps may be taken to prevent discharges of sodium cyanide and other hazardous materials into the ground water, surface water and the downstream environment, there is inherent risk in the operation of leach pads and there can be no assurance that a release of hazardous materials would not occur.



Responsibility for the operation of a water treatment plant for the Kingsmill Tunnel and the tailings mitigation program at Huascacocha Lake, near the Morococha mine, have been apportioned by Water Management Consultants Inc. in environmental studies among the Morococha mine and mining companies operating neighbouring projects. The continued development of the Toromocho Project by MCP may alleviate some of Pan American's funding requirements. There can be no guarantee, however, that Pan American's proportionate share of the costs of such environmental projects will not change and this may affect cash flow from the Morococha mine operations.

**Reclamation Obligations**

Reclamation requirements vary depending on the location of the property and the managing governmental agency, but they are similar in that they aim to minimize long-term effects of mining exploitation and exploration disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree pre-disturbance land forms and vegetation. Pan American is actively providing for or has carried out any required reclamation activities on its properties. Any significant environmental issues that may arise, however, could lead to increased reclamation expenditures and have a material adverse impact on Pan American's financial resources.

**Trading Activities and Credit Risk**

Pan American's current policy is to not hedge the price of silver and therefore it is fully exposed to fluctuations in the price of silver. This strategy may have a material adverse effect upon our financial performance, financial position and results of operations.

The zinc, lead and copper concentrates produced by Pan American are sold through long-term supply arrangements to metal traders or integrated mining and smelting companies. The terms of the concentrate contracts may require Pan American to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing Pan American to credit risk of the buyers of Pan American's concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, Pan American may incur losses for products already shipped and be forced to sell its concentrates in the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted. For example, the Doe Run Peru smelter, a significant buyer of Pan American's production in Peru, experienced financial difficulties in the first quarter of 2009 and closed. Pan American continued to sell copper concentrates to other buyers but on inferior terms. The Doe Run Peru smelter remains closed and Pan American is owed approximately $8.8 million under the terms of its contract with Doe Run Peru. Pan American continues to pursue all legal and commercial avenues to collect the amount outstanding.

At December 31, 2011, the Pan American had receivable balances associated with buyers of Pan American's concentrates of $40.5 million (2010 - $51.0 million). All of this receivable balance is owed by eight well known concentrate buyers and the vast majority of Pan American's concentrate is sold to those same counterparts.

Silver doré production is refined under long term agreements with fixed refining terms at three separate refineries worldwide. Pan American generally retains the risk and title to the precious metals throughout the process of refining and therefore is exposed to the risk that the refineries will not be able to perform in accordance with the refining contract and that Pan American may not be able to fully recover its precious metals in such circumstances. At December 31, 2011 Pan American had approximately $35.9 million of value contained in precious metal inventory at refineries (2010 - $50.4 million). Pan American maintains insurance coverage against the loss of precious metals at Pan American's mine sites, in-transit to refineries and while at the refineries.

Refined silver and gold is sold in the spot market to various bullion traders and banks. Credit risk may arise from these activities if we are not paid for metal at the time it is delivered, as required by spot sale contracts.



Pan American maintains trading facilities with several banks and bullion dealers for the purposes of transacting Pan American's trading activities. None of these facilities are subject to margin arrangements. Pan American's trading activities can expose us to the credit risk of our counterparties to the extent that our trading positions have a positive mark-to-market value.

Management constantly monitors and assesses the credit risk resulting from its concentrate sales, refining arrangements and commodity contracts. Furthermore, management carefully considers credit risk when allocating prospective sales and refining business to counterparties. In making allocation decisions, Management attempts to avoid unacceptable concentration of credit risk to any single counterparty.

From time to time, Pan American may invest in equity securities of other companies. Just as investing in the Company is inherent with risks such as those set out in this AIF, by investing in other companies Pan American will be exposed to the risks associated with owning equity securities and those risks inherent in the investee companies.

**Exchange Rate Risk**

The Company reports its financial statements in United States Dollars ("USD"); however Pan American operates in jurisdictions that utilize other currencies. As a consequence, the financial results of Pan American's operations, as reported in USD, are subject to changes in the value of the USD relative to local currencies. Since the Company's sales are denominated in USD and a portion of the Pan American's operating costs and capital spending are in local currencies, Pan American is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse. The local currencies that Pan American has the most exposure to are the Peruvian sol ("PEN"), Mexican pesos ("MXN") and Argentine pesos ("ARS").

In order to mitigate this exposure, the Company maintains a portion of its cash balances in PEN, MXN and Canadian dollars and, from time to time, enters into forward currency positions to match anticipated spending. At December 31, 2011, the Company did not have any open currency forward positions, but was holding approximately 51% of its cash balances in currencies other than USD.

The Company's balance sheet contains various monetary assets and liabilities, some of which are denominated in foreign currencies. Accounting convention dictates that these balances are fair valued at the end of each period, with resulting adjustments being reflected as foreign exchange gains or losses on the Company's statement of operations.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The volatility of the metals markets can impact the Company's ability to forecast cash flow from operations.

The Company must maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalents and committed loan facilities.

The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous reporting, planning and budgeting process to help determine the funds required to support its normal operating requirements on an ongoing basis and its expansion plans. The Company continually evaluates and reviews capital and operating expenditures in order to identify, decrease and limit all non-essential expenditures.

**Employee Recruitment, Retention and Human Error**

Recruiting and retaining qualified personnel is critical to Pan American's success. Pan American is dependent on the services of key executives including the Company's President and Chief Executive Officer and other highly skilled and experienced executives and personnel focused on managing Pan American's interests. The



number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Pan American's business activity grows, Pan American will require additional key financial, administrative and mining personnel as well as additional operations staff. There can be no assurance that Pan American will be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases. If Pan American is not successful in attracting, training and retaining qualified personnel, the efficiency of its operations could be impaired, which could have an adverse impact on Pan American's future cash flows, earnings, results of operations and financial condition.

Despite efforts to attract and retain qualified personnel, as well as the retention of qualified consultants, to manage Pan American's

interests, even when those efforts are successful, people are fallible and human error could result in significant uninsured losses to Pan American. These could include loss or forfeiture of mineral claims or other assets for non-payment of fees or taxes, significant tax liabilities in connection with any tax planning effort Pan American might undertake and legal claims for errors or mistakes by Pan American personnel.

**Employee Relations**

Certain of Pan American's employees and the employees of Peruvian mining contractors indirectly employed by Pan American are represented by unions. Pan American has experienced labour strikes and work stoppages in the past. There can be no assurance that Pan American will not experience future labour strikes or work stoppages.

**Title to Assets**

The validity of mining or exploration titles or claims or rights, which constitute most of Pan American's property holdings, can be uncertain and may be contested. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining titles or claims and that such exploration and mining titles or claims will not be challenged or impugned by third parties. Pan American operates in countries with developing mining laws and changes in such laws could materially impact Pan American's rights to its various properties or interests therein.

Although Pan American has received title opinions for those material properties in which it has a material interest (or if it has not been able to obtain such opinions, has made a determination, which Pan American believes is reasonable in the circumstances, to accept the risks associated with the subject property), there is no guarantee that title to such properties will not be challenged or impugned. Pan American has not conducted surveys of all the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. Pan American's properties may be subject to prior unregistered liens, agreements or transfers, native land claims or undetected title defects. Although Pan American may update its title opinions from time to time in connection with corporate activities such as financings or acquisitions, it does not update all of its title opinions regularly. As such, circumstances and facts may change such that some or all of Pan American's previously obtained title opinions may be inaccurate or outdated.

In many jurisdictions in which Pan American operates, legal rights applicable to mining concessions are different and separate from legal rights applicable to surface lands; accordingly, title holders of mining concessions in many jurisdictions must agree with surface land owners on compensation in respect of mining activities conducted on such land. Pan American has not held ownership title to most of the surface lands in the areas that overlie its mining concessions comprising the Morococha property, nor in the areas where administration and operations are taking place therein, but were used by Pan American pursuant to a usufruct agreement. In May 2008, MCP (promoter of the Toromocho disseminated copper system) acquired certain surface rights from Centromin (currently, Activos Mineros S.A.) covering the main Morococha area that had been reserved for the Toromocho project by the Government of Peru. In addition, MCP acquired rights including surface lands in the Morococha area where the Morococha mine administration and operations are taking place, as well as certain underground areas. Certain of the underground areas acquired by MCP would also provide Pan American with easier and less costly underground access to some areas of the Morococha concessions.



Beginning in 2005, Pan American, with the opposition of Centromin, engaged in a number of administrative and judicial proceedings to obtain legal title to surface lands and underground access that comprise part of the rights that were acquired by Peru Copper from Centromin.

In June 2010, Pan American reached an agreement with MCP which clearly defines each party's long term surface rights and therefore provides certainty to the land situation for Pan American's Morococha mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP's Toromocho copper project. Under the terms of the agreement, Argentum will relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP that it needs in order to proceed with the development of the Toromocho project, including the surface lands within the planned open pit mining area of the Toromocho project. In exchange, Argentum will receive a package of surface rights, easements and other rights to relocate the facilities and to continue uninterrupted operations, and will also obtain rights to a number of mineral concessions outside the planned Toromocho pit area where high-grade silver veins have been identified. Lastly, Argentum will receive periodic cash payments from MCP totalling $40 million, which will off-set a portion of the capital required for the facility relocation. The transfer of lands and rights and the cash payments will occur over a period of time in accordance with meeting certain milestones. In addition to the foregoing, the parties agreed to dismiss the judicial and administrative claims between them. Although this agreement has diminished the risks associated with the Morococha land situation, there is no certainty that the required milestones will be met, that the relationship will continue in an amicable fashion and that the future relocation and other costs associated with the commitments in the agreement will not render continued operations at the Morococha mine uneconomic.

Pan American acquired its interest in the Manantial Espejo project on the understanding that while strict compliance with the mining law had not occurred, prior owners had reached an agreement with the mining authorities to bring the property, to the extent possible under existing law, into compliance. With respect to the required minimum expenditure threshold originally applicable to Barrick Gold Corp.'s operations at Manantial Espejo, Pan American was able to secure a different expenditure threshold with the Argentine government. Until recently, although Pan American had always complied with the terms of this agreement, it could never be certain that the original non-compliance of previous owners would not impair title to the properties. On March 23, 2006 the Argentine government approved the Environmental Impact Statement submitted to it by Pan American, effectively authorizing construction of the mine. There can be no guarantee that this approval waives a significant amount of uncertainty and confirms that the government recognizes and will abide by Pan American's title to the properties.

**Acquisitions**

An element of Pan American's business strategy is to make selected acquisitions. For example, Pan American completed the acquisition of Corner Bay Silver Inc. and with it, the Alamo Dorado mine, in February 2003, the acquisition of Argentum and the Morococha mine in August 2004, the acquisition from Silver Standard Resources Inc. in 2006 of a 50% interest in the Manantial Espejo project, in May 2007 an additional 40% interest in respect of the San Vicente mine, and the acquisition of Aquiline and the Navidad and Calcatreu properties in January 2010. Pan American has also recently made a proposal to acquire Minefinders pursuant to a plan of arrangement, which is more fully

described herein under the heading “Outlook for 2012”. Pan American expects to continue to evaluate acquisition opportunities on a regular basis and intends to pursue those opportunities that it believes are in its long-term best interests. The success of Pan American’s acquisitions will depend upon Pan American’s ability to effectively manage the integration and operations of entities it acquires and to realize other anticipated benefits. The process of managing acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management resources. There can be no assurance that Pan American will be able to successfully manage the integration and operations of businesses it acquires or that the anticipated benefits of its acquisitions will be realized.



**Competition for New Properties**

The mining industry is exceptionally competitive, particularly with respect to properties that produce, or are capable of producing, silver, gold and other metals. Mines have limited lives and, as a result, Pan American continually seeks to replace and expand reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where Pan American would consider conducting exploration and/or production activities. Because the Company faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does, Pan American may be unable to acquire attractive new mining properties on terms that it considers acceptable. Competition for resources at all levels is intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Competition in the mining business for limited sources of capital could adversely impact Pan American’s ability to acquire and develop suitable silver mines, silver developmental projects, silver producing companies or properties having significant exploration potential. As a result, there can be no assurance that Pan American’s acquisition and exploration programs will yield new Mineral Reserves to replace or expand current Mineral Reserves.

**Shortages of Critical Parts, Equipment and Skilled Labour**

Pan American’s ability to acquire critical resources such as input commodities, drilling equipment, tires and skilled labour due to increased worldwide demand, may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and production schedules.

**Developments regarding Aboriginal and Indigenous Peoples**

Pan American operates in areas inhabited by aboriginal and indigenous peoples and by local community. Developing laws and movements respecting the acquisition of lands and other rights from such people and communities may alter decades old arrangements or agreements made by prior owners of Pan American’s mines and properties or even those made by Pan American in more recent years. There can be no guarantee that Pan American has entered into all agreements with aboriginal and indigenous people and with local communities in accordance with the laws governing aboriginal and indigenous peoples and local communities or that future laws and actions will not have a material adverse effect on Pan American’s rights to explore or mine, or its financial position, cash flow and results of operations. Furthermore, it is not uncommon for local communities and aboriginal and indigenous peoples to challenge agreements or arrangements previously entered into for various reasons. If Pan American cannot maintain an agreement with aboriginal or indigenous peoples or with the communities within which it operates, there may be significant disruptions in its operations and activities, or it may be unable to operate at all in such areas.

**Community Action**

In recent years communities and non-governmental organizations (“NGOs”) have become more vocal and active with respect to mining activities at or near their communities. These communities and NGOs have taken such actions as road closures, work stoppages, and law suits for damages. These actions relate not only to current activities but often in respect of decades old mining activities by prior owners of mining properties. Such actions by communities and NGOs may have a material adverse effect on Pan American’s financial position, cash flow and results of operations or may force the cessation of mining activities altogether.

**Internal Control over Financial Reporting**

The Company documented and tested during its most recent fiscal year its internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act (“SOX”). SOX requires an annual assessment by management and an independent assessment by the Company’s independent auditors of the effectiveness of the Company’s internal control over financial reporting. The Company may fail to achieve and maintain the adequacy of its internal control over financial reporting as such standards are modified, supplemented, or amended from time to time, and the Company may not be able to ensure that it can conclude



on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of SOX. The Company’s failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Company’s business and negatively impact the trading price of its common shares or market value of its other securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company’s operating results or cause it to fail to meet its reporting obligations. There can be no assurance that the Company will be able to remediate material weaknesses, if any, identified in future periods, or maintain all of the controls necessary for continued compliance, and there can be no assurance that the Company will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies. Future acquisitions of companies may provide the Company with challenges in implementing the required processes, procedures and controls in its acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities laws currently applicable to the Company.

No evaluation can provide complete assurance that the Company’s internal control over financial reporting will detect or uncover all

failures of persons within the Company to disclose material information otherwise required to be reported. The effectiveness of the Company's control and procedures could also be limited by simple errors or faulty judgments. In addition, as the Company continues to expand, the challenges involved in implementing appropriate internal control over financial reporting will increase and will require that the Company continue to improve its internal control over financial reporting. Although the Company intends to devote substantial time and incur costs, as necessary, to ensure ongoing compliance, the Company cannot be certain that it will be successful in complying with Section 404 of SOX.

**Claims and Legal Proceedings**

Pan American is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Many of these claims relate to current or ex-employees, some of which involve claims of significant value, for matters ranging from workplace illnesses such as silicosis to claims for additional profit-sharing and bonuses in prior years. Furthermore, Pan American is in some cases the subject of claims by local communities, indigenous groups or private land owners relating to land and mineral rights and such claimants may seek sizeable monetary damages against Pan American and/or the return of surface or mineral rights that are valuable to Pan American and which may impact Pan American's operations and profitability if lost. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavourably to Pan American. Pan American carries liability insurance coverage and establishes provisions for matters that are probable and can be reasonably estimated. In addition, Pan American may be involved in disputes with other parties in the future that may result in litigation, which may result in a material adverse impact on Pan American's financial position, cash flow and results of operations.



## DIRECTORS AND EXECUTIVE OFFICERS

The names and municipalities of residences of the directors and executive officers of the Company as at December 31, 2011, the positions held by them with the Company and their principal occupations for the past five years are set forth below:

| Name and Municipality of Residence | Position with the Company | Principal Occupation During the Past Five Years |
|---|---|---|
| ROSS J. BEATY(5)<br>Vancouver, B.C.<br>Canada | Director and Chairman (director of the Company since September 30, 1988) | Chairman of the Company since April 1994; former Chief Executive Officer of the Company. |
| GEOFFREY A. BURNS (4),(5)<br>North Vancouver, B.C.<br>Canada | Director, President and Chief Executive Officer (director of the Company since July 1, 2003) | President of the Company since July 1, 2003, Chief Executive Officer of the Company since May 11, 2004. |
| MICHAEL CARROLL(1),(5)<br>Walnut Creek, California, U.S.A. | Director of the Company since January 1, 2011 | Corporate Director |
| WILLIAM A. FLECKENSTEIN (3),(6),(7)<br>Seattle, Washington, U.S.A. | Director of the Company since May 9, 1997 | President of Fleckenstein Capital, Inc. (an investment counselling firm). |
| MICHAEL J.J. MALONEY (1),(2),(3)<br>Seattle, Washington, U.S.A. | Director of the Company from Sept. 25, 1995 to Nov. 29, 1999 and then re-elected on March 2, 2000 | Private Investor |
| ROBERT P. PIROOZ<br>Vancouver, B.C.<br>Canada | Director, General Counsel (director of the Company since April 30, 2007) | General Counsel since January 2003. |
| DAVID PRESS(1),(2),(4)<br>West Vancouver, B.C.<br>Canada | Director of the Company since May 13, 2008 | Corporate Director |
| WALTER T. SEGSWORTH(2), (4),(7)<br>West Vancouver, B.C.<br>Canada | Director of the Company since May 12, 2009 | Corporate Director |
| STEVEN BUSBY<br>Vancouver, B.C.<br>Canada | Chief Operating Officer | Chief Operating Officer since May 13, 2008; Senior Vice President, Project Development & Technical Services of the Company from August 2003 to May 13, 2008. |
| A. ROBERT DOYLE<br>North Vancouver, B.C.<br>Canada | Chief Financial Officer | Chief Financial Officer of the Company since January 2004. |



| Name and Municipality of Residence | Position with the Company | Principal Occupation During the Past Five Years |
|---|---|---|

| | | |
|---|---|---|
| MICHAEL STEINMANN<br>North Vancouver, B.C.<br>Canada | Executive Vice President, Geology & Exploration | Executive Vice President, Geology & Exploration since September 1, 2008; Senior Vice President, Geology & Exploration of the Company from November 2005 to August 2008. |

Notes:
(1) Member of the Audit Committee.
(2) Member of the Human Resources and Compensation Committee.
(3) Member of the Nominating and Governance Committee.
(4) Member of the Health, Safety and Environment Committee.
(5) Member of the Finance Committee.
(6) Mr. Fleckenstein resigned from the board effective midnight, December 31, 2011, and was replaced by Christopher Noel Dunn effective January 1, 2012. At the same time, Mr. Dunn became a member of the Human Resources and Compensation Committee (replacing Mr. Maloney) and Nominating and Governance Committee, and became Chair of the Finance Committee.
(7) Mr. Fleckenstein was the Company's Lead Independent Director until his resignation on December 31, 2011. Mr. Segsworth became Lead Independent Director effective January 1, 2012.

The directors of the Company are elected at each annual general meeting to hold office until the next annual general meeting or until their successors are elected or appointed. As at December 31, 2011, the board consisted of eight directors six of whom, Ross J. Beaty, William A. Fleckenstein, Michael Carroll, Michael J.J. Maloney, David Press and Walter Segsworth, qualify as unrelated directors who are independent of management. On January 1, 2012, Christopher Noel Dunn was appointed to the board of directors of the Company to replace William Fleckenstein who resigned from the board effective midnight, December 31, 2011. Mr. Dunn is an independent director. The board has established five committees: the Audit Committee, the Human Resources and Compensation Committee, the Health, Safety and Environment Committee, the Nominating and Governance Committee and the Finance Committee. Detailed information regarding the duties and obligations of the Audit Committee is annexed as Appendix "A" to this Annual Information Form. The board does not have an Executive Committee. The composition of the various committees as at December 31, 2011 is set forth in the preceding table.

As at March 19, 2011, the directors and officers of the Company named above (excluding Mr. Fleckenstein and including Mr. Dunn) as a group exercised control or direction or beneficially owned, directly or indirectly, 1,981,540 common shares of the Company representing approximately 1.9% of the issued and outstanding common shares of the Company.

Except as noted below, none of the Company's directors or executive officers:

(a) are, as at the date of this Annual Information Form, or have been, within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Company) that,

(i) was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or

(ii) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;



(b) are, as at the date of this Annual Information Form, or has been within 10 years before the date of this Annual Information Form, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(c) have, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Robert Pirooz was formerly a director of Pacific Ballet British Columbia Society (the "Ballet"). On December 23, 2008, within a year following Mr. Pirooz's resignation from the board of directors of the Ballet, the Ballet filed a Notice of Intention to Make a Proposal under subsection 50.4(1) of the *Bankruptcy and Insolvency Act*. Subsequently, on January 9, 2009, the proposal was unanimously accepted by the creditors of the Ballet.

In addition, none of the Company's directors and executive officers has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a nominee as director.

**Audit Committee**

As at December 31, 2011, the members of the Audit Committee were Michael Carroll (Chair), Michael J. J. Maloney, and David Press.

Effective January 1, 2011, Mr. Carroll replaced Mr. Larson on the Audit Committee. The board of directors has determined based on the information provided by each director that all members of the Audit Committee meet the independence requirements set out in National Instrument 52-110 — *Audit Committees*, and as defined under the rules and regulations of the Nasdaq Stock Market. All members of the Audit Committee are financially literate and Michael Carroll, an individual serving on the audit committee of the board of directors, is an audit committee financial expert, as that term is defined in General Instruction B(8)(b) of Form 40-F.

The Securities and Exchange Commission has indicated that the designation of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liabilities on such person that are greater than those imposed on members of the audit committee and the board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee or board of directors.

***Relevant Education and Experience of Audit Committee Members***

The relevant education and experience of each member of the Audit Committee that is relevant to the performance of the Audit Committee responsibilities are as follows:

**Michael L. Carroll (Chair)** is a Certified Public Accountant with over 30 years of financial management expertise, primarily with publicly traded mining companies and has previously served on the audit committee of another public company.

**Michael J.J. Maloney** holds a Bachelor of Science degree from the University of California, Berkeley and a J.D. from Hastings College, University of California at San Francisco, and has approximately 40 years of experience as an officer of a company.



**David Press** is a mining engineer with almost 40 years of diversified experience in the mining industry, including the evaluation and investigation efforts for potential acquisitions. Mr. Press graduated from Nottingham University with an honours degree in mining engineering in 1967.

***External Auditor Service Fees***

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants for the fiscal years ended December 31, 2010 and 2011 for professional services rendered by Deloitte & Touche LLP for the audit of the Company's annual financial statements or services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements for such years were $1,520,000 and $1,760,000, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2010 and 2011 for assurance and related services rendered by it that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported above as audit fees were $193,000 and $421,000, respectively. Such fees relate to the performance of certain due diligence on acquisitions, review of various securities filings including pro forma financial statements and a statutory audit of Pan American Silver (Spain) S.L, as well as fees related to the IFRS transition process.

Tax Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2010 and 2011 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were $47,000 and $22,000, respectively. Such fees relate to taxation services related to the Aquiline acquisition and services related to transfer pricing in Peru.

All Other Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2010 and 2011 for products and services provided by Deloitte & Touche LLP, other than the services reported in the preceding three paragraphs, were NIL and $12,000, respectively.

Audit Committee Pre-Approval Policies

Since the enactment of SOX on July 30, 2002, all audit and non-audit services performed by the external auditor are pre-approved by the Audit Committee.

***Conflicts of Interest***

Certain officers and directors of the Company are officers and/or directors of, or are associated with, other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. However, the directors are required by law to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

## EXCEPTIONS FROM NASDAQ CORPORATE GOVERNANCE REQUIREMENTS

Under Rule 4350(a) of the Nasdaq Stock Market Rules (the "Nasdaq Rules"), a foreign private issuer (as defined in Rule 12b-2 under the U.S. Securities Exchange Act of 1934, as amended) may follow its home country practice in lieu of certain of the corporate governance requirements of the Nasdaq Rules. Pursuant to Rule 4350(a), the Company follows British Columbia practice with respect to quorum requirements in lieu of Nasdaq Rule 4350(f).

Nasdaq Rule 4350(f) requires that the minimum quorum for a shareholder meeting is 33-1/3% of the outstanding common shares, whereas the Company's articles provide that the minimum quorum for a meeting of the holders of its common shares is two individuals who are shareholders, proxy holders representing shareholders or duly authorized representatives of corporate shareholders personally present and representing shares aggregating not less than 25% of the issued shares of the Company carrying the right to vote at that meeting. In the event there is only one shareholder, the quorum is one person personally present and being, or representing by proxy, that shareholder, or in the case of a corporate shareholder, a duly authorized representative of that shareholder. The Company's quorum requirement complies with the *Business Corporations Act* (British Columbia), which requires that unless the memorandum or articles otherwise provide, two shareholders entitled to vote at a meeting of shareholders, whether in person or represented by proxy, constitute a quorum. Furthermore, the rules of the Toronto Stock Exchange, upon which the Company's common shares are also listed, do not contain specific quorum requirements.

## DIVIDENDS

On February 15, 2010, the Company announced that its Board of Directors had approved a semi-annual cash dividend to holders of its common shares. In conjunction with this approval, the Board declared its first cash dividend of $0.025 per common share to holders of record of its common shares as of the close of business on February 26, 2010. The Company approved further dividends of $0.025 per common share on August 11 and November 8, 2010 and on February 15, August 10, and November 8, 2011. On February 22, 2012, the Company announced its first dividend of the year and increased the amount of that dividend to $0.0375 per common share. Each of these dividends was designated to be an eligible dividend for the purposes of the *Income Tax Act* (Canada). Specific dates and amounts of future dividends will be determined by the Board on an ongoing basis. The Board will consider, among other things, present economic conditions and the then current activities of Pan American when determining the amount and timing of future dividends.



## MARKET FOR SECURITIES

The Company's common shares are listed and posted for trading on the Toronto Stock Exchange (under the symbol PAA) and the Nasdaq stock market (under the symbol PAAS). The majority of trading of Pan American's common shares takes place on the Nasdaq exchange. The following table outlines the closing share price trading range and volume of shares traded by month in 2011:

| Toronto Stock Exchange (C$) | | | | Nasdaq Stock Market (US$) | | | |
|---|---|---|---|---|---|---|---|
| Month | High | Low | Volume | Month | High | Low | Volume |
| January | $ 40.14 | $ 30.66 | 6,737,622 | January | $ 40.75 | $ 31.28 | 39,817,608 |
| February | $ 40.52 | $ 32.97 | 6,430,878 | February | $ 39.10 | $ 33.96 | 36,819,424 |
| March | $ 39.39 | $ 32.50 | 7,867,391 | March | $ 39.90 | $ 33.64 | 44,669,043 |
| April | $ 41.20 | $ 33.33 | 9,767,317 | April | $ 42.65 | $ 35.59 | 65,761,836 |
| May | $ 34.07 | $ 30.33 | 5,896,900 | May | $ 34.53 | $ 32.07 | 40,641,817 |
| June | $ 33.08 | $ 27.08 | 4,895,796 | June | $ 33.16 | $ 27.95 | 30,967,766 |
| July | $ 32.71 | $ 28.82 | 3,961,374 | July | $ 33.96 | $ 30.18 | 23,940,669 |
| August | $ 32.73 | $ 26.23 | 7,870,681 | August | $ 32.79 | $ 27.66 | 34,698,071 |
| September | $ 34.26 | $ 27.00 | 6,678,057 | September | $ 34.15 | $ 26.54 | 26,521,549 |
| October | $ 30.83 | $ 25.78 | 5,641,213 | October | $ 29.74 | $ 25.28 | 24,468,270 |
| November | $ 31.20 | $ 23.93 | 5,503,968 | November | $ 30.27 | $ 23.46 | 22,751,871 |
| December | $ 26.82 | $ 20.44 | 6,239,916 | December | $ 25.48 | $ 20.40 | 22,663,383 |

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

A description of certain legal proceedings to which the Company is a party appear under the heading "Commitments and Contingencies" in Note 21 to the Company's consolidated financial statements for the year ended December 31, 2011, which note is incorporated by reference.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the best of the Company's knowledge, there were no directors or executive officers or any associate or affiliate of a director or executive officer with a material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

## TRANSFER AGENTS AND REGISTRAR

The transfer agent and registrar for the common shares of the Company is Computershare Investor Services Inc. at its principal office in Vancouver, British Columbia, and Computershare Trust Company, N. A. at its office in Denver, Colorado, USA.



## MATERIAL CONTRACTS

No contracts, other than material contracts entered into in the ordinary course of business, that are material to the Company were entered into during the most recently completed financial year.

## INTERESTS OF EXPERTS

Deloitte & Touche LLP, Chartered Accountants, are the auditors of the Company and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and have prepared the Report of Independent Registered Chartered Accountants in respect of the Company's audited consolidated financial statements and the Report of Independent Registered Chartered Accountants in respect of internal control over financial reporting.

The qualified persons as defined by NI 43-101 who have prepared or supervised the preparation of Pan American's Mineral Reserve and Mineral Resource estimates as at December 31, 2011 and who supervised the preparation of and approved the scientific and technical information and disclosed in this Annual Information Form are Michael Steinmann, Executive Vice President, Geology and Exploration, Martin Wafforn, Vice President, Technical Services, and Pamela De Mark, Director of Resources, who are employees of the Company.

Michael Steinmann, P. Geo., Martin Wafforn, P. Eng., and Pamela De Mark, P. Geo. are the companies or persons who have prepared or certified a statement, report or valuation described in this Annual Information Form.

None of Michael Steinmann, P. Geo., Martin Wafforn, P. Eng., and Pamela De Mark, P. Geo., beneficially owns, directly or indirectly, 1% or more of any class of the Company's outstanding securities.

## ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for the most recent annual meeting of shareholders. Additional financial information is also provided in the Company's Audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010, and Management's Discussion and Analysis. Additional information relating to the Company may be found on SEDAR at www.sedar.com.



## GLOSSARY OF TERMS

*"Mineral Resource"* - A Mineral Resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

"*Inferred Mineral Resource*" — That part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological grade and continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

"*Indicated Mineral Resource*" — That part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

*"Measured Mineral Resource"* — That part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

"*Mineral Reserve*" — A Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

*"Probable Mineral Reserve"* - is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

*"Proven Mineral Reserve"* - is the economically mineable part of a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

**APPENDIX "A"**

**PAN AMERICAN SILVER CORP.**
**(the "Company")**

**AUDIT COMMITTEE CHARTER**

**MISSION**

Senior management of Pan American Silver Corp. (the "Company"), as overseen by its Board of Directors (the "Board"), has primary responsibility for the Company's financial reporting, accounting systems and internal controls. The Audit Committee (the "Committee") is a standing committee of the Board established for the purposes of: (i) overseeing the integrity of the Company's financial statements and accounting processes of the Company; and (ii) overseeing the external auditor's qualifications and independence. The external auditors of the Company will report directly to the Committee.

**COMPOSITION AND MEETINGS**

1. The Committee shall be composed of at least three independent directors.(1)

2. All members of the Committee shall, to the satisfaction of the Board, be Financially Literate and at least one member will be a Committee Financial Expert ("Financially Literate" and "Committee Financial Expert" are defined in the Definitions section of this Charter).

3. The members of the Committee shall be appointed by the Board, based on the recommendation of the Nominating and Governance Committee, to serve one year terms and are permitted to serve an unlimited number of consecutive terms.

4. The Committee shall appoint a chair (the "Chair") from among its members who shall be an unrelated director.

5. The Committee will make every effort to meet at least four times per year and each member is entitled to request that an additional meeting be called, which will be held within one week of the request for such meeting. A quorum at meetings of the Committee shall be two members.

6. The external auditor may request the Chair to call a meeting of the Committee to consider any matter that the auditor believes should be brought to the attention of the directors or the shareholders of the Company.

7. The Committee will make every effort to ensure that minutes of the Committee meetings be distributed to all members of the Committee with copies to the chief financial officer and the external auditor.

(1) In order to be considered "independent", the following applies:

(a) Pursuant to the Canadian Securities Administrators' Multilateral Instrument 52-110 "Audit Committees", a member of the Committee must not have a direct or indirect material relationship with the Company. A "material relationship" is a relationship which could, in the view of the Company's Board, be reasonably expected to interfere with the exercise of a member's independent judgment.

(b) Pursuant to United States securities laws, a member of the Committee may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries; nor be an affiliated person, as such term is defined in Rule 10A-3 of the Securities and Exchange Act of 1934, of the Company or any of its subsidiaries.



**RESPONSIBILITIES**

**Charter**

The Committee will review this Charter periodically, but at least once per annum, and recommend to the Board any necessary amendments.

**Financial Information**

The Committee will review and discuss with the external auditors:

1. the audited annual financial statements, and recommend to the Board they be approved for inclusion in the Company's annual report;

2. interim financial statements, and the notes related thereto, and recommend to the Board they be approved for inclusion in the Company's quarterly financial release;

3. other financial information included in the Company's annual report;

4. quarterly and annual Management Discussion and Analysis;

5. the annual and interim earnings press releases before the Company publicly discloses the information contained therein;

6. any press release to be publicly disseminated which contains material information of a financial nature; and

7. the Annual Information Form.

**External Auditors**

1. The Committee will recommend to the Board the external auditor to be nominated for appointment by shareholders at each annual general meeting of the Company.

2. The Committee will review the performance of the external auditor and, where appropriate, recommend to the Board the removal of the external auditor.

3. The Committee will confirm the independence and effectiveness of the external auditor, which will require receipt from the external auditor of a formal written statement delineating all relationships between the auditor and the Company and any other factors that might affect the independence of the auditor.

4. The external Auditor will report directly to the Audit Committee.

5. The Committee will oversee the work of the external auditor generally, and review and report to the Board on the planning and results of external audit work, including:

   (a) the external auditor's engagement letter or other reports of the auditor;
   (b) the reasonableness of the estimated fees and other compensation to be paid to the external auditor;
   (c) the form and content of the quarterly and annual audit report, which should include, *inter alia*:
      (i) a summary of the Company's internal controls and procedures;
      (ii) any material issues raised in the most recent meeting of the Committee;
   (d) any other related audit, review or attestation services performed for the Company by the external auditors; and



   (e) an assessment of the external auditor's performance.

6. The Committee will actively engage in dialogue with the external auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the external auditor and take, or recommend the Board take, appropriate actions to oversee the independence of the external auditor.

7. The Committee will review and pre-approve all non-audit services provided to the Company or its subsidiaries by the external auditor prior to the commencement of such services. Pre-approval of non-audit services will be satisfied only if the requirements as set out in National Instrument 52-110 "Audit Committees" are satisfied.

8. The Committee will monitor the relationship between management and the external auditor and resolve any disagreements between them regarding financial reporting.

**Accounting System and Internal Controls**

The Committee will:

1. obtain reasonable assurance from discussions with (and/or reports from) management, and reports from external and internal auditors that the Company's financial and accounting systems are reliable and that the prescribed internal controls are operating effectively;

2. in consultation with the external auditor and the Disclosure Committee of the Board, review the integrity of the Company's financial reporting process and the internal control structure;

3. review the acceptability of the Company's accounting principles and direct the auditors' examinations to particular areas of question or concern, as required;

4. request the auditors to undertake special examinations (e.g., review compliance with conflict of interest policies);

5. together with management, review control weaknesses identified by the external and internal auditors; and

6. review the appointments of the chief financial officer and key financial executives.

**Internal Audit**

The Committee will:

1. review activities, organization structure and qualifications of the internal audit function;

2. review the resources, budget, reporting relationships and planned activities of the internal audit function;

3. review internal audit findings and determine that they are being properly followed up;

4. annually review and recommend changes, if any, to the internal audit procedures; and

5. review with the Company's legal counsel any legal matter that could have a significant impact on the Company's financial statements.

**Ethical and Legal Responsibilities**

1. The Committee will review and monitor the Company's compliance with applicable legal and regulatory requirements, particularly those related to financial reporting and disclosure.



2. The Committee will review all related-party transactions.

**Complaints**

The Committee will establish procedures for:

1. the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

2. the confidential, anonymous submission by employees of the Company and its subsidiaries of similar concerns.

**AUTHORITY**

1. The Committee shall have the authority to:

   (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
   (b) set and pay the compensation for any advisors employed by the Committee; and
   (c) communicate directly with the internal and external auditors.

2. The Committee shall have the power, authority and discretion delegated to it by the Board which shall not include the power to change the membership of or fill vacancies in the Committee.

3. A resolution approved in writing by the members of the Committee shall be valid and effective as if it had been passed at a duly called meeting. Such resolution shall be filed with the minutes of the proceedings of the Committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.

4. The Board shall have the power at any time to revoke or override the authority given to or acts done by the Committee except as to acts done before such revocation or act of overriding and to terminate the appointment or change the membership of the Committee or fill vacancies in it as it shall see fit.

5. The Committee shall have unrestricted and unfettered access to all Company personnel and documents and shall be provided with the resources necessary to carry out its responsibilities.

**DEFINITIONS**

Capitalized terms used in this Charter and not otherwise defined have the meaning attributed to them below:

"**Financially Literate**" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised in the Company's financial statements.

"**Committee Financial Expert**" means a person who has the following attributes:

(a) an understanding of generally accepted accounting principles and financial statements;

(b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level



of complexity of issues that can reasonably be expected to be raised in the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

(d) an understanding of internal controls and procedures for financial reporting; and

(e) an understanding of audit committee functions;

acquired through any one or more of the following:

(i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

(ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; or

(iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or other relevant experience.



**Management's Discussion and Analysis**
**for the Year Ended December 31, 2011**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 21, 2012

### INTRODUCTION

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Pan American Silver Corp.'s and its subsidiaries' ("Pan American" or the "Company") performance and such factors that may affect its future performance. The MD&A should be read in conjunction with the Company's Audited Consolidated Financial Statements for the year ended December 31, 2011 and the related notes contained therein. All amounts in this MD&A and in the consolidated financial statements are expressed in United States dollars ("USD"), unless identified otherwise. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Pan American's significant accounting policies are set out in Note 3 of the Audited Consolidated Financial Statements. This MD&A refers to various non-Generally Accepted Accounting Principles ("GAAP") measures, such as "cash and total cost per ounce of silver", which are used by the Company to manage and evaluate operating performance at each of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, detailed descriptions and reconciliations have been provided where applicable.

Except for historical information contained in this MD&A, the following disclosures are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 or are future oriented financial information and as such are based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note regarding the risks associated with forward looking statements at the back of this MD&A and the "Risks Related to Pan American's Business" contained in the Company's most recent Form 40-F and Annual Information Form on file with the U.S. Securities and Exchange Commission and the Canadian provincial securities regulatory authorities. Additional information about Pan American and its business activities, including its Annual Information Form, is available on SEDAR at www.sedar.com

The scientific or technical information in this MD&A, which includes mineral reserve and resource estimates for the Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo, San Vicente, Pico Machay, and Calcatreu properties were based upon information prepared by or under the supervision of Michael Steinmann, P.Geo., Executive Vice President Geology & Exploration and Martin G. Wafforn, P.Eng., Vice President Technical Services, who are "Qualified Persons" for purposes of National Instrument 43-101. Navidad resource estimates

were prepared by Pamela De Mark, P. Geo., Director, Resources who is also a Qualified Person for purposes of National Instrument 43-101. Mineral resource estimates for Hog Heaven and Waterloo are based on historical third party estimates.



The Company's 2012 forecast contained in this MD&A include estimates of future production rates for silver and other metals and future cash and total costs of production at each of the Company's properties, which are forward-looking estimates. These forecasts are based on the following key assumptions: (i) silver: $30.00 per ounce, gold: $1,600 per ounce, zinc: $1,900 per tonne ($0.86 per lb), lead: $2,000 per tonne ($0.91 per lb), and copper: $7,300 per tonne ($3.31 per lb); (ii) that the Company is able to ship and sell all of 2012 production in the 2012 financial year; (iii) the Company's forecast production for each individual mine is achieved; (iv) there is no disruption in production, unexpected increase in costs or disruption due to, among other things: natural phenomena and hazards; technological, mechanical or operational disruptions; changes in local governments, legislation, taxation or the political or economic environment; fluctuations in the price of silver, gold or base metals; fluctuations in the local currencies of those countries in which the Company carries on business; unexpected work stoppages or labour disputes; fluctuations in the price for electricity, natural gas, fuel oil, and other key supplies; or transportation disruptions.

No assurance can be given that the forecasted quantities of silver and other metals will be produced, or that projected cash costs or forecast capital costs will be achieved. Expected future production, cash costs and capital costs are inherently uncertain and could materially change over time. If actual results differ from the assumptions set out above, the Company's mineral production and cash costs may differ materially from the forecasts in this MD&A. Readers should review those matters discussed herein under the heading "Risks and Uncertainties" and are advised to read the "Cautionary Note Regarding Forward Looking statements" contained herein.

**CORE BUSINESS AND STRATEGY**

Pan American engages in silver mining and related activities, including exploration, mine development, extraction, processing, refining and reclamation. The Company owns and operates silver mines located in Peru, Mexico, Argentina, and Bolivia. In addition, the Company is exploring for new silver deposits throughout South America and Mexico. The Company is listed on the Toronto Stock Exchange (Symbol: PAA) and on the NASDAQ Exchange in New York (Symbol: PAAS).

Pan American was founded in 1994 with the specific intention of providing investors with the best investment opportunity to gain real exposure to silver prices. The Company's mission is to be the largest and lowest cost primary silver mining company globally. To realize this mission, Pan American's strategy is to focus on growing its base of low cost silver production and silver mineral reserves by constantly optimizing its production methods, and developing new silver deposits through acquisition and exploration.

To execute this strategy, Pan American has assembled a sector leading team of mining professionals with a depth of exploration, construction, operating, and financing knowledge that allows the Company to confidently advance early stage projects through construction and into operation.

Pan American is determined to conduct its business in a responsible and sustainable manner.



Being responsible for the environment in which we operate, contributing to the long-term development of our host communities and ensuring that our employees can work in a safe and secure manner are core values at Pan American . We are committed to maintaining positive relations with our employees, the local communities and the government agencies, all of whom we view as partners in our enterprise.

Pan American's priority at every operation is the safety of our employees. We believe that comprehensive and continuous training is fundamental to the safety of our employees. With our comprehensive safety training and strictly enforced safety procedures, our goal is to continually improve our safety performance and remain industry leaders in the health and safety of our workers.

In addition, the Company is committed to operating our mines and developing new projects in an environmentally responsible manner. We have developed a comprehensive environmental policy, which all operations adhere to and apply to their short and long-term plans. This policy addresses topics that include water use and recycling, waste disposition, the research and use of alternative energies, compliance with required laws, closure requirements and education initiatives. Each operation runs unique environmental programs according to its location, needs, resources and processes. We have a proactive approach to minimizing and mitigating environmental impacts during all phases of the mining cycle from exploration through project development and into full mining operations. This is accomplished by applying prudent design and operating practices, continuous monitoring and by providing training and education for the employees and contractors who work at our facilities.

The Company recognizes that the skills and dedication of our employees and contractors are important drivers of our success. We also recognize the vital contribution they make to the economic prosperity of the communities in which we operate. As such, we offer leading career development opportunities, competitive remuneration, an engaging working environment and a supportive culture where fairness, respect, safety and diversity are valued and practiced.

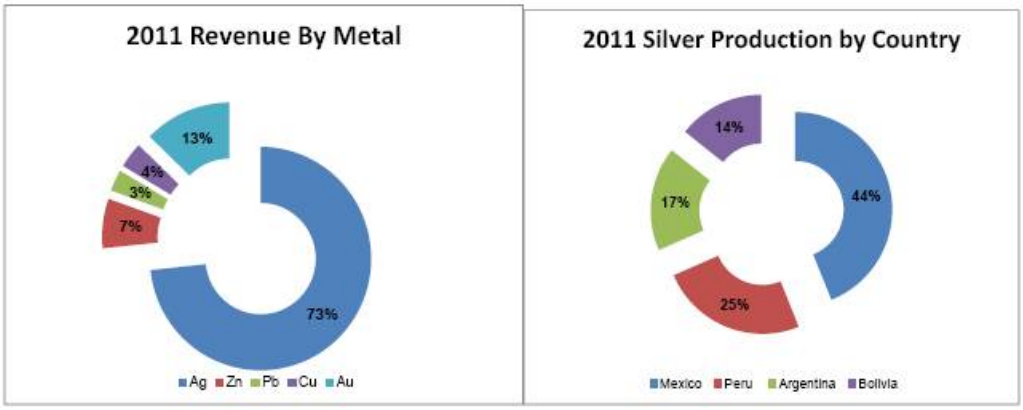
Pan American's operational track record and strong financial standing has positioned the Company to take full advantage of strategic opportunities in the silver market, as they arise. As such, on January 23, 2012 the Company and Minefinders Corporation Ltd. (TSX: MFL; NYSE/AMEX: MFN) ("Minefinders") announced that they had entered into a definitive agreement pursuant to which Pan American will acquire all of the issued and outstanding common shares of Minefinders by way of a plan of arrangement. This transaction, upon successful completion, creates the leading, growth-oriented, geographically-diversified silver producer with a combined market capitalization of approximately $4 billion as measured at the announcement date, an exceptional growth profile, and enhanced portfolio diversification. Assuming the Company receives

shareholder approval at the meetings to be held on March 26, 2012, the Company expects to close this transaction by the end of March. Please refer to the “Minefinders Transaction” section for more details.

Pan American has seven operating mines and also own s the world class Navidad silver development project in Argentina, and is the operator of the La Preciosa project in Mexico - a considerable portfolio of quality silver assets providing diversification of political and operational risk. Pan American also produces significant quantities of gold and base metals as by-products to its silver mining activities. The following charts reflect the geographic diversity of our silver



production and the breakdown of our revenue, by metal type, for 2011. Mexico accounted for 44% of the Company’s silver production , while silver and gold combined to make up 86% of the Companies consolidated revenue for 2011.




**HIGHLIGHTS OF 2011**

**OPERATIONS & PROJECT DEVELOPMENT**

· ***Silver Production***

Silver production was 21.9 million ounces in 201 1, a decrease of 10% over the record production of 24.3 million ounces in 2010. This decrease was mainly attributable to operational challenges at our Peruvian operations, where silver production declined by a combined 1.5 million ounces, in addition to lower silver grades at Alamo Dorado , where 5.3 million ounces was produced compared to 6.7 million ounces in 2010.

· ***Navidad Project Update***

The Company significantly advanced the technical studies and continued its corporate social responsibility efforts during 2011, spending approximately $51 million. The Company conducted resource modeling and mine planning, inclusive of 37 kilometers of infill and step-out drilling, and advanced the basic engineering in support of a feasibility study and environmental impact assessment, both of which are ready for finalization upon the positive announcement of a change in the laws in Chubut, Argentina to allow for open pit mining. The 2011 expenditures also included certain long lead time equipment purchases as well as an investment in securing additional surface land rights. The Company continued to make investments in the local communities that will enable integration of the project and have purchased long-lead time crushing and grinding equipment.

· ***La Preciosa Update***

On August 11, 2011, the Company released a positive Preliminary Economic Analysis (“PEA”) for the La Preciosa project. The PEA estimates average annual production of 6.8 million ounces of silver and 11,800 ounces of gold at a cash cost of $11.84 per ounce of silver, net of by-product credits for a twelve year life.



The 100% basis after-tax net present value at a 5% discount rate is expected to be $315 million with a project IRR of 24.3% (assuming prices of $25 per ounce for silver and $1,250 per ounce for gold).

· ***Robust Proven and Probable Silver Mineral Reserves***

A successful exploration and resource conversion program in 20 11 more than replaced mineral reserves that were mined during the year. As at December 31, 2011, Proven and Probable mineral reserves totaled 235.3 million ounces. For the complete breakdown of mineral reserves and resources by property and category, refer to section “Mineral Reserves and Resources” contained herein.

**FINANCIAL**

· ***Record Revenue***

Annual revenue in 2011 was a record $855.3 million, an increase of 32% over 2010 revenue, driven primarily by higher realized prices for all metals, partially offset by decreased quantities of all metals sold.

· ***Record Mine Operating Earnings***

Mine operating earnings in 2011 increased to a record $409.1 million, an increase of 70% over the prior year, as growth in revenue noted above significantly outweighed increases in cost of sales.

· ***Record Operating Cash Flow***

Cash flow from operations was at a record $359.5 million, a 48% increase from 2010. The additional operating cash flow was mainly attributable to increased cash flow from both operations in Mexico, Alamo Dorado and La Colorada, as well as Manantial Espejo, which combined to generate $250.5 million.

· ***Record Liquidity and Working Capital Position***

The Company had a record cash and short term investment balance of $491.2 million and a working capital position at a record $566.4 million at December 31, 2011, an increase of $130.7 million and $136.5 million, respectively, from a year ago.

· ***Record Net Earnings and Adjusted Net Earnings***

The Company had record net earnings of $354.1 million and after adjusting for the derivative mark to market gain on its warrants, the adjusted earnings were also a record at $252.3 million compared to 2010 figures of $15.7 million and $106.4 million, respectively. Please refer to the section, “Alternative Performance Measures”, of this MD&A for description of this measure.

· ***Returning Value to Shareholders***

Driven by the record operating cash flows described above, the Company announced its intention to purchase up to approximately 5.4 million of its common shares under a normal course issuer bid, representing up to 5% of Pan American’s issued and outstanding shares on August 26, 2011. The Company commenced this share buy-back program during Q3



2011 and as at the date of this MD&A has purchased approximately 3.6 million shares at an average price of $ 26.20 for a total consideration of about $94.0 million. In addition, the Company continued to pay quarterly dividends of $0.025 per share during the year ($0.10/share in aggregate for the year), thereby paying $10.7 million in dividends to our shareholders.

**MINEFINDERS TRANSACTION**

On January 23, 2012, Pan American and Minefinders announced that they had entered into a definitive agreement (the “Arrangement Agreement”) pursuant to which Pan American will acquire all of the issued and outstanding common shares of Minefinders by way of a plan of arrangement. Under the terms of the Arrangement Agreement, Minefinders’ shareholders will be entitled to elect to receive, in exchange for each Minefinders share held, either: (i) 0.55 shares of Pan American and CDN$1.84 in cash; or (ii) 0.6235 shares of Pan American; or (iii) CDN$15.60 in cash, subject to pro-ration under total aggregate cash and share pools. The consideration represents a total offer value of CDN$15.60 per Minefinders share and implies a total transaction value of CDN$1.38 billion. Following completion of the transaction, former Minefinders’ securityholders will own up to approximately 32% of Pan American, on a fully-diluted basis. The Arrangement Agreement, as amendedcan be obtained under Pan American’s profile on SEDAR at www.sedar.com.

The proposed acquisition is subject to approval by Pan American’s shareholders and Mindfinders’ securityholders, and the terms and conditions for the proposed transaction are summarized in the management information circulars provided to Pan American’s shareholders and Minefinders’ securityholders. The Company expects that a special meeting of the Company’s shareholders will take place on March 26, 2012 to approve the issuance of Pan American shares pursuant to the proposed acquisition. If approved by Pan American’s shareholders and Minefinders’ securityholders, the Company expects to complete the proposed transaction on or about March 30, 2012.

Management and the Company’s Board of Directors fully support the proposed acquisition and, assuming all necessary approvals are obtained and the transaction completes, believe that significant strategic benefits to Pan American’s shareholders resulting from the acquisition will include: (i) enhanced operating and development portfolio diversification towards producing assets, (ii) additional near-term cash flow, (iii) creation of the leading growth profile in the silver sector, (iv) a meaningful reduction of our average silver cash costs across our production portfolio, (v) addition of significant silver and gold mineral reserves and resources with excellent potential to increase even further through exploration (vi) a number of attractive near-term opportunities to drive production growth, (vii) a strong balance sheet and access to capital; and (viii) increases in the Company’s exposure to the prices of silver and gold.

Assuming the necessary approvals are obtained and the transaction completes, the addition of the Dolores mine’s production to Pan American’s current portfolio of producing assets should have a significant positive impact on the Company’s 2012 production forecast.

**2012 OPERATING OUTLOOK**

This section of the MD&A provides management's production and costs forecasts for 2012. Major capital projects planned for each of the operations in 2012 are also discussed. The Company has not included any production forecasts from Minefinders' Dolores mine. Pending the successful completion of the Minefinders acquisition at the end of March 2012, the Company expects to update its forecast to incorporate production from the Dolores mine. These are forward-looking estimates and subject to the cautionary note regarding the risks associated with forward looking statements at the end of this MD&A.

The following table sets out management forecast for silver production and cash and total costs per ounce at each operation in 2012.

**Silver Production Forecast**

| | Silver Production ounces (000's) | Cash Costs per ounce (1) | Total Costs per ounce (1) |
|---|---|---|---|
| Huaron | 2,730 - 2,820 | $20.90 - $22.70 | $22.60 - $24.46 |
| Morococha | 1,740 - 1,820 | $24.60 - $26.50 | $29.85 - $31.75 |
| Quiruvilca | 210 | $31.30 | $36.4 |
| Alamo Dorado | 5,070 - 5,370 | $6.40 - $6.80 | $10.25 - $10.65 |
| La Colorada | 4,100 - 4,260 | $9.50 - $9.90 | $10.81 - $11.21 |
| San Vicente | 3,400 - 3,520 | $18.40 - $18.70 | $22.57 - $22.87 |
| Manantial Espejo | 4,250 - 4,500 | $8.60 - $10.40 | $17.03 - $18.83 |
| Consolidated Total | 21,500 - 22,500 | $12.50 - $13.50 | $16.74 - $17.74 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales. The cash cost forecasts assume by-product credit prices of $1,900/tonne ($0.86/lb) for Zinc, $2,000/tonne ($0.91/lb) for Lead, $7,300/tonne ($3.31/lb) for Copper, and $1,600/oz for gold.

Silver production is expected to increase slightly from 2011's production to between 21.5 and 22.5 million ounces. The expected increase is primarily due to higher production at Manantial Espejo and San Vicente as well as modest increases at Huaron and Morococha. Offsetting these increases is the decrease on account of an ongoing strategic analysis of the Quiruvilca operation, which may lead to eliminating its contribution to Pan American's consolidated production during the second quarter 2012.

**Cash and Total Costs Forecasts**

Cash costs are expected to increase to approximately $12.50 to $13.50 per ounce of payable silver in 2012 compared to the 2011 cash costs of $9.44 per ounce. Cash costs are expected to increase primarily due to increases in direct operating costs (mostly labour related), royalties, treatment charges, and reduced by-product credits due to lower base metal production and prices assumed. Royalties are expected to increase sharply as a result of the COMIBOL royalty at San Vicente increasing to 37.5% from 9.4% following the recovery of our investment as defined in the joint venture contract.

The non-cash component of our total cost per ounce is expected to increase to $4.24 per ounce relative to the 2011 comparable of $4.07 per ounce, as higher depreciation charges arise from the start of amortization of the new Morococha facilities and other capital expansions incurred in 2011.



**By-product Production Forecast**

| | Gold ounces | Zinc tonnes | Lead tonnes | Copper tonnes |
|---|---|---|---|---|
| Huaron | 1,400 - 1,500 | 9,400 - 9,600 | 4,300 - 4,400 | 1,000 – 1,450 |
| Morococha | 1,250 - 1,300 | 11,800 - 12,400 | 3,100 - 3,450 | 1,200 - 1,250 |
| Quiruvilca | 300 | 1,700 | 600 | 300 |
| Alamo Dorado | 14,700 - 15,300 | — | — | — |
| La Colorada | 3,150 - 3,200 | 4,800 - 4,900 | 2,620 - 2,660 | — |
| San Vicente | — | 5,300 - 5,400 | 380 - 390 | — |
| Manantial Espejo | 54,200 - 58,400 | — | — | — |
| Consolidated Total | 75,000 - 80,000 | 33,000 - 34,000 | 11,000 - 11,500 | 2,500 - 3,000 |

Gold production in 2012 is expected to be in line with 2011 production levels as increases in throughput rates and gold grades at Manantial Espejo are expected to offset the loss of gold production from Quiruvilca and small decreases in gold production at all other operations.

Production of zinc, lead, and copper is expected to decrease marginally in 2012 as compared to 2011's production primarily due to the loss of Quiruvilca's contribution to production, as well as other fluctuations primarily driven by changes in grades.

Precious metals are expected to contribute some 89% of our revenue in 2012, up from 86% of revenue in 2011. The geographic diversity of the revenue base will continue to enhance in 2012 with the Mexican operations contributing 39% of revenue, 27% from Argentina, the Peruvian operations 21%, and 13% from Bolivia.

**Capital Expenditure Forecasts**

The Company is planning to invest $87.5 million in sustaining capital and $35.1 on project development in 2012, as set out in the table below:

| | Capital budget (in millions) |
|---|---|
| Huaron | $ 19.2 |
| Morococha | $ 19.3 |
| Alamo Dorado | $ 10.3 |
| La Colorada | $ 16.1 |
| San Vicente | $ 5.4 |
| Manantial Espejo | $ 17.2 |
| **Mine Capital** | **$ 87.5** |
| Navidad (Pre-law reform) (1) | $ 22.8 |
| Morococha Project | $ 7.5 |
| Other | $ 4.7 |
| **Project Development Capital** | **$ 35.1** |
| **Total Capital** | **$ 122.5** |

(1) Please see section "2012 Project Development Outlook" for discussion of the Navidad Project capital expenditure plans post the pending law reform.



**Mining Operations Forecasts**

A brief description of each mine and management's forecast for each operation's production, cash cost performance and capital requirements in 2012 follows.

· ***Huaron Mine***

The Huaron silver-zinc underground polymetallic mine is located 320 highway kilometres northeast of Lima in the heart of the Cerro de Pasco district. This is one of Peru's most important mining districts, accounting for more than half of the country's silver production. Since operations began in 1912, Huaron has produced more than 230 million ounces of silver.

Pan American acquired a majority interest in Huaron in March 2000 and re-opened the mine in April 2001 after completing a feasibility study, arranging financing and completing site rehabilitations.

In 2012, Huaron plans to increase mining and milling rates by 5% from its 2011 throughput rates by accessing additional ore zones deeper in the mine. The increased throughput along with a slight recovery improvement, partially offset by a 3% decrease in silver grade, is expected to result in a modest increase in silver production. The expected increase in throughput rates is also expected to yield higher production of zinc and copper, while lead production is expected to decline slightly.

Costs per dry metric tonne ("DMT") milled are budgeted to increase by 13% as compared to 2011 primarily as a result of increased underground development and drilling rates to access the additional ore, higher labour costs and social benefits, and higher raw materials and supply costs. Cash costs per ounce are expected to increase significantly over the 2011 cash costs due to a decrease in by-product credits due to lower base metal prices, combined with the increases in direct operating costs, smelting and refining costs, and royalties.

Capital spending of $19.2 million at Huaron in 2012 will allow for mine development, exploration to replace mineral reserves mined, installation of ventilation raise bores, additional mine equipment as well as a significant tailings facility expansion. The capital expenditures planned at Huaron in 2012 also reflects a commitment to improve camp and working conditions, with new accommodations and recreational facilities, a change house and the modernization of the main workshop.

· ***Morococha Mine***

Pan American acquired the Morococha mine in Peru in August 2004. Morococha is a silver-zinc rich underground polymetallic vein mine located approximately 180 highway kilometres southeast of the Company's Huaron mine or 140 highway kilometres east of Lima.

The Morococha district has been mined continuously for more than 100 years and lies within one of the world's most prolific mineral belts for polymetallic vein systems. Morococha hosts a very large and productive network of veins, mantos, skarns, and other

replacement ore bodies within a mineral rights package covering 110 square kilometres of concessions.

Tonnes milled, silver and zinc grades, and recoveries at Morococha in 2012 are all expected to improve slightly compared to 2011 levels due to increased underground development rates, resulting in an improved production profile, with the exception of copper production which is expected to decline due to lower grades and recoveries.

Operating costs are expected to increase by 10% over 2011 costs primarily as a result of increased underground development and drilling rates, higher smelting and refining costs, labour, raw material and supplies. mine development costs, camp administration costs and geology expenses. The Company anticipates cash cost per ounce in 2012 to increase due to lower base metal by-product credits, combined with the increase in direct operating costs mentioned above.

The primary objective of Morococha's 2012 capital budget, which totals $19.3 million, is to integrate production from various ore sources, which requires significant investments in mine development. Capital expenditures are planned for primary ramp developments in the Yacumina, Codiciada and Alapampa mining areas. In addition, capital has been allocated for new-mine equipment, installation of a backfill plant, workshop upgrades, ventilation raises and mine exploration activities. In addition, investments are planned for camp improvements and communication upgrades.

· ***Quiruvilca Mine***

The Quiruvilca mine is located in Peru approximately 130 kilometres to the east of the coastal city of Trujillo. Mineralization was first reported in the area in 1789, and the mine has been in continuous operation since 1926. The underground workings cover an area four kilometres long by three kilometres wide and extend more than 400 meters in depth. Pan American has operated Quiruvilca since acquiring the property from ASARCO in late 1995.

Our intention at Quiruvilca in 2012 is to assess strategic alternatives for the mine which may include continuing to operate the mine, divestiture or placing the operation on care and maintenance. Accordingly, only production for the first quarter of the year has been included in our 2012 guidance, pending a decision based on our assessment.

· ***Alamo Dorado Mine***

Alamo Dorado is an open-pit mine located in the Mexican state of Sonora, approximately 320 kilometres from the state capital of Hermosillo. Pan American acquired the Alamo Dorado project in February 2003. The mine began commercial production on April 1, 2007 after the construction of the mine, plant and related infrastructure was completed substantially on schedule and on budget at the end of 2006.

In 2012, Alamo Dorado will aim to process an average of between 4,850 and 5,050 ore tonnes per day at similar silver grades to 2011, with silver recoveries expected to increase to 88% as a result of additional leaching capacity. Based on these assumptions, the mine



is expected to maintain steady silver production while gold production is expected to decline by 9% due to lower grades.

Cash costs per ounce are expected to increase from $4.80 to a range of $6.40 to $6.80, as direct operating costs are expected to increase and by-product credits from gold revenues to decline. The expected increase in operating costs is being driven by escalation in consumables, energy, labour and security costs which includes an increased frequency of silver doré shipments.

Capital expenditures are expected to be $10.3 million, comprised primarily of waste pre-stripping of the Phase III open pit extension to increase the mine life, the addition of a further two leach tanks to maximize silver recovery, and the introduction of a grinding automation control program to maximize throughputs.

· ***La Colorada Mine***

Pan American acquired the La Colorada mine in 1998 and began to refurbish the mine and construct a 650 tonne per day silver and gold oxide ore processing plant with associated infrastructure. Following the commissioning of the oxide plant in 2003, the Company made additional investments to expand the mine and the pre-existing sulphide processing plant to produce silver, gold, lead, and zinc from an expanded 750 tonne per day sulphide plant, which was first commissioned in 2006. The mine consists of six continuous blocks of exploration permits and exploitation claims totalling 2,230 hectares.

The project lies within one of Mexico's geologic belts known as the "Faja de Plata" (silver belt) that extends for 800 kilometres along the Sierra Madre Mountains and is defined by prolific silver deposits. The continued exploration success achieved at La Colorada reported over the last five years illustrates the excellent potential for extending mineral reserves through discovery and additional development.

In 2012 La Colorada will continue shifting production from the oxide zone and expand production from the sulphide zone. This transition will be facilitated by the introduction of a new sulphide tailings facility. Stable throughput, grades and recovery rates are expected to result in similar silver production to 2011. The shift towards more sulphide ore feed, combined with slightly higher lead and zinc grades is expected to result in higher base metal by-product production, but lower gold production as compared to 2011.

Operating costs in 2012 are expected to increase by approximately 9% compared to costs in 2011 due to escalation in the cost of consumables, energy, labour and security. Cash costs per ounce are expected to increase from 2011's cash cost level due to the effect of an increase in the direct operating costs, together with a net reduction in by-product credits.

Capital expenditures at La Colorada in 2012 are expected to be $16.1 million, and are comprised mostly of expenditures related to mine development and underground mine equipment, continuation of the deep exploration drilling program, and a new lower level pump station. Work to complete the sulphides tailings dam is expected to require $3.0 million while $1.1 million is planned for an expansion of the sulphide plant.



· ***San Vicente Mine***

The San Vicente silver-zinc mine is located in the Bolivian Andes. More than 20 bonanza type silver-zinc veins are known to occur over an area of 15 square kilometres and extend to at least 200 meters in depth. The project consists of 15 mining concessions totalling 8,159 hectares.

San Vicente was operated from 1972 to 1993 by COMIBOL, the Bolivian state mining company. In 1999 Pan American optioned the project from COMIBOL under a joint venture agreement. Following acquisition, Pan American investigated several development alternatives for San Vicente with local partnerships and by May 2007 secured 95.0% interest in the operating company of the Joint Venture Project with COMIBOL. Under the Joint Venture agreement, COMIBOL retains the rights to collect 9.4% of the operating cash flow while the Company recovers its capital investment increasing to 37.5% thereafter. Between 2000 and 2007 the Company invested in exploration drilling, underground development drifting, and performing various feasibility and development studies while conducting limited mining and toll milling production at a nearby neighbouring processing facility. During this period, Pan American discovered the rich Litoral Ramo II vein which served to significantly increase the Proven and Probable reserves at the mine. Pan American decided in mid-2007 to invest in expanding the mine by developing a modern trackless long-hole mining operation for the Litoral Ramo II vein and constructing its own 750 tonne-per-day processing facility. Commissioning activities proceeded smoothly since the April 2009 start-up leading the Company to declare commercial production in the first month of operation.

In 2012, the Company expects to operate San Vicente at 8% to 10% higher throughput rates from the continued development of the high-grade Litoral vein, which is expected to deliver ore grades similar to 2011. As a consequence, San Vicente is expected to increase its contribution of silver and zinc to Pan American (95% interest) from 2011 levels.

Operating costs are expected to increase in 2012 with higher throughput rates and the Company anticipates paying significantly higher royalties to COMIBOL pursuant to the joint venture agreement. As defined in this agreement, the royalty paid to COMIBOL increases to 37.5% of operating cash flow from the 2011 9.4% levels upon recovery of our initial construction capital at San Vicente. The recovery of our initial construction capital pursuant to the COMIBOL agreement is expected to occur during the early part of 2012. Accordingly, the Company expects to pay an additional $15.7 million in royalties in 2012 compared to the 2011 expense. Cash costs per ounce are expected to increase substantially due primarily to the increase in COMIBOL royalties, together with an expected decrease in by-product credits on the assumption of lower zinc prices in 2012.

The main components of the capital investments planned for 2012 at San Vicente, which total $5.4 million, include $1.6 million for mine development and a mobile equipment maintenance shop, and $1.0 million for resource development.

· ***Manantial Espejo Mine***

Reconnaissance exploration on the Manantial Espejo property was first carried out in the 1970s by the Argentinean government. In 2002, the Company acquired a 50% interest in



the project and in March 2006, the Company negotiated and entered into a purchase agreement for the remaining 50% interest, thus becoming a 100% owner of the Manantial Espejo project.

In March 2006, Pan American completed a feasibility study and began construction of the Manantial Espejo project, based upon a combination open pit and underground mine plan, and a conventional milling and leaching circuit with a design capacity of 2,000 tonnes per day. The mine construction was completed in December 2008 and in 2009, its first full year of commercial production, the mine produced 3.8 million ounces of silver and over 70,000 ounces of gold at cash costs of negative $0.84 per ounce of silver.

The key objectives in 2012 at Manantial Espejo are to increase plant throughput by 7% to 9% with slightly higher grade ore and to maintain recoveries, thereby increasing silver and gold production over 2011 levels. The 2012 mine plan calls for a total of 10.8 million tonnes to be mined from open pits, including 0.75 million tonnes of ore, and an additional 0.15 million ore tonnes to be mined from underground.

Operating costs are expected to increase by 10% on a per tonne basis primarily due to the expectation of continued cost inflation in Argentina, which affects costs of labor and consumables. These increases, partially offset by higher throughputs and gold production and the resultant increase in by-product credit are the principal factors behind the higher expected cash costs.

The capital investments planned at Manantial Espejo total $17.2 million for 2012, with the majority of the capital planned to be spent on open pit and underground mine development and equipment acquisitions, expanding the housing project in the nearby town of Gobernador Gregores, upgrades to the cyanide neutralization circuit, as well as continued mineral reserve definition drilling.

**2012 PROJECT DEVELOPMENT OUTLOOK**

Pan American continues to work in an open and informed manner with the provincial government and local communities regarding open pit mining in the Central Meseta of Chubut and remains confident that this approach will result in a change in the mining law in 2012. Accordingly, the Company plans to commence detailed engineering early in 2012 and be in a position to issue a feasibility study and submit the Navidad project environmental impact assessment once the mining law reform has occurred. The forecasted capital cost for Navidad in 2012 is $22.8 million prior to the anticipated positive law reform which would allow development of the Navidad Project. Assuming a positive construction decision can be made around mid-year 2012, the capital expenditure could grow to $88.6 million for the full year.

In conjunction with the feasibility work on the Navidad project and the recent positive law reforms in the Rio Negro Province of Argentina, a conceptual study on the Calcatreu Property located approximately 120 km north of Navidad will be performed to assess the viability of a combined project approach, given the relatively close proximity of Calcatreu to Navidad. The Company's objectives in 2012 are to finish a scoping study at Calcatreu, focus on community engagement, including assisting those areas affected by volcanic ash



problems and update the EIA. The Company expects to spend $3.7 million on these activities in 2012, all of which will be expensed.

At La Preciosa, our objective is to complete a feasibility study by mid 2012, assuming an agreement is reached with Orko for an extension of the delivery date, originally scheduled for April 2012. Work to be completed in 2012 includes a geotechnical assessment, plant and surface engineering and the completion of metallurgical testing. The Company anticipates spending approximately $5.0 million on these activities at La Preciosa in 2012 assuming the extension of the study delivery date is achieved and these expenditures will be expensed.

In 2010, the Company's wholly owned subsidiary Compañia Minera Argentum S.A. ("Argentum") which operates the Morococha mine, entered into an agreement with Minera Chinalco Perú ("MCP"), a subsidiary of the Aluminum Corporation of China, which clearly defines each party's long term surface rights in the area of the mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP's Toromocho copper project. MCP requires certain lands and concessions in order to proceed with the development of Toromocho, including the surface lands within the planned open pit mining area of the Toromocho project. While Argentum does not own this land, much of the Morococha mine infrastructure and facilities are located on this ground.

Under the terms of the agreement, Argentum will relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP. In exchange, Argentum will receive a package of surface rights, easements and other rights that are sufficient to relocate the facilities and to continue uninterrupted operations, as well as periodic cash payments from MCP totaling $40 million, of which, to December 31, 2011, the Company received $13.8 million. These payments have been utilized towards capital expenditures incurred for the project as well as direct project related expenses and recorded as other income and offset against direct project related expenses. The main objectives at the Morococha relocation project in 2012 are to complete construction of new facilities, to connect into permanent power at MCP supplied substation, to secure water permits and to successfully relocate 53 families, as per our agreement with MCP. In total $7.5, million is expected to be spent on the Morococha relocation project in 2012. Additionally, the Company is expecting to receive from MCP progress payments of $5.0 million in 2012 of the $40 million discussed above.



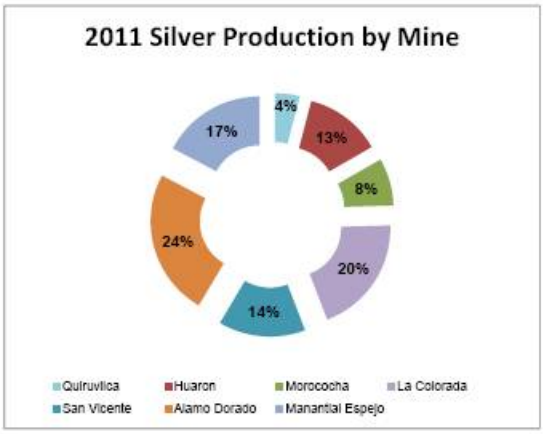
**2011 OPERATING PERFORMANCE**

The following table reflects silver production and cash costs at each of Pan American's operations for 2011, as compared to 2010 and 2009.

| | Silver Production (ounces '000s) | | | Cash Costs(1) ($ per ounce) | | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2011** | **2010** | **2009** |
| Huaron | **2,769** | 2,987 | 3,563 | **$ 14.03** | $ 12.35 | $ 9.95 |
| Morococha(2) | **1,712** | 2,633 | 2,762 | **$ 16.11** | $ 4.43 | $ 5.86 |
| Quiruvilca | **881** | 1,245 | 1,422 | **$ 17.47** | $ 5.87 | $ 8.64 |
| Pyrites Stockpiles | **—** | — | 98 | **—** | — | $ 3.78 |
| Alamo Dorado | **5,300** | 6,721 | 5,321 | **$ 4.80** | $ 3.16 | $ 4.51 |
| La Colorada | **4,296** | 3,702 | 3,468 | **$ 7.74** | $ 8.59 | $ 7.55 |
| San Vicente(3) | **3,130** | 3,033 | 2,627 | **$ 13.48** | $ 8.21 | $ 7.07 |
| Manantial Espejo | **3,767** | 3,965 | 3,783 | **$ 7.36** | $ 1.61 | $ (0.84) |
| **Consolidated Total** | **21,855** | 24,286 | 23,044 | **$ 9.44** | $ 5.69 | $ 5.53 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.
(2) Morococha data represents Pan American's 92.2% interest in the mine's production.
(3) San Vicente data represents Pan American's 95.0% interest in the mine's production.

The graph below pictorially presents silver production by mine in 2011 and highlights the diverse nature of Pan American's silver production.




In 2011, Pan American's silver production decreased to 21.9 million ounces from the record production in 2010 of 24.3 million ounces. This decrease was primarily a result of significantly lower production at Alamo Dorado due to reduced grades and at Morococha, where lower grades and throughput rates negatively impacted production. At our other operations, decreased production in Peru and at Manantial Espejo were largely offset by increased silver production at La Colorada and San Vicente, which both successfully increased throughput rates.

Silver production in 2011 was 0.6 million ounces lower than management's forecast of 22.5 million ounces as described in the Q3 2011 MD & A, with the largest variances occurring at Alamo Dorado and at Manantial Espejo, where an unexpected mechanical breakdown was encountered in December, 2011.



Consolidated cash costs per ounce of silver were $9.44 in 2011, a 66% increase from 2010's cash costs per ounce of $5.69. The increase in cash costs were primarily due to a 19% increase in unit operating costs per tonne, which were primarily driven by higher labour costs, combined with the negative impact of spreading fixed costs over lower production, increases in mining royalties and treatment costs, exacerbated by an 8% decrease in by-product credits as a result of lower gold and base metal by-product production in 2011, as shown in the table below.

The following tables set out the Company's by-product production over the past three years and the metal prices realized for each metal produced:

| | By-Product Production | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Gold ounces | **78,426** | 89,555 | 100,704 |
| Zinc tonnes | **37,234** | 43,103 | 44,246 |
| Lead tonnes | **12,701** | 13,629 | 14,328 |
| Copper tonnes | **4,544** | 5,221 | 6,446 |

| | Realized Prices | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Silver/ounce/$ | **35.03** | 19.87 | 14.90 |
| Gold/ounce/$ | **1,568** | 1,216 | 989 |
| Zinc/tonne/$ | **2,208** | 2,160 | 1,554 |
| Lead/tonne/$ | **2,402** | 2,147 | 1,723 |
| Copper/tonne/$ | **8,625** | 7,457 | 5,431 |

In 2011, production of all by-product metals decreased in comparison to 2010 production. Gold, zinc, lead and copper production declined by 13%, 14%, 7% and 13% respectively, relative to 2010. Gold production declined primarily as a result of expected lower grades at Manantial Espejo while base metal production was negatively impacted by lower throughput at our Peruvian operations in 2011.

Actual base metal production in 2011 exceeded management's revised expectation contained in the Q3 MD&A for zinc, lead and copper by 6%, 6% and 1%, respectively. Gold production in 2011 2% below management's revised forecast of 80,000 to 85,000 ounces. The positive variance in base metal production relative to management's guidance was due primarily to higher than anticipated grades and throughput rates at our Peruvian mines during the fourth quarter, while gold production was hindered by a mechanical stoppage at Manantial Espejo.

***An analysis of each operation's 2011 operating performance measured against 20 10 operating performance, and management's forecasts for 2011 follows. Management's revised forecasts, as contained in section 6 "2011 Operating Outlook" of the Q3 MD&A have been used for purposes of assessing the 2011 performance against management's 2011 forecast.***

· ***Huaron Mine***

| | Twelve months ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Tonnes milled | **614,437** | 704,094 |
| Average silver grade — grams per tonne | **177** | 171 |
| Average zinc grade - % | **2.46**% | 2.43% |
| Average silver recovery - % | **79.1**% | 77.3% |
| Silver — ounces | **2,768,768** | 2,987,280 |
| Gold — ounces | **1,339** | 1,525 |
| Zinc — tonnes | **9,555** | 10,216 |
| Lead — tonnes | **4,865** | 4,346 |
| Copper — tonnes | **1,278** | 1,654 |
| | | |
| Cash costs per ounce (1) | **$ 14.03** | $ 12.35 |
| Total costs per ounce (1) | **$ 16.89** | $ 13.98 |
| | | |
| Payable ounces of silver | **2,491,190** | 2,753,906 |
| | | |
| Capital Expenditures - thousands | **$ 13,021** | $ 6,606 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

In 2011, mill tonnage at Huaron declined by 13% relative to 2010, however this decrease was partially offset by slightly higher grades and recoveries, resulting in silver production that declined by 7% year-on-year. Zinc, copper and gold production was also hampered by the lower throughput rates, while lead production increased over 2010 levels on account of higher grades. The decline in throughput rates at Huaron were primarily a result of less than expected ore tonnes obtained from the 180 level mine deepening area.

Cash costs at Huaron increased by 14% in 2011 to $14.03 per ounce mainly due to the negative effect of fixed costs on lower production of silver ounces and increased costs associated with additional underground mine development and ground support measures, general operating cost escalations and the strengthening local currency. In addition, the Company made a decision during Q3 of 2011 to demobilize a significant number of contract miners in favor of hiring and developing a trained workforce in order to enhance safe and productive mine efficiencies for the long life available. In support of this effort, the Company has established a miner training center at Huaron to enhance efforts at training inexperienced people from the surrounding communities as well as to provide a center for improving our experienced miners skills and productivity. By-product credits at Huaron remained similar to 2010 as lower production of zinc, copper and gold were offset by higher lead production and by stronger metal prices in 2011.

Silver production in 2011 was in line with management's revised forecast of 2.8 million ounces Improving throughput rates positively affected the production of by-product metals, resulting in zinc and lead production that was above revised levels forecast by management for 2011.

The actual cash costs in 2011 were within 1% of our revised forecast of $13.89 per ounce due primarily to actual by-product credits being lower than expected due to shortfalls against expected copper metal production and lower base metal prices.



Capital expenditures at Huaron during 2011 totalled $13.0 million compared to our forecast of $9.9 million due primarily to unexpected additional mine development and mine equipment replacements.

· ***Morococha Mine****

| | Twelve months ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Tonnes milled | **483,104** | 619,819 |
| Average silver grade — grams per tonne | **128** | 152 |
| Average zinc grade - % | **2.74**% | 2.88% |
| Average silver recovery - % | **86.1**% | 87.0% |
| Silver — ounces | **1,711,668** | 2,632,790 |
| Gold — ounces | **1,691** | 2,329 |
| Zinc — tonnes | **10,676** | 15,228 |
| Lead — tonnes | **3,050** | 4,927 |
| Copper — tonnes | **1,522** | 1,532 |
| | | |
| Cash costs per ounce (1) | **$ 16.11** | $ 4.43 |
| Total costs per ounce (1) | **$ 22.19** | $ 7.13 |
| | | |
| Payable ounces of silver | **1,520,702** | 2,338,121 |
| | | |

| | | | | |
|---|---|---|---|---|
| Capital Expenditures - thousands (2) | **$** | **17,289** | $ | 11,325 |

* Production and cost figures are for Pan American's 92.2% share only.

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

(2) Sustaining capital expenditures not including capital incurred at the Morococha project as disclosed in the section Project Development Update

Morococha's 2011 silver production decreased by 35% as compared to 2010 mainly due to a 22% decrease in throughput rates combined with 16% lower silver grades. Zinc, lead and gold production also suffered due to the lower throughput rates, while higher copper grades resulted in similar production to 2010. Throughput rates and silver grades at Morococha were challenged by decisions to temporarily stop mining a few of the higher grade areas in the Yacumina and Morro Solar areas that were experiencing erratic grades to allow for additional reserve definition studies and enable optimization of the mine design to maximize the resource extraction and profitability from these areas. In addition, after attempts to enhance safe productive mining at our Peruvian operations with limited success, a decision was made during the third quarter to demobilize three of four contract miner groups in order to allow hiring and appropriate training of Company employees. The Company is confident these decisions will result in overall enhanced performance once the mineralization in these areas are better understood and brought back into production in 2012 and 2013.

Cash costs at Morococha increased by 264% in 2011 to $16.11 per ounce due to the negative impact of carrying fixed costs by substantially reduced silver production, lower by-product credits resulting from reduced by-product metal production combined with general cost escalation in operating costs for 2011 compared to 2010.

Actual silver production performance at Morococha in 2011 met management's revised forecasts, while higher than expected zinc and copper production was offset by below anticipated lead production as a result of variations in ore grades.



The actual cash costs in 2011 were 8% higher than our revised forecast of $14.87 per ounce due primarily to actual by-product credits being significantly lower than expected due to shortfalls against expected by-product metal prices.

Capital expenditures at Morococha during 2011 totalled $17.3 million, compared to management's guidance of $12.2 million. The capital spending was primarily on increased long term mine development advances, exploration drilling, mine and plant equipment replacements. In addition, the Company invested in capital for the Morococha project as described in the "Project Development Update" below.

- ***Quiruvilca Mine***

| | Twelve months ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Tonnes milled | 295,378 | 323,427 |
| Average silver grade — grams per tonne | 114 | 141 |
| Average zinc grade - % | 3.06% | 3.58% |
| Average silver recovery -% | 81.2% | 84.7% |
| Silver — ounces | 880,873 | 1,245,030 |
| Gold — ounces | 1,687 | 1,801 |
| Zinc — tonnes | 7,745 | 10,058 |
| Lead — tonnes | 2,399 | 2,989 |
| Copper — tonnes | 1,030 | 1,434 |
| | | |
| Cash costs per ounce (1) | $ 17.47 | $ 5.87 |
| Total costs per ounce (1) | $ 20.32 | $ 6.56 |
| | | |
| Payable ounces of silver | 760,191 | 1,128,557 |
| | | |
| Capital Expenditures - thousands | $ 1,515 | $ — |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

In 2011, Quiruvilca's silver production decreased by 29% in comparison to 2010. This decrease in silver production was due to a combination of lower tonnage and reduced silver grades and recoveries. Similarly, reduced throughput rates and lower zinc, lead, copper and gold grades resulted in lower production of those metals in 2011.

Cash costs for 2011 were $17.47, a 198% increase from $5.87 per ounce a year ago, primarily due to the combined effect of lower throughput and grades, higher operating costs from general cost escalations and the strengthened local currency and decreased by-product credits resulting from lower by-product production in 2011.

Silver production during 2011 attained management's revised forecast of 0.9 million ounces. Base metal production also was in line with management's revised forecasts, while higher than expected gold grades resulted production that was slightly higher than management's

forecast.

Cash costs of $17.47 per ounce were 2% above management's revised forecast of $17.20 per ounce primarily due to slightly higher than expected mine development costs. By-product credits were similar to management's expectations as higher gold production offset lower than expected base metal prices.



Capital expenditures at Quiruvilca during 2011 totalled $1.5 million, compared to management's guidance of $2.9 million. The capital spending was primarily on mine development advances and equipment replacements.

· ***Alamo Dorado Mine***

| | Twelve months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Tonnes milled | 1,848,230 | 1,675,952 |
| Average silver grade — grams per tonne | 105 | 147 |
| Average gold grade — grams per tonne | 0.33 | 0.38 |
| Average silver recovery - % | 83.6% | 88.4% |
| Silver — ounces | 5,299,841 | 6,721,258 |
| Gold — ounces | 16,607 | 16,746 |
| Copper — tonnes | 66 | 89 |
| | | |
| Cash costs per ounce (1) | $ 4.80 | $ 3.16 |
| Total costs per ounce (1) | $ 8.29 | $ 7.41 |
| | | |
| Payable ounces of silver | 5,278,892 | 6,683,134 |
| | | |
| Capital Expenditures - thousands | $ 8,287 | $ 2,132 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

Alamo Dorado was the Company's largest silver producer in 2011, with silver production of 5.3 million ounces, which was a 21% reduction from the record silver production achieved in 2010. Silver production decreased as expected from the 2010 levels primarily due to significantly lower silver grades and recoveries. The decreased silver grades were a result of the mining sequence in the Phase II pit during 2011 compared to the higher grade portions of the Phase I pit encountered in 2010. Gold production of approximately 17,000 ounces in 2011 remained similar to the production levels in the comparable period of 2010 as lower gold grades were offset by higher throughput rates.

Alamo Dorado's cash costs per ounce were $4.80 in 2011, a 52% increase from the 2010 cash costs of $3.16, due mainly to the negative effect of lower production of silver ounces on fixed costs and cost escalation, partially offset by higher gold by-product credits due to higher realized gold prices in 2011.

Alamo Dorado's silver production in 2011 was 6% below management's revised forecast of 5.6 million ounces mainly due to a decision to complete the in-pit phase 3 exploration drilling program, which disrupted mining activities. Gold production was 3% ahead of the revised forecast of 16,071 ounce as gold grades realized exceeded expectations.

Cash costs were 2% higher than our revised forecast of $4.68per ounce as a result of lower silver production partially offset by higher realized gold by-product credits resulting from increased gold production and gold metal prices.

Capital expenditures at Alamo Dorado during 2011 totalled $8.3 million, compared to management's guidance of $2.0 million. Capital expenditures in 2011 exceeded management's guidance due to an unplanned decision to construct two additional leach tanks in order to increase residence times, which is expected to increase future recovery



rates. The additional leaching capacity is expected to be commissioned in the first half of 2012.

· ***La Colorada Mine***

| | Twelve months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Tonnes milled | 404,533 | 345,697 |
| Average silver grade — grams per tonne | 369 | 378 |

| | | |
|---|---|---|
| Average silver recovery - % | 89.5% | 88.0% |
| Silver — ounces | 4,295,783 | 3,701,568 |
| Gold — ounces | 4,104 | 4,312 |
| Zinc — tonnes | 4,466 | 2,940 |
| Lead — tonnes | 2,388 | 1,366 |
| | | |
| Cash costs per ounce (1) | $ 7.74 | $ 8.59 |
| Total costs per ounce (1) | $ 8.99 | $ 9.73 |
| | | |
| Payable ounces of silver | 4,093,851 | 3,537,905 |
| | | |
| Capital Expenditures - thousands | $ 13,301 | $ 9,118 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

Silver production at the La Colorada mine in 2011 was 4.3 million ounces, a 16% increase compared to the previous year. This increase was due to higher throughput rates and improved silver recoveries as a result of benefits from previous investments in mine development, mine equipment purchases, ventilation and dewatering which are enabling higher productivities and efficiencies. Production of lead and zinc benefited from higher throughput, while lower gold grades led to a modest decrease in gold production.

Cash costs decreased by 10% in 2011 compared to 2010 to $7.74 per ounce as a result of significantly increased by-product credits, partially offset by higher operating costs.

Actual silver production at La Colorada in 2011 achieved management's revised forecast of 4.3 million ounces, as higher throughput rates offset slightly lower realized silver grades than expected. Actual by-product grades realized varied from management's expectations resulting in gold production that was slightly below expectations, while both zinc and lead production exceeded our revised guidance by 5%.

Actual cash costs of $7.74 were 3% higher than management's revised forecast of $7.51 per ounce as higher operating costs were partially off-set by better than expected by-product metal production.

Capital expenditures at La Colorada during 2011 totalled $13.3 million, which exceeded our forecast of $10.8 million. The capital was spent mainly on a tailings dam expansion, a mine back-fill plant, sulphide plant equipment upgrades, and exploration works.



· ***San Vicente Mine****

| | Twelve months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Tonnes milled | 282,960 | 271,483 |
| Average silver grade — grams per tonne | 382 | 389 |
| Average zinc grade - % | 2.26% | 2.29% |
| Average silver recovery - % | 90.1% | 89.1% |
| Silver — ounces | 3,130,145 | 3,033,046 |
| Zinc — tonnes | 4,792 | 4,661 |
| Copper — tonnes | 649 | 512 |
| | | |
| Cash costs per ounce (1) | $ 13.48 | $ 8.21 |
| Total costs per ounce (1) | $ 17.14 | $ 12.07 |
| | | |
| Payable ounces of silver | 2,849,243 | 2,823,869 |
| | | |
| Capital Expenditures - thousands | $ 4,975 | $ 6,007 |

* Production and interest figures are for Pan American's 95 .0% share only.

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

In 2011, San Vicente's silver production increased by 3% compared to its 2010 production, mainly due to higher throughput rates and recoveries, partially offset by lower silver grades. Zinc and copper production levels also increased compared to the same period last year, primarily due to the increased throughput rates.

Cash costs at San Vicente increased by 64% to $13.48 in 2011 as compared to the previous year. The higher cash costs in 2011 resulted from the combined effect of (i) a 36% increase in royalties, which are calculated on operating cash flow, (ii) a 110% increase in smelting costs, primarily due to the deterioration in terms for high silver grade concentrates and (iii) an 11% increase in operating costs, primarily driven by increases in labor costs. These factors were partially offset by higher zinc and copper by-product credits due to increased production and prices of those metals.

Actual silver production attributable to Pan American in 2011 of 3.1 million ounces was slightly below management's revised forecast of 3.2 million ounces, as the higher than expected throughput rates were offset by the lower than anticipated silver grades. Zinc and copper production benefited from higher throughput rates and exceeded the revised forecast by 6 %.

Actual cash costs of $13.48 were 5% above management's revised forecast due to higher than expected mining royalties, treatment and refining charges and operating costs. Mining royalties that the Company pays in Bolivia are directly linked to metal prices and operating cash flow generated, which exceeded management's forecasts, partially offset by higher than expected by-product credits on higher zinc and copper production.

Capital expenditures at San Vicente during 2011 totalled $5.0 million, which was close to management's forecasts of $4.6 million. Expenditures consisted mainly of spending on community infrastructure and water treatment facility upgrades, the construction of a new fuel station, additional underground mine equipment and exploration drilling.



· ***Manantial Espejo Mine***

| | Twelve months ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Tonnes milled | 697,205 | 717,463 |
| Average silver grade — grams per tonne | 185 | 191 |
| Average gold grade — grams per tonne | 2.48 | 2.81 |
| Average silver recovery - % | 90.2% | 90.5% |
| Average gold recovery - % | 95.1% | 94.7% |
| Silver — ounces | 3,766,504 | 3,964,822 |
| Gold — ounces | 52,998 | 62,843 |
| | | |
| Cash costs per ounce (1) | $ 7.36 | $ 1.61 |
| Total costs per ounce (1) | $ 15.89 | $ 10.16 |
| | | |
| Payable ounces of silver | 3,758,971 | 3,958,874 |
| | | |
| Capital Expenditures - thousands | $ 16,916 | $ 7,021 |

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our cost of sales.

Silver production at the Manantial Espejo mine in 201 1 was 3.8 million ounces, a 5% decrease from the production level in 20 10. This decrease was a result of the slightly lower throughput rates, silver grades and recoveries. Gold production decreased by 1 6% in 201 1 due to lower throughput rates and gold grades that were expected as the operation normalized towards the average reserve gold grades of the deposit, which is expected to be approximately 2.2 grams per tonne. Lower gold grades were partially offset by an increase in gold recoveries.

In 2011, cash costs at Manantial Espejo increased to $7.36, significantly higher than 2010's cash costs of $1.61 per ounce. The main drivers of the increase in cash costs were higher operating costs mainly due to an increase in labour costs and the effects from the high sustained inflation rates in Argentina. These were partially offset by higher by-product gold prices.

In 2011, Manantial Espejo's actual throughput rates and silver grades were below management's forecast, resulting in 9% lower silver production than our revised forecast. Silver production was challenged due to a two week unplanned plant shutdown to facilitate the repair of the primary ball mill, together with equipment availability issues as a consequence of importation restrictions that severely limited our flow of spare parts and materials necessary to sustain operations. Actual gold production suffered for the same reasons, resulting in a 10% negative variance compared to our revised forecasts.

The actual cash costs in 2011 of $7.36 per ounce were 20% higher than the revised forecast of $5.90 per ounce. The main drivers for the higher than expected cash costs was the impacts of the plant shutdown in addition to higher than anticipated operating cost inflation in Argentina, compounded by lower by-product gold credits. Major components of the operating cost increases were higher diesel fuel prices, spare parts and materials logistic costs, and employee costs.

Capital expenditures at Manantial Espejo during 2011 totalled $16.9 million, compared to management's forecast capital expenditures of $11.6 million. Higher capital costs were incurred as the Company adapted its operations to deal with the more difficult Argentine customs clearances now required and supplementing its fleet with locally available contractor equipment. The capital expenditures consisted mainly of camp upgrades, development drilling, work on a tailings dam raise, and mine exploration works.

**2011 PROJECT DEVELOPMENT UPDATE**

The following table reflects the amounts spent at each of Pan American's project developments in 2011, as compared to 2010 and 2009. Our accounting policies determine what portion of the amounts spent at our projects is capitalized and what portion is expensed during the period.

| | Total Project Spending | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Navidad | $ 33,200 | $ 37,177 | $ 631 |
| Morococha Project | $ 26,218 | $ 10,259 | $ 1,710 |
| La Preciosa | $ 2,400 | $ 9,989 | $ 4,000 |
| Calcatreu | $ 1,656 | $ 323 | $ — |

At the **Navidad project**, the Company spent a total of $33.2 million in 2011, of which $22.1 million was capitalized. In addition, certain long lead time equipment was purchased, including plant SAG and ball mills, primary crusher, pebble crusher, rockbreaker and liner handlers which totalled $17.0 million. Major activities in 2011 related to Navidad included:

- Advancing the feasibility study significantly by the end of the year.
- Continuing to optimize the project design and production plan.
- Preparing the project environmental impact assessment document for submission once Chubut mining law is amended.
- Assisting affected nearby communities in both Rio Negro and Chubut during the volcanic ash fallout event due to the eruption of the Puyehue volcano in Chile.
- Assisting nearby communities with improving integrity of water supply, provision of firewood, school and education support, sporting events for youth, and assistance with the development of local businesses.
- Completion of exploration drilling program, which focused on infilling of known deposits
- Continued with metallurgical test work to better understand the recovery characteristics of the various ore types found at the project.

At the Morococha plant relocation project, the Company invested $26.2 million in 2011 (partially funded by $6.0 million progress payment by Chinalco). The main focus of the work in 2011 included:

- Completed construction of all new surface buildings, which include an administration building, maintenance shop, warehouse, change house, kitchen, 300 person camp, laboratory, and compressor building. Connecting these new facilities to a power supply is scheduled to be completed in early 2012.
- Completed new main water supply lines and new compressed air line to the mine operations.

At the La Preciosa joint venture project, the Company spent $2.4 million in 2011, all of which was expensed. Work at La Preciosa during the year included:

- Completion and announcement of the preliminary economic assessment.
- Commenced a scoping study (in advance of performing a full feasibility study) in order to optimize and improve the project economics.



- Commenced a site geotechnical investigation as the basis for the design of the tailings storage facility and the site.
- Continued with infrastructure improvements in local communities in the vicinity of the project.

At the Calcatreu project, the Company spent $1.7 million in 2011, all of which was expensed. Work during the year included:

- Completion of nearly 3,000 meters of diamond drilling, mostly as confirmation holes and collection of fresh metallurgical sample materials. Results on testing performed on these materials are still pending and the Company has not yet had an opportunity to confirm and update the resource estimates, which were prepared in April 2008 by Micon for Aquiline Resources Inc., the previous owners of the project.

**OVERVIEW OF 2011 FINANCIAL RESULTS**

For the year ended December 31, 2011, the Company's net income and cash flow from operations increased significantly from the comparable period in 2010. The improved results were primarily due to significantly higher realized metal prices, partially offset by lower quantities of all metals sold. Significant volatility to attributable net income continued on account of income tax expense as well as the mark to market valuation of the Company's warrant position, both discussed in more detail in the section that follows.

The following table sets out selected quarterly (unaudited) results for the past twelve quarters, which are stated in thousands of U SD, except for the per share amounts.



| | Quarters Ended (Unaudited) | | | | Years Ended |
|---|---|---|---|---|---|
| 2011 | March 31 | June 30 | Sept. 30 | Dec. 31 | Dec. 31 |

| | | | | | |
|---|---|---|---|---|---|
| Revenue | $ 190,481 | $ 231,866 | $ 220,567 | **$ 212,361** | $ 885,275 |
| Mine operating earnings (1) | $ 96,018 | $ 118,629 | $ 106,208 | **$ 88,270** | $ 409,125 |
| Attributable earnings for the period | $ 92,161 | $ 112,623 | $ 52,354 | **$ 95,356** | $ 352,494 |
| Adjusted attributable earnings for the period(3) | $ 64,638 | $ 76,093 | $ 45,573 | **$ 64,362** | $ 250,666 |
| Basic earnings (loss) per share | $ 0.86 | $ 1.04 | $ 0.49 | **$ 0.89** | $ 3.31 |
| Diluted earnings (loss) per share | $ 0.60**(4)** | $ 1.04 | $ 0.48 | **$ 0.89** | $ 3.31 |
| Cash flow from (used in) operating activities | $ 59,465 | $ 104,127 | $ 90,896 | **$ 104,967** | $ 359,455 |
| Cash dividends paid | $ 0.025 | $ 0.025 | $ 0.025 | **$ 0.025** | $ 0.10 |
| *Other financial information* | | | | | |
| Total assets | | | | | $ 1,951,796 |
| Total long term financial liabilities | | | | | $ 118,984 |
| Total shareholders' equity | | | | | $ 1,593,839 |

| **2010** | **March 31** | **June 30** | **Sept. 30** | **Dec. 31** | **Dec. 31** |
|---|---|---|---|---|---|
| Revenue | $ 135,819 | $ 150,558 | $ 164,530 | **$ 195,646** | $ 646,553 |
| Mine operating earnings (1) | $ 37,776 | $ 52,269 | $ 61,293 | **$ 89,777** | $ 241,115 |
| Attributable earnings (loss) for the period | $ 26,276 | $ (6,262) | $ 21 | **$ (6,324)** | $ 13,711 |
| Adjusted attributable earnings for the period(3) | $ 17,128 | $ 4,504 | $ 27,372 | **$ 55,368** | $ 104,372 |
| Basic earnings (loss) per share | $ 0.25 | $ (0.06) | $ 0.00 | **$ (0.06)** | $ 0.13 |
| Diluted earnings (loss) per share | $ 0.24 | $ (0.04) | $ 0.00 | **$ (0.07)** | $ 0.13 |
| Cash flow from (used in) operating activities | $ 48,646 | $ 45,338 | $ 65,066 | **$ 83,206** | $ 242,256 |
| Cash dividends paid | $ 0.025 | $ — | $ 0.025 | **$ 0.025** | $ 0.075 |
| *Other financial information* | | | | | |
| Total assets | | | | | $ 1,738,796 |
| Total long term financial liabilities | | | | | $ 228,054 |
| Total shareholders' equity | | | | | $ 1,341,358 |

| **2009(2)** | **March 31** | **June 30** | **Sept. 30** | **Dec. 31** | **Dec. 31** |
|---|---|---|---|---|---|
| Revenue | $ 70,406 | $ 111,392 | $ 118,608 | **$ 154,406** | $ 454,812 |
| Mine operating earnings (1) | $ 10,474 | $ 23,490 | $ 34,708 | **$ 57,334** | $ 126,006 |
| Attributable earnings (loss) for the period | $ 6,610 | $ 10,208 | $ 17,375 | **$ 27,805** | $ 61,998 |
| Adjusted attributable earnings for the period(3) | N/A | N/A | N/A | **N/A** | N/A |
| Basic earnings (loss) per share | $ 0.08 | $ 0.12 | $ 0.20 | **$ 0.31** | $ 0.71 |
| Diluted earnings (loss) per share | $ 0.08 | $ 0.12 | $ 0.20 | **$ 0.31** | $ 0.71 |
| Cash flow from (used in) operating activities | $ (5,375) | $ 32,034 | $ 37,099 | **$ 52,118** | $ 115,876 |
| Cash dividends paid | $ — | $ — | $ — | **$ —** | $ — |
| *Other financial information* | | | | | |
| Total assets | | | | | $ 1,848,609 |
| Total long term financial liabilities | | | | | $ 83,563 |
| Total shareholders' equity | | | | | $ 1,343,790 |

(1) Mine operating earnings are equal to revenue less cost of sales and depreciation and amortization, which is considered to be substantially the same as gross margin.
(2) Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS. As such, adjusted earnings are not applicable to these figures.
(3) Adjusted attributable earnings for the period is an alternative performance measure. Please refer to the section, Alternative Performance Measures, of this MD&A for a calculation of adjusted earnings for the period.
(4) The diluted earnings per share for the three months ended March 31, 2011 has been revised to $0.60 per share from the amount previously presented of $0.86 per share, to properly reflect the effect under IFRS of the dilutive share purchase warrants which are classified as a liability.



The following table reflects the metal prices that the Company realized and the quantities of metal sold during each respective period. As seen below, there was an increase in the realized metal prices but a decrease in quantities of all metals sold in 2011 compared to 2010.

| | **Realized Metal Prices Year ended December 31,** | | **Quantities of Metal Sold Year ended December 31,** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Silver – in ounces | **$ 35.03(1)** | $ 19.87(1) | **19,516,483** | 22,914,073 |
| Gold – in ounces | **$ 1,568(1)** | $ 1,216(1) | **75,904** | 88,604 |
| Zinc – in tonnes | **$ 2,208(2)** | $ 2,160(2) | **30,157** | 37,831 |
| Lead – in tonnes | **$ 2,402(2)** | $ 2,147(2) | **11,885** | 13,466 |
| Copper – in tonnes | **$ 8,625(2)** | $ 7,457(2) | **3,991** | 4,973 |

(1) Metal price per ounce.
(2) Metal price stated as cash settlement per tonne .

· ***Income Statement***

**Earnings** for 2011 were $354.1 million, compared to earnings of $15.7 million in 2010. Basic earnings per share for 2011 were $3.31 compared to $0.13 in 2010. Adjusting for the benefit of a $101.8 million gain on derivatives in 2011 and a loss on derivatives of $90.7 in 2010, ***adjusted earnings*** were $252.3 million for 2011 compared to $106.4 million in 2010 (please refer to the section, "Alternative Performance Measures", of this MD&A for description of adjusted earnings). Adjusted basic earnings per share for 2011 were $2.37 compared to $0.99 for the corresponding period in 2010. Adjusted earnings benefited from significant increases in the realized metal prices received, partially offset by declines in overall quantities of most metal sold, as reflected in the tables above. When compared to 2010, the quantities of silver, gold, zinc, lead, and copper sold declined by 15%, 14%, 20%, 12% and 20%, respectively, due to lower production levels and timing of doré shipments. Cost of sales, which includes production costs, depreciation and amortization, and royalty expense, in 2011 were higher than in 2010 due to operating costs escalation discussed in the section "Operating Performance". Adjusted earnings in 2011 were reduced by $ 27.7 million in exploration expenses primarily incurred on drilling and prefeasibility work at the Navidad and La Preciosa projects and the Company's greenfield exploration program, but positively impacted by other income of $15.7 million comprised primarily of insurance recoveries related to the theft of doré, receipt of payments from MCP towards the Morococha relocation project, receipt of a non-refundable deposit upon the initiation of the sale of the Pico Machay project and the reversal of certain severance provisions based on changes to mine plans. This was offset by a foreign exchange loss of $8.1 million primarily on cash and short term investments held in Canadian dollars and Mexican pesos ("CAD" and "MXN", respectively).

***Revenue*** for 2011 was $855.3 million, a $208.7 million or 32% increase from revenue for 2010. This increase was driven by higher metal prices realized, offset by lower quantities of all metals sold, as described above.

***Mine operating earnings*** increased to $409.1 million in 2011, a significant increase of 70% from the $241.1 million generated in 2010. This increase resulted from an increase in revenue outweighing the higher cost of sales. Mine operating earnings are equal to



revenue less cost of sales, which is considered to be substantially the same as gross margin.

***Income taxes*** for 2011 were $117.1 million, a $26.9 million increase from the $90.2 million income tax provision recorded in 2010 and are comprised of current and deferred income taxes as follows:

| | 2011 | 2010 |
|---|---|---|
| Current taxes | | |
| Current tax expense in respect of the current year | **110,620** | 73,786 |
| Adjustments recognized in the current year with respect to prior years | **(1,273)** | (28) |
| | **109,347** | 73,758 |
| Deferred taxes | | |
| Deferred tax expense recognized in the current year | **4,133** | 16,457 |
| Adjustments recognized in the current year with respect to prior years | **3,638** | — |
| | **7,771** | 16,457 |
| Provision for income taxes | **$ 117,118** | 90,215 |

This increase was primarily a consequence of increased taxable earnings generated at our operations as well as the effects of various temporary and permanent differences as shown in the table below, which result in effective tax rates that vary considerably from the comparable period and from the amount that would result from applying the Canadian statutory income tax rates to earnings before income taxes. The main factors which have affected the effective tax rates for the year ended December 31, 2011 and the comparable period of 2010 were the unrealized gains and losses on the Company's warrants position, foreign income tax rate differentials, additional mining taxes paid and withholding taxes paid on income and payments from subsidiaries to parent companies, exploration expenses on properties for which the deductibility of the expenses is not assured, and foreign exchange gains and losses. The Company expects that these and other factors will continue to cause volatility in effective tax rates in the future.

| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Income before taxes | **471,264** | 105,922 |
| Statutory tax rate | **26.50%** | 28.50% |
| Income tax expense based on above rates | **$ 124,885** | $ 30,188 |
| Increase (decrease) due to: | | |
| Non-deductible expenses | **2,028** | 1,731 |
| (Increase) decrease to estimated deductible expenses | **(12,986)** | 5,099 |
| Change in net deferred assets not recognized | **286** | 1,543 |
| Non-taxable unrealized (gain) loss on derivatives - warrants | **(26,984)** | 25,416 |
| Foreign tax rate differences (1) | **14,642** | 3,179 |
| Effect of other taxes paid (mining and withholding) | **9,914** | 10,008 |
| Change in net deferred assets not recognized for exploration expenses | **6,207** | 6,214 |
| Foreign exchange (gain) loss | **2,277** | 3,866 |
| Other | **(3,151)** | 2,971 |
| | **$ 117,118** | $ 90,215 |
| Effective tax rate | **24.85%** | 85.17% |

(1) The 2011 statutory income tax rates in the countries that the Company has operations in are as follows: Argentina — 35%, Bolivia — 25%, Mexico — 30%, Peru — 30%.

· ***Statement of Cash Flows***

***Cash flow from operations***, generated a record $359.5 million in 2011, a 48% increase from the $217.2 million generated a year ago. The increase in cash flow from operations resulted from improved operating earnings as discussed previously. Changes in non-cash working capital consumed $39.4 million compared with a non-cash working capital use of $12.6 million in 2010. The net non-cash working capital consumed in 2011 consisted primarily of a $28.4 million increase in inventories which was primarily attributable to the timing of doré and concentrate shipments, an increase of $2.8 million in prepaid expenses and an increase of accounts receivable of $8.6 million. In 2010, non-cash working capital was primarily affected by similar increases in doré inventory, accounts receivable and prepaid expenses, partially offset by decreases in accounts payable due to cash payments received for the Morococha relocation project.

**Investing activities** used $177.3 million in 2011, inclusive of $51.1 million invested in short-term investments. The balance of investing activities consisted primarily of spending $39.1 million on the Navidad project including $17.0 million of processing equipment intended for the Navidad project and sustaining investments in property, plant and equipment at Manantial Espejo, Morococha, La Colorada, Huaron, Alamo Dorado and San Vicente of $16.9 million, $17.3 million, $13.3 million, $13.0 million, $8.3 million and $5.0 million, respectively. In addition, $26.2 million was spent on the Morococha relocation project net of $21.9 million received as equipment and construction advances and lease proceeds. The $6.0 million received from MCP as part of the relocation project was recognized as Other Income as per the required IFRS accounting for these contributions (as described in the Notes to the Consolidated Financial Statements). Finally, $3.9 million of refundable VAT tax was paid in Argentina and Bolivia.

Investing activities used $160.8 million in 2010, inclusive of $80.2 million invested in short- term investments. The balance of investing activities consisted primarily of spending $28.0 million on the Navidad project and sustaining investments in property, plant and equipment primarily at Morococha, La Colorada, Manantial Espejo, Huaron, San Vicente and Alamo Dorado of $11.3 million, $9.1 million, $7.0 million, $6.6 million, $6.0 million and $2.1 million, respectively. In addition, $5.4 million was spent on the Morococha relocation project and $5.0 million was paid as refundable VAT tax in Argentina and Bolivia.

**Financing activities** in 2011 used $99.4 million, whereas financing activities in 2010 used $2.8 million. Cash used in financing activities in 2011 was a result of $94.0 million used for the share buy-back program and $10.7 million in dividend payments to our shareholders which was offset by $4.5 million in proceeds from the exercising of warrants and options and $1.5 million of net contributions received from non-controlling interests.

In 2010, the $2.8 million in cash used in financing activities consisted primarily of $11.9 million proceeds from the exercising of warrants and options which was offset by $8.0 million in dividend payments to our shareholders and $5.6 million of repayments on concentrate advances.



· ***Income Statement Q4 2011***

The following table reflects the metal prices that the Company realized and the quantities of metal sold during each respective period. As seen below, there was an increase in the realized metal prices but a decrease in quantities of all metals sold in 2011 compared to 2010, other than gold.

| | Realized Metal Prices Quarter ended December 31, | | Quantities of Metal Sold Quarter ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Silver – in ounces | **$ 32.49(1)** | $ 25.61(1) | **5,369,259** | 5,608,042 |
| Gold – in ounces | **$ 1,683(1)** | $ 1,376(1) | **19,296** | 20,771 |
| Zinc – in tonnes | **$ 1,964(2)** | $ 2,326(2) | **8,410** | 10,184 |
| Lead – in tonnes | **$ 1,980(2)** | $ 2,520(2) | **2,877** | 3,186 |
| Copper – in tonnes | **$ 7,100(2)** | $ 8,758(2) | **1,038** | 1,202 |

(1) Metal price per ounce.
(2) Metal price stated as cash settlement per tonne.

**Earnings** in the fourth quarter of 2011 (Q4 2011) were $95.5 million or $0.89 per share compared to a loss of $5.8 million or $0.06 per share for the comparable period in 2010. Adjusting for the benefit of a $31.0 million gain on derivatives, ***adjusted earnings*** were $64.5 million for Q4 2011 compared to $55.9 million in Q4 2010 (please refer to the section, "Alternative Performance Measures", of this MD&A for description of adjusted earnings). Adjusted basic earnings per share for Q4 2011 were $0.61 compared to $0.52 for the corresponding period in 2010. Adjusted earnings benefited from increases in the realized metal prices received, partially offset by declines in overall quantities of metal sold. When compared to Q4 2010, the quantities of silver, zinc, copper, lead, and gold sold declined by 4%, 17%, 14%, 10% and 7%, respectively, due to lower production levels and timing of doré shipments. Cost of sales in Q4 2011 were higher than the comparable period of 2010 due to operating costs escalation in line with cost pressures described for the year 2001 in the section " Operating Performance". Adjusted earnings in Q4 2011 were positively impacted by foreign exchange gains of $2.4 million primarily on cash and short term investments held in CAD and other income of $10.1 million comprised of the receipt of payments from Chinalco and reversal of certain provisions as described above.

Earnings for Q4 2010 were impacted by higher general and administration costs due to the timing of the Company's annual incentive plan and severance payments and a non-cash $1.5 million write-down of pyrite stockpile inventories that were being sold to the La Oroya smelter which had closed, offset by $3.2 million in foreign exchange gains and an insurance claim related to theft of doré at La Colorada for $1.7 million reported in Other Income.

***Revenue*** for Q4 2011 was $212.4 million, a $16.7 million or 9% increase from revenue in the comparable period in 2010. This increase was driven by higher metal prices realized, offset by lower quantities of all metals sold, as described above.

**Mine operating earnings** decreased slightly to $88.3 million in Q4 2011 from $89.8 million in the same quarter last year. Despite increased revenue, this decrease was attributable primarily to the increase in cost of sales for reasons described above as well as an increase in depreciation and amortization of $3.0 million from $20.5 million to $23.5 million



which is included as part of the cost of sales. Cost of sales for Q4 2011 of $124.1 million was an increase of 17% from $105.9 million in the comparable period last year.

**Income tax provision** during Q4 2011 amounted to $21.3 million compared to $30.6 million in Q4 2010. As described above for the full year 2011, the main factors which impacted the effective tax rates for Q4 2011 and the comparable period of 2010 were the unrealized gains and losses on the Company's warrants position, foreign income tax rate differentials and foreign exchange gains and losses.

- ***Statement of Cash Flows: Q4 2011***

***Cash flow from operations*** generated $105.0 million in Q4 2011, up from the $83.2 million generated a year ago. Although earnings from operations were similar in Q4 2011 to those of Q4 2010 at $86.7 million and $87.6 million, respectively, changes in non-cash working capital generated $8.4 million compared with non-cash working capital consuming $15.6 million in Q4 2010. The net non-cash working capital generated in Q4 2011 consisted primarily of a decrease in accounts receivable of $19.9 million, which were offset by a decrease in accounts payable and accrued liabilities of $9.4 million. In Q4 2010, the net consumption of $15.6 million was an aggregate of various timing differences in the normal course operations.

Cash flow from **investing activities** used $74.5 million in Q4 2011. This consisted primarily of $36.6 million in purchases of short term investments, $5.3 million spending on the Navidad project and an aggregate $36.6 million primarily in sustaining capital investments at the operating mines.

Investing activities in Q4 of 2010 used $63.6 million, which consisted primarily of $41.6 million in the purchase of short term investments, $5.7 million spending on the Navidad project and an aggregate $18.6 million in primarily sustaining capital investments at Morococha, La Colorada, San Vicente and Manantial Espejo.

**Financing activities** in Q4 2011 used $68.0 million and consisted primarily of $66.1 million used in the share buy-back program, $3.2 million in dividend payments to our shareholders but offset by $1.0 million from the exercise of warrants. In Q4 of 2010, financing activities generated $4.8 million and consisted primarily of $8.7 million from the exercising of warrants and options partially offset by $2.7 million in dividend payments to our shareholders.

**LIQUIDITY POSITION**

The Company's cash balance at December 31, 2011 was $262.9 million, which was an increase of $83.0 million from the balance at December 31, 2010. The balance of the Company's short-term investments at December 31, 2011 was $228.3 million, an increase of $47.7 million from a year ago. This increase in liquidity in 2011 resulted primarily from cash generated by operating activities partially offset by capital expenditures on property, plant and equipment, the cash utilized for the share buy-back program and the payment of dividends to our shareholders. The Company does not own any asset-backed commercial paper or other similar, known, at-risk investments in its investment portfolio.



Working capital at December 31, 2011 was $566.4 million, an increase of $136.5 million from the prior year-end's working capital of $429.9 million. The increase in working capital was mainly due to the $130.7 million increase in cash and short-term investments described above plus an increase in refundable taxes of $32.0 million, accounts receivable of $36.5 million and inventory of $28.8 million. These were partially offset by an increase in the current income tax liability of $44.7 million and an increase in finance leases of $20.7 million. The increase in short term refundable tax is reflective of the Company's success in collecting value added taxes in the countries it operates in allowing balances that were carried as long term refundable tax to be reclassified to short term. The increase in inventory is mainly attributable to an increase in both silver doré inventory and concentrates inventory due to the timing of shipments which also impacts the accounts receivable while the increase in income tax liability is primarily a result of the higher current taxable income generated in 2011.

The Company's financial position at December 31, 2011, the undrawn $150 million credit facility, and the operating cash flows that are expected over the next twelve months, lead management to believe that the Company's liquid assets are sufficient to fund currently planned capital expenditures for existing operations, to complete the proposed merger with Minefinders including funding of the cash portion of the acquisition as

well as all operating and capital expenditures that will arise, and to discharge liabilities as they come due. The Company remains well positioned to take advantage of further strategic opportunities as they become available. Please refer to the "2012 Operating Outlook" section of this MD&A for a more detailed description of the sustaining capital expenditures planned for each mine in 2012.

The impact of inflation on the Company's financial position, operational performance, or cash flows over the next twelve months cannot be determined with any degree of certainty.

**INVESTMENTS AND INVESTMENT INCOME**

At the end of 2011, cash plus short-term investments were $491.2 million, a $130.7 million increase from December 31, 2010, as described in the "Liquidity and Capital Resources" section above.

Pan American's investment objectives for its cash balances are to preserve capital, to provide liquidity and to maximize return. The Company's strategy to achieve these objectives is to invest excess cash balances in a portfolio of primarily fixed income instruments with specified credit rating targets established by the Board of Directors, and by diversifying the currencies in which it maintains its cash balances.

Investment income for the year ended December 31, 2011 totalled $3.1 million (2010 - $1.0 million) and consisted mainly of interest income and net gains from the sales of the securities within the Company's short-term investment portfolio.



**CAPITAL RESOURCES**

Shareholders' equity at December 31, 2011 was $1,593.8 million, an increase of $252.5 million from $1,341.4 million at December 31, 2010, primarily as a result of the attributable earnings generated during the year and warrants and options exercised in the year offset by the share buy-back program and dividends paid as described above. As at December 31, 2011, the Company had approximately 104.5 million common shares outstanding for a share capital of $1,243.2 million. The basic weighted average number of common shares outstanding was 106.4 million shares for the year and 106.6 million shares for the quarter ended December 31, 2011.

On August 26, 2011 the Company announced that the Toronto Stock Exchange (the "TSX") accepted the Company's notice of its intention to make a normal course issuer bid to purchase up to 5,395,540 of its common shares, representing up to 5% of Pan American's issued and outstanding shares as of August 24, 2011. Purchases pursuant to the share buy-back program are required to be made on the open market through the facilities of the TSX and the Nasdaq Global Select Market ("NASDAQ") at the market price at the time of acquisition of any common shares in accordance with the rules and policies of the TSX and NASDAQ and applicable securities laws. The period of the share buy-back program began on September 1, 2011 and will continue until August 31, 2012 or an earlier date should the Company complete its purchases. Pan American had not acquired any of its own common shares within the 12 month period prior to initiating the share buy-back program and is not obligated to make any purchases. All common shares acquired by the Company under the share buy-back program will be cancelled and purchases will be funded out of Pan American's working capital.

As of the date of this MD&A, the Company had purchased 3,582,200 shares since the start of the share buy-back program and had 104,497,168 common shares outstanding.

Pan American initiated the share buy-back program because, in the opinion of its board of directors, the market price of its common shares, from time to time, may not fully reflect the underlying value of its mining operations, properties and future growth prospects. The Company believes that in such circumstances, the outstanding common shares represent an appealing investment for Pan American since a portion of the Company's excess cash generated on an annual basis can be invested for an attractive risk adjusted return on capital through the share buy-back program.

A copy of the Company's notice of its intention to make a normal course issuer bid filed with the TSX can be obtained from the Corporate Secretary of Pan American without charge.

The following table sets out the common shares, warrants and options outstanding as at December 31, 2011:

| | Outstanding as at December 31, 2011 |
|---|---|
| Common shares | **104,492,743** |
| Warrants | **7,814,984** |
| Options | **1,243,312** |
| **Total** | **113,551,039** |



The warrants, all of which were issued as part of the Aquiline acquisition in December of 2009, expire in December 2014, and have an exercise price of CAD $35.00.

As at December 31, 2011, the Company had approximately 1.2 million stock options outstanding, with exercise prices in the range of CAD $17.73 and $40.22 and a weighted average life of 35 months . Approximately 0.5 million of the stock options were vested and exercisable at the 2011

year end with an average weighted exercise price of $27.38 per share.

**FINANCIAL INSTRUMENTS**

From time to time, Pan American mitigates the price risk associated with its base metal production by committing some of its forecasted production under forward sales or option contracts. At December 31, 2011, the Company had no outstanding base metal positions. As of the date of this MD&A, the Company entered into lead option contracts for 4,000 tonnes, which have the effect of ensuring a price between $2,000 and $2,620 per tonne on that quantity of lead, settling monthly during 2012. At the date of this MD&A, these positions had an insignificant mark-to-market valuation effect due to the market price of this commodity having remained relatively stable since the time at which the Company entered into the contracts.

The Company recorded a gain on settled commodity contracts of $0.7 million in 2011, compared to a loss of $0.2 million in 2010.

Approximately 50% of the Company's operating and capital expenditures are denominated in local currencies other than the USD. These expenditures are exposed to fluctuations in USD exchange rates relative to the local currencies. From time to time, the Company mitigates part of this currency exposure by accumulating local currencies or by entering into contracts designed to fix or limit the Company's exposure to changes in the value of local currencies relative to USD. At December 31, 2011 and at the date of this MD&A, the Company had no outstanding foreign currency contracts but did hold cash and short term investments of $205.5 million in CAD and $38.3 million in Mexican pesos.

The carrying value of share purchase warrants is at fair value, while cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments. Under IFRS, our share purchase warrants are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values reported in the income statement as gain/loss on derivatives. The Company used as its assumptions for calculating fair value of the 7,814,984 warrants outstanding at December 31, 2011 a risk free interest rate of 1%, expected stock price volatility of 41%, expected life of 2.9 years (expiry in December 2014), expected dividend yield of 0.5%, a quoted market price of the Company's shares on the Toronto Stock Exchange of $22.28, an exchange rate of 1 CAD to USD of 0.9771 and an exercise price of CAD $35.00 per share. The changes in the valuation of these share purchase warrants create a permanent difference for tax purposes and may result in significant volatility of our effective tax rate. The Company recorded a gain on the revaluation of the warrants of $101.8 million in 2011, compared to a loss of $90.7 million in 2010.



Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company does not have any off-balance sheet arrangements or commitments that are expected to have a current or future effect on its financial condition or results of operations, other than those disclosed in this MD&A and the consolidated financial statements and the related notes.

**CLOSURE AND DECOMMISSIONING COST PROVISION**

The estimated future closure and decommissioning costs are based principally on the requirements of relevant authorities and the Company's environmental policies. The provision is measured using management's assumptions and estimates for cash outflows. The Company accrues these costs initially at their fair value, which are determined by discounting costs using rates specific to the underlying obligation. Upon recognition of a liability for the closure and decommissioning costs, the Company capitalizes these costs to the related mine and amortizes it over the life of each mine on a unit-of-production basis except in the case of exploration projects for which the offset to the liability is expensed . The unwinding of the discount due to the passage of time is recognized as an increase in the liability and a finance expense.

The total undiscounted amount of estimated cash flows required to settle the Company's asset retirement obligations is $65.9 million (2010 - $73.2 million) which has been discounted using discount rates between 4% and 10%. The provision on the statement of financial position as at December 31, 2011 is $55.8 million (2010 - $71.6 million). Decommissioning obligations at the Quiruvilca mine of $18.1 million are expected to be incurred starting in two to five years while the remainder of the obligations are expected to be paid through 2028. Revisions made to the reclamation obligations in 2011 were primarily a result of increased site disturbance from the ordinary course of operations at the mines as well as revisions to the estimates based on periodic reviews of closure plans, actual expenditures incurred and concurrent closure activities completed. These obligations will be funded from operating cash flows, reclamation deposits and cash on hand.

The unwinding of the discount charged to 2011 earnings as finance expense was $3.3 million compared to $3.7 million in 2010. Reclamation expenditures during the current year were up slightly from the previous year at $2.0 million (2010 - $1.0 million).

**CONTRACTUAL COMMITMENTS AND CONTINGENCIES**

The Company does not have any off-balance sheet arrangements or commitments that have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that are material, other than those disclosed in this MD&A and the Audited Consolidated Financial Statements and the related notes.

The Company had the following contractual obligations at the end of 2011:

**Payments due by period**
(in thousands of USD)

| | Total | Less than a year | 1 - 3 years | 4- 5 years | After 5 years |
|---|---|---|---|---|---|
| Finance lease obligations(1) | $ 31,983 | 21,068 | 10,915 | — | — |
| Current liabilities(2) | 149,785 | 149,785 | — | — | — |
| Long term income taxes payable | 2,274 | — | — | 2,274 | — |
| Severance accrual | 5,427 | 3,032 | — | 2,395 | |
| Contribution plan(3) | 3,478 | 3,478 | — | — | — |
| Total contractual obligations(4) | $ 192,947 | 177,363 | 10,915 | 4,669 | — |

(1) Includes lease obligations in the amount of $10.1 million (2010 - $0.12 million) with a net present value of $9.8 million (2010 - $0.12 million) and equipment and construction advances in the amount of $21.9 million (2010 - $5.4 million); both discussed further in the notes to the consolidated financial statements.
(2) Includes all current liabilities as per the statement of financial position less items presented separately in this table which also include amounts expected to be paid but not accrued in the books of the Company.
(3) In June 2008 the Company initiated a 4 year contractual retention plan for key officers and management. Contract commitments for the plan, payable in CAD, represent minimum payments expected to be paid out, which are presented above in USD at the period-end rate.
(4) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation, the liability arising from Aquiline acquisition, and deferred tax liabilities.

**GENERAL AND ADMINISTRATIVE**

General and administrative costs, including stock based compensation, increased by 7% in 2011 to $18.3 million (2010: $17.1 million). This increase was primarily as a result of the addition of several new positions in 2011; various expenses related to increased business development activity, including increased use of consultants and travel; but partially offset by a weaker CAD exchange rate against the USD (CAD to USD exchange of 1.01 average in 2011 versus 1.03 average in 2010).

Our 2012 general and administrative costs, including stock based compensation, are expected to remain similar to our 2011 level at approximately $18.0 million. This figure is subject to fluctuations in the CAD to USD exchange rate as well as the Company's ability to allocate certain head office costs that are directly attributable to the operations to the operating subsidiaries.

The following table compares our general and administrative forecast for 2012 against the general and administrative costs incurred over the previous two years, on a per ounce of silver produced basis.

| | Actual | | Forecast(1) |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| General and administrative costs (2) (in '000s of USD) | $ 17,109 | $ **18,291** | $ 18,000 |
| Silver production (in '000s of ounces) | 24,286 | **21,854** | 22,000 |
| General and administrative costs per silver ounce produced | $ 0.70 | $ **0.84** | $ 0.82 |

(1) Forecast silver production at the mid-point of the guidance given in this MD&A on page 8 from the Company's existing operations.
(2) Related party transactions: During the year ended December 31, 2011, a private company controlled by a director of the Company was paid approximately $0.4 million (2010 - $0.4 million) for consulting services, charged to general and administrative costs. Similarly, at December 31, 2011 an accrual was recorded for consulting services for the same company in the amount of $0.01



million (2010 - $0.01 million). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.



**EXPLORATION AND PROJECT DEVELOPMENT**

Exploration and project development expenses in 2011 were $27.7 million compared to $24.5 million incurred in 2010. Similar to 2010, the expenses recorded in 2011 primarily represented the exploration and project development expenses incurred for the advancement of the Navidad project, and to a lesser degree the La Preciosa and Calcatreu projects in addition to exploration done in the vicinity of our existing mines.

Please refer to "2011 Project Development Update" for more details of work performed during 2011 on these projects.

The 2011 brownfields program was successful at replacing 118% of the 2011 silver ounces mined by adding 29.3 million ounces to the mineral reserve. A total of 150,247 meters of diamond drilling was completed at the operating mines, and an additional 37,095 meters were drilled at the Navidad project.

The Company's brownfields exploration program will continue to be very active in 2012 with approximately 116,000 meters of drilling planned. The cost of these programs is included as part of each mine's capital budget or included in its operating costs. The total amount expected to be spent on brownfield drilling in 2012 is approximately $15.5 million. The main objective of this program is to replace mineral reserves and resources mined at our sites. The main targets for these mineral resource and reserve replacements are the Candelaria sulphide zone and testing the sulphide deep extension at La Colorada, Litoral, Guernica and Union veins at San Vicente, the Maria, Gaby, Karina and Melissa veins at Manantial Espejo and multiple vein structures at Morococha and Huaron.

**ALTERNATIVE PERFORMANCE MEASURES**

· ***Cash and Total Costs per Ounce of Silver***

The alternative performance measures of cash and total cost per ounce of silver are used by the Company to manage and evaluate operating performance at each of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, provided in the following table is the detailed reconciliation of these measures to the cost of sales, as reported in the audited Consolidated Income Statements for 2011, 2010 and 2009.



| **Cash and Total Cost per Ounce Reconciliation (in thousands of USD)** | | **2011** | **2010** | **2009** |
|---|---|---|---|---|
| **Cost of Revenue(1)** | | **$ 446,150** | $ 405,438 | $ 245,637 |
| Add / (Subtract) | | | | |
| Depreciation and amortization | | **(82,756)** | (83,084) | — |
| Smelting, refining, & transportation charges | | **64,132** | 66,441 | 64,118 |
| By-product credits | | **(255,820)** | (253,925) | (215,657) |
| Mining royalties | | **—** | — | 11,867 |
| Worker's participation and voluntary payments | | **(5,632)** | (6,230) | (1,151) |
| Change in inventories | | **30,103** | 10,620 | 15,068 |
| Other | | **3,765** | (5,092) | 3,368 |
| Non-controlling interest adjustment | | **(4,099)** | (2,114) | (2,144) |
| **Cash Operating Costs** | **A** | **195,843** | 132,054 | 121,106 |
| Add / (Subtract) | | | | |
| Depreciation & amortization | | **82,756** | 83,084 | 83,169 |
| Accretion of asset retirement obligation | | **3,268** | 2,929 | 2,998 |
| Change in inventories | | **659** | 4,611 | 3,388 |
| Other | | **(817)** | (755) | (271) |
| Non-controlling interest adjustment | | **(1,334)** | (1,108) | (867) |
| **Total Costs** | **B** | **$ 280,375** | $ 220,815 | $ 209,523 |
| | | | | |
| **Payable Silver Production (000's ounces)** | **C** | **20,753,040** | **23,224,367** | 21,888,131 |
| | | | | |
| Cash Costs per ounce | **A/C** | **$ 9.44** | $ 5.69 | $ 5.53 |
| Total Costs per ounce | **B/C** | **$ 13.51** | $ 9.51 | $ 9.57 |

**(1)** The years 2011 and 2010 are presented under IFRS while 2009 is presented under Canadian GAAP. As such, Cost of Revenue includes production costs, depreciation and amortization, and royalty expense for these two years.

· ***Mine Operating Earnings***

The alternative performance measure of mine operating earnings is a non-GAAP measure used by the Company to assess the performance of its silver mining operations. Mine operating earnings is calculated as revenue less production costs, depreciation and amortization and royalties. The Company and certain investors use this information to evaluate the Company's performance.

· ***Adjusted Earnings***

Adjusted earnings is a non-GAAP measure calculated as net earnings for the period adjusting for the gain or loss recorded on fair market value adjustments on the Company's outstanding warrants. The Company considers this measure to better reflect normalized earnings as it does not include unrealized gains or losses from outstanding warrants, which may be volatile from period to period.

**GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENT**

Pan American adheres to the highest standards of corporate governance and closely follows the requirements established by both the Canadian Securities Administrators and the SEC (Securities and Exchange Commission) in the United States. We believe that our current corporate governance systems not only meet but exceed these requirements.

Our Board of Directors oversees the direction and strategy of the business and the affairs of the Company. The Board is comprised of a non-executive chairman and seven other directors, five of whom are independent and are represented by a lead director. The Board's wealth of



experience allows it to effectively oversee the development of corporate strategies, provide management with long-term direction, consider and approve major decisions, oversee the business generally and evaluate corporate performance. The Health, Safety and Environment Committee, which is a committee appointed by the Board of Directors, provides oversight for the corporate social initiatives of the Company and reports directly to the Board.

We believe that good corporate governance is important to the effective performance of the Company and plays a significant role in protecting the interests of all stakeholders while helping to maximize value.

**Our Communities**

We are committed to creating sustainable value in the communities where our people work and live. Guided by research and conducted by our local offices, we participate in, and contribute to numerous community programs. They typically center on education and health, the environment, local infrastructure and alternative economic activities. In every community we place a priority on assisting with livestock breeding. Most of the communities depend on livestock for their essentials, as the basic food supply and for raw materials used in textiles and clothing. Some of our core activities are:

- Strengthening the production chain of livestock breeding, world class alpaca textiles and contemporary designed silver jewelry.
- Improving nutrition, focusing on children and pregnant women.
- Promoting community health with emphasis on immunizations and focusing on oral health.
- Promoting tourism and local areas of interest such as the Stone Forest in Huayllay in Peru.
- Encouraging education for children and adults by contributing to teacher's salaries, and providing continuous support through different scholarships at a local and national level.

**Non-Mined Waste**

Typical site non-mined waste products at Pan American's mines include oils, scrap, steel, tires and construction waste, in addition to office, cafeteria and camp waste. In all, our operations generate approximately 5,000 metric tons of this waste every year. We are striving for significant reductions through the implementation of waste-reduction initiatives, alternate practices, innovative waste-reduction technologies, and we have engaged local companies to help with recycling, re-use and reclamation projects, in order to further reduce our waste load and improve the revenue and awareness for the local communities.

At Manantial Espejo, Alamo Dorado and La Colorada, cyanide is used for leaching silver from the mined ore. To ensure safe handling and disposal, mine employees receive rigorous training.

**Water**

Water is a finite resource and essential to life. At Pan American, we are committed to ensuring that our operations do not negatively affect sources of water by ensuring that we use it in the most efficient way possible. For that reason, our discharges comply with or exceed regulated



requirements where necessary. At the Quiruvilca mine, we have been working with the local communities on a re-vegetation project that began with seeding the river with species of algae which changed and increased micro life in the area. A similar river improvement is underway at the San Vicente mine, where we are removing historic acid-generating mine spoils (unrelated to our operations) and rehabilitating the riverbed.

**Energy**

At Pan American we recognize the challenges and risks associated with climate change. Improving our energy efficiency is key to reducing our greenhouse gas (GHG) emission, and while conservation efforts to date have been limited, we promote innovation opportunities for improvement among our staff.

Many of our mines maintain relatively low GHG emission rates because their mining and processing are powered from their national electrical grids (classified as energy consumption from an indirect source, which is categorized at a lower GHG emission than Direct, or fossil-fuel consumption).

Educational campaigns among workers and locals are being evaluated to teach the importance of conserving energy and the most efficient way to manage consumption. Also, our ongoing reforestation and restoration projects contribute to mitigating GHG emissions. At the Alamo Dorado mine, four hectares of land have been reclaimed and 120,000$m^3$ of topsoil recovered and stored for use when the property is restored after closure. At the Quiruvilca mine, a similar program has been put in place.

**RISKS AND UNCERTAINTIES**

The Company is exposed to many risks in conducting its business, including but not limited to: metal price risk

as the Company derives its revenue from the sale of silver, zinc, lead, copper, and gold; credit risk in the normal course of dealing with other companies; foreign exchange risk as the Company reports its financial statements in USD whereas the Company operates in jurisdictions that utilize other currencies; the inherent risk of uncertainties in estimating mineral reserves and mineral resources; political risks; and environmental risks and risks related to its relations with employees. These and other risks are described in Pan American's Annual Information Form (available on SEDAR at www.sedar.com); Form 40-F filed with the SEC; and the Audited Annual Consolidated Financial Statements for the year ended December 31, 2011. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent to Pan American's business.

In a press release on April 19, 2011, management provided comments on media reports from Bolivia, that the Bolivian government was considering unilaterally terminating contracts and taking control of several privately-operated mines (formerly operated by the government). In a follow up release on May 3, 2011, the Company provided an update on this situation. On May 1, 2011 Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the



mining law. However, Mr. Morales made no reference to reviewing or terminating agreements with private mining companies. Operations at San Vicente have continued to run normally under Pan American's administration and the Company expects normal operations to continue status quo. The Company will take every measure available to enforce its rights under its agreement with COMIBOL and is confident that it will ultimately be successful in protecting its investment.

The Company's Mexican operations have both suffered from armed robberies of doré within the past two years. The Company has instituted a number of additional security measures and a more frequent shipping schedule in response to these incidents. The Company has subsequently renewed its insurance policy to mitigate some of the financial loss that would result from such criminal activities in the future, however a substantial deductible amount would apply to any such losses in Mexico.

In September Peru's Parliament approved new laws to change the scheme for royalty payments and to introduce a new special mining tax, which are effective from October 1, 2011. Under the previous tax scheme, royalties were based on net revenue. Under the current law, royalties are based on operating profit and royalty rates that vary depending on operating margins. In the case that the calculated royalty payments are less than 1% of net revenue, then the Company will pay a minimum royalty of 1% of net revenue. Additionally, a new special mining tax has been introduced which is also based on operating profits and a tax rate that also varies depending on operating margins. The Company's calculations of the change in the royalty and the new tax indicate that no material impact is expected on the results of the Company's Peruvian operations.

On October 26, 2011, the Federal Government of Argentina promulgated an "economic emergency" decree requiring all oil, gas and mining exporters to repatriate 100% of revenue receipts, in an attempt to stem ongoing capital flight. Pan American is currently assessing the implications the new regulation will have on its Manantial Espejo mine and its development projects in Chubut and Rio Negro. Currently, management believes that the likely impact would come in the form of additional transaction fees associated with the repatriation of funds; however, the precise methods of application of the decree are still being formulated by the Government and are being analyzed by the Company as further details are determined.

Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies, including employing qualified and experienced personnel.

- ***Metal Price Risk***

Pan American derives its revenue from the sale of silver, zinc, lead, copper, and gold. The Company's sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control. The table below illustrates the effect of changes in silver and gold prices on anticipated revenues for 2012. This analysis assumes that quantities of silver and gold produced and sold remain constant under all price scenarios presented.



**Expected 2012 Revenue (000's USD)**

| | | Gold Price | | | | |
|---|---|---|---|---|---|---|
| | | $1,600 | $1,700 | $1,800 | $1,900 | $2,000 |
| **Silver Price** | | | | | | |
| **$** | **26.00** | $ 694,648 | $ 702,226 | $ 709,804 | $ 717,381 | $ 724,959 |
| **$** | **28.00** | $ 734,754 | $ 742,331 | $ 749,909 | $ 757,486 | $ 765,064 |
| **$** | **30.00** | $ 774,832 | $ 782,409 | $ 789,986 | $ 797,563 | $ 805,141 |
| **$** | **32.00** | $ 814,882 | $ 822,459 | $ 830,036 | $ 837,612 | $ 845,189 |
| **$** | **34.00** | $ 854,893 | $ 862,469 | $ 870,045 | $ 877,621 | $ 885,197 |
| **$** | **36.00** | $ 894,869 | $ 902,445 | $ 910,020 | $ 917,596 | $ 925,171 |
| **$** | **38.00** | $ 934,827 | $ 942,402 | $ 949,977 | $ 957,553 | $ 965,128 |
| **$** | **40.00** | $ 974,744 | $ 982,319 | $ 989,893 | $ 997,468 | $ 1,005,043 |

Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, our policy is not to hedge the price of silver.

From time to time, Pan American mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production under forward sales and option contracts, as described under the "Financial Instruments" section of this MD&A. The Board of Directors continually assesses the Company's strategy towards its base metal exposure, depending on market conditions.

Since base metal and gold revenue are treated as a by-product credit for purposes of calculating cash costs per ounce of silver, this non-GAAP measure is highly sensitive to base metal and gold prices. The table below illustrates this point by plotting the expected cash cost per ounce according to the 2012 forecast against various price assumptions for the Company's two main by-product credits, zinc and gold.



**Cash Cost per Ounce of Silver Produced (USD/oz)**

| | | Gold Price | | | | |
|---|---|---|---|---|---|---|
| | | $1,600 | $1,700 | $1,800 | $1,900 | $2,000 |
| **Zinc Price** | | | | | | |
| **$** | **1,700** | $ 12.43 | $ 12.08 | $ 11.73 | $ 11.38 | $ 11.03 |
| **$** | **1,850** | $ 12.27 | $ 11.92 | $ 11.57 | $ 11.22 | $ 10.87 |
| **$** | **2,000** | $ 12.11 | $ 11.76 | $ 11.41 | $ 11.06 | $ 10.70 |
| **$** | **2,150** | $ 11.97 | $ 11.62 | $ 11.27 | $ 10.92 | $ 10.57 |
| **$** | **2,300** | $ 11.83 | $ 11.48 | $ 11.13 | $ 10.78 | $ 10.43 |
| **$** | **2,500** | $ 11.65 | $ 11.30 | $ 10.95 | $ 10.59 | $ 10.24 |

The Company has long-term contracts to sell the zinc, lead and copper concentrates produced by the Quiruvilca, Huaron, Morococha, San Vicente and La Colorada mines. These contracts include provisions for pricing the contained metals, including silver, based on average spot prices over defined 30-day periods that may differ from the month in which the concentrate was produced. Under these circumstances, the Company may, from time to time, fix the price for a portion of the payable metal content during the month that the concentrates are produced.

- ***Credit Risk***

The zinc, lead and copper concentrates produced by Pan American are sold through long-term supply arrangements to metal traders or integrated mining and smelting companies. The terms of the concentrate contracts may require the Company to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing the Company to credit risk of the buyers of our concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, Pan American may incur losses for products already shipped and be forced to sell its concentrates on the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted.

For example, the Doe Run Peru ("DRP") smelter, a past significant buyer of Pan American's production in Peru, experienced financial difficulties in the first quarter of 2009 and closed. Pan American continued to sell copper concentrates to other buyers but on inferior terms. At the end of 2010 and at the date of this MD&A, the DRP smelter remains closed and Pan American is owed approximately $8.8 million under the terms of its contract with DRP for deliveries of concentrates that occurred in early 2009. The Company has established a doubtful accounts receivable provision for the full amount receivable from DRP. The Company continues to pursue all legal and commercial avenues to collect the amount outstanding.

At December 31, 2011 the Company had receivable balances associated with buyers of our concentrates of $40.5 million (2010 - $51.0 million). All of this receivable balance is owed by eight well known concentrate buyers and the vast majority of our concentrate is sold to those same counterparts.

Silver doré production is refined under long term agreements with fixed refining terms at three refineries worldwide. The Company generally retains the risk and title to the precious metals throughout the process of refining and therefore is exposed to the risk that the refineries will



not be able to perform in accordance with the refining contract and that the Company may not be able to fully recover our precious metals in such circumstances. At December 31, 2011 the Company had approximately $35.9 million (2010 - $20.8 million) of value contained in precious metal inventory at refineries. The Company maintains insurance coverage against the loss of precious metal doré and base metal concentrates at our mine sites, in-transit to refineries and while at the refineries and smelters.

Refined silver and gold is sold on the spot market to various bullion traders and banks. Credit risk may arise from these activities if the Company is not paid for metal at the time it is delivered, as required by spot sale contracts.

The Company maintains trading facilities with several banks and bullion dealers for the purposes of transacting the Company's trading activities. None of these facilities are subject to margin arrangements. The Company's trading activities can expose us to the credit risk of our counterparties to the extent that our trading positions have a positive mark-to-market value.

Management constantly monitors and assesses the credit risk resulting from its concentrate sales, refining arrangements and commodity contracts. Furthermore, management carefully considers credit risk when allocating prospective sales and refining business to counterparties. In making allocation decisions, management attempts to avoid unacceptable concentration of credit risk to any single counterparty.

· ***Exchange Rate Risk***

Pan American reports its financial statements in USD; however the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations, as reported in USD, are subject to changes in the value of the USD relative to local currencies. Since the Company's revenues are denominated in USD and a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse. The local currencies that the Company has the most exposure to are the Peruvian soles (PEN), Mexican pesos (MXN) and Argentine pesos (ARS). The following table illustrates the effect of changes in the exchange rate of PEN and MXN against the USD on anticipated cost of sales for 2012, expressed in percentage terms:

| | MXN/USD | | | | |
|---|---|---|---|---|---|
| | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 |
| **PEN/USD** | | | | | |
| **2.30** | 106% | 105% | 103% | 102% | 100% |
| **2.50** | 105% | 103% | 101% | 100% | 99% |
| **2.70** | 103% | 102% | 100% | 99% | 98% |
| **2.90** | 102% | 100% | 99% | 97% | 96% |
| **3.10** | 101% | 99% | 98% | 96% | 95% |

Under this analysis, our cost of sales is reflected at 100% of our forecasted foreign exchange assumptions for the PEN and MXN of 2. 70 and 13.00 per one USD, respectively. Devaluation of the USD relative to the PEN and MXN has the effect of increasing our anticipated cost of sales above 100%, and vice versa.



In order to mitigate this exposure, the Company maintains a portion of its cash balances in PEN, MXN and CAD and, from time to time, enters into forward currency positions to match anticipated spending. At December 31, 2011, the Company did not have any open currency forward positions, but was holding approximately 51% of its cash balances in currencies other than USD.

The Company's balance sheet contains various monetary assets and liabilities, some of which are denominated in foreign currencies. Accounting convention dictates that these balances are translated at the end of each period, with resulting adjustments being reflected as foreign exchange gains or losses on the Company's income statement.

· ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The volatility of the metals markets can impact the Company's ability to forecast cash flow from operations.

The Company must maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalents and committed loan facilities.

The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous reporting, planning and budgeting process to help determine the funds required to support its normal operating requirements on an ongoing basis and its expansion plans. The Company continually evaluates and reviews capital and operating expenditures in order to identify, decrease and limit all non-essential expenditures. Pan American expects to generate positive free cash flow from operations in 2012 and to further strengthen its liquidity position.

· ***Political and Country Risk***

Pan American currently conducts operations in Peru, Mexico, Argentina and Bolivia. All of these jurisdictions are potentially subject to a number of political and economic risks, including those described above. The Company is unable to determine the impact of these risks on its future financial position or results of operations and the Company's exploration, development and production activities may be substantially affected by factors outside of Pan American's control. These potential factors include, but are not limited to: royalty and tax increases or claims by governmental bodies, expropriation or nationalization, foreign exchange controls, import and export regulations, cancellation or renegotiation of contracts and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

· ***Environmental and Health and Safety Risks***

Pan American's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety. Environmental laws and regulations are complex and have tended to become more stringent over time. Pan American is required to obtain governmental permits and in some instances provide bonding requirements under federal, state, or provincial air, water quality, and mine reclamation rules and permits. Although Pan American makes provisions for reclamation

costs, it cannot be assured that these provisions will be adequate to discharge its future obligations for these costs.

Failure to comply with applicable environmental and health and safety laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. While the health and safety of our people and responsible environmental stewardship are our top priorities, there can be no assurance that Pan American has been or will be at all times in complete compliance with such laws, regulations and permits, or that the costs of complying with current and future environmental and health and safety laws and permits will not materially and adversely affect Pan American's business, results of operations or financial condition.

· ***Employee Relations***

Pan American's business depends on good relations with its employees. At December 31, 2011 the Company had approximately 7,622 employees and employees of mining contractors, of which approximately 2,208 were represented by unions in Peru, 416 by a union in Argentina and a further 286 by a union in Bolivia. The Mexican mines do not have a union. The Company has experienced short-duration labour strikes and work stoppages in the past and may experience future labour related events.

The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Pan American's business activity grows, Pan American will require additional key mining personnel as well as additional financial and administrative staff. There can be no assurance that Pan American will be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases. If Pan American is not successful in this regard, the efficiency of its operations could be impaired, which could have an adverse impact on Pan American's future cash flows, earnings, results of operations and financial condition.

· ***Claims and Legal Proceedings***

Pan American is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities, including claims relating to ex-employees. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavourably to Pan American. The Company carries liability insurance coverage and establishes provisions for matters that are probable and can be reasonably estimated. In addition, Pan American may be involved in disputes with other parties in the future which may result in a material adverse impact on our financial condition, cash flow and results of operations. Please refer to the Note "Commitments and Contingencies" of the Audited Consolidated Financial Statements for further information.

· ***Corporate Development Activities***

An element of the Company's business strategy is to make selected acquisitions. The Company expects to continue to evaluate acquisition opportunities on a regular basis and intends to pursue those opportunities that it believes are in its long-term best interests. The success of the Company's acquisitions will depend upon the Company's ability to



effectively manage the operations of entities it acquires and to realize other anticipated benefits. The process of managing acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management resources. There can be no assurance that the Company will be able to successfully manage the operations of businesses it acquires or that the anticipated benefits of its acquisitions will be realized.

**CRITICAL JUDGEMENTS IN THE APPLICATION OF ACCOUNTING POLICIES**

In preparing financial statements in accordance with International Financial Reporting Standards, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These critical accounting estimates represent management estimates and judgments that are uncertain and any changes in these could materially impact the Company's financial statements. Management continuously reviews its estimates, judgments, and assumptions using the most current information available.

As this is the first year that financial statements have been prepared using IFRS, readers should refer to Note 2 of the consolidated financial statements for the year ended December 31, 2011, for the Company's summary of significant accounting policies including discussion of "Significant Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty ".

**FUTURE ACCOUNTING CHANGES**

**Accounting standards issued and effective January 1, 2012**

**IFRS 7** ***Financial Instruments: Disclosures*** amendment issued by the IASB in October 2010 enhances the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on the consolidated financial statements.

**IAS 12** ***Income Taxes*** amendment issued by the IASB in December 2010 provides a solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on the consolidated financial statements.

**Accounting standards issued and effective January 1, 2013**

**IFRS 10** ***Consolidated Financial Statements*** establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.



**IFRS 11** ***Joint Arrangements*** establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRS 12** ***Disclosure of Interests in Other Entities*** requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRS 13** ***Fair Value Measurement*** defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.* This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IAS 1** ***Presentation of Financial Statements*** amendment, issued by the IASB in June 2011, requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the application of IAS 1 to have a material impact on its consolidated financial statements.

**IAS 19** ***Employee Benefits*** amendment, issued by the IASB on June 2011 introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits.

The Company does not anticipate the application of the amended IAS 19 to have a material impact on its consolidated financial statements.

**IAS 27** ***Consolidated and Separate Financial Statements*** has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. This standard will not have an impact on the consolidated financial statements.

**IAS 28** ***Investments in Associates and Joint Ventures*** prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRIC 20** ***Stripping Costs in the Production Phase of a Surface Mine*** clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) useable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping assets.



The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

**Accounting standards effective January 1, 2015**

**IFRS 9** ***Financial Instruments*** is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety by the IASB in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex

than IAS 39. In November 2009 and October 2010, phase 1 of IFRS was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as a FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirements to restate comparative financial statements for the effects of applying IFRS 9.



**International Financial Reporting Standards (IFRS)**

The Accounting Standards Board (AcSB) adopted IFRS as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. As such, the Company is reporting its first audited consolidated financial statements in accordance with IFRS for the year ended December 31, 2011, with comparative figures for the year ended December 31, 2010. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

Our IFRS conversion team identified three phases to our conversion: scoping and diagnostics, analysis and development, implementation and review. All three phases have now been completed.

Note 23 of the consolidated financial statements for the year ending December 31, 2011, provides further details on our key Canadian GAAP to IFRS differences, reconciliations of our previously reported financial information under Canadian GAAP and IFRS, and our IFRS 1 First-Time Adoption of International Financial Reporting Standards optional exemption choices while Note 2 discloses our significant accounting policies.

**Transitional Financial Impact**

The below summarized financial statements provide an overview of the impact on our statement of financial position and income statement upon transition from Canadian GAAP to IFRS.

**Summarized Statement of Financial Position Reconciliation**

| | December 31, 2010 | | | As at January 1, 2010 (Date of transition) | | |
|---|---|---|---|---|---|---|
| | Canadian GAAP | Effect of Transition to IFRS | IFRS | Canadian GAAP | Effects of Transition to IFRS | IFRS Opening |
| **Total Assets** | **$ 2,072,608** | **$ (333,812)** | **$ 1,738,796** | **$ 1,848,609** | **$ (278,290)** | **$ 1,570,319** |
| Total Liabilities | 544,546 | (155,759) | 388,787 | 489,563 | (233,531) | $ 256,032 |
| Non-controlling interest | 7,774 | (7,774) | — | 15,256 | (15,256) | — |
| Total Equity | 1,520,288 | (170,279) | 1,350,009 | 1,343,790 | (29,503) | 1,314,287 |
| **Total Liabilities and Equity** | **$ 2,072,608** | **$ (333,812)** | **$ 1,738,796** | **$ 1,848,609** | **$ (278,290)** | **$ 1,570,319** |



**Summarized Income Statement Reconciliation**

| | Year ended December 31, 2010 (The latest presented year under previous GAAP) | | |
|---|---|---|---|
| | Previous GAAP | Effect of Transition to IFRS | IFRS |
| Net Earnings for the period | $ 112,573 | $ (96,866) | $ 15,707 |
| **Attributable to:** | | | |
| Equity holders of the Company | $ — | $ 13,711 | $ 13,711 |
| Non-controlling interest | — | 1,996 | 1,996 |
| | $ — | $ 15,707 | $ 15,707 |

**Key Effects of Transition to IFRS**

**Deferred taxes**

The adjustments to deferred income tax assets and liabilities reflect the tax effects under IAS 12 *Income Taxes*:

(a) IAS 12 requires recognition of deferred income taxes for differences that arise on translation of non-monetary assets denominated in currencies other than the Company's functional currency. The tax bases of these non-monetary assets are re-measured from historical rates to functional currency using current exchange rates. The difference as a result of change in exchange rates creates a deferred income tax adjustment. Under Canadian GAAP ("CGAAP"), the historical exchange rates were used and any differences that arose from re-measurement were recorded as foreign exchange gain or loss. The Company has mining properties in Argentina, Peru, Mexico and Bolivia with significant tax basis denominated in local currencies, the movement between the US dollar and these local currencies gives rise to changes in deferred income tax.

(b) Unlike CGAAP, IAS 12 prohibits the recognition of deferred taxes on initial recognition of an asset or liability where the acquisition is not a business combination and neither accounting profit nor taxable profit were affected at the time of the transaction. Accordingly, in its opening statement of financial position, the Company has reversed the deferred income tax liabilities recognized on acquisition of the assets of Aquiline, Manantial Espejo and Alamo Dorado.

(c) The deferred income tax expense booked on the deferred component of the employee profit-sharing arrangement at some of the Company's sites is different under IFRS. Unlike CGAAP, the deferred component of this employee benefit liability is not recognized under IAS 19 *Employee benefits*.

(d) IAS 12 specifies the conditions under which an entity can offset both current and deferred tax assets and liabilities, and requires deferred taxes to be presented as non-current.

(e) The tax effects of other IFRS adjustments.

**Closure and decommissioning**

(a) Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* , the closure provision is measured based on the best estimate of expenditure required to settle the obligation at the statement of financial position date using current discount rate and inflation assumptions; thus simplifying the calculation by removing the 'layering' concept used for CGAAP. In addition, IFRS requires that the liability be re-measured at each reporting date versus the requirement in CGAAP to re-measure in the event of changes in the amount or timing of cash flows required to settle the obligation.

(b) A reclassification of the accretion on the closure and decommissioning liability from operating expense to finance expense to comply with the presentation requirements of IAS 37.

**Share purchase warrants**

Reclassification of share purchase warrants that were presented as equity instruments under CGAAP to derivative financial liability under IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS, share purchase warrants with an exercise price denominated in a currency other than



the Company's functional currency are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values included in net earnings. Accordingly, a loss of $90.7 million was recorded under IFRS for the year ended December 31, 2010.

**Adjustments for non-controlling interest**

An adjustment to record the changes in non-controlling interests resulting from all the IFRS adjustments and reclassification of non-controlling interests to be included in the equity section under IFRS.

**Depreciation**

The adjustment to depreciation is a result of a change in the mineral property, plant and equipment basis as a consequence of the changes to the closure and decommissioning liability at all the mine sites and changes related to IAS 12 *Income Taxes* as discussed above. In addition, a presentation adjustment to include depreciation and amortization expenses as part of cost of sales.

**Foreign exchange gains or losses on available-for-sale monetary securities**

A reclassification of the unrealized gains or losses on available for sale monetary securities from other comprehensive income (under CGAAP) to earnings for the period (to retained earnings on transition date) to comply with IAS 39 *Financial Instruments: Recognition and Measurement*.

**Provisions**

A reclassification of the current portion of litigation provision from trade and other payables to provisions.

**Royalty**

A reclassification of royalty expenses from revenue to cost of sales to comply with the definition of Revenue under IAS 18 *Revenue*.

**Changes in ownership interests**

During the first quarter of 2010, the Company increased a controlling ownership interest in a business (Aquiline) by 7%. Under IFRS,

changes in ownership interest that do not result in a loss of control are accounted for as equity transactions and the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Under the CGAAP policy of the entity, such changes were treated as step acquisitions requiring an increase in the carrying value of the consolidated business. An adjustment was required in the first quarter in order to adjust the IFRS financial statements for the impact of this GAAP difference and appropriately account for this change as an equity transaction under IFRS. Accordingly, a $39.8 million adjustment was charged to equity (within retained earnings) under IFRS for this period.

**Consolidated Statement of Cash Flows Reconciliation**

The adoption of IFRS has not had any impact on the net cash flows of the Company, with the exception of the treatment of advances received for construction and equipment leases which under CGAAP are applied to capital for net investing whereas under IFRS they are included in income. Additionally, the changes made to the statements of financial position and income statements have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no significant change to the net cash flows, no reconciliations have been presented

**Outlook on Future Earnings**

Under IFRS, future net earnings will be impacted by changes in fair values to the Company's share purchase warrants, with an exercise price denominated in CAD. Changes in the fair value of the share purchase warrants is primarily influenced by the Company's share price, the volatility of the Company's share price and the Canadian to



USD exchange rate. Generally, if either the share price or the volatility increase or the Canadian dollar strengthens against the USD, with other factors remaining constant, the fair value of the warrant liability will increase and the Company will record an expense in its future earnings. In addition, these changes in the valuation of the share purchase warrants create a permanent difference for tax purposes and may result in significant volatility of our effective tax rate.

Secondly, due to the change in the accounting methodology of recognizing deferred taxes that arise on foreign non-monetary assets, the Company expects its foreign exchange gains or losses related to deferred income taxes to be less volatile under IFRS.

**Information Technology and Systems**

The adoption of IFRS did not have a significant impact on our information systems for the convergence periods.

**Internal Control over Financial Reporting and Disclosure Controls and Procedures**

The Company assessed the changes necessitated to maintain the integrity of internal control over financial reporting and disclosure controls and procedures. The extent of the impact on these controls was immaterial. The Company applied its existing control framework to the IFRS changeover process. All accounting policy changes and financial statement impacts were reviewed by senior management and the Audit Committee of the Board of Directors.

**Key Performance Measures**

The Company has assessed the impact of the adoption of IFRS on its key performance indicators. The transition to IFRS did not have a significant impact on its key performance indicators, which include gross profit margin, adjusted earnings per share, cash flow from operations and cash costs.

All analysis and conclusions are based on the IFRSs effective at December 31, 2011. As the IASB currently has various projects on its work plan that might affect our decisions for the financial year 2012, the Company continues to monitor and assess the impact of these changes.

**SUBSEQUENT EVENTS**

Please refer to the section "Minefinders Transaction", previously described, for details of the pending transaction announcement that occurred subsequent to December 31, 2011.



**DISCLOSURE CONTROLS AND PROCEDURES**

Pan American's management considers the meaning of internal control to be the processes established by management to provide reasonable assurance about the achievement of the Company's objectives regarding operations, reporting and compliance. Internal control is designed to address identified risks that threaten any of these objectives.

As of December 31, 2011, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have

concluded that, as of December 31, 2011, the Company's disclosure controls and procedures were effective.

· ***Changes in Internal Controls over Financial Reporting***

There was no change in the Company's internal control over financial reporting that occurred during the period that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

· ***Management's Report on Internal Control over Financial Reporting***

Management of Pan American is responsible for establishing and maintaining an adequate system of internal control, including internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. It includes those policies and procedures that:

a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Pan American,

b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of Pan American are being made only in accordance with authorizations of management and Pan American's directors, and

c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Pan American's assets that could have a material effect on the annual financial statements or interim financial reports.

The Company's management, including its President and Chief Executive Officer and Chief Financial Officer, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Management assessed the effectiveness of Pan American's internal control over financial reporting as at December 31, 2011, based on the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2011, Pan American's internal control over financial reporting is effective.

Management reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. Deloitte & Touche LLP, independent registered chartered accountants, were engaged, as approved by a vote of the Company's shareholders, to audit and provide independent opinions on the Company's consolidated financial statements and the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. Deloitte & Touche LLP has provided such opinions.



**MINERAL RESERVES AND RESOURCES**

| Property | Location | Type | Classification | Tonnes (Mt) | Ag (g/t) | Contained Ag (Moz) | Au (g/t) | Contained Au (000's oz) |
|---|---|---|---|---|---|---|---|---|
| Huaron | Peru | Vein | Proven | 6.1 | 188 | 36.8 | N/A | N/A |
| | | Vein | Probable | 4.2 | 177 | 24.1 | N/A | N/A |
| Morococha (92.2%) | Peru | Vein/Mantos | Proven | 4.0 | 153 | 19.8 | N/A | N/A |
| | | Vein /Mantos | Probable | 3.1 | 177 | 17.4 | N/A | N/A |
| La Colorada | Mexico | Vein | Proven | 1.8 | 399 | 22.5 | 0.44 | 24.6 |
| | | Vein | Probable | 1.8 | 383 | 21.6 | 0.41 | 23.4 |
| Quiruvilca | Peru | Vein | Proven | 0.6 | 138 | 2.5 | 0.82 | 14.6 |
| | | Vein | Probable | 0.4 | 136 | 1.7 | 0.77 | 9.5 |
| Alamo Dorado | Mexico | Disseminated | Proven | 7.0 | 88 | 19.7 | 0.28 | 63.8 |
| | | Disseminated | Probable | 2.1 | 89 | 6.01 | 0.52 | 35.0 |
| Manantial Espejo | Argentina | Vein | Proven | 4.2 | 144 | 19.6 | 2.17 | 295.4 |
| | | Vein | Probable | 2.2 | 135 | 9.6 | 2.13 | 151.2 |
| San Vicente (95%) | Bolivia | Vein | Proven | 1.7 | 449 | 24.1 | N/A | N/A |
| | | Vein | Probable | 0.8 | 380 | 10.0 | N/A | N/A |
| **TOTAL (i)** | | | **Proven + Probable** | **39.9** | **184** | **235.3** | **0.96** | **617.6** |

MINERAL RESOURCES — MEASURED AND INDICATED

| Property | Location | Type | Classification | Tonnes (Mt) | Ag (g/t) | Contained Ag (Moz) | Au (g/t) | Contained Au (000's oz) |
|---|---|---|---|---|---|---|---|---|
| Huaron | Peru | Vein | Measured | 1.0 | 157 | 4.8 | N/A | N/A |
| | | Vein | Indicated | 0.7 | 157 | 3.6 | N/A | N/A |
| Morococha (92.2%) | Peru | Vein/Mantos | Measured | 1.4 | 124 | 5.6 | N/A | N/A |
| | | Vein /Mantos | Indicated | 2.1 | 173 | 11.6 | N/A | N/A |
| La Colorada | Mexico | Vein | Measured | 0.2 | 194 | 1.0 | 0.18 | 1.0 |
| | | Vein | Indicated | 1.0 | 370 | 12.3 | 0.39 | 12.9 |
| Quiruvilca | Peru | Vein | Measured | 0.3 | 121 | 1.0 | 0.44 | 3.5 |
| | | Vein | Indicated | 0.3 | 120 | 1.1 | 0.37 | 3.5 |
| Silver Stockpiles | Peru | Flux Material | Measured | 0.2 | 318 | 1.9 | N/A | N/A |
| Alamo Dorado | Mexico | Disseminated | Measured | 1.0 | 49 | 1.7 | 0.22 | 7.4 |
| | | Disseminated | Indicated | 2.1 | 82 | 5.5 | 0.35 | 23.5 |
| Manantial Espejo | Argentina | Vein | Measured | 2.2 | 98 | 7.0 | 1.16 | 83.6 |
| | | Vein | Indicated | 3.7 | 85 | 10.1 | 1.01 | 119.8 |
| San Vicente (95%) | Bolivia | Vein | Measured | 0.4 | 120 | 1.7 | N/A | N/A |
| | | Vein | Indicated | 0.2 | 112 | 0.8 | N/A | N/A |
| Navidad | Argentina | Mantos, Diss. | Measured | 15.4 | 137 | 67.8 | N/A | N/A |
| | | Mantos, Diss. | Indicated | 139.8 | 126 | 564.5 | N/A | N/A |
| Pico Machay | Peru | Disseminated | Measured | 4.7 | N/A | N/A | 0.91 | 137.5 |
| | | Disseminated | Indicated | 5.9 | N/A | N/A | 0.67 | 127.1 |
| Calcatreu | Argentina | Vein | Indicated | 8.0 | 26 | 6.6 | 2.63 | 676.0 |
| **TOTAL (i)** | | | **Measured + Indicated** | **190.6** | **122** | **708.8** | **1.26** | **1,195.8** |

MINERAL RESOURCES — INFERRED

| Property | Location | Type | Classification | Tonnes (Mt) | Ag (g/t) | Contained Ag (Moz) | Au (g/t) | Contained Au (000's oz) |
|---|---|---|---|---|---|---|---|---|
| Huaron | Peru | Vein | Inferred | 7.1 | 176 | 40.0 | N/A | N/A |
| Morococha (92.2%) | Peru | Vein/Mantos | Inferred | 7.5 | 159 | 38.2 | N/A | N/A |
| La Colorada | Mexico | Vein | Inferred | 3.4 | 275 | 30.1 | 0.28 | 31.1 |
| Quiruvilca | Peru | Vein | Inferred | 1.4 | 109 | 4.7 | 0.59 | 25.7 |
| Alamo Dorado | Mexico | Disseminated | Inferred | 0.4 | 57 | 0.7 | 0.91 | 11.1 |
| Manantial Espejo | Argentina | Vein | Inferred | 1.6 | 89 | 4.6 | 1.07 | 54.7 |
| San Vicente (95%) | Bolivia | Vein | Inferred | 2.8 | 353 | 32.2 | N/A | N/A |
| Navidad | Argentina | Mantos, Diss. | Inferred | 45.9 | 81 | 119.4 | N/A | N/A |
| Pico Machay | Peru | Disseminated | Inferred | 23.9 | N/A | NA | 0.58 | 445.7 |
| Calcatreu | Argentina | Vein | Inferred | 3.4 | 17 | 1.8 | 2.06 | 226.0 |
| **TOTAL (i)** | | | **Inferred** | **97.3** | **115** | **271.7** | **0.73** | **794.4** |



HISTORICAL ESTIMATES

| Property | Location | Unclassified | Tonnes (Mt) | Ag (g/t) | Contained Ag (Moz) | Au (g/t) | Contained Au(000's oz) |
|---|---|---|---|---|---|---|---|
| Hog Heaven (ii) | USA | Historical | 2.7 | 167 | 14.6 | 0.62 | 53.9 |
| Hog Heaven (ii) | USA | Historical | 7.6 | 133 | 32.7 | 0.70 | 171.9 |
| Waterloo (iii) | USA | Historical | 33.8 | 93 | 100.9 | N/A | N/A |
| **TOTAL (i)** | | **Historical** | **44.1** | **104** | **148.2** | **0.68** | **225.8** |

**Notes**: Mineral Reserves and Resources are as defined by Canadian Institute of Mining Guidelines.
Mineral Resources do not have demonstrated economic viability.
This table illustrates Pan American Silver Corp's share of Mineral Reserves and Resources. Properties in which Pan American Silver has less than 100% interest are noted next to the property name.

Mineral Resource and Reserve estimates for Huaron, Quiruvilca, San Vicente, La Colorada, Manantial Espejo, Alamo Dorado and Morococha were prepared under the supervision of Michael Steinmann, P. Geo., Executive Vice-President Geology & Exploration and Martin G. Wafforn, P. Eng., Vice-President Technical Services as Qualified Persons as that term is defined in NI 43-101. Navidad Resource estimates were prepared by Pamela De Mark, P. Geo. Director of Resources.

Metal prices used for all Mines: Ag: $25/oz, Au: $1,350/oz, Pb: $1,850/tonne, Cu: $6,500/tonne, Zn $1,750/tonne.
Metal prices used for Navidad were Ag: $12.52/oz and Pb: $1,100/tonne.
Metal prices used for Calcatreu were Ag: $12.50/oz and Au: $650/oz.

(i) Totals may not add-up due to rounding.

(ii) The historical estimate for Hog Heaven was prepared by Gregory Hahn, Chief Geological Engineer for CoCa Mines Inc., a previous owner of the property, in a report titled “Hog Heaven Project Optimization Study” dated May 1989, prior to implementation of NI 43-101. The historical estimate was based on extensive diamond drilling, and was estimated using a silver price of $6.50 per ounce and a gold price of $400 per ounce (these were relevant prices at the time of the estimate). Michael Steinmann, P.Geo, has reviewed the available data, including drill sections, surface maps, and additional supporting information sources, and believes that the historic estimate was conducted in a professional and competent manner and is relevant for the purposes of the Company’s decision to maintain its interest in this property. In the study, the historic estimate was sub-categorized as follows:

| Category | Tons | oz/ton Ag | oz/ton Au |
|---|---|---|---|
| Proven Reserves | 2,981,690 | 4.88 | 0.018 |
| Probable & Possible Reserves | 904,200 | 10.40 | 0.020 |
| Heap leach ore | 316,100 | 1.56 | 0.014 |
| Possible resources | 4,500,000 | 2.41 | 0.020 |
| Inferred resources | 2,700,000 | 4.44 | 0.022 |

However, the Company has not completed the work necessary to verify the historical estimate. Accordingly, the Company is not treating the historical estimate as NI 43-101-compliant categories of Mineral Resources based on information prepared by or under the supervision of a QP. These historical estimates should not be relied upon.

The Company believes that the historical estimate category of “Proven Reserves” for Hog Heaven most closely corresponds to 2,705,000 tonnes in the CIM definition category of “Indicated Mineral Resources”.

The Company believes that the historical estimate categories of “Proven & Possible Reserves”, “heap leach ore stockpile”, “Possible Resources” and “Inferred Resources” most closely correspond to 7,639,000 tonnes in the CIM definition category of “Inferred Mineral Resources”.

(iii) The historical estimate for Waterloo was initially prepared by Asarco Inc. in 1968. In September 1994 Robert J. Rodger, P.Eng., reviewed the Asarco reports and prepared a Technical Evaluation Report on the Waterloo property, prior to the implementation of NI 43-101. The Technical Evaluation Report confirmed that the historical estimate was



based on reverse circulation drilling and underground sampling, and concluded the estimate was based on sound methodology. The historical estimate at Waterloo was prepared using a silver price of $5.00 per ounce (the relevant price at the time of the estimate). Michael Steinmann, P. Geo., has reviewed the Technical Evaluation Report and believes the historic estimate was conducted in a professional and competent manner and is relevant for purposes of the Company’s decision to maintain its interest in the property. The Company believes that the historical estimate category of 37,235,000 tons (at 2.71 ounces per ton silver) of “Measured and Indicated Reserves” most closely corresponds to 33,758,000 tonnes in the CIM definition category of “Indicated Mineral Resource.” However, the Company has not completed the work necessary to verify the historical estimate. Accordingly, the Company is not treating the historical estimate as NI 43-101 compliant categories of Mineral Resources based on information prepared by or under the supervision of a QP. These historical estimates should not be relied upon.

**TECHNICAL INFORMATION**

Michael Steinmann, P.GEO., Executive VP Geology & Exploration, and Martin Wafforn, P.ENG., VP Technical Services, each of whom are qualified persons, as the term is defined in National Instrument 43-101 “NI 43-101”, have reviewed and approved the contents of this Management Discussion & Analysis.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

CERTAIN OF THE STATEMENTS AND INFORMATION IN THIS MD&A CONSTITUTE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND “FORWARD-LOOKING INFORMATION” WITHIN THE MEANING OF APPLICABLE CANADIAN PROVINCIAL SECURITIES LAWS RELATING TO THE COMPANY AND ITS OPERATIONS. ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS MD&A THE WORDS, “BELIEVES”, “EXPECTS”, “INTENDS”, “PLANS”, “FORECAST”, “OBJECTIVE”, “OUTLOOK”, “POSITIONING”, “POTENTIAL”, “ANTICIPATED”, “BUDGET”, AND OTHER SIMILAR WORDS AND EXPRESSIONS, IDENTIFY FORWARD-LOOKING STATEMENTS OR INFORMATION. THESE FORWARD-LOOKING STATEMENTS OR INFORMATION RELATE TO, AMONG OTHER THINGS: FUTURE PRODUCTION OF SILVER, GOLD AND OTHER METALS; FUTURE CASH COSTS PER OUNCE OF SILVER; THE PRICE OF SILVER AND OTHER METALS; THE EFFECTS OF LAWS, REGULATIONS AND GOVERNMENT POLICIES AFFECTING PAN AMERICAN’S OPERATIONS OR POTENTIAL FUTURE OPERATIONS, INCLUDING BUT NOT LIMITED TO, LAWS IN THE PROVINCE OF CHUBUT, ARGENTINA, WHICH, CURRENTLY HAVE SIGNIFICANT RESTRICTIONS ON MINING; FUTURE SUCCESSFUL DEVELOPMENT OF THE NAVIDAD PROJECT, THE LA PRECIOSA PROJECT, AND OTHER DEVELOPMENT PROJECTS OF THE COMPANY; THE SUFFICIENCY OF THE COMPANY’S CURRENT WORKING CAPITAL, ANTICIPATED OPERATING CASH FLOW OR ITS ABILITY TO RAISE NECESSARY FUNDS; THE ACCURACY OF MINERAL RESERVE AND RESOURCE ESTIMATES; ESTIMATED PRODUCTION RATES FOR SILVER AND OTHER PAYABLE METALS PRODUCED BY THE COMPANY; TIMING OF PRODUCTION AND THE CASH AND TOTAL COSTS OF PRODUCTION AT EACH OF THE COMPANY’S PROPERTIES; THE ESTIMATED COST OF AND AVAILABILITY OF FUNDING NECESSARY FOR SUSTAINING CAPITAL; ONGOING OR FUTURE DEVELOPMENT PLANS AND CAPITAL REPLACEMENT, IMPROVEMENT OR REMEDIATION PROGRAMS; THE ABILITY OF THE COMPANY TO REDUCE ENVIRONMENTAL IMPACTS, INCLUDING A REDUCTION IN GREENHOUSE GAS EMISSIONS, AND TO IMPROVE SUSTAINABILITY IN ITS OPERATIONS AND PROJECTS; THE ESTIMATES OF EXPECTED OR ANTICIPATED ECONOMIC RETURNS FROM THE COMPANY’S MINING PROJECTS, AS REFLECTED IN TECHNICAL REPORTS OR OTHER ANALYSES PREPARED IN RELATION TO DEVELOPMENT OF

PROJECTS; ESTIMATED EXPLORATION EXPENDITURES TO BE INCURRED ON THE COMPANY'S VARIOUS PROPERTIES; FORECAST CAPITAL AND NON-OPERATING SPENDING; FUTURE SALES OF THE METALS, CONCENTRATES OR OTHER PRODUCTS PRODUCED BY THE COMPANY; AND THE COMPANY'S PLANS AND EXPECTATIONS FOR ITS PROPERTIES AND OPERATIONS.

THESE STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE NECESSARILY BASED UPON A NUMBER OF ASSUMPTIONS AND ESTIMATES THAT, WHILE CONSIDERED REASONABLE BY THE COMPANY, ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, POLITICAL AND SOCIAL UNCERTAINTIES AND CONTINGENCIES. MANY FACTORS, BOTH KNOWN AND UNKNOWN, COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM THE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT ARE OR MAY BE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A AND THE COMPANY HAS MADE ASSUMPTIONS AND ESTIMATES BASED ON OR RELATED TO MANY OF THESE FACTORS. SUCH FACTORS INCLUDE, WITHOUT LIMITATION: FLUCTUATIONS IN SPOT AND FORWARD MARKETS FOR SILVER, GOLD, BASE METALS AND CERTAIN OTHER COMMODITIES (SUCH AS NATURAL GAS, FUEL OIL AND ELECTRICITY); FLUCTUATIONS IN CURRENCY MARKETS (SUCH AS THE PERUVIAN SOL, MEXICAN PESO, ARGENTINE PESO, BOLIVIAN BOLIVIANO AND CANADIAN DOLLAR VERSUS THE U.S. DOLLAR); RISKS RELATED TO THE TECHNOLOGICAL AND OPERATIONAL NATURE OF THE COMPANY'S BUSINESS; CHANGES IN NATIONAL AND LOCAL GOVERNMENT, LEGISLATION, TAXATION, CONTROLS OR REGULATIONS AND POLITICAL OR ECONOMIC DEVELOPMENTS IN CANADA, THE UNITED STATES, MEXICO, PERU, ARGENTINA, BOLIVIA OR OTHER COUNTRIES WHERE THE COMPANY MAY CARRY ON BUSINESS IN THE FUTURE; RISKS AND HAZARDS ASSOCIATED WITH THE BUSINESS OF MINERAL EXPLORATION, DEVELOPMENT AND MINING (INCLUDING ENVIRONMENTAL HAZARDS, INDUSTRIAL ACCIDENTS, UNUSUAL OR UNEXPECTED GEOLOGICAL OR STRUCTURAL FORMATIONS, PRESSURES, CAVE-INS AND FLOODING); RISKS RELATING TO THE CREDIT WORTHINESS OR FINANCIAL CONDITION OF SUPPLIERS, REFINERS AND OTHER PARTIES WITH WHOM THE COMPANY DOES BUSINESS; INADEQUATE INSURANCE, OR INABILITY TO OBTAIN INSURANCE, TO COVER THESE RISKS AND HAZARDS; EMPLOYEE RELATIONS; RELATIONSHIPS WITH AND CLAIMS BY LOCAL COMMUNITIES AND INDIGENOUS POPULATIONS; AVAILABILITY AND INCREASING COSTS ASSOCIATED WITH MINING INPUTS AND LABOUR; THE SPECULATIVE NATURE OF MINERAL



EXPLORATION AND DEVELOPMENT, INCLUDING THE RISKS OF OBTAINING NECESSARY LICENSES AND PERMITS AND THE PRESENCE OF LAWS AND REGULATIONS THAT MAY IMPOSE RESTRICTIONS ON MINING, INCLUDING THOSE CURRENTLY IN THE PROVINCE OF CHUBUT, ARGENTINA; DIMINISHING QUANTITIES OR GRADES OF MINERAL RESERVES AS PROPERTIES ARE MINED; GLOBAL FINANCIAL CONDITIONS; THE COMPANY'S ABILITY TO COMPLETE AND SUCCESSFULLY INTEGRATE ACQUISITIONS AND TO MITIGATE OTHER BUSINESS COMBINATION RISKS; CHALLENGES TO, OR DIFFICULTY IN MAINTAINING, THE COMPANY'S TITLE TO PROPERTIES AND CONTINUED OWNERSHIP THEREOF; THE ACTUAL RESULTS OF CURRENT EXPLORATION ACTIVITIES, CONCLUSIONS OF ECONOMIC EVALUATIONS, AND CHANGES IN PROJECT PARAMETERS TO DEAL WITH UNANTICIPATED ECONOMIC OR OTHER FACTORS; INCREASED COMPETITION IN THE MINING INDUSTRY FOR PROPERTIES, EQUIPMENT, QUALIFIED PERSONNEL, AND THEIR COSTS; AND THOSE FACTORS IDENTIFIED UNDER THE CAPTION "RISKS RELATED TO PAN AMERICAN'S BUSINESS" IN THE COMPANY'S MOST RECENT FORM 40-F AND ANNUAL INFORMATION FORM FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CANADIAN PROVINCIAL SECURITIES REGULATORY AUTHORITIES. INVESTORS ARE CAUTIONED AGAINST ATTRIBUTING UNDUE CERTAINTY OR RELIANCE ON FORWARD-LOOKING STATEMENTS. ALTHOUGH THE COMPANY HAS ATTEMPTED TO IDENTIFY IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, THERE MAY BE OTHER FACTORS THAT CAUSE RESULTS NOT TO BE AS ANTICIPATED, ESTIMATED, DESCRIBED OR INTENDED. THE COMPANY DOES NOT INTEND, AND DOES NOT ASSUME ANY OBLIGATION, TO UPDATE THESE FORWARD-LOOKING STATEMENTS OR INFORMATION TO REFLECT CHANGES IN ASSUMPTIONS OR CHANGES IN CIRCUMSTANCES OR ANY OTHER EVENTS AFFECTING SUCH STATEMENTS OR INFORMATION, OTHER THAN AS REQUIRED BY APPLICABLE LAW.

**CAUTIONARY NOTE TO US INVESTORS CONCERNING ESTIMATES OF RESERVES AND RESOURCES**

THIS MD&A HAS BEEN PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF CANADIAN PROVINCIAL SECURITIES LAWS, WHICH DIFFER FROM THE REQUIREMENTS OF U.S. SECURITIES LAWS. UNLESS OTHERWISE INDICATED, ALL MINERAL RESERVE AND RESOURCE ESTIMATES INCLUDED IN THIS MD&A HAVE BEEN PREPARED IN ACCORDANCE WITH CANADIAN NATIONAL INSTRUMENT 43-101 — STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS ("NI 43-101") AND THE CANADIAN INSTITUTE OF MINING, METALLURGY AND PETROLEUM CLASSIFICATION SYSTEM. NI 43-101 IS A RULE DEVELOPED BY THE CANADIAN SECURITIES ADMINISTRATORS THAT ESTABLISHES STANDARDS FOR ALL PUBLIC DISCLOSURE AN ISSUER MAKES OF SCIENTIFIC AND TECHNICAL INFORMATION CONCERNING MINERAL PROJECTS.

CANADIAN STANDARDS, INCLUDING NI 43-101, DIFFER SIGNIFICANTLY FROM THE REQUIREMENTS OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), AND INFORMATION CONCERNING MINERALIZATION, DEPOSITS, MINERAL RESERVE AND RESOURCE INFORMATION CONTAINED OR REFERRED TO HEREIN MAY NOT BE COMPARABLE TO SIMILAR INFORMATION DISCLOSED BY U.S. COMPANIES. IN PARTICULAR, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THIS MD&A USES THE TERMS ''MEASURED RESOURCES'', ''INDICATED RESOURCES'' AND ''INFERRED RESOURCES''. U.S. INVESTORS ARE ADVISED THAT, WHILE SUCH TERMS ARE RECOGNIZED AND REQUIRED BY CANADIAN SECURITIES LAWS, THE SEC DOES NOT RECOGNIZE THEM. UNDER U.S. STANDARDS, MINERALIZATION MAY NOT BE CLASSIFIED AS A ''RESERVE'' UNLESS THE DETERMINATION HAS BEEN MADE THAT THE MINERALIZATION COULD BE ECONOMICALLY AND LEGALLY PRODUCED OR EXTRACTED AT THE TIME THE RESERVE DETERMINATION IS MADE. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OF A "MEASURED RESOURCE" OR "INDICATED RESOURCE" WILL EVER BE CONVERTED INTO A "RESERVE". U.S. INVESTORS SHOULD ALSO UNDERSTAND THAT "INFERRED RESOURCES" HAVE A GREAT AMOUNT OF UNCERTAINTY AS TO THEIR EXISTENCE AND GREAT UNCERTAINTY AS TO THEIR ECONOMIC AND LEGAL FEASIBILITY. IT CANNOT BE ASSUMED THAT ALL OR ANY PART OF "INFERRED RESOURCES" EXIST, ARE ECONOMICALLY OR LEGALLY MINEABLE OR WILL EVER BE UPGRADED TO A HIGHER CATEGORY. UNDER CANADIAN SECURITIES LAWS, ESTIMATED "INFERRED RESOURCES" MAY NOT FORM THE BASIS OF FEASIBILITY OR PRE-FEASIBILITY STUDIES EXCEPT IN RARE CASES. DISCLOSURE OF "CONTAINED OUNCES" IN A MINERAL RESOURCE IS PERMITTED DISCLOSURE UNDER CANADIAN SECURITIES LAWS. HOWEVER, THE SEC NORMALLY ONLY PERMITS

ISSUERS TO REPORT MINERALIZATION THAT DOES NOT CONSTITUTE “RESERVES” BY SEC STANDARDS AS IN PLACE TONNAGE AND GRADE, WITHOUT REFERENCE TO UNIT MEASURES. THE REQUIREMENTS OF NI 43-101 FOR IDENTIFICATION OF “RESERVES” ARE ALSO NOT THE SAME AS THOSE OF THE SEC, AND RESERVES REPORTED BY THE COMPANY IN COMPLIANCE WITH NI 43-101 MAY NOT QUALIFY AS “RESERVES” UNDER SEC STANDARDS. ACCORDINGLY, INFORMATION CONCERNING MINERAL DEPOSITS SET FORTH HEREIN MAY NOT BE COMPARABLE WITH INFORMATION MADE PUBLIC BY COMPANIES THAT REPORT IN ACCORDANCE WITH U.S. STANDARDS.






**Management’s Report on Internal Controls over Financial Reporting**

The accompanying Consolidated Financial Statements of Pan American Silver Corp. were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (“IFRS”). Financial information appearing throughout our management’s discussion and analysis is consistent with these Consolidated Financial Statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring employees, policies and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The Board of Directors oversees management’s responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of Pan American Silver Corp. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues.

Deloitte & Touche LLP, Independent Registered Chartered Accountants appointed by the shareholders of Pan American Silver Corp. upon the recommendation of the Audit Committee and Board, have performed an independent audit of the Consolidated Financial Statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

| | |
|---|---|
| /s/ Geoff Burns | /s/ A. Robert Doyle |
| Geoff Burns | A. Robert Doyle |
| President and Chief Executive Officer | Chief Financial Officer |

March 21, 2012



**Pan American SILVER CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS AND NOTES**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

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Deloitte.

**Deloitte & Touche LLP**
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada
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**Report of Independent Registered Chartered Accountants**

To the Board of Directors and Shareholders of Pan American Silver Corp.

We have audited the accompanying consolidated financial statements of Pan American Silver Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated income statements, statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pan American Silver Corp. and subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Other Matter**

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Independent Registered Chartered Accountants

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**Report of Independent Registered Chartered Accountants**

To the Board of Directors and Shareholders of Pan American Silver Corp.

We have audited the internal control over financial reporting of Pan American Silver Corp. and subsidiaries (the "Company") as of December 31, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2011 of the Company and our report dated March 21, 2012 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
March 21, 2012
Vancouver, Canada



**Pan American Silver Corp.**
**Consolidated Statements of Financial Position**
As at December 31, 2011, December 31, 2010 and January 1, 2010
(in thousands of U.S. dollars)

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | **$ 262,901** | $ 179,921 | $ 100,474 |
| Short-term investments (Note 5) | **228,321** | 180,583 | 92,623 |
| Trade and other receivables (Note 4) | **103,433** | 66,893 | 66,059 |
| Income taxes receivable | **2,542** | 87 | 12,132 |
| Inventories (Note 6) | **135,696** | 106,854 | 93,446 |
| Derivative financial instruments | **—** | — | 160 |
| Prepaids and other current assets | **9,343** | 6,520 | 2,568 |
| | **742,236** | 540,858 | 367,462 |
| **Non-current assets** | | | |
| Mineral property, plant and equipment, net (Note 7) | **1,189,708** | 1,161,323 | 1,177,076 |
| Long-term refundable tax | **10,253** | 28,171 | 11,909 |
| Deferred tax assets (Note 20) | **4,170** | 6,826 | 7,351 |
| Other assets (Note 8) | **5,429** | 1,618 | 6,521 |
| **Total Assets** | **$ 1,951,796** | $ 1,738,796 | $ 1,570,319 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities (Note 9) | **$ 78,258** | $ 77,662 | $ 90,591 |
| Provisions (Note 10) | **2,341** | 3,450 | 4,948 |
| Current portion of finance lease (Note 11) | **20,841** | 118 | 620 |
| Current income tax liabilities | **74,366** | 29,699 | 4,021 |
| | **175,806** | 110,929 | 100,180 |
| **Non-current liabilities** | | | |
| Provisions (Note 10) | **59,052** | 74,016 | 57,273 |
| Deferred tax liabilities (Note 20) | **54,919** | 49,804 | 33,872 |
| Share purchase warrants (Note 13) | **23,651** | 127,890 | 43,919 |
| Long-term portion of finance lease (Note 11) | **10,824** | 5,360 | — |
| Other long-term liabilities (Note 12) | **25,457** | 20,788 | 20,788 |
| **Total Liabilities** | **349,709** | 388,787 | 256,032 |
| | | | |
| **Equity** | | | |
| **Capital and reserves** (Note 13) | | | |
| Issued capital | **1,243,241** | 1,276,887 | 1,206,647 |
| Share option reserve | **8,631** | 7,022 | 6,349 |
| Investment revaluation reserve | **2,146** | 7,698 | 1,452 |
| Retained earnings | **339,821** | 49,751 | 83,875 |
| **Total Equity attributable to equity holders of the Company** | **1,593,839** | 1,341,358 | 1,298,323 |
| Non-controlling interests | **8,248** | 8,651 | 15,964 |
| **Total Equity** | **1,602,087** | 1,350,009 | 1,314,287 |
| **Total Liabilities and Equity** | **$ 1,951,796** | $ 1,738,796 | $ 1,570,319 |

See accompanying notes to the consolidated financial statements.

*APPROVED BY THE BOARD ON MARCH 21, 2012*

*"signed"* *Ross Beaty, Director* *"signed"* *Geoff A. Burns, Director*



**Pan American Silver Corp.**
**Consolidated Income Statements**
For the years ended December 31, 2011 and December 31, 2010
(in thousands of U.S. dollars)

| | 2011 | 2010 |
|---|---|---|
| Revenue (Note 18) | **$ 855,275** | $ 646,553 |
| Production Costs (Note 14) | **(341,363)** | (307,787) |
| Depreciation and amortization | **(82,756)** | (83,084) |
| Royalties | **(22,031)** | (14,567) |
| **Mine operating earnings** | **409,125** | 241,115 |
| | | |
| General and administrative | **(18,291)** | (17,109) |
| Exploration and project development | **(27,727)** | (24,527) |
| Doubtful accounts provision | **—** | (4,754) |
| Foreign exchange (losses) gains | **(8,126)** | 1,686 |
| Gain (loss) on commodity and foreign currency contracts | **681** | (237) |
| Gain on sale of assets | **1,190** | 651 |

| | | |
|---|---|---|
| Other income (Note 19) | **15,728** | 4,527 |
| Earnings from operations | **372,580** | 201,352 |
| | | |
| Gain (loss) on derivatives (Note 13) | **101,828** | (90,661) |
| Investment income | **3,055** | 961 |
| Interest and finance expense | **(6,199)** | (5,730) |
| Earnings before income taxes | **471,264** | 105,922 |
| Income taxes (Note 20) | **(117,118)** | (90,215) |
| **Net earnings for the year** | **$ 354,146** | $ 15,707 |
| | | |
| **Attributable to:** | | |
| Equity holders of the Company | **$ 352,494** | $ 13,711 |
| Non-controlling interests | **1,652** | 1,996 |
| | **$ 354,146** | $ 15,707 |
| | | |
| **Earnings per share attributable to common shareholders** (Note 16) | | |
| Basic earnings per share | **$ 3.31** | $ 0.13 |
| Diluted earnings per share | **$ 3.31** | $ 0.13 |
| Weighted average shares outstanding (in 000's) Basic | **106,434** | 106,969 |
| Weighted average shares outstanding (in 000's) Diluted | **106,598** | 107,277 |

**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2011 and December 31, 2010 (in thousands of U.S. dollars)

| | **2011** | 2010 |
|---|---|---|
| Net earnings for the year | **$ 354,146** | $ 15,707 |
| | | |
| Unrealized net (loss) gains on available for sale securities (net of zero dollars tax) | **(3,979)** | 6,544 |
| Reclassification adjustment for net gains included in earnings | **(1,573)** | (298) |
| **Total comprehensive income for the year** | **$ 348,594** | $ 21,953 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the Company | **$ 346,942** | $ 19,957 |
| Non-controlling interests | **1,652** | 1,996 |
| | **$ 348,594** | $ 21,953 |

See accompanying notes to the consolidated financial statements.



**Pan American Silver Corp.**
**Consolidated Statements of Cash Flows**
For the years ended December 31, 2011 and December 31, 2010
(in thousands of U.S. dollars)

| | **2011** | **2010** |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net earnings for the year | **$ 354,146** | $ 15,707 |
| | | |
| Current income tax expense (Note 20) | **109,347** | 73,758 |
| Deferred income tax provision (Note 20) | **7,771** | 16,457 |
| Depreciation and amortization | **82,756** | 83,084 |
| Accretion on closure and decommissioning provision | **3,268** | 3,668 |
| Unrealized gain on foreign exchange | **(1,071)** | (624) |
| Doubtful account provision | **—** | 4,754 |
| Stock-based compensation expense | **3,502** | 4,028 |
| Unrealized (gain) loss on commodity contracts | **—** | 160 |
| (Gain) /loss on derivatives | **(101,828)** | 90,661 |
| Gain on sale of assets | **(1,190)** | (651) |
| Changes in non-cash operating working capital (Note 17) | **(39,435)** | (12,622) |
| **Operating cash flows before interest and income taxes** | **417,266** | 278,380 |
| | | |
| Interest paid | **(557)** | (137) |
| Interest received | **1,482** | 664 |
| Income taxes paid | **(58,736)** | (36,651) |
| **Net cash generated from operating activities** | **$ 359,455** | $ 242,256 |
| | | |
| **Cash flow from investing activities** | | |
| Payments for mineral property, plant and equipment | **(123,579)** | (78,010) |
| Net purchases of short term investments | **(51,071)** | (80,162) |
| Proceeds from sale of mineral property, plant and equipment | **1,297** | 1,337 |
| Net refundable tax and other asset expenditures | **(3,915)** | (3,922) |

| | | |
|---|---|---|
| **Net cash used in investing activities** | **$ (177,268)** | $ (160,757) |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from issue of equity shares | **4,453** | 11,887 |
| Shares repurchased and cancelled (Note 13) | **(94,034)** | — |
| Advances on working capital | **—** | (5,630) |
| Dividends paid | **(10,732)** | (8,026) |
| Net contributions/(distributions) from non-controlling interests | **904** | (992) |
| **Net cash used in financing activities** | **$ (99,409)** | $ (2,761) |
| Effects of exchange rate changes on cash | **202** | 709 |
| Net increase in cash | **82,980** | 79,447 |
| Cash at the beginning of the year | **179,921** | 100,474 |
| Cash at the end of the year | **$ 262,901** | $ 179,921 |

See accompanying notes to the consolidated financial statements.



**Pan American Silver Corp.**
**Consolidated Statements of Changes in Equity**
**For the years ended December 31, 2011 and 2010**
(in thousands of U.S. dollars, except for number of shares)

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued shares | Issued capital | Share option reserve | Investment revaluation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balance, January 1, 2010** | **105,117,120** | **$ 1,206,647** | **$ 6,349** | **$ 1,452** | **$ 83,875** | **$ 1,298,323** | **$ 15,964** | **$ 1,314,287** |
| Total comprehensive income | | | | | | | | |
| Net earnings for the year | — | — | — | — | 13,711 | 13,711 | 1,996 | 15,707 |
| Other comprehensive income | — | — | — | 6,246 | — | 6,246 | — | 6,246 |
| | — | — | — | 6,246 | 13,711 | 19,957 | 1,996 | 21,953 |
| Issued on the exercise of stock options | 450,587 | 9,003 | (1,655) | — | — | 7,348 | — | 7,348 |
| Issued as compensation | 76,918 | 2,490 | — | — | — | 2,490 | — | 2,490 |
| Issued on the exercise of warrants | 399,005 | 15,215 | — | — | — | 15,215 | — | 15,215 |
| Issued to acquire non-controlling interest of Aquiline Resources Inc. | 1,747,738 | 43,532 | — | — | (39,809) | 3,723 | (7,709) | (3,986) |
| Other decreases in non-controlling interest | — | — | — | — | — | — | (608) | (608) |
| Distributions by subsidiaries to non-controlling interests | — | — | — | — | — | — | (992) | (992) |
| Stock-based compensation on option grants | — | — | 2,328 | — | — | 2,328 | — | 2,328 |
| Dividend declared | — | — | — | — | (8,026) | (8,026) | — | (8,026) |
| **Balance, December 31, 2010** | **107,791,368** | **$ 1,276,887** | **$ 7,022** | **$ 7,698** | **$ 49,751** | **$ 1,341,358** | **$ 8,651** | **$ 1,350,009** |
| Total comprehensive income | | | | | | | | |
| Net earnings for the year | — | — | — | — | 352,494 | 352,494 | 1,652 | 354,146 |
| Other comprehensive loss | — | — | — | (5,552) | — | (5,552) | — | (5,552) |
| | — | — | — | (5,552) | 352,494 | 346,942 | 1,652 | 348,594 |
| Issued on the exercise of stock options | 90,093 | 2,692 | (503) | — | — | 2,189 | — | 2,189 |
| Issued as compensation | 53,721 | 1,329 | — | — | — | 1,329 | — | 1,329 |
| Issued on the exercise of warrants | 139,761 | 4,675 | — | — | — | 4,675 | — | 4,675 |
| Shares repurchased and cancelled | (3,582,200) | (42,342) | — | — | (51,692) | (94,034) | — | (94,034) |
| Distributions by subsidiaries to non-controlling interests | — | — | — | — | — | — | (2,055) | (2,055) |
| Stock-based compensation on option grants | — | — | 2,112 | — | — | 2,112 | — | 2,112 |
| Dividend declared | — | — | — | — | (10,732) | (10,732) | — | (10,732) |
| **Balance, December 31, 2011** | **104,492,743** | **$ 1,243,241** | **$ 8,631** | **$ 2,146** | **$ 339,821** | **$ 1,593,839** | **$ 8,248** | **$ 1,602,087** |

See accompanying notes to the consolidated financial statements.



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## 1. Nature of Operations

Pan American Silver Corp. is the ultimate parent company of its subsidiary group (collectively, the "Company", or "Pan American"). The Company is incorporated and domiciled in Canada, and its registered office is at Suite 1500 — 625 Howe Street, Vancouver, British Columbia, V6C 2T6.

The Company is engaged in the production and sale of silver, gold and other base metals including copper, lead and zinc as well as other related activities, including exploration, extraction, processing, refining and reclamation. The Company's primary product (silver) is produced in Peru, Mexico, Argentina and Bolivia. Additionally, the Company has project development activities in Peru, Mexico and Argentina, and exploration activities throughout South America and Mexico.

## 2. Summary of Significant Accounting Policies

### a. Statement of Compliance

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations of the IFRS Interpretations Committee ("IFRIC") issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1 — *First-time adoption of International Financial Reporting Standards* ("IFRS 1") with a transition date of January 1, 2010. These consolidated financial statements have been prepared in accordance with IFRS standards and interpretations effective as of December 31, 2011.

### b. Basis of Preparation

The Company's accounting policies have been applied consistently in preparing these consolidated annual financial statements for the year ended December 31, 2011, the comparative information as at December 31, 2010 and the opening statement of financial position at the date of transition. The effects of the transition to IFRS on the statements of financial position, equity, total comprehensive income and income statements are presented in Note 23.

### c. Significant Accounting Policies

Principles of Consolidation: The financial statements consolidate the financial statements of Pan American and its subsidiaries. All intercompany balances and transactions, including unrealized profits and losses arising from intra-company transactions, have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This occurs when the Company has more than 50% voting power through ownership or agreements, except where minority rights are such that a minority shareholder is able to prevent the Company from exercising control. Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting period during which the Company has control. Subsidiaries use the same reporting period and same accounting policies as the Company.

For partly owned subsidiaries, the net assets and net earnings attributable to non-controlling shareholders are presented as "net earnings attributable to non-controlling interest" in the consolidated statement of financial position and consolidated income statement.

The consolidated financial statements include the wholly-owned and partially-owned subsidiaries of the Company, the most significant of which are presented in the following table:





| Subsidiary | Location | Ownership Interest | Status | Operations and Development Projects Owned |
|---|---|---|---|---|
| Pan American Silver S.A. Mina Quiruvilca | Peru | 100% | Consolidated | Huaron Mine/Quiruvilca Mine |
| Compañía Minera Argentum S.A. | Peru | 92% | Consolidated | Morococha Mine |
| Minera Corner Bay S.A. | Mexico | 100% | Consolidated | Alamo Dorado Mine |
| Plata Panamericana S.A. de C.V. | Mexico | 100% | Consolidated | La Colorada Mine |
| Compañía Minera Tritón S.A. | Argentina | 100% | Consolidated | Manantial Espejo Mine |
| Pan American Silver (Bolivia) S.A. | Bolivia | 95% | Consolidated | San Vicente Mine |
| Minera Argenta S.A. | Argentina | 100% | Consolidated | Navidad Project |

Associates: An associate is an entity over which the investor has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist where the Company has between 20% and 50% of the voting rights, but can also arise where the Company has less than 20%, if the Company has the power to be actively involved and influential in policy decisions affecting the entity. The Company's share of the net assets and net earnings or loss is accounted for in the consolidated financial statements using the equity method of accounting.

Basis of measurement: These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, share purchase warrants and assets classified as at fair value through profit or loss or available-for-sale which are measured at fair value. Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Currency of presentation: The consolidated financial statements are presented in United States dollars ("USD"), which is the Company's functional and presentation currency, and all values are rounded to the nearest thousand except where otherwise indicated.

Business combinations: Upon the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) acquired on the basis of fair value at the date of acquisition. When the cost of acquisition exceeds the fair values attributable to the Group's share of the identifiable net assets, the difference is treated as purchased goodwill, which is not amortised but is reviewed for impairment annually or more frequently when there is an indication of impairment. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the income statement. Acquisition related costs, other than costs to issue debt or equity securities, of the acquirer,

including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Company as consideration for the acquisition are reduced from share capital as share issuance costs. The costs to issue debt securities are capitalized and amortized using the effective interest method.

Control of a business may be achieved in stages. Upon the acquisition of control, any previously held interest is re-measured to fair value at the date control is obtained resulting in a gain or loss upon the acquisition of control. In addition, any change relating to interest previously recognized in other comprehensive income is reclassified to the income statement upon the acquisition of control.

Significant Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty: Many of the amounts included in the financial statements involve the use of judgement and or estimates in the process of applying the Company's accounting policies. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements.

(a) Critical Judgements in the Application of Accounting Policies

Judgements that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:





- *Capitalization of exploration and evaluation costs:* The Company has determined that exploration and evaluation costs incurred during the year for the respective operating mines, Navidad and other exploration interests have potential future economic benefits and are potentially economically recoverable. In making this judgement, the Company has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity to existing ore bodies, operating management expertise and required environmental, operating and other permits. During the year, the Company capitalized a total of $22.3 million (2010 - $29.1 million) of exploration expenditures.

- *Commencement of commercial/operating level of production:* During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as property, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production that provides a basis for a reasonable expectation of profitability along with various qualitative factors including but not limited to the achievement of mechanical completion, whether production levels are sufficient to be at least capable of generating sustainable positive cash flow, the working effectiveness of the site refinery, whether a refining contract for the product is in place and whether the product is of sufficient quality to be sold, whether there is a sustainable level of production input available including power, water and diesel; whether the necessary permits are in place to allow continuous operations.

- *Assets' carrying values and impairment charges:* In determining carrying values and impairment charges the Company looks at recoverable amounts, defined as the higher of value in use or fair value less cost to sell in the case of assets, and at objective evidence that identifies significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. For instance, the Company continues to work in an open and informed manner with the provincial government and local communities regarding open pit mining in the Central Meseta of Chubut and remains confident that this approach will result in a change in the mining law, to allow for open pit mining. Accordingly, this was used as a factor in the Company's assessment of the carrying value of the Navidad project.

- *Functional currency:* The functional currency for the Company, its subsidiaries and associates is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries and associates is the USD. Determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

- *Business combinations:* Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgements, taking into account all facts and circumstances. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business.

- *Deferral of stripping costs:* In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company treats the costs of removal of the waste material during a mine's production phase as deferred, where it gives rise to future benefits. These capitalized costs are subsequently amortized in a systematic and rational manner over the reserves that directly benefit from the specific stripping activity. As at December 31, 2011, the carrying amount of stripping costs capitalized was $1.6 million (2010 - $nil).

- *Determination of significant influence:* The Company determines its ability to exercise significant influence over an investment in shares of other companies by looking at its percentage interest and other qualitative factors including but not limited to its voting rights, operating involvement.

- *Replacement convertible debenture:* As part of the 2009 Aquiline transaction the Company issued a replacement convertible debenture that allowed the holder to convert the debenture into either 363,854 Pan American shares or a Silver Stream contract. The convertible debenture is classified and accounted for as a deferred credit. In determining the appropriate classification of the convertible debenture as a deferred credit, the Company evaluated the economics underlying the contract as of the date the Company assumed the obligation. As at December 31, 2011, the carrying amount of the convertible debenture arising from the Aquiline acquisition is $20.8 million (2010 - $20.8 million).

- *Share purchase warrants:* The carrying value of share purchase warrants is at fair value. The share purchase warrants are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values reported in the income statement as a gain or loss on derivatives. The Company utilizes the Black-Scholes pricing model to determine the fair values of the share purchase warrants as the best approximation of fair value given the warrants are not listed or publically traded. The Company uses significant judgement in the evaluation of the input variables in the Black-Scholes calculation which include: risk free interest rate, expected stock price volatility, expected life, expected dividend yield and a quoted market price of the Company's shares on the Toronto Stock Exchange. At December 31, 2011, the fair value of the share purchase warrants was $23.7 million (2010 - $127.9 million). Additionally, during the year ended December 31, 2011, there was a derivative gain of $101.8 million (2010 — derivative loss of $90.7 million).

(b) Key Sources of Estimation Uncertainty in the Application of Accounting Policies

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

- *Revenue recognition:* Revenue from the sale of concentrate to independent smelters is recorded at the time the risks and rewards of ownership pass to the buyer using forward market prices on the expected date that final sales prices will be fixed. Variations between the prices set under the smelting contracts may be caused by changes in market prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in the fair value classified in revenue. In a period of high price volatility, as experienced under current economic conditions, the effect of mark-to-market price adjustments related to the quantity of metal which remains to be settled with independent smelters could be significant. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted.

- *Estimated recoverable ounces:* The carrying amounts of the Company's mining properties are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change to future depletion rates.

- *Mineral reserve estimates:* The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgements used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- *Mine operating costs:* In determining mine operating costs recognized in the Consolidated Income Statement, the Company makes estimates of quantities of ore stacked in stockpiles and in process and the recoverable silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. At December 31, 2011, the carrying amount of current inventories excluding supplies was $99.8 million (2010 - $72.0 million).



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- *Depreciation and amortization rates for mineral property, plant and equipment and mineral interests:* Depreciation and amortization expenses are allocated based on assumed asset lives and depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the Consolidated Income Statement. A change in the mineral reserve estimate for assets depreciated using the units of production method would impact depreciation expense.

- *Impairment of mining interests:* While assessing whether any indications of impairment exist for mining interests, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests. Internal sources of information include the manner in which property and plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the

carrying amounts of the Company's mining interests.

- *Estimation of decommissioning and restoration costs and the timing of expenditures:* The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at the best estimate of expenditure required to settle the present obligation of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine at the end of the reporting period. The carrying amount is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. At December 31, 2011, the carrying amount of the Company's provision for the closure and decommissioning cost obligation was $55.8 million (2010 - $71.6 million).

- *Income taxes and recoverability of deferred tax assets:* In assessing the probability of realizing income tax assets recognized, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- *Accounting for acquisitions:* The fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make estimates based on the information provided by the acquiree. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be retrospectively adjusted when the final measurements are determined (within one year of acquisition date).

- *Contingencies:* Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event the Company's estimates of the future resolution





of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

Revenue Recognition: Revenue associated with the sale of commodities is recognized when all significant risks and rewards of ownership of the asset sold are transferred to the customer, usually when insurance risk and title has passed to the customer and the commodity has been delivered to the shipping agent. At this point the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodities and the costs incurred, or to be incurred, in respect of the sale can be reliably measured. Revenue is recognized, at the fair value of the consideration receivable, to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Sales revenue is recognized at the fair value of consideration received, which in most cases is based on invoiced amounts.

The Company's concentrate sales contracts with third-party smelters, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on applicable commodity prices set on specified quotational periods, typically ranging from one month prior to shipment, and can extend to three months after the shipment arrives at the smelter and is based on average market metal prices. For this purpose, the selling price can be measured reliably for those products, such as silver, gold, zinc, lead and copper, for which there exists an active and freely traded commodity market such as the London Metals Exchange and the value of product sold by the Company is directly linked to the form in which it is traded on that market.

Sales revenue is commonly subject to adjustment based on an inspection of the product by the customer. In such cases, sales revenue is initially recognized on a provisional basis using the Company's best estimate of contained metal, and adjusted subsequently. Revenues are recorded under these contracts at the time title passes to the buyer based on the expected settlement period. Revenue on provisionally priced sales is recognized based on estimates of the fair value of the consideration receivable based on forward market prices. At each reporting date provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. Variations between the price recorded at the shipment date and the actual final price set under the smelting contracts are caused by changes in metal prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with the fair value adjustments recognized in revenue.

Refining and treatment charges are netted against revenue for sales of metal concentrate. Sales of concentrate are stated at their invoiced amount which is net of treatment and refining charges.

Financial instrument: A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*(i) Financial assets*

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Derivatives are included in this category and are classified as current assets or non-current assets based on their maturity date. The Company does not acquire financial assets for the purpose of selling in the short term. Financial assets carried at fair value through profit or loss, are initially recognized at fair value. The directly attributable transaction costs are expensed in the income statement in the period in which they are incurred. Subsequent changes in fair value are recognized in net earnings.





(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise 'trade and other receivables', 'other assets' and 'cash' in the statement of financial position. Loans and receivables are carried at amortized cost less any impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either specifically designated as available-for- sale or not classified in any of the other categories. They are included in non-current assets unless the Company intends to dispose of the investment within 12 months of the statement of financial position date. Changes in the fair value of available-for-sale financial assets denominated in a currency other than the functional currency of the holder, other than equity investments, are analyzed between translation differences and other changes in the carrying amount of the security. The translation differences are recognized in the income statement. Any impairment charges are also recognized in the income statement, while other changes in fair value are recognized in other comprehensive income. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments previously recognized in accumulated other comprehensive income are reclassified to the income statement.

Dividends on available-for-sale equity instruments are also recognized in the income statement within investment income when the Company's right to receive payments is established.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred.

*ii) Financial liabilities*

Borrowings and other financial liabilities are classified as other financial liabilities and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in the income statement over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

*(iii) Derivative financial instruments*

When the Company enters into derivative contracts these transactions are designed to reduce exposures related to assets and liabilities, firm commitments or anticipated transactions. All derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each statement of financial position date.

*Embedded derivatives:* Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts. For example, variations between the commodity price recorded at the shipment date and the actual final price set under the smelting contracts are caused by changes in metal prices and result in an embedded derivative in the accounts receivable. This is described in the policy for revenue recognition.

*(iv) Fair value*

Fair value is the amount at which an item could be exchanged in an arm's length transaction between informed and willing parties. Where relevant market prices are available, these are used to determine fair values. In other cases, fair values are calculated using quotations from independent financial institutions, or by using valuation techniques consistent with general market practice applicable to the instrument.

- The fair values of cash, short term borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest

- Derivative financial assets and liabilities are measured at fair value based on published price quotations for the period for which a liquid active market exists

*(v) Impairment of financial assets*

*Available-for-sale financial assets*

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, an evaluation is made as to whether a decline in fair value is 'significant' or 'prolonged' based on an analysis of indicators such as significant adverse changes in the technological, market, economic or legal environment in which the Company invested in operates.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for- sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

*(vi) De-recognition of financial assets and liabilities*

*Financial assets*

A financial asset is derecognized when its contractual rights to the cash flows that comprise the financial asset expire or substantially all the risks and rewards of the asset are transferred.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within finance income and finance costs, respectively.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and any difference in the respective carrying amounts is recognized in the income statement.



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*(vii) Trade receivables*

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency, default in payment or a significant deterioration in credit worthiness. Any impairment is recognized in the income statement within 'doubtful accounts provision'. When a trade receivable is uncollectable, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are credited against 'doubtful accounts provision' in the income statement.

*(viii) Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Derivative Financial Instruments: The Company employs metals and currency contracts, including forward contracts to manage exposure to fluctuations in metal prices and foreign currency exchange rates. For metals production, these contracts are intended to reduce the risk of falling prices on the Company's future sales. Foreign currency derivative financial instruments, such as forward contracts are used to manage the effects of exchange rate changes on foreign currency cost exposures. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative and any gains or losses arising from changes in fair value on derivatives are taken directly to earnings for the year. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and prices for contracts with similar maturity profiles.

Cash: Cash includes cash on hand and cash in banks, held primarily in U.S. and Canadian dollars ("USD" and "CAD", respectively) and considered loans and receivables and therefore is stated at amortized cost, less any impairment.

Short-term investments: Short-term investments are classified as "available-for-sale", and consist of highly-liquid debt securities with original maturities in excess of three months and equity securities. These debt and equity securities are initially recorded at fair value, which upon their initial measurement is equal to their cost. Subsequent measurements and changes in the market value of these debt and equity securities are recorded as changes to other comprehensive income. Investments are assessed quarterly for potential impairment.

Inventories: Inventories include work in progress, concentrate ore, doré, processed silver and gold, and operating materials and supplies. Work in progress inventory includes ore stockpiles and other partly processed material. Stockpiles represent ore that has been extracted and is available for further processing. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore are sampled for metal content and are valued based on the lower of cost or estimated net realizable value based upon the period ending prices of contained metal. Cost is determined on a weighted average basis or using a first-in-first-out basis and includes all costs incurred in the normal course of business including direct material and direct labour costs and an allocation of production overheads, depreciation and amortization, and other costs, based on normal production capacity, incurred in bringing each product to its present location and condition. Material that does not contain a minimum quantity of metal to cover estimated processing expense to recover the contained metal is not classified as inventory and is assigned no value. If the ore will not be processed within the 12 months after the statement of financial position date it is included within non-current assets. Quantities are assessed primarily through surveys and assays.

Supplies inventories are valued at the lower of average cost and net realizable value using replacement cost plus cost to dispose, net of obsolescence. Concentrate and doré inventory includes product at the mine site,





the port warehouse and product held by refineries. At times, the Company has a limited amount of finished silver at a minting operation where coins depicting Pan American's emblem are stamped.

Mineral Property, Plant, and Equipment: On initial acquisition, mineral property, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. When provisions for closure and decommissioning are recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in Property, plant and equipment and depreciated accordingly.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated.

Depreciation is provided so as to write off the cost, less estimated residual values of buildings, plant and equipment (based on prices prevailing at the statement of financial position date) on the following bases: Mine production assets are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives. Where parts of an asset have different useful lives, depreciation is calculated on each separate part.

Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The expected useful lives are included below in the accounting policy for depreciation of property, plant, and equipment.

The net carrying amounts of mineral property, land, buildings, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

In countries where the Company paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the VAT payments have either been deferred with mineral property costs relating to the property or expensed if it relates to mineral exploration. If the Company ultimately recovers previously deferred amounts, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

Where an item of property, plant and equipment is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is disclosed as earnings or loss on disposal in the income statement. Any items of property, plant or equipment that cease to have future economic benefits are derecognized with any gain or loss included in the financial year in which the item is derecognized.

Operational Mining Properties and Mine Development: When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs incurred to develop such





property including costs to further delineate the ore body and remove overburden to initially expose the ore body prior to the start of mining operations, are also capitalized. Such costs are amortized using the units-of-production method over the estimated life of the ore body based on proven and probable reserves.

Costs associated with commissioning activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the Company is ready to commence commercial service. Any revenues earned during this period are recorded as a reduction in deferred commissioning costs. These costs are amortized using the units-of-production method (described below) over the life of the mine, commencing on the date of commercial service.

Acquisition costs related to the acquisition of land and mineral rights are capitalized as incurred. Prior to acquiring such land or mineral rights the Company makes a preliminary evaluation to determine that the property has significant potential to develop an economic ore body. The time between initial acquisition and full evaluation of a property's potential is dependent on many factors including: location relative to existing infrastructure, the property's stage of development, geological controls and metal prices. If a mineable ore body is discovered, such costs are amortized when production begins. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. In countries where the Company has paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the VAT payments have either been deferred with mineral property costs relating to the property or expensed if it relates to mineral exploration. If the Company ultimately makes recoveries of the VAT, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Major development expenditures on producing properties incurred to increase production or extend the life of the mine are capitalized while ongoing mining expenditures on producing properties are charged against earnings as incurred. Gains or losses from sales or retirements of assets are included in gain or loss on sale of assets.

Depreciation of Mineral Property, Plant and Equipment: The carrying amounts of mineral property, plant and equipment (including initial and any subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reviewed annually and any change in estimate is taken into account in the determination of remaining depreciation charges, and adjusted if appropriate, at each statement of financial position date. Changes to the estimated residual values or useful lives are accounted for prospectively. Depreciation commences on the date when the asset is available for use as intended by management.

*Units of production basis*

For mining properties and leases and certain mining equipment, the economic benefits from the asset are consumed in a pattern which is linked to the production level. Except as noted below, such assets are depreciated on a unit of production basis.

In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable reserves and, for some mines, other mineral resources. Such non reserve material may be included in depreciation calculations in limited circumstances and where there is a high degree of confidence in its economic extraction.

*Straight line basis*

Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter than the related mine are depreciated on a straight line basis.

Property, plant and equipment are depreciated over its useful life, or over the remaining life of the mine if shorter. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis as follows:

- Land — not depreciated
- Mobile equipment — 3 to 7 years
- Buildings and plant facilities — 25 to 50 years
- Mining properties and leases — based on reserves on a unit of production basis. Capitalized evaluation and development expenditure — based on applicable reserves on a unit of production basis
- Exploration and Evaluation — not depreciated until mine goes into production
- Assets under construction — not depreciated until assets are ready for their intended use

Exploration and Evaluation Expenditure: relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Expenditure on exploration activity is not capitalized.

Capitalization of evaluation expenditure commences when there is a high degree of confidence in the project's viability and hence it is potentially probable that future economic benefits will flow to the Company.

Evaluation expenditure, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that such costs are expected to be recovered in full through successful development and exploration of the area of interest or alternatively, by its sale.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

In the case of undeveloped projects there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped project. In some cases, the undeveloped projects are regarded as successors to ore bodies, smelters or refineries currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output, which results where existing smelters and/or refineries are closed. It is often the case that technological and other improvements will allow successor smelters and/or refineries to more than replace the capacity of their predecessors. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

An impairment review is performed, either individually or at the cash generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is expensed in the financial year in which this is determined. Capitalized exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that the conditions discussed above for expenditure on exploration activity and evaluation expenditure are met.

Expenditure is transferred to mining properties and leases or assets under construction once the work completed to date supports the future development of the property and such development receives appropriate approvals.

Deferred Stripping Costs: In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body. During the preproduction phase, these costs are capitalized as part of the cost of the mine property and subsequently amortized over the life of the mine (or pit) on a units of production basis.

The costs of removal of the waste material during a mine's production phase are deferred, where they give rise to future benefits. These capitalized costs are subsequently amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity.



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Asset Impairment: Management reviews and evaluates its assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is normally assessed at the level of cash-generating units which are identified as the smallest identifiable group of assets that generates cash inflows and largely independent of the cash inflows from other assets. In addition, an impairment loss is recognized for any excess of carrying amount over the fair value less costs to sell of a non-current asset or disposal group held for sale. When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of value in use (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less costs to sell ("FVLCTS"). The best evidence of FVLCTS is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCTS is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Where recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans. For value in use, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, capital expenditure, close down, restoration and environmental clean-up. These may include net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven or probable ore reserves. Such non reserve material is included where there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralization that are contiguous with existing reserves. Typically, the additional evaluation to achieve reserve status for such material has not yet been done because this would involve incurring costs earlier than is required for the efficient planning and operation of the mine.

Where the recoverable amount of a cash generating unit is dependent on the life of its associated ore body, expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction. The mine plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company's cash flow forecasts are based on estimates of future commodity prices, which assume market prices will revert to the Company's assessment of the long term average price, generally over a period of three to five years. These assessments often differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted, including appropriate adjustments for the risk profile of the countries in which the individual cash generating units operate. The great majority of the Company's sales are based on prices denominated in USD. To the extent that the currencies of countries in which the Company produces commodities strengthen against the USD without commodity price offset, cash flows and, therefore, net present values are reduced. When calculating value in use, IAS 36 requires that calculations should be based on exchange rates current at the time of the assessment. Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Closure and Decommissioning Costs: The mining, extraction and processing activities of the Company normally give rise to obligations for site closure or rehabilitation. Closure and decommissioning works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognized at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and decommissioning activity expected to occur progressively over the





life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and decommissioning activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognized as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation. The timing of the actual closure and decommissioning expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating license conditions, and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and decommissioning requirements. Closure and decommissioning provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the underlying obligation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements which give rise to a constructive or legal obligation.

When provisions for closure and decommissioning are initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in Property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognized in finance expenses. Closure and decommissioning provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the un-depreciated capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in the income statement. In the case of closed sites, changes to estimated costs are recognized immediately in the income statement. Changes to the capitalized cost result in an adjustment to future depreciation and finance charges. Adjustments to the estimated amount and timing of future closure and decommissioning cash flows are a normal occurrence in light of the significant judgements and estimates involved.

The provision is reviewed at the end of each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations and adjusted to reflect current best estimate. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Foreign Currency Translation: The Company's functional currency and that of its subsidiaries is the USD as this is the principal currency of the economic environments in which they operate. Transaction amounts denominated in foreign currencies (currencies other than USD) are translated into USD at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are

re-translated at each statement of financial position date to reflect the U.S. exchange rate prevailing at that date.

Gains and losses arising from translation of foreign currency monetary assets and liabilities at each period end are included in earnings except for differences arising on decommissioning provisions which are capitalized for operating mines.

Share-based Payments: The Company makes share-based awards, including free shares and options, to certain employees.

For equity-settled awards, the fair value is charged to the income statement and credited to equity, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest. The fair value of the equity-settled awards is determined at the date of grant. Non-vesting conditions and market conditions, such as target share price upon which vesting is conditioned, are factored into the determination of fair value at the date of grant. All other vesting conditions are excluded from the determination of fair value and included in management's estimate of the number of awards ultimately expected to vest.





The fair value is determined by using option pricing models. At each statement of financial position date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions). The movement in cumulative expense is recognized in the income statement with a corresponding entry within equity. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification, over the remainder of the new vesting period.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Any compensation paid up to the fair value of the awards at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they are a modification of the original award, as described in the previous paragraph.

Leases: The determination of whether an arrangement is, or contains a lease is based in the substance of the arrangement at inception date, including whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. A reassessment after inception is only made in specific circumstances.

Assets held under finance leases, where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalized in the statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments during the lease term calculated using the interest rate implicit in the lease agreement. These amounts are determined at the inception of the lease and are depreciated over the shorter of their estimated useful lives or lease term. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the statement of financial position. The interest elements of the lease or hire purchase obligations are charged to the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Leases where substantially all the risks and rewards of ownership have not passed to the Company are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Income Taxes: Taxation on the earnings or loss for the year comprises current and deferred tax. Taxation is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is recognized in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at the year end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences.



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The tax effect of certain temporary differences is not recognized, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable earnings); and temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the Company is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred taxes relating to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or equity and not in the income statement. Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. Judgements are required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognized only where it is probable that taxable earnings will be available against which the losses or deductible temporary differences can be utilized. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and decommissioning costs, capital expenditure, dividends and other capital management transactions.

Earnings (loss) Per Share: Basic earnings (loss) per share is calculated by dividing earnings attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share calculation is based on the earnings attributable to ordinary equity holders and the weighted average number of shares outstanding after adjusting for the effects of all potential ordinary shares. This method requires that the number of shares used in the calculation be the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. This method assumes that the potential ordinary shares converted into ordinary shares at the beginning of the period (or at the time of issuance, if not in existence at beginning of the period). The number of dilutive potential ordinary shares is determined independently for each period presented.

For convertible securities that may be settled in cash or shares at the holder's option, returns to preference shareholders and income charges are added back to net earnings used for basic EPS and the maximum number of ordinary shares that could be issued on conversion are used in the computing diluted earnings per share.





**Changes in Accounting Standards**

**Accounting standards issued and effective January 1, 2012**

**IFRS 7** ***Financial Instruments: Disclosures*** amendment issued by the IASB in October 2010 enhances the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on the consolidated financial statements.

**IAS 12** ***Income Taxes*** amendment issued by the IASB in December 2010 provides a solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on the consolidated financial statements.

**Accounting standards issued and effective January 1, 2013**

**IFRS 10** ***Consolidated Financial Statements*** establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and*

*Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRS 11** ***Joint Arrangements*** establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRS 12** ***Disclosure of Interests in Other Entities*** requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRS 13** ***Fair Value Measurement*** defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.* This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IAS 1** ***Presentation of Financial Statements*** ("IAS 1") amendment, issued by the IASB in June 2011, requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the application of IAS 1 to have a material impact on its consolidated financial statements.

**IAS 19** ***Employee Benefits*** amendment, issued by the IASB on June 2011 introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the





immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits.

The Company does not anticipate the application of the amended IAS 19 to have a material impact on its consolidated financial statements.

**IAS 27** ***Consolidated and Separate Financial Statements*** has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. This standard will not have an impact on the consolidated financial statements.

**IAS 28** ***Investments in Associates and Joint Ventures*** prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

**IFRIC 20** ***Stripping Costs in the Production Phase of a Surface Mine*** clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) useable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping assets.

The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

**Accounting standards effective January 1, 2015**

**IFRS 9** ***Financial Instruments*** is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety by the IASB in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as a FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirements to restate

comparative financial statements for the effects of applying IFRS 9.

**3. Management of Capital**

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders. The Company's capital structure consists of shareholders' equity, comprising issued capital plus share option reserve plus retained earnings, plus investment revaluation reserve with a balance of $1.6 billion as at December 31, 2011 (2010 - $1.3 billion). The Company manages its capital structure and makes adjustments based on changes to its economic environment and the risk characteristics of the Company's assets. The Company's capital requirements are effectively managed based on the Company having a thorough reporting, planning and forecasting process to help identify the funds required to ensure the Company is able to meet its operating and growth objectives. The Company has a $150 million credit facility with a syndicate of international banks which has not been drawn.





The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2010.

**4. Financial Instruments**

**Overview**

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, interest rate risk, foreign exchange rate risk, and liquidity risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

**Metal Price Risk**

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company derives its revenue from the sale of silver, gold, lead, copper, and zinc. The Company's sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control. Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, the Company's policy is to not hedge the price of silver. A 10% increase in metal prices for the year ended December 31, 2011, would result in an increase of approximately $89.5 million (2010 — $67.7 million) in the Company's revenues. A 10% decrease in metal prices for the same period would result in a decrease of approximately $88.0 million (2010 - $66.5 million) in the Company's revenues. The Company also enters into provisional concentrate contracts to sell the zinc, lead and copper concentrates produced by the Quiruvilca, Huaron, Morococha, San Vicente and La Colorada mines. A 10% increase in metal prices on open positions for the year ended December 31, 2011 would result in an increase of approximately $9.1 million (2010 - $8.6 million) in the Company's before tax earnings which would be reflected in 2012 results. A 10% decrease in metal prices for the same period would result in a decrease of approximately $8.9 million (2010 - $8.3 million) in the Company's before tax earnings which would be reflected in 2012 results.

The Company mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production from time to time under forward sales and option contracts. The Board of Directors continually assess the Company's strategy towards its base metal exposure, depending on market conditions. At December 31, 2011, the Company had no contracts in place for the sale of future production.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade receivables. The carrying value of financial assets represents the maximum credit exposure.

The Company has long-term concentrate contracts to sell the zinc, lead and copper concentrates produced by the Quiruvilca, Huaron, Morococha, San Vicente and La Colorada mines. Concentrate contracts are common business practice in the mining industry. The terms of the concentrate contracts may require the Company to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing the Company to credit risk of the buyers of our concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, the Company may incur losses for products already shipped and be forced to sell its concentrates on the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted. At December 31, 2011 the Company had receivable balances associated with buyers of its concentrates of $40.5 million (2010 - $51.0 million). The vast majority of the Company's concentrate is sold to seven well known concentrate buyers.

Silver doré production from La Colorada, Alamo Dorado and Manantial Espejo is refined under long term agreements with fixed refining terms at three separate refineries worldwide. The Company generally retains the risk and title to the precious metals throughout the process of refining and therefore is exposed to the risk

that the refineries will not be able to perform in accordance with the refining contract and that the Company may not be able to fully recover precious metals in such circumstances. At December 31, 2011 the Company had approximately $35.9 million (2010 - $20.8 million) of value contained in precious metal inventory at refineries. The Company maintains insurance coverage against the loss of precious metals at the Company's mine sites, in-transit to refineries and whilst at the refineries.

The Company maintains trading facilities with several banks and bullion dealers for the purposes of transacting the Company's trading activities. None of these facilities are subject to margin arrangements. The Company's trading activities can expose the Company to the credit risk of its counterparties to the extent that our trading positions have a positive mark-to-market value. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring.

Refined silver and gold is sold in the spot market to various bullion traders and banks. Credit risk may arise from these activities if the Company is not paid for metal at the time it is delivered, as required by spot sale contracts.

Management constantly monitors and assesses the credit risk resulting from its refining arrangements, concentrate sales and commodity contracts with its refiners, trading counterparties and customers. Furthermore, management carefully considers credit risk when allocating prospective sales and refining business to counterparties. In making allocation decisions, Management attempts to avoid unacceptable concentration of credit risk to any single counterparty.

At December 31, 2011, there is an allowance for doubtful accounts provision recorded in the amount of $7.6 million (2010 — $7.6 million) that relates to amounts owing from Doe Run Peru ("DRP"), one of the buyers of concentrates from the Company's Peruvian operations, for deliveries of concentrates that occurred in early 2009. The Company will continue to pursue every possible avenue to recover the amounts owed by DRP. At December 31, 2011 and December 31, 2010, no additional provision for doubtful account was recorded as there are no material past due trade receivables or other receivables present.

Trade accounts receivable and other receivables that represent the maximum credit risk to the Company consist of the following:

| | December 31, | | January 1, |
|---|---|---|---|
| | 2011 | 2010 | 2010 |
| Trade accounts receivable | **$ 40,477** | $ 51,026 | $ 53,963 |
| Advances to suppliers and contractors | **7,599** | 4,704 | 3,536 |
| Insurance receivable | **3,500** | 1,592 | — |
| Current portion of refundable tax | **37,082** | 4,342 | 3,282 |
| Export tax receivable | **6,613** | 4,290 | 218 |
| Other | **8,162** | 939 | 5,060 |
| Presented as accounts receivable on the Statement of Financial Position | **$ 103,433** | $ 66,893 | $ 66,059 |
| Long-term refundable tax receivable and other receivables | **10,253** | 28,171 | 11,909 |
| Total | **$ 113,686** | $ 95,064 | $ 77,968 |

The Company invests its cash which also has credit risk, with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

**Interest Rate Risk**

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. At December 31, 2011, the Company has $9.8 million in lease obligations (2010 - $0.12 million), equipment and construction advances of $21.9 million (2010 - $5.4 million) that are subject to an annualized interest rate of 2.2% and no outstanding debt. The interest paid by the Company for the year ended December 31, 2011 on its lease obligations and equipment and construction advances was nominal. The average interest rate earned by the Company during the year ended December 31, 2011 on its cash and short term investments was 0.35% A 10% increase or decrease in the interest earned from financial institutions on cash and short term investments would result in a nominal increase or decrease in the Company's before tax earnings (2010 — nominal).



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**Foreign Exchange Rate Risk**

The Company reports its financial statements in USD; however, the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations as reported in USD are subject to changes in the value of the USD relative to local currencies. Since the Company's sales are denominated in USD and a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse.

In order to mitigate this exposure, from time to time the Company has purchased Peruvian New soles ("PEN"), Mexican pesos ("MXN") and CAD to match anticipated spending. At December 31, 2011, the Company had no forward contracts to purchase foreign currencies. The Company's

net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. The Company has reviewed its monetary assets and monetary liabilities and estimates that a 10% change in the exchange rate of the foreign currencies in which its December 31, 2011 non-USD net monetary liabilities were denominated would result in a net income change of about $9.6 million (2010 - $1.8 million). At December 31, 2011 the Company's cash and short term investments includes $205.5 million in CAD and $38.3 million in MXN.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and short-term investments, and its committed loan facilities.

The Company's commitments have contractual maturities which are summarized below:

**Payments due by period - 2011**

| | Total | Less than a year | 1 - 3 years | 4- 5 years | After 5 years |
|---|---|---|---|---|---|
| Finance lease obligations (1) | $ 31,983 | 21,068 | 10,915 | — | — |
| Current liabilities(2) | 149,785 | 149,785 | — | — | — |
| Long term income taxes payable | 2,274 | — | — | 2,274 | — |
| Severance accrual | 5,427 | 3,032 | — | 2,395 | |
| Contribution plan(3) | 3,478 | 3,478 | — | — | — |
| Total contractual obligations(4) | $ 192,947 | 177,363 | 10,915 | 4,669 | — |

**Payments due by period - 2010**

| | Total | Less than a year | 1 - 3 years | 4- 5 years | After 5 years |
|---|---|---|---|---|---|
| Finance lease obligations(1) | $ 5,482 | 122 | 5,360 | — | — |
| Current liabilities(2) | 102,444 | 102,444 | — | — | — |
| Severance accrual | 6,464 | 6,464 | — | — | — |
| Contribution plan(3) | 4,902 | 2,451 | 2,451 | — | — |
| Total contractual obligations(4) | $ 119,292 | 111,481 | 7,811 | — | — |

(1) Includes lease obligations in the amount of $10.1 million (2010 - $0.12 million) with a net present value of $9.8 million (2010 - $0.12 million) and equipment and construction advances in the amount of $21.9 million (2010 - $5.4 million); both discussed further in Note 11.

(2) Includes all current liabilities as per the statement of financial position less items presented separately in this table which also include amounts expected to be paid but not accrued in the books of the Company.

(3) In June 2008 the Company initiated a 4 year contractual retention plan for key officers and management, further discussed in Note 13. Contract commitments for the plan, payable in CAD, represent minimum payments expected to be paid out, which are presented above in USD at the period-end rate.

(4) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation, the liability arising from Aquiline acquisition discussed in Note 12, and deferred tax liabilities.





**Fair Value of Financial Instruments**

The carrying value of is at fair value and the carrying value of cash, trade and other receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments. Under IFRS, share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values included in net earnings.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table sets forth the Company's financial assets and liabilities measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of

the asset or liability; and

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no observable market data).

At December 31, 2011, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the Consolidated Statements of Financial Position at fair value are categorized as follows:

| | Fair Value at December 31, 2011 | | | |
|---|---|---|---|---|
| **(in thousands of USD)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Short-term investments | **$ 228,321** | **$ 228,321** | **$ —** | **$ —** |
| Trade receivable from provisional concentrate sales | **40,477** | **—** | **40,477** | **—** |
| Non-current share purchase warrants | **(23,651)** | **—** | **(23,651)** | **—** |
| | **$ 245,147** | **$ 228,321** | **$ 16,826** | **$ —** |

| | Fair Value at December 31, 2010 | | | |
|---|---|---|---|---|
| **(in thousands of USD)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Short-term investments | $ 180,583 | $ 180,583 | $ — | $ — |
| Investments | 1,483 | 1,483 | — | — |
| Trade receivable from provisional concentrate sales | 51,026 | — | 51,026 | — |
| Non-current share purchase warrants | (127,890) | — | (127,890) | — |
| | $ 105,202 | $ 182,066 | $ (76,864) | $ — |

| | Fair Value at January 1, 2010 | | | |
|---|---|---|---|---|
| **(in thousands of USD)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Short-term investments | $ 92,623 | $ 92,623 | $ — | $ — |
| Investments | 1,553 | 1,553 | — | — |
| Derivative financial instruments | 160 | — | 160 | — |
| Trade receivable from provisional concentrate sales | 53,963 | — | 53,963 | — |
| Non-current share purchase warrants | (43,919) | — | (43,919) | — |
| | $ 104,380 | $ 94,176 | $ 10,204 | $ — |





At December 31, 2011, there were no financial assets or liabilities measured and recognized on the Consolidated Statement of Financial Position at fair value that would be recognized as level 3 in the fair value hierarchy above (December 31, 2010-$nil; January 1, 2010-$nil)

There were no transfers between level 1 and level 2 during the years ended December 31, 2011 and 2010.

**Valuation Techniques**

***Short-term investments and other investments***
The Company's short-term investments and other investments are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy and are primarily money market securities and U.S. Treasury securities. The fair value of the investment securities is calculated as the quoted market price of the investment and in the case of equity securities, the quoted market price multiplied by the quantity of shares held by the Company.

***Derivative Financial Instruments***
The Company's unrealized gains and losses on commodity and foreign currency contracts are valued using observable market prices and as such are classified as Level 2 of the fair market value hierarchy. As of December 31, 2011, the unrealized gains and losses on commodity and foreign currency contracts was $nil (2010 - $nil).

***Share purchase warrants***
The Company's unrealized gains and losses on share purchase warrants are valued using observable inputs and as such are classified as Level 2 of the fair market value hierarchy. As of December 31, 2011, the unrealized gain on share purchase warrants was $101.8 million (2010 — unrealized loss of $90.7 million).

***Receivables from Provisional Concentrate Sales***
The Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange ("LME") for copper, zinc and lead and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver.

**5. Short Term Investments and Other Assets**

| December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|

| Available for Sale | Fair Value | Cost | Accumulated unrealized holding gains | Fair Value | Cost | Accumulated unrealized holding gains | Fair Value | Cost | Accumulated unrealized holding gains |
|---|---|---|---|---|---|---|---|---|---|
| Short term investments | $ 228,321 | 226,997 | 1,324 | $ 180,583 | $ 172,315 | $ 8,268 | $ 92,623 | $ 92,153 | $ 470 |
| Investments (1) | — | — | — | 1,483 | 405 | 1,078 | 1,553 | 405 | 1,148 |
| | $ 228,321 | 226,997 | 1,324 | $ 182,066 | $ 172,720 | $ 9,346 | $ 94,176 | $ 92,558 | $ 1,618 |

(1) Investments in certain equity securities are presented in other assets on the Statement of Financial Position (Note 8).

## 6. Inventories

Inventories consist of:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Concentrate inventory | $ 21,473 | $ 14,026 | $ 15,379 |
| Stockpile ore | 31,704 | 24,182 | 21,892 |
| Direct smelting ore | — | — | 1,462 |
| Doré and finished inventory | 46,558 | 33,755 | 27,577 |
| Materials and supplies | 35,961 | 34,891 | 28,147 |
| | 135,696 | 106,854 | 94,457 |
| Less: non-current direct smelting ore (Note 8) | — | — | (1,011) |
| | $ 135,696 | $ 106,854 | $ 93,446 |





Production costs, including depreciation and amortization and royalties for the year ended December 31, 2011 was $446.2 million (2010 - $405.4 million). Production costs represent cost of inventories sold during the year.

## 7. Mineral Property, Plant and Equipment

Acquisition costs of investment and non-producing properties together with costs directly related to mine development expenditures are capitalized. Exploration expenditures on investment and non-producing properties are charged to operations in the period they are incurred.

Capitalization of evaluation expenditures commences when there is a high degree of confidence in the project's viability and hence it is potential that future economic benefits will flow to the Company. Evaluation expenditures, other than that acquired from the purchase of another mining company, are carried forward as an asset provided that such costs are expected to be recovered in full through successful development and exploration of the area of interest or alternatively, by its sale. Evaluation expenditures include delineation drilling, metallurgical evaluations, and geotechnical evaluations amongst others.

Mineral property, plant and equipment consist of:

| | Mining Properties | | | | |
|---|---|---|---|---|---|
| | Depletable | Non-depletable | | | |
| | Reserves and Resources | Reserves and Resources | Exploration(a) and Evaluation | Plant and Equipment | Total |
| **Cost** | | | | | |
| As at January 1, 2011 | $ 466,172 | $ 24,404 | $ 573,746 | $ 393,944 | $ 1,458,266 |
| Additions | 33,554 | 2,361 | 19,932 | 89,916 | 145,763 |
| Disposals | — | — | (2,914) | (4,504) | (7,418) |
| Transfers | 3,859 | (1,791) | 45 | (2,113) | — |
| VAT collected | (13,314) | — | — | — | (13,314) |
| Closure and decommissioning — changes in estimate | (14,694) | — | — | — | (14,694) |
| Other | (143) | — | (14) | (647) | (804) |
| **As at December 31, 2011** | **$ 475,434** | **$ 24,974** | **$ 590,795** | **$ 476,596** | **$ 1,567,799** |
| **Accumulated depreciation** | | | | | |
| As at January 1, 2011 | $ (154,746) | $ — | $ — | $ (142,197) | $ (296,943) |
| Depreciation charge | (38,732) | — | — | (44,024) | (82,756) |
| Disposals | — | — | — | 1,938 | 1,938 |
| Transfers | (1,040) | — | — | 1,040 | — |
| Other | (333) | — | — | 3 | (330) |
| **As at December 31, 2011** | **$ (194,851)** | **$ —** | **$ —** | **$ (183,240)** | **$ (378,091)** |
| **Carrying value — December 31, 2011** | **$ 280,583** | **$ 24,974** | **$ 590,795** | **$ 293,356** | **$ 1,189,708** |

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| | Mining Properties | | | | |
|---|---|---|---|---|---|
| | Depletable | Non-depletable | | | |
| | Reserves and Resources | Reserves and Resources | Exploration(a) and Evaluation | Plant and Equipment | Total |
| **Cost** | | | | | |
| As at January 1, 2010 | $ 452,430 | $ 25,513 | $ 549,199 | $ 363,023 | $ 1,390,165 |
| Additions | 17,071 | 77 | 20,459 | 31,348 | 68,955 |
| Disposals | (69) | (158) | — | (1,498) | (1,725) |
| Transfers | (613) | (1,246) | (6) | 1,865 | — |
| VAT capitalized (collected) | (11,883) | — | 2,528 | — | (9,355) |
| Closure and decommissioning — change in estimate | 7,075 | — | 1,566 | — | 8,641 |
| Other | 2,161 | 218 | — | (794) | 1,585 |
| **As at December 31, 2010** | $ 466,172 | $ 24,404 | $ 573,746 | $ 393,944 | $ 1,458,266 |
| **Accumulated depreciation** | | | | | |
| As at January 1, 2010 | (112,411) | — | — | (100,678) | (213,089) |
| Depreciation charge | (43,712) | — | — | (42,768) | (86,480) |
| Disposals | 10 | — | — | 998 | 1,008 |
| Transfers | — | — | — | — | — |
| Other | 1,367 | — | — | 251 | 1,618 |
| **As at December 31, 2010** | $ (154,746) | $ — | $ — | $ (142,197) | $ (296,943) |
| **Carrying Value — December 31, 2010** | $ 311,426 | $ 24,404 | $ 573,746 | $ 251,747 | $ 1,161,323 |

(a) During the year ended December 31, 2011, the Company incurred $33.3 million (2010 - $35.3 million) in exploration and evaluation expenditures, of which $22.3 million (2010 - $29.1) were capitalized to exploration and evaluation ($19.9 million) and land ($2.4 million). The remaining $11.0 million of expenditures (2010 - $6.2 million) were expensed.

| | December 31, 2011 | | | December 31, 2010 | | | January 1, 2010 |
|---|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Carrying Value | Cost | Accumulated Amortization | Carrying Value | Carrying Value |
| Huaron mine, Peru | **$ 113,362** | **(44,935)** | **68,427** | $ 100,801 | $ (37,861) | $ 62,940 | $ 57,847 |
| Morococha mine, Peru | **155,524** | **(41,048)** | **114,476** | 115,410 | (31,578) | 83,832 | 67,755 |
| Alamo Dorado mine, Mexico | **174,067** | **(110,882)** | **63,185** | 170,699 | (93,263) | 77,436 | 99,919 |
| La Colorada mine, Mexico | **71,602** | **(40,793)** | **30,809** | 60,751 | (36,596) | 24,155 | 19,273 |
| Manantial Espejo mine, Argentina | **296,431** | **(102,126)** | **194,305** | 296,023 | (70,863) | 225,160 | 262,032 |
| San Vicente mine, Bolivia | **115,848** | **(35,200)** | **80,648** | 111,617 | (24,349) | 87,268 | 93,417 |
| Other | **25,196** | **(3,107)** | **22,089** | 4,815 | (2,433) | 2,382 | 2,122 |
| **Total** | **$ 952,030** | **(378,091)** | **573,939** | $ 860,116 | $ (296,943) | $ 563,173 | $ 602,365 |
| Land and Exploration and Evaluation: | | | | | | | |
| Land | | | **$ 8,999** | | | $ 6,638 | $ 6,501 |
| Morococha, Peru | | | **15,975** | | | 17,766 | 19,012 |
| Navidad project, Argentina | | | **552,265** | | | 544,438 | 523,980 |
| Other | | | **38,530** | | | 29,308 | 25,218 |
| **Total non-producing properties** | | | **$ 615,769** | | | $ 598,150 | $ 574,711 |
| **Total mineral property, plant and equipment** | | | **$ 1,189,708** | | | $ 1,161,323 | $ 1,177,076 |

**Navidad Project, Argentina**

During the year ended December 31, 2011 the Company capitalized $22.3 million of evaluation costs at the Navidad Project in Argentina (2010 - $29.1 million) including land addition of $2.4 million. Additionally, the Company purchased $17.0 million of long lead time processing equipment intended for the Navidad project which is classified as part of “Other” in the producing properties section above.



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**La Preciosa Project, Durango, Mexico**

In April 2009, Pan American and Orko Silver Corp. ("Orko") entered into an agreement, pursuant to which Pan American and Orko agreed to develop the La Preciosa silver project located in the State of Durango, Mexico. Under the terms of the agreement, in order for the Company to retain its 55% interest in the project: (a) the Company must, in addition to contributing its mine development expertise, spend a minimum of $5 million in the first 12 months from the date of the Letter of Agreement (the condition was achieved as of the first quarter of 2010) and conduct resource definition drilling, acquire necessary surface rights, obtain permits, and prepare a feasibility study; and (b) following a positive construction decision, the Company must contribute 100% of the funds necessary for practical completion of an operating mine. In exchange for its 45% interest in the venture, Orko agreed to contribute its exploration expertise and the La Preciosa Project and related concessions. The Company anticipates completing a feasibility study by mid 2012, assuming an agreement is reached with Orko for an extension of the delivery date, originally scheduled for April 2012.

The Company has assessed the operating company of the La Preciosa project to be under the scope of IAS 27 *Consolidated and Separate Financial Statements* and as such it is consolidated in the financial statements of the Company. Until such time as an economic analysis is completed and proven and probable reserves are established, costs incurred through the company will be expensed and no value has been attributed to the property contributed by the Company's partners to the project. For the year ended December 31, 2011, the exploration expense recognized arising from the La Preciosa project is $2.4 million (2010 - $10.0 million).

**Morococha Mine, Peru**

During the second quarter of 2010, the Company's wholly owned subsidiary Compañia Minera Argentum S.A. ("Argentum"), reached an agreement with Minera Chinalco Perú ("MCP" or "Chinalco"), a subsidiary of the Aluminum Corporation of China which clearly defines each party's long term surface rights in the area of the Morococha mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP's Toromocho copper project. MCP requires certain lands and concessions in order to proceed with the development of Toromocho, including the surface lands within the planned open pit mining area of the Toromocho project. While Argentum does not own this land, much of the Morococha mine infrastructure and facilities are located on this ground.

Under the terms of the agreement, Argentum will relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP. In exchange, Argentum will receive a package of surface rights, easements and other rights that are sufficient to relocate the facilities and to continue uninterrupted operations. Lastly, Argentum will receive periodic cash payments from MCP totaling $40 million, of which, to December 31, 2011, the Company received $13.8 million which has been utilized and offset against direct project related expenses or recognized as other income to the extent it represents a reimbursement of capital expenditures. The Company has also entered into a funding arrangement whereby it has received advances towards some of the project capital expenditures in the amount of $21.9 million to date. These advances are subject to an annualized interest rate of 2.2%, which is paid monthly until the completion of the construction. At the conclusion of the construction these advance payments will be converted into a leasing arrangement in the first quarter of 2012.

## 8. Other Assets

Other assets consist of:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Long-term receivable, net | **$ —** | $ — | $ 3,825 |
| Long-term prepaid expense(1) | **5,205** | — | — |
| Reclamation bonds | **224** | 135 | 132 |
| Investments (Note 5) | **—** | 1,483 | 1,553 |
| Non-current direct smelting ore (Note 6) | **—** | — | 1,011 |
| | **$ 5,429** | $ 1,618 | $ 6,521 |

(1) Represents a prepaid deposit related to the Virtual Gas Line Project at the Manantial mine.





## 9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Accounts payable(1) | **$ 30,879** | $ 23,786 | $ 29,906 |
| Accrued liabilities | **13,199** | 17,230 | 18,108 |
| Aquiline acquisition costs payable | **—** | — | 7,582 |
| Payroll and related benefits | **24,174** | 18,386 | 12,848 |
| Severance accruals | **3,032** | 6,464 | 4,768 |
| Payment due for mineral property acquired | **—** | — | 5,799 |
| Advances on concentrate | **—** | 38 | 5,668 |

| | | | |
|---|---|---|---|
| Other taxes payable | **152** | 3,842 | 1,862 |
| Other | **6,822** | 7,916 | 4,050 |
| | **$ 78,258** | $ 77,662 | $ 90,591 |

(1) No interest is charged on the trades payables ranging from 30 to 60 days from the invoice date. The Company has policies in place to ensure that all payables are paid within the credit terms.

## 10. Provisions

| | Closure and Decommissioning | Litigation | Total |
|---|---|---|---|
| As at January 1, 2010 | $ 57,273 | $ 4,948 | $ 62,221 |
| Revisions in estimates and obligations incurred | 11,654 | — | 11,654 |
| Charged (credited) to earnings: | | | |
| -new provisions | — | 1,836 | 1,836 |
| -unused amounts reversed | — | (216) | (216) |
| -exchange gains on provisions | — | 145 | 145 |
| Utilized in year | (1,045) | (797) | (1,842) |
| Accretion expense | 3,668 | — | 3,668 |
| As at December 31, 2010 | $ 71,550 | $ 5,916 | $ 77,466 |
| Revisions in estimates and obligations incurred | (17,086) | — | (17,086) |
| Charged (credited) to earnings: | | | |
| -new provisions | — | 1,607 | 1,607 |
| -unused amounts reversed | — | (147) | (147) |
| -exchange gains on provisions | — | 169 | 169 |
| Utilized in year | (1,959) | (1,925) | (3,884) |
| Accretion expense | 3,268 | — | 3,268 |
| **As at December 31, 2011** | **$ 55,773** | **5,620** | **61,393** |

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Maturity analysis of total provisions: | | | |
| Current | **$ 2,341** | $ 3,450 | $ 4,948 |
| Non-Current | **59,052** | 74,016 | 57,273 |
| | **$ 61,393** | $ 77,466 | $ 62,221 |





***Closure and Decommissioning Cost Provision***

The total undiscounted amount of estimated cash flows required to settle the Company's closure and decommissioning provision is $65.9 million (2010 - $73.2 million) which has been discounted using discount rates between 4% and 10%. Reclamation obligations at the Quiruvilca mine of $18.1 million are expected to be paid starting in two to five years while the remainder of the obligations is expected to be paid through 2028. Revisions made to the reclamation obligations in 2011 were primarily a result of increased site disturbance from the ordinary course of operations at the mines as well as revisions to the estimate based on periodic reviews of closure plans, actual expenditures incurred and concurrent closure activities completed. These obligations will be funded from operating cash flows, reclamation deposits and cash on hand.

The accretion expense charged to 2011 earnings as finance expense was $3.3 million compared to $3.7 million in 2010. Reclamation expenditures during the current year was $2.0 million compared to $1.0 million in 2010.

***Litigation Provision***

The litigation provision consists of amounts accrued for labour claims at several of the Company's mine operations. The balance of $5.6 million at December 31, 2011 (2010 - $5.9 million) represents the Company's best estimate for all known and anticipated future obligations related to the above claims. The amount and timing of any expected payments are uncertain as their determination is outside the control of the Company.

## 11. Finance Lease Obligations

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Lease obligations(1) | **$ 9,764** | $ 118 | $ 620 |
| Equipment and construction advances(2) | **21,901** | 5,360 | — |
| | **$ 31,665** | $ 5,478 | $ 620 |

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Maturity analysis of finance leases: | | | |
| Current | **$ 20,841** | $ 118 | $ 620 |
| Non-Current | **10,824** | 5,360 | — |

| | | | |
|---|---|---|---|
| **$** | **31,665** | $ 5,478 | $ 620 |

(1) Represents equipment lease obligations at several of the Company's subsidiaries. A reconciliation of the total future minimum lease payments at the end of December 31, 2011 to their present value is presented in the following table:

| | Year ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Less than a year | **$ 5,737** | $ 122 |
| 2 years | **3,787** | — |
| 3 years | **558** | — |
| | **10,082** | 122 |
| Less future finance charges | **(318)** | (4) |
| Present value of minimum lease payments | **$ 9,764** | $ 118 |

(2) Represents a funding arrangement the Company entered into whereby it receives advances toward some of the project capital expenditures at the Morococha mine. These advances are subject to an annualized interest rate of 2.2% and are paid monthly until the completion of the construction, which is anticipated to take place in the first quarter of 2012, at which point these advance payments will be converted into a leasing arrangement.





## 12. Other Long Term Liabilities

Other long term liabilities consist of:

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Deferred credit(1) | **$ 20,788** | $ 20,788 | $ 20,788 |
| Long term income tax payable (Note 21) | **2,274** | — | — |
| Severance accruals | **2,395** | — | — |
| | **$ 25,457** | $ 20,788 | $ 20,788 |

(1) As part of the 2009 Aquiline transaction the Company issued a replacement convertible debenture that allowed the holder to convert the debenture into either 363,854 Pan American Shares or a Silver Stream contract related to certain production from the Navidad project. Regarding the replacement convertible debenture, it was concluded that the deferred credit presentation was the most appropriate and best representation of the economics underlying the contract as of the date the Company assumed the obligation as part of the Aquiline acquisition. Subsequent to the acquisition, the counterparty to the replacement debenture has indicated its intention to elect the silver stream alternative. The final contract for the alternative is being discussed and pending the final resolution to this alternative, the Company continues to classify the fair value calculated at the acquisition of this alternative, as a deferred credit.

## 13. Share Capital and Employee Compensation Plans

The Company has a comprehensive stock compensation plan for its employees, directors and officers. The plan provides for the issuance of common shares and stock options, as incentives. The maximum number of Shares which may be issued pursuant to options granted or bonus Shares issued under the 2008 Plan may be equal to, but will not exceed 6,461,470 Shares. The exercise price of each option shall be the weighted average trading price of the Company's stock for the five days prior to the award date. The options can be granted for a maximum term of 10 years with vesting provisions determined by the Company's Board of Directors. Any modifications to the stock Compensation Plan require shareholders' approval.

The Board has developed long term incentive plan ("LTIP") guidelines, which provides annual compensation to the senior managers of the Company based on the long term performance of both the Company and the individuals that participate in the plan. The LTIP consists of an annual grant of options to senior management to buy shares of the Company and a grant of the Company's common shares with a two year no trading legend. The options are combination of five year options which vest evenly in three annual instalments and seven year options which vest evenly in two annual instalments. Options and common shares granted under the LTIP plan are based on employee salary levels, individual performance and their future potential. The Compensation Committee oversees the LTIP on behalf of the Board of Directors. The LTIP plan guidelines can be modified or suspended, at the discretion of the Compensation Committee and the Board of Directors.

Transactions concerning stock options and share purchase warrants are summarized as follows in CAD:

| | Incentive Stock Option Plan | | Share Purchase Warrants | | |
|---|---|---|---|---|---|
| | **Shares** | **Weighted Average Exercise Price CAD$** | **Warrants** | **Weighted Average Exercise Price CAD$** | **Total** |
| As at January 1, 2010 | 1,469,126 | $ 29.66 | 7,702,698 | $ 33.56 | 9,171,824 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Granted | 558,249 | $ 27.43 | — | $ — | 558,249 |
| Issued on acquisition | — | $ — | 702,540 | $ 35.00 | 702,540 |
| Exercised | (450,587) | $ 16.72 | (399,005) | $ 11.57 | (849,592) |
| Expired | — | $ — | (51,488) | $ 52.10 | (51,488) |
| Forfeited | (128,392) | $ 23.92 | — | $ — | (128,392) |
| As at December 31, 2010 | 1,448,396 | $ 32.95 | 7,954,745 | $ 34.67 | 9,403,141 |
| | | | | | |
| Granted | 373,853 | $ 24.90 | — | $ — | 373,853 |
| Exercised | (90,093) | $ 23.61 | (139,761) | $ 16.05 | (229,854) |
| Expired | (449,097) | $ 48.10 | — | $ — | (449,097) |
| Forfeited | (39,747) | $ 27.15 | — | $ — | (39,747) |
| **As at December 31, 2011** | **1,243,312** | **$ 25.92** | **7,814,984** | **$ 35.00** | **9,058,296** |





**Long Term Incentive Plan**

In December 2011 the Company awarded 50,745 shares of common stock with a two year holding period and granted 373,853 options under this plan. The Company used as its assumptions for calculating the fair value a risk free interest rate of 0.85% to 0.93%, weighted average volatility of 36.7% to 40.67%, expected lives ranging from 1.8 to 3.0 years based on a historical expected dividend yield of 0.5%, and an exercise price of CAD$24.90 per share. The weighted average fair value of each option was determined to be CAD$5.99.

During the year ended December 31, 2011, 90,093 common shares were exercised for proceeds of $2.2 million in connection with the options under the plan (December 31, 2010 — 450,587 and $7.3 million). The weighted average share price at the date of exercise at December 31, 2011 was $38.13 (2010 - $38.34).

**Share Option Plan**

The following table summarizes information concerning stock options outstanding and options exercisable as at December 31, 2011. The underlying options agreements are specified in Canadian dollar amounts.

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices CAD$ | Number Outstanding as at Dec. 31, 2011 | Weighted Average Remaining Contractual Life (months) | Weighted Average Exercise Price CAD$ | Number Exercisable as at Dec.31, 2011 | Weighted Average Exercise Price CAD$ |
| $ 17.73 - $22.23 | **349,169** | 30.72 | $ 19.45 | **110,890** | $ 17.73 |
| $ 22.24 - $25.19 | **588,113** | 66.71 | $ 25.00 | **69,674** | $ 25.15 |
| $ 25.20 - $36.66 | **201,994** | 8.30 | $ 32.41 | **201,994** | $ 32.41 |
| $ 36.67 - $40.22 | **104,036** | 71.33 | $ 40.22 | **52,028** | $ 40.22 |
| | **1,243,312** | 47.50 | $ 25.92 | **434,586** | $ 28.44 |

For the year ended December 31, 2011, the total employee stock-based compensation expense recognized in the income statement was $3.5 million (2010 - $4.0 million).

**Share Purchase Warrants**

As part of the acquisition of Aquiline Resources Inc. the Company issued share purchase warrants (Consideration and Replacement Warrants). The following table summarizes information concerning the warrants outstanding and warrants exercisable as at December 31, 2011. The underlying options agreements are specified in Canadian dollar amounts.

| | Warrants Outstanding | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices CAD$ | Number Outstanding as at Dec. 31, 2011 | Weighted Average Remaining Contractual Life (months) | Weighted Average Exercise Price CAD$ | Number Exercisable as at Dec. 31, 2011 | Weighted Average Exercise Price CAD$ |
| $ 35.00 | **7,814,984** | 35.36 | $ 35.00 | **7,814,984** | $ 35.00 |

As discussed in Note 2, the Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. At December 31, 2011, the fair value of the share purchase warrants is $23.7 million (2010 - $127.9 million) and at January 1, 2010 is $43.9 million. The weighted average share price at the date of exercise was $30.70 (2010 - $38.78). Additionally, during the year ended December 31, 2011, there was a derivative gain of $101.8 million (2010 — derivative loss of $90.7 million). The following table provides detail on the movement of the share purchase warrant liability between January 1, 2010 and December 31, 2011:

| **Share Purchase Warrant Liability** | |
|---|---|
| January 1, 2010 | $ 43,919 |
| Warrants issued during the year | 3,987 |
| Warrants exercised during the year | (10,677) |
| Mark-to-market loss on the revaluation of warrants | 90,661 |
| As at December 31, 2010 | $ 127,890 |
| Warrants exercised during the year | (2,411) |
| Mark-to-market gain on the revaluation of warrants | (101,828) |
| **December 31, 2011** | **$ 23,651** |

The Company uses the Black Scholes pricing model to determine the fair value of the Canadian dollar denominated warrants. Assumptions used are as follows:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Warrant strike price | **$ 35.00** | $ 35.00 |
| Exchange rate (1CDN$ = US$) | **0.9771** | 0.9998 |
| Risk-free interest rate | **1.0%** | 2.2% |
| Expected dividend yield | **0.5%** | 0.3% |
| Expected stock price volatility | **41%** | 40% |
| Expected warrant life in years | **2.9** | 4.0 |
| Quoted market price at period end | **$ 22.28** | $ 40.93 |

**Key Employee Long Term Contribution Plan**

An additional element of the Company's compensation structure is a retention program known as the Key Employee Long Term Contribution Plan (the "Contribution Plan"). The Contribution Plan was approved by the directors of the Company on June 2, 2008 in response to a heated labour market situation in the mining sector, and is intended to reward certain key employees of the Company over a fixed time period for remaining with the Company.

The Contribution Plan is a four year plan with a percentage of the retention bonus payable at the end of each year of the program. The Contribution Plan design consists of three bonus levels that are commensurate with various levels of responsibility, and provides for a specified annual payment for four years starting in June 2009. Each year, the annual contribution award will be paid in the form of either cash or shares of the Company. As of December 31, 2011 CAD $3.5 million remains to be paid as described in Note 4. No shares will be issued from the treasury pursuant to the Contribution Plan without the prior approval of the plan by the shareholders of the Company and any applicable securities regulatory authorities.

**Issued share capital**

The Company is authorized to issue 200,000,000 common shares of no par value and does not reserve shares for issuances in connection of the exercise of stock options.

**Normal Course Issuer Bid**

On August 26, 2011, the Company received regulatory approval for a normal course issuer bid to purchase up to 5,395,540 of its common shares, during the one year period from September 1, 2011 to August 31, 2012.

During the year ended December 31, 2011 the Company purchased and cancelled 3,582,200 shares (2010 — nil) for a total consideration of $94.0 million (2010 — nil), allocated between retained earnings ($51.7 million) and issued capital ($42.3 million).

**Dividends**

During the year ended December 31, 2011, the Company declared and paid to its shareholders dividends of $0.025 per common share for total dividends of $10.7 million (2010 - $0.025 for total dividends of $8.0 million). The total dividend per share for the year ended December 31, 2011 was $0.10 (2010 - $0.08).

On February 22, 2012, the Company declared dividends payable of $0.0375 per common share for total dividends of $3.9 million, payable to holders of record of its common shares as of the close of business day on March 5, 2012. These dividends were not recognized in the year ended December 31, 2011.





## 14. Production Costs

Production costs are comprised of the following:

| For the years ended December 31, | 2011 | 2010 |
|---|---|---|
| Consumption of raw materials and consumables | $ 121,366 | $ 89,664 |
| Employee compensation and benefits expense | 119,430 | 101,362 |
| Contractors and outside services | 69,740 | 60,091 |
| Utilities | 39,446 | 33,560 |
| Changes in inventories | (27,374) | (4,903) |
| Other expenses | 18,755 | 28,013 |
| | $ 341,363 | $ 307,787 |

## 15. Employee Compensation and Benefit Expenses

| For the years ended December 31, | 2011 | 2010 |
|---|---|---|
| Wages, salaries and bonuses | $ 148,951 | $ 119,879 |
| Share-based payments | 3,502 | 4,028 |
| Total employee compensation and benefit expenses | 152,453 | 123,907 |
| Less: Expensed within General and Administrative expenses | (15,953) | (16,754) |
| Less: Expensed Exploration expenses | (8,205) | (4,202) |
| Less: Capitalized in inventory | (8,865) | (1,589) |
| **Employee compensation and benefits expenses included in production costs** | $ 119,430 | $ 101,362 |

## 16. Earnings Per Share (Basic and Diluted)

| For the years ended December 31, | 2011 Earnings (Numerator) | 2011 Shares (Denominator) | 2011 Per-Share Amount | 2010 Earnings (Numerator) | 2010 Shares (Denominator) | 2010 Per-Share Amount |
|---|---|---|---|---|---|---|
| Net Earnings(1) | $ 352,494 | | | $ 13,711 | | |
| Basic EPS | $ 352,494 | 106,434 | 3.31 | $ 13,711 | 106,969 | 0.13 |
| Effect of Dilutive Securities: | | | | | | |
| Stock Options | — | 164 | | — | 308 | |
| Diluted EPS | $ 352,494 | 106,598 | 3.31 | $ 13,711 | 107,277 | 0.13 |

(1) Net earnings attributable to equity holders of the Company.

Potentially dilutive securities excluded in the diluted earnings per share calculation for the year ended December 31, 2011 were 8,018,637 out-of-money options and warrants (2010 — 8,631,999).

## 17. Supplemental Cash Flow Information

The following tables summarize the changes in operating working capital items and significant non-cash items:





| Changes in non-cash operating working capital items: | 2011 | 2010 |
|---|---|---|
| Trade and other receivables | $ (8,595) | $ (3,569) |
| Inventories | (28,416) | (12,097) |
| Prepaid expenditures | (2,799) | (3,908) |
| Accounts payable and accrued liabilities | 2,631 | 7,029 |
| Provisions | (2,256) | (77) |
| | $ (39,435) | $ (12,622) |

| Significant Non-Cash Items: | 2011 | 2010 |
|---|---|---|
| Equity issued to acquire non-controlling interest of Aquiline Resources Inc. | $ — | $ 43,532 |
| Warrants issued to acquire non-controlling interest of Aquiline Resources Inc. | $ — | $ 3,987 |
| Fair value adjustment of warrants exercised | $ 2,411 | $ 10,677 |
| Advances received for construction and equipment leases | $ 22,111 | $ 5,360 |
| Stock compensation issued to employees and directors | $ 1,329 | $ 2,490 |

## 18. Segmented Information

All of the Company's operations are within the mining sector, conducted through operations in six countries. Due to geographic and political diversity, the Company's mining operations are decentralized whereby Mine General Managers are responsible for achieving specified business results within a framework of global policies and standards. Country corporate offices provide support infrastructure to the mines in addressing local and country issues including financial, human resources, and exploration support. The Company has a separate budgeting process and measures the results of operations and exploration activities independently. The Corporate office provides support to the mining and exploration activities with respect to financial, human resources and technical support. Major products are silver, gold, zinc, lead and copper produced from

mines located in Mexico, Peru, Argentina and Bolivia. Segments have been aggregated where operations in specific regions have similar products, production processes, type of customers and economic environment.





| | Year ended December 31, 2011 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | | Mexico | | Argentina | Bolivia | | | | |
| | Huaron | Morococha | Quiruvilca | Alamo Dorado | La Colorada | Manantial Espejo | San Vicente | PAS Corp. | Other | Aquiline Group | Total |
| Revenue from external customers | $ 99,236 | $ 83,467 | $ 45,927 | $ 174,387 | $ 147,654 | $ 213,796 | $ 85,446 | $ 5,362 | $ — | $ — | $ 855,275 |
| Depreciation and amortization | $ (6,515) | $ (9,679) | $ (1,515) | $ (16,637) | $ (4,077) | $ (33,675) | $ (9,985) | $ (222) | $ (169) | $ (282) | $ (82,756) |
| Exploration and project development | $ (303) | $ (3,619) | $ — | $ (2,098) | $ (845) | $ (2,189) | $ — | $ (937) | $ (3,460) | $ (14,276) | $ (27,727) |
| Interest and financing expenses | $ (358) | $ (514) | $ (648) | $ (363) | $ (313) | $ (1,468) | $ (317) | $ (2,074) | $ (28) | $ (116) | $ (6,199) |
| Gain (loss) on disposition of assets | $ (65) | $ 1,097 | $ — | $ 8 | $ 124 | $ — | $ 26 | $ — | $ — | $ — | $ 1,190 |
| Gain on derivatives | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 101,828 | $ — | $ — | $ 101,828 |
| Foreign exchange gain (loss) | $ (456) | $ (300) | $ (180) | $ 331 | $ 775 | $ (2,490) | $ (38) | $ (5,409) | $ (294) | $ (65) | $ (8,126) |
| Gain on commodity and foreign currency contracts | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 681 | $ — | $ — | $ 681 |
| Earnings (loss) before income taxes | $ 33,194 | $ 17,477 | $ 13,143 | $ 115,293 | $ 104,254 | $ 68,066 | $ 38,398 | $ 97,989 | $ (1,372) | $ (15,178) | $ 471,264 |
| Income tax expense | $ (9,260) | $ (4,683) | $ (5,045) | $ (36,261) | $ (30,418) | $ (14,737) | $ (15,045) | $ (1,562) | $ (1,158) | $ 1,051 | $ (117,118) |
| Net earnings (loss) for the year | $ 23,934 | $ 12,794 | $ 8,098 | $ 79,032 | $ 73,836 | $ 53,329 | $ 23,353 | $ 96,427 | $ (2,530) | $ (14,127) | $ 354,146 |
| Capital expenditures | $ 13,021 | $ 41,669 | $ 1,515 | $ 8,287 | $ 13,301 | $ 16,916 | $ 4,975 | $ 20,723 | $ 3,023 | $ 22,333 | $ 145,763 |
| Total assets | $ 69,014 | $ 160,773 | $ 79,613 | $ 128,875 | $ 95,274 | $ 340,659 | $ 118,147 | $ 272,609 | $ 89,138 | $ 597,694 | $ 1,951,796 |
| Total liabilities | $ 22,397 | $ 65,256 | $ 54,586 | $ 12,258 | $ 22,652 | $ 248,016 | $ 67,242 | $ (235,545) | $ 5,921 | $ 86,926 | $ 349,709 |

| | Year ended December 31, 2010 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | | Mexico | | Argentina | Bolivia | | | | |
| | Huaron | Morococha | Quiruvilca | Alamo Dorado | La Colorada | Manantial Espejo | San Vicente | PAS Corp. | Other | Aquiline Group | Total |
| Revenue from external customers | $ 75,759 | $ 89,879 | $ 52,745 | $ 147,454 | $ 73,428 | $ 140,198 | $ 67,090 | $ — | $ — | $ — | $ 646,553 |
| Depreciation and amortization | $ (4,143) | $ (6,882) | $ — | $ (24,184) | $ (4,596) | $ (30,221) | $ (12,508) | $ (126) | $ (145) | $ (279) | $ (83,084) |
| Exploration and project development | $ — | $ — | $ — | $ (25) | $ (598) | $ (1,263) | $ — | $ (2,720) | $ (11,371) | $ (8,550) | $ (24,527) |
| Interest and financing expenses | $ (611) | $ (674) | $ (1,202) | $ (328) | $ (270) | $ (1,015) | $ (549) | $ (1,070) | $ — | $ (11) | $ (5,730) |
| Gain (loss) on disposition of assets | $ 13 | $ 640 | $ — | $ (17) | $ (6) | $ — | $ 21 | $ — | $ — | $ — | $ 651 |
| Loss on derivatives | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ (90,661) | $ — | $ — | $ (90,661) |
| Foreign exchange gain (loss) | $ 2,046 | $ (80) | $ (2,616) | $ (522) | $ (353) | $ (1,547) | $ 44 | $ 4,709 | $ — | $ 5 | $ 1,686 |
| Loss on commodity and foreign currency contracts | $ (7) | $ (41) | $ (34) | $ — | $ — | $ — | $ — | $ (155) | $ — | $ — | $ (237) |
| Earnings (loss) before income taxes | $ 16,438 | $ 27,943 | $ 9,180 | $ 80,798 | $ 33,349 | $ 32,357 | $ 20,207 | $ (94,592) | $ (10,590) | $ (9,168) | $ 105,922 |
| Income tax expense | $ (5,432) | $ (5,674) | $ (3,932) | $ (29,874) | $ (14,093) | $ (8,370) | $ (15,141) | $ (5,903) | $ 215 | $ (2,011) | $ (90,215) |
| Net earnings (loss) for the year | $ 11,006 | $ 22,269 | $ 5,248 | $ 50,924 | $ 19,256 | $ 23,987 | $ 5,066 | $ (100,495) | $ (10,375) | $ (11,179) | $ 15,707 |
| Capital expenditures | $ 6,606 | $ 16,685 | $ — | $ 2,132 | $ 9,118 | $ 7,021 | $ 6,007 | $ 193 | $ 154 | $ 21,039 | $ 68,955 |
| Total assets | $ 54,731 | $ 139,952 | $ 80,592 | $ 137,265 | $ 49,758 | $ 319,004 | $ 121,287 | $ 250,884 | $ 10,416 | $ 574,907 | $ 1,738,796 |
| Total liabilities | $ 18,741 | $ 51,067 | $ 57,161 | $ 30,934 | $ 12,798 | $ 263,149 | $ 92,378 | $ (154,110) | $ (11,382) | $ 28,051 | $ 388,787 |

| | As at January 1, 2010 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | | Mexico | | Argentina | Bolivia | | | | |
| | Huaron | Morococha | Quiruvilca | Alamo Dorado | La Colorada | Manantial Espejo | San Vicente | Pas Corp | Other | Aquiline Group | Total |
| Total assets | $ 56,274 | $ 111,434 | $ 55,360 | $ 148,003 | $ 47,712 | $ 326,872 | $ 128,890 | $ 126,236 | $ 8,168 | $ 561,370 | $ 1,570,319 |
| Total liabilities | $ 8,349 | $ 44,931 | $ 60,053 | $ 55,588 | $ 16,964 | $ 295,003 | $ 104,630 | $ (321,064) | $ (28,707) | $ 20,285 | $ 256,032 |

| **Product Revenue** | **2011** | **2010** |
|---|---|---|
| Refined silver and gold | **$ 432,634** | $ 313,286 |
| Zinc concentrate | **67,037** | 75,345 |
| Lead concentrate | **156,960** | 97,538 |
| Copper concentrate | **198,644** | 160,384 |
| **Total** | **$ 855,275** | $ 646,553 |

The Company has 10 customers that account for 100% of the concentrate and silver and gold sales revenue. The Company has 4 customers that accounted for 34%, 21%, 15% and 14% of total sales in 2011, and 4 customers that accounted for 24%, 22%, 18% and 11% of total sales in 2010. The loss of certain of these





customers or curtailment of purchases by such customers could have a material adverse affect on the Company's results of operations, financial

condition, and cash flows.

## 19. Other Income

| | 2011 | 2010 |
|---|---|---|
| Insurance proceeds, net(1) | $ 3,849 | $ 3,727 |
| Royalties income | 1,039 | 430 |
| Transaction break fee | 1,400 | — |
| Reversal of present value long term receivable | 2,174 | — |
| Chinalco grants (Note 7) | 4,546 | — |
| Other | 2,720 | 370 |
| **Total** | $ 15,728 | $ 4,527 |

(1) Represents insurance recoveries related to the theft of doré at one of the Company's mines.

## 20. Income Taxes

| | 2011 | 2010 |
|---|---|---|
| Current taxes | | |
| Current tax expense in respect of the current year | 110,620 | 73,786 |
| Adjustments recognized in the current year with respect to prior years | (1,273) | (28) |
| | 109,347 | 73,758 |
| Deferred taxes | | |
| Deferred tax expense recognized in the current year | 4,133 | 16,457 |
| Adjustments recognized in the current year with respect to prior years | 3,638 | — |
| | 7,771 | 16,457 |
| Provision for income taxes | $ 117,118 | $ 90,215 |

As of January 1, 2011, the applicable income tax rate in Canada was reduced from 28.5% to 26.5%. The change in tax rate has no income tax impact.

Income tax expense differs from the amounts that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the items shown on the following table, which result in effective tax rates that vary considerably from the comparable periods. The main factors which have affected the effective tax rates for the year ended December 31, 2011 and the comparable period of 2010 were the unrealized gains and losses on the Company's warrants position, foreign income tax rate differentials and foreign exchange gains and losses. The Company expects that these and other factors will continue to cause volatility in effective tax rates in the future.





| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Income before taxes | 471,264 | 105,922 |
| Statutory tax rate | 26.50% | 28.50% |
| Income tax expense based on above rates | $ 124,885 | $ 30,188 |
| Increase (decrease) due to: | | |
| Non-deductible expenses | 2,028 | 1,731 |
| (Increase) decrease to estimated deductible expenses | (12,986) | 5,099 |
| Change in net deferred tax assets not recognized | 286 | 1,543 |
| Non-taxable unrealized (gain) loss on derivative financial instruments - warrants | (26,984) | 25,416 |
| Foreign tax rate differences | 14,642 | 3,179 |
| Effect of other taxes paid (mining and withholding) | 9,914 | 10,008 |
| Change in net deferred tax assets not recognized for exploration expenses | 6,207 | 6,214 |
| Foreign exchange (gain) loss | 2,277 | 3,866 |
| Other | (3,151) | 2,971 |
| | $ 117,118 | $ 90,215 |
| Effective tax rate | 24.85% | 85.17% |

*Deferred tax assets and liabilities*

The following is the analysis of the deferred tax assets (liabilities) presented in the consolidated financial statements:

| | Year ended December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Net deferred assets (liabilities) beginning of year | (42,978) | (26,521) |
| Recognized in net earnings or loss in current year | (7,771) | (16,457) |
| Net deferred assets (liabilities) end of year | $ (50,749) | (42,978) |

| | | |
|---|---|---|
| Deferred tax assets | 4,170 | 6,826 |
| Deferred tax liabilities | (54,919) | (49,804) |
| Net deferred tax assets (liabilities) | $ (50,749) | (42,978) |

*Components of deferred tax assets and liabilities*

The deferred tax assets (liabilities) are comprised of the various temporary differences as detailed below:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | Jan 1, 2010 |
| Deferred tax assets (liabilities) arising from: | | | |
| Closure and decommissioning costs | **11,604** | 13,624 | 11,574 |
| Tax losses | **—** | — | 4,701 |
| Provision for doubtful debts and inventory adjustments | **345** | 1,334 | 508 |
| Provision for employee (vacation, severance, retirement) | **92** | 801 | 712 |
| Accounts payable and accrued liabilities | **6,657** | 3,831 | 488 |
| Trade and other receivables | **15,103** | — | — |
| Mineral properties, plant, and equipment | **(71,300)** | (60,824) | (46,727) |
| Estimated sales provisions | **(14,616)** | (4,912) | (524) |
| Prepaids and other current assets | **(1,000)** | — | — |
| Other temporary differences and provisions | **2,366** | 3,168 | 2,747 |
| Net deferred tax asset (liability) | **$ (50,749)** | $ (42,978) | $ (26,521) |





*Unrecognized deductible temporary differences, unused tax losses and unused tax credits*

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Tax loss (revenue in nature) | **$ 86,015** | $ 132,668 |
| Tax loss (capital in nature) | **10,022** | 10,034 |
| Resource pools | **12,773** | 12,773 |
| Financing fees | **9,650** | 6,207 |
| Donations | **—** | 1,832 |
| Property plant and equipment | **5,524** | 3,805 |
| Closure and decommissioning costs | **17,567** | 23,750 |
| Exploration expenses | **11,971** | 3,738 |
| Vacation accruals | **1,048** | — |
| Other temporary differences | **98** | — |
| | **$ 154,668** | $ 194,807 |

Included in the tax losses above are Canadian losses of $78.2 million which if not utilized, will expire as follows: 2013 - $0.4 million, 2014 - $16.3 million, 2015 - $21.0 million, 2016 - $0.8 million and from 2027 to 2031 - $39.7 million. Mexican losses of $7.8 million which if not utilized, will expire as follows: 2021 — $6.1 million, 2022 — $1.7 million.

*Temporary differences associated with investment in subsidiaries*

As at December 31, 2011, temporary differences of $138.7 million (2010 — $204.5 million) associated with the investments in subsidiaries have not been recognized as the Company is able to control the timing of the reversal of these differences which are not expected to reverse in the foreseeable future.

## 21. Commitments and Contingencies

### a. General

The Company is subject to various investigations, claims and legal and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company. In the opinion of management none of these matters are expected to have a material effect on the results of operations or financial conditions of the Company.

### b. Purchase Commitments

The Company had no purchase commitments other than those commitments described in Note 4.

**c. Credit Facility**

On October 10, 2008, Pan American entered into a $70 million revolving credit facility ("the Facility") with Scotia Capital and Standard Bank Plc ("the Lenders"). The purpose of the Facility is for general corporate purposes, including acquisitions. The Facility, which is principally secured by a pledge of Pan American's equity interests in its material subsidiaries, had a term of four years. On December 20, 2010 the Company amended the Facility by, among other things, extending the term to December 20, 2014 and increased the amount of the Facility to $150 million by expanding the number of Lenders to include West LB, CIBC and BMO. The interest margin on the renewed Facility ranges from 3.00% to 4.00% over LIBOR, based on the Company's net debt to EBITDA ratio. Pan American has agreed to pay a commitment fee of between 0.90% and 1.20% on undrawn amounts under the Facility, depending on the Company's net debt to EBITDA ratio. As at December 31, 2011, the Company has made no drawings under this Facility.





**d. Environmental Matters**

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect the public health and environment and believes its operations are in compliance with applicable laws and regulations in all material respects. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Estimated future reclamation costs are based t he extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies. As of December 31, 2011, December 31, 2010 and January 1, 2010, $55.8 million, $71.6 million and $57.3 million, respectively, were accrued for reclamation costs relating to mineral properties. See also Note 10.

**e. Income Taxes**

The Company operates in numerous countries around the world and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved. The long term portion of the Company's current income taxes payable is classified as long term in Note 12.

**f. Finance Leases**

The present value of future minimum lease payments classified as finance leases at December 31, 2011 is $9.8 million (2010: $0.12 million) and the schedule of timing of payments for this obligation is found in Note 4.

**g. Law changes in Argentina**

On October 26, 2011 the Federal Government of Argentina promulgated an "economic emergency" decree requiring all oil, gas and mining exporters to repatriate 100% of revenue receipts, in an attempt to stem ongoing capital flight. Pan American is currently assessing the implications the new regulation will have on its Manantial Espejo mine and its development projects in Chubut and Rio Negro. Currently, management believes that the likely impact would come in the form of additional transaction fees associated with the repatriation of funds; however, the precise methods of application of the decree are still being formulated by the Government and are being analyzed by the Company as further details are determined.

**h. Political changes in Bolivia**

In late 2005, a national election in Bolivia resulted in the emergence of a left-wing government. This has caused some concerns amongst foreign companies doing business in Bolivia due to the government's policy objective of nationalizing the oil and gas industries. There is no certainty the government of Bolivia will not take steps to implement such measures targeting the mining industry, and in early 2009, a new constitution was enacted that further entrenches the government's ability to amend or enact such laws, including those that may affect mining. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts and threatened expropriation of assets, all of which could have a material adverse impact on the Company's operations or profitability.

**i. Other Legal Matters**

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities, many of them relating to ex-employees. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably

to the Company. The Company establishes provisions for matters that are probable and can be reasonably estimated, included within current liabilities, and amounts are not considered material.

In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. In the opinion of management there are no claims expected to have a material effect on the results of operations or financial condition of the Company.

**j. Title Risk**

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

**k. Royalty Agreements and Participation Agreements**

The Company has various royalty agreements on certain mineral properties entitling the counterparties to the agreements to receive payments per terms as summarized below. Royalty liabilities incurred on acquisitions of properties are netted against mineral property while royalties that become payable upon production are expensed at the time of sale of the production.

On September 22, 2011, Peru's Parliament approved new laws that increase mining taxes to fund anti-poverty infrastructure projects in the country, effective October 1, 2011. The new law changes the scheme for royalty payments, so that mining companies that have not signed legal stability agreements with the government will have to pay royalties of 1% to 12% on operating profit; royalties under the previous rules were 1% to 3% on net sales. In addition to these royalties, such companies will be subject to a "special tax" at a rate ranging from 2% to 8.4% of operating profit. Companies that have concluded legal stability agreements (under the General Mining Law) will be required to pay a "special contribution" of between 4% and 13.12% of operating profits. The Company's calculations of the change in the royalty and the new tax indicate that no material impact is expected on the results of the Company's Peruvian operations.

In the Province of Chubut, Argentina which is the location of the Company's Navidad property, there is a provincial royalty of 3% of the "Operating Income". Operating income is defined as revenue minus production costs (not including mining costs), treatment and transportation charges. The Navidad property is not subject to any other royalties, back-in rights, payments, encumbrances or similar agreements.

***Huaron, Quiruvilca and Morococha mines***

In June 2004, Peru's Congress approved a bill that allows royalties to be charged on mining projects. These royalties are payable on Peruvian mine production at the following progressive rates: (i) 1.0% for companies with sales up to $60 million; (ii) 2.0% for companies with sales between $60 million and $120 million; and (iii) 3.0% for companies with sales greater than $120 million. This royalty is a net smelter returns royalty, the cost of which is deductible for income tax purposes. Because the Huaron and Quiruvilca mines are one legal entity, this royalty is calculated on the cumulative production of both mines while the calculation of the royalty on Morococha's production is done on this mine alone.

***Manantial Espejo mine***

Production from the Manantial Espejo property is subject to royalties to be paid to Barrick Gold Corp. according to the following: (i) $0.60 per metric tonne of ore mined from the property and fed to process at a mill or leaching facility to a maximum of 1 million tonnes; and (ii) one-half of one percent (0.5%) of net smelter returns derived from the production of minerals from the property. In addition, the Company has negotiated a royalty equal to 3.0% of operating cash flow payable to the Province of Santa Cruz.





***San Vicente mine***

Pursuant to an option agreement entered into with COMIBOL, a Bolivian state mining company, with respect to the development of the San Vicente property, the Company is obligated to pay COMIBOL a participation fee of 37.5% (the "Participation Fee") of the operations cash flow. Once full commercial production of San Vicente began, the Participation was reduced by 75% until the Company recovers its investment in the property. Thereafter, the Participation Fee will revert back to its original percentage. In 2011, the royalties to COMIBAL amounted to approximately $12.6 million.

A royalty is also payable to EMUSA, a former partner of the Company on the project. The royalty is a 2% net smelter royalty payable only after the Company has recovered its capital investment in the project and only when the average price of silver in a given financial quarter is $9.00

per ounce or greater. Recovery of capital investment was not achieved as of December 31, 2011.

In December 2007, the Bolivian government introduced a new mining royalty that affects the San Vicente project. The royalty is applied to gross metal value of sales (before smelting and refining deductions) and the royalty percentage is a sliding scale depending on metal prices. At current metal prices, the royalty is 6% for silver metal value and 5% for zinc and copper metal value of sales. The royalty is income tax deductible.

## 22. Related Party Transactions

During the year ended December 31, 2011, a private company controlled by a director of the Company was paid approximately $0.4 million (2010 - $0.4 million) for consulting services. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

***Compensation of key management personnel***

The remuneration of directors and other members of key management personnel during the year was as follows:

| | 2011 | 2010 |
|---|---|---|
| Short-term benefits | **$ 7,451** | $ 7,116 |
| Share-based payments | **2,245** | 2,912 |
| | **$ 9,696** | $ 10,028 |

## 23. First Time Adoption of IFRS

The significant IFRS policies set out in Note 2 have been applied in preparing these consolidated financial statements and selected comparative information presented below. The following tables reconcile the Company's consolidated statements of financial position, statements of income, comprehensive income and equity prepared in accordance with Canadian GAAP and as previously reported to those prepared and reported in these consolidated financial statements in accordance with IFRS:





***Consolidated Statements of Financial Position Reconciliation***

| | | December 31, 2010 | | | As at January 1, 2010 (Date of transition) | | |
|---|---|---|---|---|---|---|---|
| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS | Canadian GAAP | Effect of Transition to IFRS | IFRS Opening |
| **Assets** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash | | $ 179,921 | $ — | $ 179,921 | $ 100,474 | $ — | $ 100,474 |
| Short-term investments | | 180,583 | — | 180,583 | 92,623 | — | 92,623 |
| Trade and other receivables | | 66,893 | — | 66,893 | 66,059 | — | 66,059 |
| Income taxes receivable | | 87 | — | 87 | 12,132 | — | 12,132 |
| Inventories | | 106,854 | — | 106,854 | 93,446 | — | 93,446 |
| Derivative financial instruments | | — | — | — | 160 | — | 160 |
| Future income taxes | i(d) | 8,172 | (8,172) | — | 4,993 | (4,993) | — |
| Prepaids and other current assets | | 6,520 | — | 6,520 | 2,568 | — | 2,568 |
| Total Current Assets | | 549,030 | (8,172) | 540,858 | 372,455 | (4,993) | 367,462 |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment, net | i(b),ii(a) | 1,492,538 | (331,215) | 1,161,323 | 1,457,724 | (280,648) | 1,177,076 |
| Deferred tax assets | i(c),i(d) | 1,251 | 5,575 | 6,826 | — | 7,351 | 7,351 |
| Other assets | | 1,618 | — | 1,618 | 6,521 | — | 6,521 |
| Long-term refundable tax | | 28,171 | — | 28,171 | 11,909 | — | 11,909 |
| **Total Assets** | | $ 2,072,608 | $ (333,812) | $ 1,738,796 | $ 1,848,609 | $ (278,290) | $ 1,570,319 |
| **Liabilities** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | vii | $ 81,230 | $ (3,450) | $ 77,780 | $ 96,159 | $ (4,948) | $ 91,211 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Provisions | vii | — | 3,450 | 3,450 | — | 4,948 | 4,948 |
| Current income tax liabilities | | 29,699 | — | 29,699 | 4,021 | — | 4,021 |
| Future income taxes | i(d) | 4,312 | (4,312) | — | — | — | — |
| | | 115,241 | (4,312) | 110,929 | 100,180 | — | 100,180 |
| **Non-current liabilities** | | | | | | | |
| Provisions | ii | 69,463 | 4,553 | 74,016 | 62,775 | (5,502) | 57,273 |
| Deferred tax liabilities | i | 331,228 | (281,424) | 49,804 | 305,820 | (271,948) | 33,872 |
| Share purchase warrants | iii | — | 127,890 | 127,890 | — | 43,919 | 43,919 |
| Other long-term liabilities | vii | 28,614 | (2,466) | 26,148 | 20,788 | — | 20,788 |
| **Total Liabilities** | | 544,546 | (155,759) | 388,787 | 489,563 | (233,531) | 256,032 |
| | | | | | | | |
| **Non-controlling interest** | iv | 7,774 | (7,774) | — | 15,256 | (15,256) | — |
| | | | | | | | |
| **Equity** | | | | | | | |
| **Capital and reserves** | | | | | | | |
| Issued capital | iii | 1,272,860 | 4,027 | 1,276,887 | 1,206,647 | — | 1,206,647 |
| Share option reserve | iii | 45,303 | (38,281) | 7,022 | 47,293 | (40,944) | 6,349 |
| Investment revaluation reserve | vi | 9,346 | (1,648) | 7,698 | 1,618 | (166) | 1,452 |
| Retained earnings | i-vi,ix | 192,779 | (143,028) | 49,751 | 88,232 | (4,357) | 83,875 |
| | | 1,520,288 | (178,930) | 1,341,358 | 1,343,790 | (45,467) | 1,298,323 |
| Non-controlling interests | iv | — | 8,651 | 8,651 | — | 15,964 | 15,964 |
| **Total Equity** | | 1,520,288 | (170,279) | 1,350,009 | 1,343,790 | (29,503) | 1,314,287 |
| **Total Liabilities and Equity** | | $ 2,072,608 | $ (333,812) | $ 1,738,796 | $ 1,848,609 | $ (278,290) | $ 1,570,319 |





**(Note 23 continued)**
**Consolidated Income Statement Reconciliation**

| | | Year ended December 31, 2010 | | |
|---|---|---|---|---|
| | Notes | Previous GAAP | Effect of Transition to IFRS | IFRS |
| Revenue | viii | $ 631,986 | $ 14,567 | $ 646,553 |
| Production Costs | | (283,665) | (24,122) | (307,787) |
| Depreciation and amortization | v | (86,483) | 3,399 | (83,084) |
| Royalties | viii | (22,031) | 7,464 | (14,567) |
| **Mine operating earnings** | | 239,807 | 1,308 | 241,115 |
| | | | | |
| General and administrative | | (17,109) | — | (17,109) |
| Exploration and project development | | (24,527) | — | (24,527) |
| Doubtful accounts and inventory provision | | (4,754) | — | (4,754) |
| Foreign exchange gain | i(a) | 11,058 | (9,372) | 1,686 |
| Loss on commodity and foreign currency contracts | | (237) | — | (237) |
| Gain on sale of assets | | 651 | — | 651 |
| Other income | | 4,527 | — | 4,527 |
| Asset retirement and reclamation | ii(b) | (2,929) | 2,929 | — |
| **Earnings from operations** | | 206,487 | (5,135) | 201,352 |
| | | | | |
| Loss on derivatives | iii | — | (90,661) | (90,661) |
| Investment income | | 961 | — | 961 |
| Interest and financing expense | ii(b) | (2,061) | (3,669) | (5,730) |
| **Earnings before taxes** | | 205,387 | (99,465) | 105,922 |
| | | | | |
| Non-controlling interests | iv | (1,827) | 1,827 | — |
| Income taxes | i(a-e) | (90,987) | 772 | (90,215) |
| Net earnings for the year | | $ 112,573 | $ (96,866) | $ 15,707 |

| | | | | |
|---|---|---|---|---|
| **Attributable to:** | | | | |
| Equity holders of the Company | | $ — | $ 13,711 | $ 13,711 |
| Non-controlling interests | iv | — | 1,996 | 1,996 |
| | | $ — | $ 15,707 | $ 15,707 |
| **Consolidated Statement of Comprehensive Income Reconciliation** | | | | |
| Net earnings for the period | | $ 112,573 | $ (96,866) | $ 15,707 |
| Unrealized net gains on available for sale non-monetary securities (net of zero tax) | | 8,025 | (1,481) | 6,544 |
| Reclassification adjustments of net (gains) included in earnings | | (298) | — | (298) |
| **Total comprehensive income for the period** | | $ 120,300 | $ (98,347) | $ 21,953 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of the Company | | $ — | $ 19,957 | $ 19,957 |
| Non-controlling interests | | — | 1,996 | 1,996 |
| | | $ — | $ 21,953 | $ 21,953 |

See accompanying notes to these statements.





**(Note 23 continued)**
**Reconciliation of Total Equity as at December 31, 2010**

| | Notes | December 31, 2010 Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| **Capital and reserves** | | | | |
| Issued capital | | $ 1,272,860 | 4,027 | 1,276,887 |
| Share option reserve | iii | 45,303 | (38,281) | 7,022 |
| Investment revaluation reserve | vi | 9,346 | (1,648) | 7,698 |
| Retained earnings | i-vi, ix | 192,779 | (143,028) | 49,751 |
| Equity attributable to equity holders | | 1,520,288 | (178,930) | 1,341,358 |
| Non-controlling interests | iv | — | 8,651 | 8,651 |
| **Total Equity** | | $ 1,520,288 | (170,279) | 1,350,009 |

**Retained Earnings Reconciliation:**

| | Notes | December 31, 2010 |
|---|---|---|
| **Canadian GAAP** | | **192,779** |
| Effects of Transition to IFRS: | | |
| January 1, 2010 adjustments | | **(4,357)** |
| Aquiline adjustment for changes in ownership interest | ix | **(39,809)** |
| Deferred tax and reclassification from foreign exchange gain/loss | i(a-e),vi | **(10,084)** |
| Depreciation (mineral property, plant and equipment, net) | v | **3,400** |
| Accretion (provision for asset retirement obligation and reclamation) | ii(a) | **(2,831)** |
| Fair value of share purchase warrants related to Aquiline | iii | **(90,661)** |
| Foreign exchange on available for sale monetary assets | vi | **1,483** |
| Non-controlling interest | iv | **1,996** |
| Other | iv | **(2,165)** |
| | | **(143,028)** |
| **IFRS** | | **49,751** |

**Reconciliation of Total Equity as at January 1, 2010**

| | Notes | January 1, 2010 Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| **Capital and reserves** | | | | |
| Issued capital | | $ 1,206,647 | — | 1,206,647 |
| Share option reserve | iii | 47,293 | (40,944) | 6,349 |
| Investment revaluation reserve | vi | 1,618 | (166) | 1,452 |
| Retained earnings | i-vi, ix | 88,232 | (4,357) | 83,875 |
| Equity attributable to equity holders | | 1,343,790 | (45,467) | 1,298,323 |
| Non-controlling interests | iv | — | 15,964 | 15,964 |

| | | | |
|---|---|---|---|
| **Total Equity** | $ 1,343,790 | (29,503) | 1,314,287 |

**Retained Earnings Reconciliation:**

| | Notes | January 1, 2010 |
|---|---|---|
| **Canadian GAAP** | | **88,232** |
| Effects of Transition to IFRS: | | |
| Deferred tax and reclassification from foreign exchange gain/loss | i(a-e),vi | (5,506) |
| Depreciation (mineral property, plant and equipment, net) | v | (836) |
| Accretion (provision for asset retirement obligation and reclamation) | ii(a) | 5,502 |
| Fair value of share purchase warrants related to Aquiline | iii | (2,975) |
| Foreign exchange on available for sale monetary assets (AOCI) | vi | 166 |
| Non-controlling interests | iv | (708) |
| | | (4,357) |
| **IFRS** | | **83,875** |





**Notes to the IFRS reconciliations above:**

**i. Deferred taxes**

The adjustments to deferred income tax assets and liabilities reflect the tax effects under IAS 12 *Income Taxes*:

(a) IAS 12 requires recognition of deferred income taxes for differences that arise on translation of non-monetary assets denominated in currencies other than the Company's functional currency. The tax bases of these non-monetary assets are re-measured from historical rates to functional currency using current exchange rates. The difference as a result of change in exchange rates creates a deferred income tax adjustment. Under Canadian GAAP ("CGAAP"), the historical exchange rates were used and any differences that arose from re-measurement were recorded as foreign exchange gain or loss. The Company has mining properties in Argentina, Peru, Mexico and Bolivia with significant tax basis denominated in local currencies, the movement between the US dollar and these local currencies gives rise to changes in deferred income tax.

(b) Unlike CGAAP, IAS 12 prohibits the recognition of deferred taxes on initial recognition of an asset or liability where the acquisition is not a business combination and neither accounting profit nor taxable profit were affected at the time of the transaction. Accordingly, in its opening statement of financial position, the Company has reversed the deferred income tax liabilities recognized on acquisition of the assets of Aquiline, Manantial Espejo and Alamo Dorado.

(c) The deferred income tax expense booked on the deferred component of the employee profit-sharing arrangement at some of the Company's sites is different under IFRS. Unlike CGAAP, the deferred component of this employee benefit liability is not recognized under IAS 19 *Employee benefits*.

(d) IAS 12 specifies the conditions under which an entity can offset both current and deferred tax assets and liabilities, and requires deferred taxes to be presented as non-current.

(e) The tax effects of other IFRS adjustments.

**ii. Closure and decommissioning**

(a) Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* , the closure provision is measured based on the best estimate of expenditure required to settle the obligation at the statement of financial position date using current discount rate and inflation assumptions; thus simplifying the calculation by removing the 'layering' concept used for CGAAP. In addition, IFRS requires that the liability be re-measured at each reporting date versus the requirement in CGAAP to re-measure in the event of changes in the amount or timing of cash flows required to settle the obligation.

(b) A reclassification of the accretion on the closure and decommissioning liability from operating expense to finance expense to comply with the presentation requirements of IAS 37.

**iii. Share purchase warrants**

Reclassification of share purchase warrants that were presented as equity instruments under CGAAP to derivative financial liability under IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS, share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values included in net earnings.

**iv. Adjustments for non-controlling interest**

An adjustment to record the changes in non-controlling interests resulting from all the IFRS adjustments and reclassification of non-controlling interests to be included in the equity section under IFRS.

**v. Depreciation**

The adjustment to depreciation is a result of a change in the mineral property, plant and equipment basis as a consequence of the changes to the closure and decommissioning liability at all the mine sites and changes related to IAS 12 *Income Taxes* as discussed above. In addition, a presentation adjustment to include depreciation and amortization expenses as part of cost of sales.

**vi. Foreign exchange gains or losses on available-for-sale monetary securities**

A reclassification of the unrealized foreign exchange gains or losses on available for sale monetary securities from other comprehensive income (under CGAAP) to earnings for the period (to retained earnings on transition date) to comply with IAS 39 *Financial Instruments: Recognition and Measurement*.

**vii. Provisions**

A reclassification of the current portion of litigation provision from trade and other payables to provisions.

**viii. Royalty**

A reclassification of royalty expenses from revenue to cost of sales to comply with the definition of Revenue under IAS 18 *Revenue*.

**ix. Changes in ownership interests**

During the first quarter of 2010, the Company increased a controlling ownership interest in a business (Aquiline) by 7%. Under IFRS, changes in ownership interest that do not result in a loss of control are accounted for as equity transactions and the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Under the CGAAP policy of the entity, such changes were treated as step acquisitions requiring an increase in the carrying value of the consolidated business. An adjustment was required in the first quarter of 2010 in order to adjust the IFRS financial statements for the impact of this GAAP difference and appropriately account for this change as an equity transaction under IFRS. Accordingly, a $39.8 million adjustment was charged to equity (within retained earnings) under IFRS for this period. This is disclosed in the statement of equity prepared under IFRS for the year ended December 31, 2010.

**Consolidated Statement of Cash Flows Reconciliation**

The adoption of IFRS has not had any impact on the net cash flows of the Company, with the exception of the treatment of advances received for construction and equipment leases which under CGAAP are applied to capital for net investing whereas under IFRS they are included in income. Additionally, the changes made to the statements of financial position and income statements have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no significant change to the net cash flows, no reconciliations have been presented.

**First time Adoption Exemptions Applied**

IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date of January 1, 2010, unless certain exemptions are applied. The exemptions that the Company has elected to apply are:

*a. Deemed Cost Exemption*

IFRS 1 provides an option that allows a first-time adopter to elect to use a previous GAAP revaluation of an item of property, plant and equipment at or before the date of transition to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to fair value. The Company had previously revalued the property, plant and equipment assets at Quiruvilca and La Colorada as a result of a CGAAP impairment, and has elected these revalued amounts less subsequent depreciation as the deemed cost at the date of transition to IFRS.

*b. Decommissioning Liability Exemption*

IFRS 1 indicates that a first-time adopter may elect not to apply IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* retrospectively. The Company applied this election and accordingly measured the decommissioning liability as at the date of transition to IFRS in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and estimated the



**Pan American Silver Corp.**
Notes to the Consolidated Financial Statements
As at December 31, 2011, December 31, 2010 and January 1, 2010 and for the years ended December 31, 2011 and 2010
(Tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

amounts that would have been included in the cost of the related mineral property, plant and equipment and recalculated the accumulated depreciation for those assets at January 1, 2010.

*c. Business Combination Exemption*

IFRS 1 allows a first-time adopter to avoid application of IFRS 3R *Business Combinations* retrospectively to business combinations that occurred before either the date of transition to IFRS or an alternative pre-transition date. The Company applied this exemption to business combinations that occurred prior to January 1, 2010.

*d. Share-Based Payment Exemption*

IFRS 1 gives a first-time adopter the option to not apply IFRS 2 *Share-Based Payment* to (i) equity instruments that were granted for the periods on or before November 7, 2002 or after November 7, 2002 but that vested before the date of transition to IFRS and (ii) liabilities arising from cash-settled share-based payment transactions if those liabilities were settled before January 1, 2005 or before the date of

transition to IFRS. The Company elected to apply this exemption on its January 1, 2010 date of transition to IFRS.

*e. Leases Exemption*

IFRS 1 provides a first-time adopter with an option to not apply certain requirements under IAS 17 *Leases* retrospectively. The Company applied two exemptions and accordingly assessed whether an arrangement contains a lease on the basis of facts and circumstances existing at the date of transition to IFRS. Secondly, the Company did not reassess the determination of whether an arrangement contains a lease under IFRS if the determination made under CGAAP gave the same outcome as that from the application of IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease.*

*f. Borrowing Costs Exemption*

This exemption in IFRS 1 allows a first-time adopter to apply the transitional provisions set out in IAS 23 *Borrowing Costs* at January 1, 2009 or the date of transition to IFRS, whichever is later. IAS 23 requires the capitalization of borrowing costs related to all qualifying assets. The Company elected to apply IAS 23 *Borrowing* Costs to qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

**24. Subsequent Events**

On January 23, 2012, Pan American and Minefinders Corporation Ltd. (“Minefinders”) announced that they have entered into a definitive agreement (the “Arrangement Agreement”) pursuant to which Pan American will acquire all of the issued and outstanding common shares of Minefinders by way of a plan of arrangement. Under the terms of the Arrangement Agreement, Minefinders’ shareholders will be entitled to receive, in exchange for each Minefinders’ share held, either: (i) 0.55 shares of Pan American and CAD$1.84 in cash; or (ii) 0.6235 shares of Pan American; or (iii) CAD$15.60 in cash, subject to pro-ration under total aggregate cash and share pools. The consideration represents a total offer value of CAD$15.60 per Minefinders’ share and implies a total transaction value of CAD$1.38 billion. The agreement also provides for reciprocal termination payments of approximately CAD$42 million and reciprocal expense reimbursement of payments of approximately CAD$5 million in certain specified circumstances.

Following completion of the transaction, former Minefinders’ security holders will own up to approximately 32% of Pan American, on a fully-diluted basis. The proposed acquisition is subject to approval by Pan American’s shareholders and Minefinders’ security holders, and the terms and conditions for the proposed transaction will be summarized in the management information circulars to be provided to Pan American’s shareholders and Minefinders’ security holders. The Company’s management information circular relating to the acquisition was mailed out to its shareholders in February 2012. A special meeting of the Company’s shareholders will take place on March 26, 2012. If approved by Pan American’s shareholders and Minefinders’ security holders, the Company expects to complete the proposed transaction by the end of March 2012.

**Exhibit 14.1**

# GLOBAL CODE OF ETHICAL CONDUCT

## PURPOSE OF THIS CODE

Pan American has adopted this Global Code of Ethical Conduct (the "Code") in order to document the principles of conduct and ethics to be adhered to by the Company's directors, officers and employees, and to establish mechanisms for the reporting of unethical conduct.

The Company is committed to:

- operating in a responsible manner that complies with applicable laws, rules and regulations;
- promoting the avoidance of conflicts of interest;
- promoting the prompt internal reporting of violations of this Code and other policies applicable to the Company;
- providing accountability for adherence to the Code; and
- providing full, fair, accurate, timely and understandable disclosure in reports and documents filed with any governing body or which are publicly disclosed;

and the Company requires its directors and officers to provide leadership and direction with respect to these principles and standards.

When used herein, "Pan American" and the "Company" shall refer to Pan American Silver Corp. and to its subsidiaries.

## 1. COMPLIANCE WITH THE CODE

This Code is a reflection of Pan American's commitment to the highest standards of governance and ethics. As such, directors, officers and employees of Pan American are required to:

a) Comply with the Code.

b) Assist and co-operate with audits and investigations related to the Code and other policies of Pan American.

c) Promptly report violations of the Code .

Directors, officers or employees of the Company who are found to have violated the Code will be subject to disciplinary measures. Such measures may include but are not limited to, taking corrective actions with respect to the violation, suspension, demotion and possible termination of their employment or relationship with the Company. In addition, Pan American may, where appropriate, refer the matter to relevant government authorities.

## 2. COMPLIANCE WITH LAWS

Pan American expects everyone to comply with all applicable laws, rules and regulations in performing work for the Company, including without limitation, those dealing with environmental compliance, public disclosure, insider trading, discrimination and harassment, and health and safety. Violations of laws, rules or regulations can lead to disciplinary measures under the Code and may result in civil or criminal liability for the Company and the person or persons involved.

As such, directors, officers and employees will:

a) Comply with all laws, rules and regulations in connection with their work for the Company.

b) Seek clarification and advice if they are unsure about any law, rule or regulation or if they have questions related to any law, rule or regulation.

**Approved August 10, 2011**

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c) Never commit or condone an illegal act in any way related to or during the course of their work for the Company, nor authorize or encourage others, such as contractors or agents, to act in an illegal manner.

d) Avoid conduct that could bring the reputation and integrity of the Company into question.

Pan American is committed to ensuring that its business operations are not used by others to facilitate illegal activity. In particular, the Company will strive to prevent its operations from being used in any manner to launder money or further the interests of terrorism.

## 3. RECORD KEEPING AND CONTROL SYSTEMS

The Company's record keeping and control systems are critical components of its business and the integrity of such systems must be maintained at all times. As such, directors, officers and employees will:

a) Strive to ensure that the Company's records (including financial and bookkeeping records, public disclosure documents, reports, presentations, safety documents, monitoring data and correspondence) are complete, true, accurate and understandable and provide assistance and information necessary to maintain them as such.

b) Never use, authorize or encourage improper or deceptive accounting practices, such as falsification of books and records, that could,

among other things, result in Pan American's operating results or performance being fallacious or misleading or be intended to hide violations of this Code or any applicable law.

c) Never destroy, alter, or render unreadable Company records for an improper or illicit purpose and comply with the Company's records management processes, with special care being given to financial, bookkeeping and other accounting records.

d) Retain Pan American records as required by law, the Company's records management processes and as otherwise notified by the Company's legal personnel.

e) Return Pan American records to the Company and notify the appropriate management member as to the location of such records upon changing roles or ceasing employment with the Company.

Information, data, records, documents and communications (in any format) created or received in the ordinary course of business or in connection with a director's, officer's or employee's job function, are the property of Pan American.

**4. EMPLOYEE RELATIONS**

Pan American believes that a strong, enthusiastic workforce is critical to its success. The Company strives to ensure that all employees and contractors are treated fairly and recognizes that the work conditions of its employees, their wages and their job satisfaction have deep impacts not only on the employees themselves, but also on their families, the communities in which they live and on the environment. As such, the Company believes that it is in the best interest of all parties to work together in a respectful and understanding manner and is committed to providing an environment that is frank and open and provides equal opportunities to its employees.

Directors, officers and employees will:

a) Treat each other and members of the community in which the Company operates with respect and courtesy.

b) Strive to keep the workplace free from harassment.

The Company does not condone the use of factors such as race, religion, colour, sex, sexual orientation or ethnicity as the basis for decisions related to hiring, promotions, pay or terminations, nor should directors, officers or employees allow physical disabilities to form the basis of work-related decisions, unless the disability interferes with a person's ability to perform a job in a safe and effective manner and the disability cannot reasonably be accommodated.

**Approved August 10, 2011**



**5. USE OF PAN AMERICAN ASSETS AND PROPERTY**

Directors, officers and employees must safeguard and not use corporate property to pursue private interests or the interests of a spouse, family members or a private corporation controlled by any of these individuals. Company property includes real and tangible items such as land, buildings, furniture, fixtures, equipment, supplies, and vehicles and also includes intangible items such as data, computer systems, reports, information, patents, trademarks, copyrights, logos, name and reputation.

Directors, officers and employees will:

a) Except for the limited exception provided in b) below, always use the Company's assets and resources only for Company related business purposes unless the Company provides its prior written approval for the director, officer or employee to use Company property for their personal interest in circumstances where doing so would:

- not result in additional cost to the Company;
- would not interfere with the performance of the person's duties to the Company; and
- would not result in material personal gain to the person or to their spouse, family member or private corporation.

b) Limit personal use of Pan American's computers and software, e-mail, telephones, mobile devices, internet and other electronic systems to incidental, reasonable amounts (i.e. personal use must not interfere with the proper performance of job duties), and follow other provisions of this Code and other Company policies as they relate to use of Company assets and resources.

c) Exercise prudence and good judgment when incurring and approving business expenses and ensure that such expenses are reasonable, bona fide and appropriate and serve Pan American's business interests.

d) Never steal, damage, misuse or waste Company assets.

e) Never use Company assets in an illegal or improper manner or for an illegal or improper purpose.

**6. CONFLICTS OF INTEREST**

Directors, officers and employees shall avoid situations where their individual personal interests could conflict with, or appear to conflict with, the interests of the Company and its stake holders, and shall perform the responsibilities of their positions on the basis of what is in the best interests of the Company, free from the influence of personal considerations and relationships.

A conflict of interest may be real or apparent:

(i) A “real conflict of interest” occurs when directors, officers or employees exercise their corporate duties, official powers or perform official duties or functions and at the same time know that in doing so there is the opportunity for personal gain.

(ii) An “apparent conflict of interest” occurs when a reasonably well-informed person could have a perception that a director’s, officer’s or employee’s ability to exercise their corporate duty, an official power or perform an official duty or function was or will be affected by that individual’s private interest.

Directors and officers have a duty to act honestly, in good faith, and in the best interests of the Company and must exercise the degree of skill and diligence reasonably expected from an ordinary person of his or her knowledge and experience.

Conflicts of interest can include the following:

a) Furthering Private Interests

i) Directors, officers and employees should avoid outside financial interests which might influence their corporate decisions or actions, and should not engage in such activities or transactions where the activity or transaction may be detrimental to the Company or where the activity may be in conflict with the proper discharge of their duties to the Company.



ii) If a director, officer or employee is directly or indirectly personally interested in a proposed activity or transaction which involves the Company, or if the director or officer has discretionary decision-making power which could bring about direct or indirect financial benefit to the director, officer or employee due to his or her financial holdings, business and property interests or other relationships, there is potential for a conflict of interest. In these instances, at a minimum, these circumstances and these holdings should be fully disclosed in advance to the General Counsel of the Company. If it is determined there is a conflict of interest, the conflict must be fully disclosed in advance to the Nominating and Governance Committee.

b) Corporate Opportunities

i) Directors, officers and employees cannot divert to a third party, themselves, their spouses, their children or a private corporation controlled by any of these individuals, a business opportunity that the Company is pursuing.

ii) A director, officer or employee of the Company whose corporate duties bring them into business dealings with a business in which they or a member of their family has a financial interest or to which they or a member of their family has an indebtedness, or a business employing a relative or close friend, must immediately:

1. in respect of a director or officer, notify the Nominating and Governance Committee; and

2. in respect of an employee, notify his or her immediate supervisor, who will then notify the Nominating and Governance Committee;

and such business dealings may not be pursued unless properly authorized by the Nominating and Governance Committee.

c) Preferential Treatment

Directors, officers and employees must not assist others in their dealings with the Company if this may result in preferential treatment. A director, officer or employee who exercises regulatory, inspection or other discretionary authority over others, must disqualify themselves from dealing with individuals where the director’s, officer’s or employee’s relationship with the individual could bring their impartiality into question.

d) Workplace Relationships

Directors, officers, employees and individuals who are direct relatives or who permanently reside together may not be employed or hold office in situations where:

i) A reporting relationship exists where a director, officer or employee has influence, input or decision-making power over the relative or cohabitant’s performance evaluation, salary, special permissions, conditions of work or similar matters; and

ii) The working relationship affords an opportunity for collusion between the individuals that could have a detrimental effect on the Company’s interest.

This restriction may be waived if the Nominating and Governance Committee is satisfied that sufficient safeguards are in place to ensure that the interests of the Company are not compromised.

## 7. ACCEPTING GIFTS, BENEFITS AND ENTERTAINMENT

Directors, officers and employees:

a) May generally accept gifts, hospitality or other similar benefits (other than cash or cash equivalents which must never be accepted) associated with their official duties and responsibilities if such gifts, hospitality or other benefits:

i) are within the bounds of propriety, a normal expression of courtesy or within reasonable standards of hospitality;

ii) are advertising and promotional materials, clearly marked with the company or brand name;

iii) would not bring suspicion on the director's, officer's or employee's objectivity and impartiality; or

iv) would not compromise the integrity and reputation of the Company.



b) Notwithstanding a) above, will never solicit or accept gifts, benefits or entertainment in exchange for, or as a condition of, the exercise of duties or as an inducement for performing an act associated with the director's, officer's or employee's duties or responsibilities to the Company and will never solicit or accept a gift of cash or cash equivalent from a business partner or anyone else with whom the Company does business in connection with that director's, officer's or employee's position, duties or responsibilities within the Company.

c) Will return any improper gift or benefit to the person offering it as soon as practicable or, if there is no opportunity to return an improper gift or benefit, or where the return may be perceived as offensive or inappropriate for cultural or other reasons, immediately disclose and turn over the gift or benefit to the General Counsel who will attend to a suitable disposition of the item.

## 8. FRAUD OR BRIBERY

Pan American is committed to the highest level of honesty and integrity and therefore does not tolerate fraud or bribery. Pan American has developed a Global Anti-Corruption Policy and other corporate policies which deal with corrupt payments and activities and which each director, officer and employee is bound to follow.

Fraud can include a wide range of activities, such as falsifying books, records or timesheets, embezzlement, skimming and misappropriating Company assets (including such things as proprietary information and corporate opportunities) for personal gain.

Bribery of government officials, government entities and commercial customers is illegal in most countries. It can take different forms, such as cash payments, gifts, employment opportunities, quid pro quo transactions, directing business to a particular individual or business, excessive hospitality or providing services or other benefits or things of value to a person, organization, or company or to those related to a particular person, organization, or company.

There are serious criminal and civil consequences for fraud and bribery, including fines and imprisonment, and the Company considers fraud and the payment of bribes or other corrupt activity serious misconduct and grounds for dismissal.

## 9. POLITICAL AND CHARITABLE DONATIONS

Laws in many jurisdictions prohibit or regulate corporate donations to governments, political parties, politicians, and candidates for public office. The Company's policy is that all corporate contributions to governments, political parties, politicians, or candidates for public office are prohibited unless they are approved in advance as provided in the Company's Global Anti-Corruption Policy. The Company may also donate to certain charities pursuant to the terms of the Global Anti-Corruption Policy and the Company's finance policies and procedures.

## 10. COMMUNICATING WITH THE MEDIA AND OTHER MEMBERS OF THE PUBLIC

Pan American is committed to ensuring that disclosure made by the Company to its shareholders and to the public in general, and in reports and documents it files with appropriate securities commissions, including the U.S. Securities and Exchange Commission, is made in a timely manner, is full, fair, accurate and understandable, and is broadly disseminated in accordance with all applicable legal and regulatory requirements.

Directors, officers and employees will:

a) Always comply with the Company's Disclosure Policy and Stock Transaction Policy which set out the Company's policies regarding public disclosure, identify spokespersons for the Company, and establish rules for directors, officers and employees relating to trading securities of the Company.

b) Not respond under any circumstances to inquiries from external parties unless they are a spokesperson under the Company's Disclosure Policy, are specifically asked to respond by such a Company spokesperson or are otherwise expressly authorized to do so.



## 11. CONFIDENTIALITY AND MISUSE OF UNDISCLOSED MATERIAL INFORMATION

Directors, officers and employees of the Company are required to maintain and protect the confidentiality of all information and materials

relating to the Company which are entrusted to them, or which they receive by virtue of their position or employment with the Company. Such information may only be divulged to persons authorized to receive the information. For greater certainty, confidential information should not be divulged to spouses, associates, immediate family, friends, or persons with whom the director, officer or employee is connected by frequent or close association.

In addition, directors, officers and employees must not engage in any transactions for personal benefit which results or may result from confidential or non-public information which the director, officer or employee gains by reason of their position or authority. In addition to the foregoing prohibition under the Code, directors, officers and employees should be aware that securities laws make it illegal to use material undisclosed information when buying, selling or otherwise trading shares ("insider trading") and passing on this information to others for their use when buying, selling or otherwise trading shares ("tipping").

**12. AGENTS, CONSULTANTS AND SERVICE PROVIDERS**

Pan American believes that its agents, consultants and service providers should act in a manner consistent with this Code in providing services to the Company. As such, persons retaining or hiring such service providers must consider and be satisfied that the reputations and business practices of such agents, consultants and contractors are in alignment with this Code. Where appropriate, background and reference checks on service providers should be performed.

If reasonable and appropriate, efforts should be made to draft agreements with agents, consultants and service providers that include terms requiring compliance with this Code and providing for remedies, including termination, for failure to comply. Where such provisions exist and there is a breach of the Code, the appropriate remedies should be enforced against the agent, consultant or service provider.

**13. DUTIES WITH RESPECT TO REPORTING**

Directors, officers and employees have a duty to immediately report to management any activity that:

a) he or she believes contravenes the law;

b) represents a breach of this Code or a real or apparent conflict of interest;

c) represents a misuse of the Company's funds or assets; or

d) represents a danger to the health and safety of our employees, contractors or public, or to the environment; and

are also responsible for helping to identify and raise potential issues before they lead to Code violations.

If a director, officer or employee finds him or herself in a conflict or potential conflict of interest, or in violation of the Code, their duties are as follows:

a) If the individual involved is an officer or an employee:

- The individual must immediately notify his or her immediate superior.
- If the conflict or violation cannot be avoided or resolved by the individual and his or her respective superior, the individual must advise the Nominating and Governance Committee.

b) If the individual involved is a director:

- The individual must immediately notify the chairperson of the Board of Directors and the chairperson of the Nominating and Governance Committee.
- If the conflict or potential conflict cannot be avoided or resolved, the director must disclose the conflict or potential conflict to all of the directors of the Company and abstain or recuse themselves, as the case may be, from any vote or meeting in connection with the subject of the conflict.



Directors, officers and employees shall act in good faith in reporting a suspected Code violation or a situation that may create a potential for a Code violation and shall not take or tolerate any act of reprisal or retaliation against:

i) a person who in good faith reports a suspected Code violation or a situation that may create a potential for a Code violation; or

ii) a person who cooperates with the investigation of a suspected Code violation or a situation that may create a potential for a Code violation;

based on the fact that the person acted as provided in (i) or (ii) above.

**14. REPORTING**

Pan American promotes an open and honest environment and encourages directors, officers and employees to address any questions they may have regarding a particular situation or concerns about a possible violation of a law, regulation or the Code promptly with management.

Except with respect to self-reporting referred to in Article 13 above, if for some reason an individual is not comfortable doing so or if management does not resolve the matter, reports of potential or actual violations of law or this Code may be made in confidence using the following methods:

- By e-mail to the Audit Committee Chairman and General Counsel: auditcommittee@panamericansilver.com
- By mail, addressed to the Audit Committee Chairman or General Counsel at the following address: Pan American Silver Corp., 1500-625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6
- By telephone call directly to the General Counsel at 1-604-687-0333 (the cost of which will be paid for by the Company).

While we encourage all individuals to identify themselves to facilitate a proper investigation, it is not required to do so and an individual may make a report anonymously.

**15. INTERNAL AUDITS AND INVESTIGATING REPORTS OF SUSPECTED CODE VIOLATIONS**

The Company conducts routine and ad hoc internal audits through its internal audit group. Among other things, such audits may include a review of compliance with the Code and with related policies such as the Global Anti-Corruption Policy.

All suspected Code violations, or potential Code violations, will be investigated. The Audit Committee Chairperson and the General Counsel will decide on the most appropriate method of investigation in each instance and may seek the assistance of external legal advisors, accountants, or other advisors. To the extent possible, investigators will keep information and reports related to investigations confidential, subject to the need to conduct a full and impartial investigation, to comply with law and to remedy Code violations and monitor compliance.

Directors, officers and employees have a duty to cooperate with audits and with investigations.

**16. WAIVER OF THE CODE**

Any waiver of this Code for the benefit of a director or executive officer may be granted only by the Board of Directors of the Company, or a committee of the Board duly authorized to do so. For non-executive officers, the Chief Executive Officer may, in appropriate circumstances as he or she determines using best judgment, waive a conflict or violation of the Code, however any such waivers must be reported to the Nominating and Governance Committee at its next meeting.

Any waivers granted to a member of the Board of Directors or to an executive officer that relates to any element of the “code of ethics” definition set forth in Section 406(k) of the Sarbanes-Oxley Act of 2002 will be disclosed as required by law or stock exchange regulations applicable to the Company. Those who fail to cooperate with investigations will be subject to discipline, which may include termination of employment.

**Approved August 10, 2011**



**17. VERIFICATION OF THE CODE**

Pan American will make the most current version of the Code available to new directors, officers and employees at or about their time of hire and require such persons to verify they have read and understand the Code. In addition, the Company may require directors, officers and employees to periodically review the current version of the Code and verify their compliance with and understanding of the Code. Any director, officer or employee who fails or refuses to review the Code and to respond to a verification request by the Company may be subject to disciplinary measures up to and including termination.

The Code will be publicly available on the Company’s website at www.panamericansilver.com.

**Approved August 10, 2011**

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS**

We consent to the incorporation by reference in Registration Statement No. 333-164752 on Form F-10 and Registration Statement No. 333-149580 on Form S-8; and to the use of our reports dated March 21, 2012 relating to (1) the consolidated financial statements of Pan American Silver Corp. and its subsidiaries ("Pan American") and (2) the effectiveness of Pan American's internal control over financial reporting appearing in this Annual Report on Form 40-F of Pan American for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 22, 2012

**Exhibit 23.2**

**CONSENT OF MARTIN WAFFORN, P. ENG.**

**To: British Columbia Securities Commission**
**United States Securities and Exchange Commission**

**Re: Expert Consent for Annual Information Form**

Technical reports entitled:

1. "Technical Report for the Quiruvilca Property, La Libertad, Peru" dated effective July 31, 2007 relating to the Quiruvilca property;
2. "43-101 Technical Report — Huaron Property, Cerro de Pasco, Peru" dated effective December 31, 2006 relating to the Huaron property;
3. "Technical Report for the La Colorada Property, Zacatecas, Mexico" dated effective September 30, 2007 relating to the La Colorada property;
4. "Feasibility Study Volume I — NI 43-101 Technical Report for Alamo Dorado Project, Alamos, Sonora, Mexico" dated March 31, 2005 relating to the Alamo Dorado property;
5. "Technical Report for the San Vincente Mine Expansion Project, Potosi Bolivia" dated effective June 6, 2007 relating to the San Vincente property;
6. "Morococha Property Technical Report, Yauli Province, Peru" dated effective December 30, 2007 relating to the Morococha property; and
7. "Pan American Silver Corp. Navidad Project, Chubut Province, Argentine: Preliminary Assessment" and dated January 14, 2011;

(collectively, the "**Technical Reports**")

were prepared for Pan American Silver Corp. (the "**Corporation**") in accordance with National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* by Martin Wafforn, P. Eng., in whole or in part, and filed with applicable securities regulatory authorities.

The undersigned does hereby consent to the written disclosure of the Technical Reports and the extracts from, or summary of, or references to the Technical Reports, mineral resource and mineral reserve estimates and other scientific and technical information relating solely to the Corporation by the Corporation in the annual information form of the Corporation, dated March 22, 2012 (the "**AIF**") and in the Annual Report on Form 40-F of the Corporation, dated March 22, 2012 (the "**40-F**"). The undersigned does also hereby consent to the reference to my name in the AIF and the 40-F.

The undersigned consents to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-149580) and in the Registration Statement on Form F-10 (File No. 333-164752) of the references to my name and the above mentioned information in the AIF and 40-F.

The undersigned does hereby confirm that I have read the AIF and the 40-F and have no reason to believe that there are any misrepresentations in the information contained in the AIF or the 40-F that are (a) derived from the Technical Reports; or (b) within my knowledge as a result of the services I performed in connection with the Technical Reports.

Dated this 22nd day of March , 2012.

/s/ Martin Wafforn

**Martin Wafforn, P. Eng.**

**Exhibit 23.3**

**CONSENT OF MICHAEL STEINMANN, P. GEO.**

**To: British Columbia Securities Commission**
**United States Securities and Exchange Commission**

**Re: Expert Consent for Annual Information Form**

Technical reports entitled:

1. "Technical Report for the Quiruvilca Property, La Libertad, Peru" dated effective July 31, 2007 relating to the Quiruvilca property;
2. "43-101 Technical Report — Huaron Property, Cerro de Pasco, Peru" dated effective December 31, 2006 relating to the Huaron property;
3. "Technical Report for the La Colorada Property, Zacatecas, Mexico" dated effective September 30, 2007 relating to the La Colorada property;
4. "Manatial-Espejo Project Canadian Standard NI 43-101, Santa Cruz Province, Argentia" dated March 2006 relating to the Manantial Espejo property;
5. "Feasibility Study Volume I — NI 43-101 Technical Report for Alamo Dorado Project, Alamos, Sonora, Mexico" dated March 31, 2005 relating to the Alamo Dorado property;
6. "Technical Report for the San Vincente Mine Expansion Project, Potosi Bolivia" dated effective June 6, 2007 relating to the San Vincente property;
7. "Morococha Property Technical Report, Yauli Province, Peru" dated effective December 30, 2007 relating to the Morococha property; and
8. "Pan American Silver Corp. Navidad Project, Chubut Province, Argentine: Preliminary Assessment" and dated January 14, 2011;

(collectively, the "**Technical Reports**")

were prepared for Pan American Silver Corp. (the "**Corporation**") in accordance with National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* by Michael Steinmann, P. Geo., in whole or in part, and filed with applicable securities regulatory authorities.

The undersigned does hereby consent to the written disclosure of the Technical Reports and the extracts from, or summary of, or references to the Technical Reports, mineral resource and mineral reserve estimates and other scientific and technical information relating solely to the Corporation by the Corporation in the annual information form of the Corporation, dated March 22, 2012 (the "**AIF**") and in the Annual Report on Form 40-F of the Corporation, dated March 22, 2012 (the "**40-F**"). The undersigned does also hereby consent to the reference to my name in the AIF and the 40-F.

The undersigned consents to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-149580) and in the Registration Statement on Form F-10 (File No. 333-164752) of the references to my name and the above mentioned information in the AIF and 40-F.

The undersigned does hereby confirm that I have read the AIF and the 40-F and have no reason to believe that there are any misrepresentations in the information contained in the AIF or the 40-F that are (a) derived from the Technical Reports; or (b) within my knowledge as a result of the services I performed in connection with the Technical Reports.

Dated this 22nd day of March , 2012.

/s/ Michael Steinmann

**Michael Steinmann, P. Geo.**

**Exhibit 23.4**

**CONSENT OF PAMELA DE MARK,**
**P. GEO., BAPPSC (APP GEO, HONS), MAUSIMM**

**To: British Columbia Securities Commission**
**United States Securities and Exchange Commission**

**Re: Expert Consent for Annual Information Form**

A technical report entitled "Pan American Silver Corp. Navidad Project, Chubut Province, Argentina: Preliminary Assessment" and dated January 14, 2011(the "**Technical Report**") was prepared for Pan American Silver Corp. (the "**Corporation**") in accordance with National Instrument 43-101 — *Standards of Disclosure for Mineral Projects* by Pamela De Mark, P. Geo. BAppSc (App Geo, Hons), MAusIMM, in whole or in part, and filed with applicable securities regulatory authorities.

The undersigned does hereby consent to the written disclosure of the Technical Report and the extracts from, or summary of, or references to the Technical Report and other scientific and technical information relating solely to the Corporation by the Corporation in the annual information form of the Corporation, dated March 22, 2012 (the "**AIF**") and in the Annual Report on Form 40-F of the Corporation, dated March 22, 2012 (the "**40-F**"). The undersigned does also hereby consent to the reference to my name in the AIF and the 40-F.

The undersigned consents to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-149580) and in the Registration Statement on Form F-10 (File No. 333-164752) of the references to my name and the above mentioned information in the AIF and 40-F.

The undersigned does hereby confirm that I have read the AIF and the 40-F and have no reason to believe that there are any misrepresentations in the information contained in the AIF or the 40-F that are (a) derived from the Technical Report; or (b) within my knowledge as a result of the services I performed in connection with the Technical Report.

Dated this 22nd day of March , 2012.

/s/ Pamela De Mark

**Pamela De Mark,**
**P. Geo., BAppSc (App Geo, Hons), MAusIMM**

**Exhibit 31.1**

**Certification**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Geoffrey A. Burns, certify that:

1. I have reviewed this annual report on Form 40-F of Pan American Silver Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 22, 2012

/s/ Geoffrey A. Burns
By: Geoffrey A. Burns
Title: Chief Executive Officer

**Exhibit 31.2**

**Certification**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, A. Robert Doyle, certify that:

1. I have reviewed this annual report on Form 40-F of Pan American Silver Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 22, 2012

/s/ A. Robert Doyle
By: A. Robert Doyle
Title: Chief Financial Officer

**Exhibit 32.1**

**Certification of CEO and CFO**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Pan American Silver Corp. (the "Registrant") filed under cover of Form 40-F for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Geoffrey A. Burns, as Chief Executive Officer of the Registrant, and A. Robert Doyle, as Chief Financial Officer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Registrant.

/s/ Geoffrey A. Burns
By: Geoffrey A. Burns
Title: Chief Executive Officer
March 22, 2012

/s/ A. Robert Doyle
By: A. Robert Doyle
Title: Chief Financial Officer
March 22, 2012

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.