SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[ ] 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, 2008 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 Registrants' principal executive offices)

CT Corporation
111 Eighth Avenue, 13th Floor
New York, NY 10011
(212) 894-8940
(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 Toronto Stock Exchange

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 80,786,107 Common Shares outstanding as at December 31, 2008

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 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

Cautionary Note to United States Investors

All resource estimates incorporated by reference in this Annual Report on Form 40-F have been prepared in accordance with Canadian National Instrument 43-101 and the Canadian Institute of Mining and Metallurgy Classification System. These standards differ significantly from the requirements of the U.S. Securities and Exchange Commission (the "Commission"), and resource information incorporated by reference herein may not be comparable to similar information concerning U.S. companies.

Without limiting the foregoing, this Annual Report on Form 40-F, including the documents incorporated by reference herein, uses the terms "measured", "indicated" and "inferred" resources. United States investors are advised that, while such terms are recognized and required by Canadian securities laws, the Commission does not recognize them. Under United States 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. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, "inferred resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the "inferred resources" will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Accordingly, information concerning descriptions of mineralization and resources contained in this Annual Report on Form 40-F or in the documents incorporated by reference, may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC.

A. Disclosure Controls and Procedures

As of December 31, 2008, 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, 2008, the Registrant's disclosure controls and procedures were effective. See "Controls and Procedures" in the Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, 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

The required disclosure is included in the "Management's Report on Internal Control over Financial Reporting" that accompanies the Registrant's Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, 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 is included in the "Report of the Independent Registered Public Accounting Firm" that accompanies the Registrant's Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, filed as Exhibit 1.2 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, its 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, 2008.

F. Audit Committee Financial Expert

The Registrant's board of directors has determined that Paul B. Sweeney, 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)(a) of Form 40-F. The Registrant's board of directors has also determined that Paul B. Sweeney, Michael J.J. Maloney and Michael Larson, the individuals serving on the audit committee of the Registrant's board of directors, are independent, as that term is defined under the rules and regulations of the Nasdaq Stock Market.

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.

G. Code of Ethical Conduct

The Registrant has adopted a 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 and Secretary, Robert Pirooz, at the address on the cover of this Form 40-F. No waivers from the requirements of the Code were granted in fiscal 2008. Disclosure of any waiver from the requirements of the Code granted to the Company's directors or executive officers are made in the Company's quarterly report that immediately follows the grant of such waiver.

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, 2008, 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 is included on page 26 of the Registrant's Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, 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 the Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, filed 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 shareholders 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 Paul B. Sweeney, Michael J.J. Maloney and Michael Larson. 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.

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, 2008.
1.2	Audited Consolidated Financial Statements and Management's Discussion and Analysis for the fiscal year ended December 31, 2008, prepared in accordance with Canadian generally accepted accounting principles and reconciled to U.S. generally accepted accounting principles in accordance with Item 18 of Form 20-F.
5.1	Consent of Deloitte & Touche LLP.
5.2	Consent of Martin Wafforn.
5.3	Consent of Michael Steinmann.
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 30, 2009

By: /S/ ROBERT PIROOZ
By: Robert Pirooz
Title: General Counsel and Secretary

EXHIBIT INDEX

Number	Document
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Exhibit 1.1



Pan American
SILVER CORP.

Annual Information Form

For the Year Ended December 31, 2008

Dated: March 31, 2009

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

Web Site: www.panamericansilver.com

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 relating to Pan American Silver Corp. and its operations. All statements, other than statements of historical fact, are forward-looking statements. 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", "goals", "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 Silver Corp.'s current working capital, anticipated operating cash flow or its ability to raise necessary funds;
- the accuracy of mineral reserve and resource estimates and estimates of future production and future cash and total costs of production at Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo, San Vicente or other properties;
- estimated production rates for silver and other payable metals produced by Pan American Silver Corp., timing of production and the cash and total costs of production at each of the Pan American Silver Corp.'s properties;
- the estimated cost of and availability of funding for ongoing capital replacement, improvement or remediation programs;
- the estimated cost of construction, development and ramp-up of Manantial Espejo, San Vicente or other projects;
- 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 Silver Corp.'s various silver exploration properties;
- compliance with environmental, health, safety and other regulations;
- the effects of laws, regulations and government policies affecting Pan American Silver Corp.'s operations;
- forecast capital and non-operating spending;
- future sales of the metals, concentrates or other products produced by Pan American Silver Corp.;
- continued access to necessary infrastructure, including without limitation access to power, lands and roads to carry on activities as planned; and
- Pan American Silver Corp.'s plans and expectations for its properties and operations.

These statements reflect Pan American Silver Corp.'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 Silver Corp., 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 including, 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 sole, Mexican peso, Argentine peso and Bolivian boliviano versus the U.S. dollar); risks related to the technological and operational nature of Pan American Silver Corp.'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

Pan American Silver Corp. 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); inadequate insurance, or inability to obtain insurance, to cover these risks and hazards; employee relations; availability and increasing costs associated with mining inputs and labor; the speculative nature of mineral exploration and development, including the risks of obtaining necessary licenses and permits; diminishing quantities or grades of mineral reserves as properties are mined; global financial conditions; business opportunities that may be presented to, or pursued by, Pan American Silver Corp.; Pan American Silver Corp.'s ability to complete and successfully integrate acquisitions; challenges to Pan American Silver Corp.'s title to properties; 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 captions "Outlook for 2009" 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 Silver Corp. 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 anticipated, estimated or intended. Pan American Silver Corp. 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.

TABLE OF CONTENTS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS	**i**
TABLE OF CONTENTS	**iii**
INTRODUCTION	**1**
Reporting Currency	1
Accounting Policies and Financial Information	1
Conversion Table	1
Glossary of Terms	1
Scientific and Technical Information	2
Classification of Mineral Reserves and Resources	2
Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources	3
Incorporation	4
Capital Structure	4
Subsidiaries	4
GENERAL DEVELOPMENT OF THE BUSINESS	**6**
Business of Pan American	6
Corporate Strategy and Financial Objectives	6
Developments over the Last Three Financial Years	7
Outlook for 2009	8
NARRATIVE DESCRIPTION OF THE BUSINESS	**8**
Principal Products and Operations	8
Competitive Conditions	9
Employees	10
Research and Development	10
Working Capital	10
Environmental Protection	10
Environment	11
Health and Safety	11
Material Properties	12
A. Peru	15
B. Mexico	39
C. Argentina	56
D. Bolivia	65
E. Stockpiles and Investment and Resource Properties	73
Mineral Property Expenditures	73
Metals Trading	73
Risks Related to Pan American's Business	74
SELECTED CONSOLIDATED FINANCIAL INFORMATION	**84**
Annual Information	84
Dividends	86
MANAGEMENT'S DISCUSSION AND ANALYSIS	**86**
DIRECTORS AND OFFICERS	**86**
EXCEPTIONS FROM NASDAQ CORPORATE GOVERNANCE REQUIREMENTS	**90**
MARKET FOR SECURITIES	**90**
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	**91**
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	**91**
TRANSFER AGENTS AND REGISTRAR	**91**
MATERIAL CONTRACTS	**91**
INTERESTS OF EXPERTS	**92**
ADDITIONAL INFORMATION	**92**
GLOSSARY OF TERMS	**93**
APPENDIX "A" –Audit Committee Charter	A-1

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

Pan American'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 is presented in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Unless otherwise indicated, financial information contained in this Annual Information Form is presented in accordance with Canadian GAAP. Differences between accounting principles generally accepted in Canada and those generally accepted in the United States, as applicable to Pan American, are explained in Note 22 to the Consolidated Financial Statements of the Company for the year ended December 31, 2008. The Consolidated Financial Statements of the Company for the year ended December 31, 2008 are incorporated by reference herein and are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

This Annual Information Form refers to various non-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 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, 2008 where detailed descriptions and reconciliations, where applicable, have been provided.

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)

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.

Scientific and Technical Information

Scientific or technical information in this Annual Information Form relating to mineral reserves or mineral resources is based on information prepared under the supervision of, or has been reviewed by, Michael Steinmann, Executive Vice President, Geology and Exploration of the Company and Martin Wafforn, 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 disclosure in this Annual Information Form for the Company's material properties is based on technical reports prepared for those properties in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The technical information 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; and
- 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,

(collectively, the "Technical Reports").

The Technical Reports have been filed on SEDAR at www.sedar.com.

The mineral reserve and resource estimates, and the disclosure of scientific and technical information contained in the descriptions of the Company's mineral properties, were prepared under the supervision of Michael Steinmann, P. Geo., Executive Vice President, Geology and Exploration, and Martin G. Wafforn, P.Eng., Vice President, Technical Services.

Each of Michael Steinmann and Martin Wafforn are a "Qualified Person" as defined in 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.

Classification of Mineral Reserves and Resources

In this Annual Information Form, the definitions of proven and probable mineral reserves and measured, indicated and inferred 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 August 20, 2000 and amended December 11, 2005.

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

This Annual Information Form and the documents incorporated by reference 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 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 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. 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. 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 great uncertainty as to their economic and legal feasibility. Under Canadian securities laws, disclosure must not be made of the results of an economic analysis that include ''inferred resources'', 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. **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.**

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

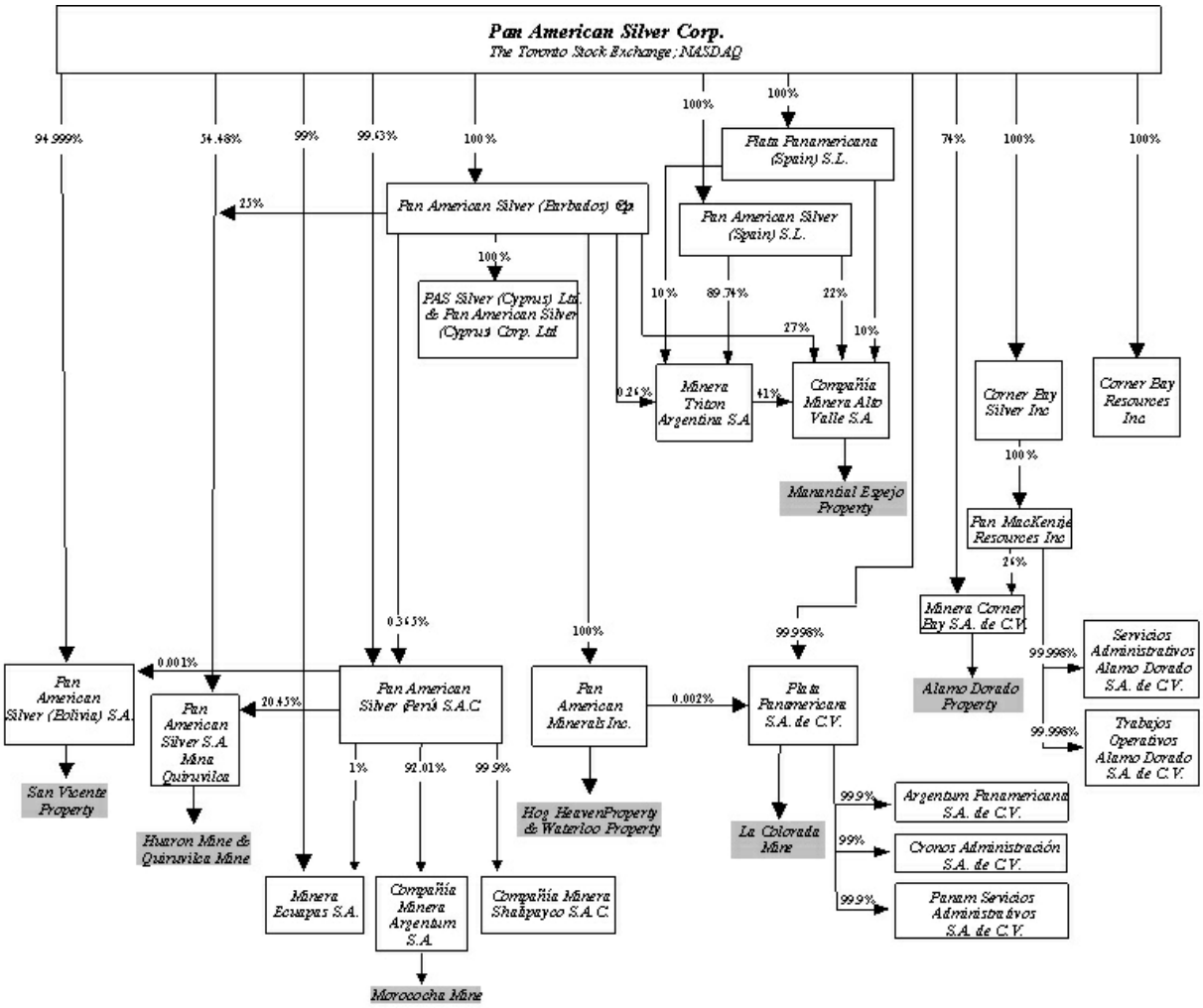
The Company's authorized share capital consists of 200,000,000 common shares without par value. The holders of common shares are entitled to: (i) one vote per common share at all meetings of shareholders; (ii) receive dividends as and when declared by the directors of the Company; and (iii) receive a 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 chart show, as at December 31, 2008, the significant subsidiaries, joint ventures and associated companies 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**
Pan American Silver (Barbados) Corp. ("Pan American Barbados")	Barbados
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
Corner Bay Silver Inc. ("Corner Bay")	Canada
Minera Corner Bay S.A. de C.V. ("MCB")	Mexico
Plata Panamericana S.A. de C.V. ("Pan American Mexico")	Mexico
Pan American Minerals, Inc. ("Pan American U.S.")	Nevada
Pan American Silver (Bolivia) S.A. ("PASB")	Bolivia
Compañía Minera Alto Valle S.A. ("Alto Valle")	Argentina
Minera Triton Argentina S.A. ("MTA")	Argentina
Pan MacKenzie Resources Inc.	Delaware
Plata Panamericana (Spain) S.L.	Spain
Pan American Silver (Spain) S.L.	Spain

CORPORATE STRUCTURE[1]



1 Some of the laws in the countries in which Pan American operates require that there be more than one owner of a company operating a mineral property. Where such is the case, a nominal owner owns a nominal number of shares in the company.

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. With the exception of 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** – Pan American has increased its annual silver production for 13 consecutive years since acquiring its first operating mine (Quiruvilca in Peru) in 1995, including an approximate 49% increase from approximately 12.5 million ounces in 2005 to approximately 18.7 million ounces in 2008. This has been accomplished through a combination of acquisition, development and expansion efforts. Silver production during the year ended December 31, 2008 represented an approximate 9% increase over the approximately 17.1 million ounces produced in 2007.

- **Increase Reserves and Resources** – Pan American has consistently increased its mineral reserves and resources through exploration and acquisitions. In 2008, Pan American discovered and defined approximately 26.9 million ounces of new silver reserves which replaced the approximately 22.2 million ounces consumed by mining operations in 2008. However, lower base metal price assumptions and higher cut-off grades downgraded approximately 8.8 million ounces of silver from mineral reserves to resources, resulting in a modest decline in proven and probable reserves at year end. At December 31, 2008, proven and probable silver reserves for Pan American were approximately 223.7 million ounces which represents an approximate 1.8% decrease from the previous year. Pan American's measured and indicated resources decreased by approximately 3.8 million ounces to approximately 82.5 million ounces as a the end of 2008, while inferred resources increased by approximately 13% over the previous year to approximately 112.2 million ounces.

- **Continue to be a "Low Cost Producer"** – Full year 2008 consolidated cash costs to produce an ounce of silver were approximately $5.96. Consolidated cash costs increased in 2008 for a number of reasons, including a substantial reduction in by-product base metal prices and the industry-wide escalation of energy, labor, consumable and material costs. 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 2009 are

forecast at $6.28 per ounce for the full year, with higher costs expected in the first two quarters, while the lower cost Manantial Espejo mine ramps up to full capacity.

- **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. 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.

Developments over the Last Three Financial Years

During the last three financial years Pan American has undertaken the following:

- **2006** – (i) completed construction of the Alamo Dorado mine; (ii) acquired the remaining 50% interest in the Manantial Espejo project from Silver Standard Resources Inc. for 1.95 million common shares of the Company; (iii) obtained approval of the environmental impact statement ("EIS") necessary to begin development of the Manantial Espejo silver-gold mine and commenced construction of the mine; (iv) completed an equity financing, the gross proceeds of which totalled $150 million, primarily for the development of the Manantial Espejo mine; (v) conducted over 90,000 metres of exploration drilling on Pan American's existing mine site properties, largely contributing to a 20% increase in Pan American's proven and probable reserves and an increase in mineral reserves and resources at each of Pan American's operating and development properties; (vi) redeemed or converted the outstanding principal amount of the Company's 5.25% convertible debentures remaining after a conversion offer made in 2004; (vii) completed the first phase of the sulphide plant refurbishment at its La Colorada project; and (viii) increased overall Pan American consolidated silver production to 13.0 million ounces.

- **2007** – (i) increased annual consolidated silver production to approximately 17.1 million ounces largely from production at Pan American's newest mine, Alamo Dorado; (ii) maintained, close to the previous year's level, production at the Quiruvilca, Huaron, Morococha and La Colorada mines; (iii) substantially advanced construction of the underground ramp system and the open pit at the Manantial Espejo project; (iv) reached sustained commercial production levels at Alamo Dorado; (v) completed over 95,000 metres of diamond drilling at Pan American's existing sites and exploration properties; (vi) continued underground development work at Morococha; (vii) completed ramp up of production from the Amolillo oxide zone at La Colorada; and (viii) added new proven and probable silver reserves of approximately 14.5 million ounces and increased measured and indicated silver resources by approximately 4.9 million.

- **2008** – (i) increased annual consolidated silver production to approximately 18.7 million ounces; (ii) substantially completed construction and began production at the Manantial Espejo mine, making its first pour of silver and gold doré on December 29, 2008; (iii) substantially completed the expansion of the San Vicente mine and increased San Vincente's production by approximately 33% compared to 2007; (iii) Alamo Dorado became the Company's largest silver contributor by producing approximately 6.1 million ounces of silver in 2008; (iv) completed over 99,600 metres of exploration

drilling at its existing sites and development properties; and (v) entered into a $70 million revolving credit facility.

Outlook for 2009

In 2009, Pan American expects to produce approximately 21.5 million ounces of silver and to execute over 53,000 metres of diamond drilling.

Pan American's production is expected to benefit substantially when the Manantial Espejo mine and the San Vicente mine expansion reach full production capacity. The initial commissioning and ramp-up at the Manantial Espejo mine progressed well in January and February 2009 and the plant reached design capacity of 2,000 tonnes per day in the first quarter of 2009. With respect to the San Vicente mine, commissioning activities began in late January 2009 and the first ore was fed to the plant in February 2009. The San Vicente mine expansion is expected to reach design capacity by August 2009.

After a detailed review of all of its mines, Pan American decided to initiate the process necessary to suspend operations at the Quiruvilca mine in Peru during 2009. Quiruvilca has been in operation for over 80 years and more recently has become increasingly reliant on base metal production, particularly zinc. The Quiruvilca mine contributed less than 8% to Pan American's total silver production in 2008 and was expected to contribute even less, on a percentage basis, in 2009. Pan American intends to significantly reduce underground development, maximize existing developed ore and prioritize the most cost efficient areas of the mine while methodically preparing the mine for a period of care and maintenance.

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 2008, the Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, and San Vicente mines and the stockpiles accounted for virtually all of Pan American's production of concentrates and doré. Information related to Pan American's segmented information is set forth in Note 17 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, 2008 (the "MD&A") under the heading "Operating Performance".

Consolidated production for the year ended December 31, 2008 was as follows:

	Huaron	Morococha[1]	Quirivilca	Alamo Dorado	La Colorada[2]	San Vicente[3]	Stockpiles	Total
Tonnes milled	732,146	599,174	349,022	1,478,423	377,844	93,591	38,712	3,630,200
Grade								
Silver - g/t	194	153	145	149	371	348	228	N/A
Gold - g/t	0.32	-	1.06	0.42	0.42	-	-	N/A
% Zinc	2.31	3.34	2.84	-	0.79	2.72	-	N/A
% Lead	1.14	1.41	1.01	-	1.61	-	-	N/A
% Copper	3.71	0.51	0.83	-	-	0.36	-	N/A

Production								
Ounces silver	3,628,490	2,475,516	1,382,990	6,115,836	3,910,830	875,083	284,194	18,672,939
Ounces gold	1552	1191	1807	16,822	3773	-	-	25,146
Tonnes zinc	11,047	16,677	8263	-	1835	1989	-	39,811
Tonnes lead	5903	6266	2793	-	1012	-	-	15,974
Tonnes copper	1707	2026	2185	-	-	152	-	6069

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[1] Morococha data represents Pan American's interest in the mine's production, which increased from 89.35% to 92.18% during 2008.

[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.

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, Switzerland and the United States, and subsequently transferred to the accounts of its buyers.

Concentrate

Pan American's principal market for copper concentrates and ore from its stockpiles is Peru. The majority of the copper concentrates and all stockpile ore is sold to Doe Run Peru's metallurgical complex in La Oroya, Peru. Copper concentrates and ore from the stockpiles are delivered to La Oroya by truck and by train, respectively.

Pan American's principal markets for zinc concentrates are Peru, Japan, 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 via truck to the ports of Callao and Salaverry, Peru and from there by ship.

Pan American's principal markets for lead concentrates from its Peruvian mines are Peru, Russia, China, Mexico and Belgium. Lead concentrate is distributed to the Peruvian customers by truck. Lead concentrates that are exported are delivered by truck to the port of Callao, Peru and from there by ship. Lead concentrates produced from the La Colorada mine are sold in Mexico. Lead concentrates are distributed to its Mexican customer by truck.

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

Competitive Conditions

The mining industry is intensely competitive, particularly in the acquisition of additional mineral reserves and 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.

Employees

At the end of 2008, Pan American had over 4,000 employees and nearly 3,000 contractors. The majority of those employees and contractors were working at Pan American's operations in South America, although the Company had 26 employees at its head office in Vancouver as at December 31, 2008. Pan American's Peruvian operations had approximately 4,500 employees and contractors, while employees and contractors at each of Mexico and Bolivia numbered approximately 900, respectively, and Argentina had slightly more than 800.

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 effect Pan American's operations.

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 2006, 2007 or 2008, and has not budgeted for any significant costs during 2009.

Working Capital

Management of Pan American believes that its working capital of approximately $95.1 million as at December 31, 2008, plus its expected operating cash flows in the future and its liquid assets are sufficient to sustain funding for projects currently underway, capital expenditures in connection thereto, and to discharge current estimated liabilities as they come due in the foreseeable future. In addition, the Company has secured a $70 million revolving credit facility with Scotia Capital and Standard Bank Plc. As at December 31, 2008, there were no drawings under this facility. In February 2009, the Company completed an offering of 6,371,000 of its common shares for net proceeds to the Company of approximately $98.6 million.

Environmental Protection

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 2008 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.

In the financial year-end dated December 31, 2008, Pan American's environmental expenditures for concurrent reclamation were approximately $0.2 million. Additional environmental related costs were incurred in respect of operations, including for compliance monitoring and, in particular, the acid water treatment at the Huaron and Quiruvilca mines.

As at December 31, 2008, 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 $57.3 million, which is an increase from the estimate of $50.4 million at December 31, 2007. The increase in estimated closure and reclamation costs is primarily the result of accretion and additional estimated fair value closure costs at the Manantial Espejo and San Vicente mines linked to new construction activities. 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. It is difficult to estimate closure and reclamation costs and actual costs may vary, perhaps materially, from estimates and investors are cautioned against attributing undue certainty to these estimates.

Environment

During 2008, reviews of the environmental performance of all the operations and projects were conducted by the Company's Director of 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. The reclamation and closure cost estimates for each of the operating mines and development projects were updated to reflect the conditions as of December 31, 2008.

Peru has issued for industry review and comment proposed changes to the 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.

Key accomplishments during 2008 related to the environmental management of the mines and development projects include:

(i) acquisition of environmental permits at the San Vicente mine in May 2008;

(ii) final inspection and successful completion of Pan American's Program for Environmental Remediation and Management ("PAMA") projects at the Quiruvilca mine;

(iii) final inspection and successful completion of Pan American's PAMA and Program of Environmental Management ("PEMA") projects at the Huaron mine; and

(iv) construction completion of Pan American's tailings dam at Manatial Espejo mine.

Health and Safety

During 2007, formal Corporate Health and Safety Audits were conducted at all of Pan American's operating mines and active development properties. The audits consisted of a weeklong audit of the safety and health aspects of each of the mines and focused on a review of the health, and safety systems, safety training, and general condition of each mine. Participating in the audits was the Company's Director of Health and Safety as well as safety managers from other Pan American operations. Audit findings were recorded and a schedule for mitigation was developed. All of the aforementioned mines are aggressively addressing the health and safety findings and mitigation progress is reported to the Company's Board of Directors on a quarterly basis.

During 2008, Pan American focused 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 projects increased by approximately 16% versus 2007 while the number of lost time injuries ("LTI") increased by approximately 13%. Pan American recorded a lost time injury frequency ("LTIF") of 2.55 during 2008 versus 2.61 in 2007. LTIF is calculated as follows:

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

The reduction in LTIF is directly related to the time and attention focused throughout 2006, 2007 and 2008 on health and safety by management of the Company. In 2005, Pan American introduced safety audits at all of its operations, increased the frequency of, and requirements for, training programs, and purchased advanced mine rescue equipment. Pan American will continue to make substantial investments in its safety programs throughout 2009, 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.

Material 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 and the San Vicente mine. Quirivilca was a material property for the Company for the year ended December 31, 2008, but due to the decision by the Company to initiate steps towards the suspension of operations at the Quirivilca mine, the Company no longer considers Quirivilca 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 development or investment properties 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 ore reserves and resources at Pan American's operating mines, and those development projects that have previously been the subject of a positive feasibility study and a NI 43-101 technical report, is as follows:

Each resource block at each mine or project are assigned a resource confidence rating based on CIM standards, as well as tonnes and metal grades typically using Minesight, Datamine, Autocad, database and/or Excel Spreadsheet software.

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

For the Huaron, Morococha, Quiruvilca, La Colorada and San Vicente mines, metal price factors are calculated for each mine using a Microsoft Excel spreadsheet to manipulate the data. A separate 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 calculate the factors are: metal prices established for ore reserve and resource calculation each year, metallurgical recovery for each metal, the weight of each concentrate produced for each tonne of ore at a particular grade, expected grade of concentrate, any elements that are present that detract from the value, current terms for smelting each of the concentrates produced at a mine or project, refinery terms for treatment of doré, the costs of smelting and or refining, 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 calculated separately for the main ore veins or structures in order to account for variances in metallurgical recovery. The La Colorada mine has separate calculations for oxide and sulphide ores as these two types of ore are processed in separate plants.

The factors are applied to the metal grades in each of the resource blocks and summated in order to calculate a net smelter return value per tonne for each of the blocks in the resource model.

In order to determine if a block can be reasonably believed to be economic, estimated mine operating costs are used to calculate the value per tonne that is required from each block in each area of the mine. Blocks that are in the measured and indicated category that fit into 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 all at the discretion of and based on the experience of Pan American's Qualified Persons. 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, or are in an area where more information is required to determine mineability, but remain as measured and indicated resource blocks as long as they are potentially economic. Inferred resource blocks remain as inferred resources as long as the estimated grade is such that they will be potentially economic. A cut off value per tonne is established each year for the major areas of each mine or project.

The metal prices used for the December 31, 2008 ore reserve and resource estimations are as follows [1, 2]:

Silver US$/Ounce	$11.00
Zinc US$/Tonne	$1,500
Lead US$/Tonne	$1,500
Copper US$/Tonne	$4,000
Gold US$/Ounce	$700

Metal prices valid for all Pan American mines except:

1 Manantial Espejo which used the prices shown above to calculate mineral reserves and $13.75 per ounce of silver and $875 per ounce of gold to calculate mineral resources.

2 Quiruvilca used $10.00 per ounce of silver, $1,150 per tonne of zinc, $1,300 per tonne of lead and $3,500 per tonne of copper for the reserve and resource estimation.

The cut off (in $/Tonne) for mineral reserve and mineral resource calculations at the Huaron, Morococha, Quiruvilca, La Colorada, Manantial Espejo and San Vicente underground mines are shown in the following table:

	Ore Reserves Cut Off ($/Tonne)	**Ore Resource Cut Off ($/Tonne)**
Huaron	36.25	29.25
Morococha	40.84	33.84
Quiruvilca	73.00	35.00
La Colorada – Candelaria oxide	77.00	70.00
La Colorada – Candelaria sulphide	70.00	63.00
La Colorada – Estrella oxide	59.00	52.00
La Colorada – Recompensa sulphide	53.00	46.00
Manantial Espejo – Open Stope	76.78	N/A
Manantial Espejo – Shrinkage	84.63	N/A
Manantial Espejo – Cut and Fill	85.48	N/A
San Vicente	52.85	30.00

The cut off values per tonne for the Huaron, Morococha, Quiruvilca and San Vicente mines are the averages applied for each mine. La Colorada has specific cut-offs for oxide and sulphide ore and also separated by operating mine. With the exception of Quirivilca, Manantial Espejo 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 ore 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 value per tonne for San Vicente is based on the average of the full expected operating costs from the Avoca mining method and factoring in shrinkage mining method that will be employed at the mine when it reaches full production. The cut off values per tonne for Quiruvilca, Manantial Espejo and San Vicente are based on the full expected operating costs for mining and processing the ore as well as for administration.

The Alamo Dorado open pit mine uses a cut off grade that varies by each block, primarily as a function of the copper grade and expected cyanide consumption during the treatment process. The lowest value for cut-off grade used at Alamo Dorado is 56 g/t silver equivalent grade. The metallurgical recoveries for gold and silver are calculated for each block using the following formulae:

Silver recovery = 0.95 - 5 / silver grade (g/t) – 0.0005 * Copper grade (ppm)
Gold recovery = 0.95 - 0.001 / gold grade (g/t) – 0.0005 * Copper grade (ppm)

The Alamo Dorado cut-off has a cost basis that includes the full milling and tails storage cost (including a variable cyanide cost based on the copper grade), the differential mining cost between ore and waste, the administration cost at the time of milling low grade ore and the low grade rehandle cost. For 2008, this amount totals $17.64 per tonne.

For all ores at Manantial Espejo the metallurgical recovery of the plant was assumed to be 93.57% for silver and 94.25% for gold. Payable amounts in the doré product of the mine are assumed to be 99.75% for silver and 98.87% for gold. The nominal cut-off used to define underground Maria longhole stoping ore was $76.78 per tonne. The nominal cut-off used to define underground Maria and Melissa shrinkage stoping ore was $84.63 per tonne. The nominal cut-off used to define underground Concepcion cut and fill stoping ore was $85.48 per tonne. In all underground reserves, the cited cut-offs were converted to a silver equivalent grade using a silver to gold equivalency ratio of 66.5 to 1. The calculated silver equivalent cut-off grades used were 245 gpt AuEq for Maria longholde stoping, 297 gpt AuEq for Maria and Melissa shrinkage stoping and 300 gpt for Concepcion cut and fill stoping. The stoping blocks were then visually defined using the cited cut-offs with a long section display of silver equivalent grade. However, once the stopes were defined, all recovered material inside of the stopes was defined as ore, regardless of grade (i.e. 100% of the stope will be mined). The ore reserves for open pit ores were calculated using industry standard optimization software. In general the total of the mining, processing and administration costs used for calculation of the reserves in the open pit mines was $36.40 per tonne. In order to define the mineral resources at Manantial Espejo, the mine cost structure was left the same as for the mineral reserve calculation however the silver price was increased from $11.00 per ounce to $13.75 per ounce and the gold price was increased from $700 per ounce to $875 per ounce.

Although Pan American believes that its mineral reserve and 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 impacted. There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any mineral reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgment. Results from drillings, 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 resources.

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, indirectly through its subsidiaries, owns 100% of the outstanding voting shares and 99.93% 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 Compania 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 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 Peru government to upgrade the road to a paved highway between Unish and the Huaron mine is partially 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 Huaron mine section of this Annual Information Form below.

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 and Peruvian mining royalty tax.

The Huaron operation generated income tax provisions of approximately $4.0 million, $8.0 million and $10.2 million in 2008, 2007 and 2006 respectively. In addition, employee profit sharing taxes of approximately $0.8 million, $2.4 million and $2.7 million were generated in 2008, 2007 and 2006 respectively.

Huaron's revenue for 2008 was approximately $66.9 million. In June 2004, Peru's Congress approved a new 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, which cost is deductible for income tax purposes. The total royalty tax on Huaron's production amounted to approximately $0.9 million in 2008, $1.7 million in 2007 and $1.0 million in 2006.

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 floatation 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 Cia. 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 consist of a series of interbedded

conglomerates (San Pedro) 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 calcareaous 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-tetrahydrite (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 2008, 20,719 metres were drilled using three drill rigs. In addition, 3,085 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 1 certified standard and blank per day as well as tertiary lab check assays on 2-5% of the samples and 1-2% of the check samples.

All of the geologic activities, including sampling, are conducted under the direct supervision of 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 to 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 2008, work to refurbish the D shaft continued and a decline to access the 180 level below the primary 250 drainage level was successfully completed.

Mineral Reserves

The Company's management estimates proven and probable mineral reserves at the Huaron mine, as at December 31, 2008, are as follows:

Huaron Reserves[1, 2]

Reserve Category	Tonnes [3]	Grams of Silver per tonne	% Zinc	% Lead	% Copper
Proven	5,337,040	188	3.14	1.56	0.34
Probable	4,744,128	195	3.16	1.67	0.31
Total	10,081,168	191	3.15	1.62	0.33

1 Calculated using a price of $11 per ounce of silver, $1,500 per tonne of zinc, $1,500 per tonne of lead and $4,000 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.

3 Numbers may not add due to rounding.

The Huaron mine has proven and probable reserves which indicate a projected mine life of at least fourteen years at current production rates.

Mineral Resources

The Company's management estimates that mineral resources at the Huaron mine, as of December 31, 2008, are as follows:

Huaron Resources[1,2]

Resource Category	Tonnes	Grams of Silver per tonne	% Zinc	% Lead	% Copper
Measured	1,239,930	161	4.00	2.48	0.42
Indicated	827,846	164	4.02	2.17	0.61
Inferred	5,260,261	178	2.72	1.44	0.26

1 These mineral resources are in addition to Huaron mineral reserves. Calculated using a price of $11 per ounce of silver, $1,500 per tonne of zinc, $1,500 per tonne of lead and $4,000 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 but these have not been used since the late 1980s. The mine is in the process of refurbishing 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. The shaft refurbishing process began in 2008 and construction is expected to be completed in 2009. The ramp extension and shaft refurbishment allow access to mineral reserves that had previously been submerged below the primary 250 drainage tunnel level.

In 2008, stopes from 37 different veins were mined with approximately 27 stopes active at any time. The increased mechanization of the mine over the course of the past 3 years has increased productivity and allowed the number of active stopes to be reduced from 58 in 2006. The mining method is 100% cut-and-fill using mill tailings as the backfill material.

Rehabilitation of the 500 level was completed in April 2005 in order to change the ore haulage system in the upper part of the mine from commercial 12 cubic metre-capacity trucks to electric locomotives. This will continue to result in savings in operating costs, and provide access to new zones with ore reserves. Following completion of the D shaft refurbishment, the majority of the ore mined from the north zone below the 500 level will be hoisted to surface and fed by conveyor belt to the crusher and mill. A decline has been developed to the 180 level (which is 70 meters below the mine drainage tunnel) to provide access to the extensions of the vein systems to that level. Previous mining went only to the 250 level with the exception of some small scale mining of 2 veins down to the 220 level. The 180 level is currently being developed to access higher grade veins and the permanent pumping station will be completed in 2009. Ore from the 180 level north zone will be hauled by truck to the 250 level and then by rail to the D shaft where it will be hoisted to surface. Future plans include deepening the D shaft and connecting the 180 level with rail haulage.

During 2008, 127,000 tonnes of stope ore were extracted from the north zone between 250 and 500 levels, 293,000 tonnes from the north zone above the 500 level, 149,000 tonnes from the Satelite zone, 91,000 tonnes from the south zone and 72,000 tonnes from various mine development headings. It is expected that Pan American will

continue to extract ore from these same levels and zones in 2009 and will also begin to produce ore from the new north zone 180 level.

From May to October 2008, Huaron encountered a severe and unanticipated escalation of electrical power supply costs due to nationwide power supply not keeping pace with the unexpectedly high demands. These high demand periods were primarily during the dry season when the hydro-electric dams were at low outputs. Under the terms of Huaron's power supply contract, the power supplier was able to charge an inflated marginal cost of power to Huaron during times of constrained power availability in the country. The result of this was inflated overall operating costs at Huaron, well above what was anticipated. Late in 2008, the Peruvian government passed legislation that would allow power providers to charge a government determined marginal cost to all consumers thus spreading the cost and significantly lessening future impacts of the type experienced at Huaron during the year.

Milling

During 2008, the concentrator plant processed 732,146 tonnes of ore in comparison to 750,799 tonnes processed in 2007. The slightly lower throughput in 2008 was due to a failure of the ball mill pinion in the third quarter and a recurrence of the problem when a replacement pinion fabricated locally failed in the fourth quarter. A replacement pinion has been fabricated and is operating at present with the delivery of a new pinion from the mill manufacturer expected in 2009. 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 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 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. Pan American is currently awaiting official notification from the MEM of the acceptance of the completed PAMA and PEMA projects.

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. During 2008, Pan American received questions and comments from the MEM on the plan and addressed them in a formal response. The MEM's evaluation of the plan is ongoing and Pan American is awaiting confirmation from the MEM that the plan will be moved forward to the public comment period phase.

During 2008, an EIS was submitted to and approved by the environmental division of the Peruvian Health Ministry (known as "DIGESA") for a new landfill at Huaron.

The total estimated cost of the MEM closure plan for Huaron was $8.5 million. The current present value of closure expenditures at Huaron as at December 31, 2008 is estimated at $9.9 million. See "Narrative Description of the Business – Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

The most significant environmental issues currently associated with the mine are metal-laden waters discharged from the mine, localized areas of acid rock drainage from the mine's tailings deposit areas and the containment and stability of the active tailings ponds. During 2008, water quality at the compliance point met the required standards. Pan American is in the process of obtaining the administrative approval necessary for the expansion of its tailings dam. All work has been completed in respect of the dam expansion and which is necessary to obtain the approval, and Pan American is working with authorities to obtain such approval.

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, a formal safety audit was 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. During 2008, personnel at the Huaron mine attended a total of approximately 169,000 hours of training.

Capital Expenditures

In 2008, capital expenditures at the Huaron mine were approximately $13.5 million and consisted primarily of: (i) equipment replacement and improvement totalling approximately $4.7 million; (ii) mine capital amount of approximately $8.7 million, an amount that includes the ramp deepening to the 180 level from the 250 level,, (iii) the rehabilitation and upgrading works needed to bring D shaft back into operation; and (iv) approximately $0.1 million for ongoing reclamation.

Marketing

The Huaron mine produces silver rich zinc, lead and copper concentrates. All contracts are with arm's length buyers. Huaron receives payment for an agreed percentage of the silver, lead, zinc or copper contained in the concentrates it sells after deduction of smelting and refining costs.

The majority of the Huaron mine's zinc concentrate is committed to Glencore International AG ("Glencore") under a long-term contract until 2011, based on benchmark market terms. For 2009, the balance of Huaron's zinc concentrate not sold to Glencore, is committed to the Votorantim Group ("Votorantim") under a long-term contract with fixed terms.

Huaron's copper concentrates are committed to Doe Run Peru in 2009 under a long-term contract fixed terms.

Contracts for the sale of Huaron's lead concentrates are in place with Doe Run Peru, Glencore and Consorico Minero S.A. ("Cormin") extending to the end of 2009.

During 2008, the revenue per type of concentrate produced by the Huaron mine were as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$8.9 million	23,681
Lead Concentrate	$23.5 million	18,379
Copper Concentrate	$34.5 million	7,636

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[1] Consists of sales to arm's length customers.

During 2007, the revenue per type of concentrate produced by the Huaron mine were as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$15.1 million	25,697
Lead Concentrate	$21.6 million	14,664
Copper Concentrate	$31.6 million	6,364

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[1] Consists of sales to arm's length customers.

During 2006, the revenue per type of concentrate produced by the Huaron mine were as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$23.2 million	24,975
Lead Concentrate	$17.1 million	17,002
Copper Concentrate	$31.3 million	6,716

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[1] Consists of sales to arm's length customers.

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.

(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 (the remaining interest is held by Alejandro Gubbins and Compania 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, 2008.

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). 37 concessions are under a lease agreement with Corporacion 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 does 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. The Morococha property's process plants, shafts and access roads are all located on lands of which Pan American does not hold legal title. Argentum's and its predecessors' use of these surface lands have been exercised for decades with Centromin's knowledge and Argentum's claim to continued use of these surface rights is 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, has 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. Pan American had discussions with Peru Copper and, subsequently, preliminary discussions with Chinalco with respect to negotiating surface rights issues that may arise between Pan American and Chinalco in connection with their respective operations.

In the past, Centromin had voiced a number of complaints with respect to certain surface lands over which Argentum has exercised use for years. In two instances, Centromin alleged that Argentum had wrongfully erected fences, built camps and constructed terraces which invade and infringe upon private property belonging to Centromin. As such, Centromin demanded they be removed. In addition to claiming invasions of private property, Centromin asserted that Argentum is using the fences and constructions for the purposes of dumping minerals and waste, thereby raising environmental issues. Management of the Company maintains that many of such fences and constructions have been in place for over a decade, and that Centromin has effectively granted Argentum easements over its property for purposes in relation thereto, and is of the opinion that Centromin has no foundation for claiming infringement of private property or environmental damage. Pan American answered and denied Centromin's allegations.

Centromin has 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 is obligated 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. 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 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 and a Peruvian mining royalty tax.

The Morococha mine generated income tax provisions of approximately $4.8 million, $9.9 million and $12.0 million in 2008, 2007 and 2006 respectively. In addition, employee profit sharing taxes of approximately $0.4 million, $2.4 million and $3.5 million were generated in 2008, 2007 and 2006 respectively.

Morococha sales in 2008 were approximately $66.5 million. Pursuant to Peruvian royalty regulations, the first $60 million of sales attracted a 1% royalty while the balance attracted a 2% royalty. The total royalty on Morococha's production amounted to approximately $0.7 million in 2008, $0.9 million in 2007 and approximately $1.1 million in 2006. See "Huaron Mine – Taxation" for a description of the Peruvian 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 arms 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. Pan American is the owner of 92.01% of the voting shares of Argentum and 96.4% of the non-voting investment shares for a total ownership interest of approximately 92.2% as at December 31, 2008.

Geology and Mineralization

A 2,000 metre thick Paleozoic-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 sulfide 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 grams per tonne (“g/mt”) are not uncommon above 4,800 metres in certain areas, and greater than 300 g/mt 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/mt to 250 g/mt 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, 36,753 metres were drilled.

Based on positive exploration results in 2007 and 2008, the Morococha mine was able to mine 666,894 metric tonnes (“MT”) during 2008, and process 668,601 MT at the Amistad mill (consuming some of the stockpile accumulated in 2007). In 2008, average monthly production was 55,717 MT. A new high grade zone has been discovered named “Morro Solar” located in the Codiciada area. Development to one level of the Morro Solar high grade zone in the Codiciada area was completed in 2008 and the plans for 2009 include production from that level and development of additional levels in order to increase production from the area in the future.

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 ore reserves. Thus, assay data generated by SMC's drilling was seldom used in block grade estimations for 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 2007, 48,921 metres of drilling was conducted and in 2008, a total of 32,111 meters 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 2-5% of the samples and 1-2% of the check samples.

All sampling, whether diamond drilling or cross-cutting, is done under the direct supervision of the Morococha mine geology department.

The data used for the estimation of mineral reserves and resources at the Morococha mine were derived from underground chip channel samples from the backs of drifts, the ribs of crosscuts, the backs of stopes, the ribs of raises, and from diamond drill hole samples. Chip-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 absorbtion ("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 LIMS 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, 2008, are as follows:

Morococha Mineral Reserves[1,2,3]

Reserve Category	Tonnes	Grams of Silver per Tonne	% Copper	% Lead	% Zinc
Proven	4,224,754	153	0.38	1.42	3.90
Probable	2,970,560	182	0.37	1.49	4.04
TOTAL	7,195,314	165	0.38	1.45	3.95

1 Calculated using prices of $11 per ounce of silver, $1,500 per tonne of zinc, $1,500 per tonne of lead and $4,000 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 it subsidiary Pan American Peru, has a 92.2% voting interest in the Morococha property.

Mineral Resources

Pan American's management estimates that the mineral resources at the Morococha mine, as at December 31, 2008, are as follows:

Morococha
Mineral Resource Estimate [1, 2, 3]

Resource Category	Tonnes	Grams of Silver per Tonne	% Lead	% Copper	% Zinc
Measured	1,538,450	158	1.28	0.37	3.10
Indicated	1,334,358	214	1.75	0.38	2.92
Inferred	8,604,252	160	1.26	0.36	3.49

1 These resources are in addition to mineral reserves. Calculated using prices of $11 per ounce of silver, $1,500 per tonne of zinc, $1,500 per tonne of lead and $4,000 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 from the chutes to one of three shafts for hoisting. Highway dump trucks then haul the ore from shaft coarse ore bins to mill stock piles. 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 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 men 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 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 2009, the development of the 400 level haulage drift will continue both towards Yacumina and to connect with Sierra Nevada - manto Italia via a new ramp.

Milling

During 2008, the Amistad concentrator plant processed 668,601 tonnes (100% basis) of ore. Of this total, 5,990 tonnes of third party ore grading 412 g/t silver, 5.8% zinc, 4.4% lead and 0.6% copper were processed, some of this third party ore was purchased outright and some was processed for a fee. The third party ore processing was completed in the first quarter of 2008 and there are currently no plans to continue this practice in 2009.

Environment

The most significant environmental liability identified at the Morococha mine is the mine's potential share of the cost to build and operate a proposed Kingsmill Tunnel water treatment plant which was originally estimated to cost $12 - $15 million to build. The Kingsmill drainage tunnel discharges between 1.5 to 1.8 cubic metres per second of water into the Rio Yauli and has been determined to be a significant polluter according to studies performed in the late 1990s. Morococha's share was defined by a hydrogeological study completed in 1997 by Water Management Consultants ("WMC"), which apportioned responsibility for the costs of constructing 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 Peru Copper's acquisition of mining concessions near Morococha, Peru Copper has agreed to fund the entire cost of the construction of the Kingsmill water treatment and sludge storage facility. In 2006, Peru Copper established a trust account to fund the design and construction of the proposed water treatment plant for the Kingsmill Tunnel drainage. The design work was awarded by Peru Copper to AMEC. The feasibility engineering design for the treatment plant and sludge storage carried by AMEC has estimated the construction cost to be $24 million. Peru Copper has not requested any

other parties to contribute to the funding of the construction of the treatment plant. It is understood that they are interested in obtaining the rights to use the water for the operation of their proposed Toromocho mine.

The 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 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 evaluation process is ongoing, and during 2008, comments were received from the MEM. Pan American submitted a formal report addressing the comments of the MEM. The MEM has now advanced the plan to the public disclosure phase.

During 2008, an EIS was generated and submitted to DIGESA for a new landfill required at Morococha. The EIS is currently in the evaluation process.

The total estimated cost for the MEM closure plan for Morococha was $6.4 million. This cost estimate serves as the basis for the calculation of the financial guarantee required by the ministry's closure plan regulations. The current present value of closure expenditures at Morococha has been updated as at December 31, 2008 to approximately $11.7 million, which includes a provision for the operational costs of the Kingsmill Tunnel water treatment plant. 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. A follow-up audit was conducted in June 2007 by the Company's Director of Health and Safety and safety managers from other Pan American operations. During 2008, personnel employed at Morococha attended a total of 120,000 hours of training.

Capital Expenditures

The 2008 mine plan and development program entailed several capital improvements designed to increase productivity. In 2008, capital expenditures at the Morococha mine were approximately $18.8 million and consisted mainly of: (i) mining equipment purchases and mine development totalling approximately $7.1 million; (ii) exploration with diamond drilling including mine and surroundings totalling approximately $10.3 million; and (iii) purchase of investment shares totalling approximately $1.4 million.

Marketing

The Morococha mine produces silver-rich zinc, lead and copper concentrates. All contracts are with arm's length buyers. Morococha receives payment for an agreed percentage of the silver, lead, zinc and copper contained in the concentrates it sells, after the deduction of smeltering and refining costs.

In the case of zinc concentrates, Pan American has entered into contracts for certain metals from the Morococha mine through 2009 with Votorantim and Glencore. In the case of lead concentrates, Pan American has a contract with Doe Run Peru for part of the production through 2009. Pan American has another lead contract with Cormin through 2009 for the remaining lead concentrates.

In the case of copper concentrates, Pan American renewed a contract with Doe Run Peru that lasts through 2009. Pan American also signed a contract with Cormin for 2009 deliveries of copper concentrates.

In 2008, the revenue per type of concentrate produced by the Morococha mine was as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$16.5 million	39,898
Lead Concentrate	$20.4 million	14,188
Copper Concentrate	$29.7 million	10,391

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1 Consists of arm's length sales to third parties.

In 2007, the revenue per type of concentrate produced by the Morococha mine was as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$24.3 million	38,365
Lead Concentrate	$24.1 million	13,594
Copper Concentrate	$34.9 million	9,469

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1 Consists of arm's length sales to third parties.

In 2006, the revenue per type of concentrate produced by the Morococha mine was as follows:

	Revenue[1]	Tonnes
Zinc Concentrate	$38.1 million	41,968
Lead Concentrate	$14.9 million	12,955
Copper Concentrate	$32.3 million	7,209

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1 Consists of arm's length sales to third parties.

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.

(iii) Quiruvilca Mine

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 intends to significantly reduce underground development, maximize existing developed ore and prioritize the most cost efficient areas of the mine while methodically preparing the mine for a period of care and maintenance. The future of the Quiruvilca mine remains dependant in large part on metal prices.

Ownership and Property Description

The Quiruvilca mine is owned and operated by Mina Quiruvilca, a company in which the Company, indirectly through its subsidiaries, owns 100% of the outstanding voting shares and 99.93% of the total outstanding equity. Pan American Silver S.A.C. Mina Quiruvilca and Cia Minera Huaron merged to form Mina Quiruvilca effective January 2006.

The Quiruvilca mine is an underground mine located in the District of Quiruvilca, Province of Santiago de Chuco, Department of La Libertad in northwest Peru. The Quiruvilca mine consists of 140 mining concessions covering 3,565.6 hectares. To the best of the Company's knowledge, all issued permits and licences required for the conduct of Quiruvilca mining operations are currently in good standing.

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

Location, Access, Climate and Infrastructure

The Quiruvilca mine lies in the Andes mountain range above the tree line located 76 kilometres east of the coastal city of Trujillo. Elevations in the immediate area of the mine range from 3,450 metres to 4,075 metres above sea level. Access to the Quiruvilca mine is by a 137 kilometre all weather road east from the city of Trujillo. The first 65 kilometres of the road are paved and the remaining 72 kilometres consist of a gravel road. The gravel portion of the road is currently being upgraded and asphalted working from the mine down towards the presently paved portion of the road. Pan American paid for a small portion of the road upgrade costs near the Quiruvilca mine with the rest of the road work upgrade being paid for by Barrick Gold Corporation ("Barrick"). Trujillo is connected to Lima by a paved all-weather highway.

The relief at the mine site is hilly and uneven with local slopes of more than sixty degrees, typical of the Peruvian Andes. Natural vegetation is mainly grasses which form meadows. These meadows have permitted development of varied livestock operations. The climate at the mine site is classified as "cold climate" or "boreal". Average minimum and maximum temperatures in the region range from 6 to 15 degrees Celsius. One of the

characteristics of this climate are wet summers (highest rainfall occurs from January to April) and dry winters. The Quiruvilca mine operates throughout the entire year.

The primary source of power for the Quiruvilca mine is the Peruvian national power grid via a 138kV line from the city of Trujillo to the Motil substation. A 33kV line connects the mine site to the Motil substation. Pan American owns and operates a diesel generating system, which provides a back up source of power for the Quiruvilca mine.

Pan American is permitted to pump water from the Los Angeles Lake, to the east of the Andean divide to two dams east of the town of Quiruvilca as well as from other local rivers and streams in the area. Process water is drawn from these dams.

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 Quiruvilca mine is not subject to any royalties or encumbrances other than the mining royalty tax described under "Taxation" for the Quiruvilca mine section of this Annual Information Form below.

Taxation

The principal taxes applicable in Peru affecting Pan American include income tax, employee profit sharing taxes, annual fees for holding mineral properties, various payroll and social security taxes and a refundable value added tax.

A 1% royalty on Quiruvilca's production amounted to approximately $0.5 million in 2008, $0.5 million in 2007 and $0.7 million in 2006. See "Huaron Mine - Taxation" for a discussion of the Peruvian mining royalty tax.

The Quiruvilca operation generated income tax (benefit) provisions of approximately $(3.4) million, $3.3 million, and $7.6 million in 2008, 2007, and 2006 respectively. In addition, employee profit sharing taxes of approximately $0.4 million, $1.0 million and $2.2 million were generated in 2008, 2007, and 2006 respectively.

History

Mineralization was first reported in the area of the Quiruvilca mine in 1789. Small-scale silver mining in the area was carried on from the 1870's until 1924. Between 1924 and 1925, ASARCO formed Northern Peru Mining and Smelting Co. ("NPMS") (the predecessor to Mina Quiruvilca) which acquired certain mining concessions in the area and began mining operations. The operation was shut down in 1931. The Quiruvilca mine was re-opened in 1940 and has been in operation since that time. Since 1940, NPMS claimed additional mineral concessions in the area and purchased several adjacent mining concessions as well as surface and water rights in the area.

Initially, mining by NPMS focused on the copper bearing veins in the Enargite Zone (as defined below) but gradually focus was shifted to veins in the Zinc-Lead Zone (as defined below). In March 1967, the mill started to treat complex ores producing copper, lead and zinc concentrates.

In August 1995, Pan American acquired 80% of the outstanding voting shares (representing a 53.3% total equity interest) in the Quiruvilca mine from NPMS, and between September 1995 and March 1996, it increased its interest to 100% of the outstanding voting shares and 99.7% of the total outstanding equity. After Pan American Silver SAC Mina Quiruvilca and Cia Mineral Huaron S.A. merged in 2006, Pan American has 99.93% of total voting shares and 99.8% of total equity of this new merged company.

Geology and Mineralization

The Quiruvilca mine is located at the west side of the Western Cordillera within the eastern edge of a major sequence of volcanic rocks, interpreted as part of the Calipuy Volcanic Formation of Mid-Miocene age. This volcanic formation, with a thickness of about 2,000 metres, consists of andesite flows and flow breccias inter-layered with thin basalt flows and occasional tuffaceous lacustrine sediments.

The mineralization at Quiruvilca is contained in a series of narrow veins filling fractures and faults. Over 130 veins have been identified in the mine area. At least three-quarters of these veins have been in production at some point in time. Although narrow, the veins at Quiruvilca tend to have an extensive lateral and vertical continuity with abundant splits, cymoid loops, pinch and swell structures. In some places, the veins show some thick ore shoots connected to thinner sub-economic to non-economic zones. The width varies from up to two metres in the central zone to stringers.

The mineralization exhibits strong metal zoning. The central copper zone, some 700 metres by 2,800 metres in area, consists of predominately enargite-pyrite, with lesser chalcopyrite, tennantite, tetrahedrite, sphalerite and galena (the “Enargite Zone”). The Enargite Zone is surrounded by a relatively narrow transition zone of tennantite, tetrahedrite, sphalerite and galena (the “Transition Zone”). The Transition Zone is in turn surrounded by a zinc-lead zone of predominately sphalerite and galena, which extends some 500 metres beyond the Transition Zone (the “Zinc-Lead Zone”). In recent years, a majority of the production has come from the Zinc-Lead Zone. An outer zone consists of stibnite, arsenopyrite and pyrite.

Exploration, Drilling, Sampling and Analysis

Exploration at the Quiruvilca mine is conducted using a combination of diamond drilling and underground drifting. Two to three diamond drills are in continuous operation at the property, drilling holes between 50 and 350 metres in length. This is generally followed by underground drifting and cross-cutting at 70 metre spacing. During 2008, 12,675 metres of drilling was done, along with 4,650 metres of drifting for reserve delineation and access for mining.

Each 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.

Assaying is done at Quiruvilca’s laboratory. The laboratory conducts a 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, which includes the submission of at least 1 certified standard and blank per day as well as tertiary lab check assays on 2-5% of the samples and 1-2% of internal check samples.

All sampling, whether diamond drilling or channel sampling, is done under the direct supervision of the Quiruvilca mine geology department.

Reoriented exploration and development has provided additional positive results, such as the confirmation of the high silver grade Union Vein and high zinc grade Zoila Gata vein on the 340 and 400 levels, and the Jose Godoy and Chimborazo veins on the upper levels.

Mineral Reserves

The Company's management estimates that proven and probable mineral reserves at the Quiruvilca mine, as at December 31, 2008, are as follows:

Quiruvilca Mineral Reserves [1, 2, 3]

Reserve Category	Tonnes	Grams of Silver per Tonne	% Zinc	% Lead	% Copper
Proven	349,700	185	5.87	2.15	0.66
Probable	216,900	183	5.92	2.49	0.58
TOTAL	566,600	184	5.89	2.28	0.63

1 Calculated using a price of $10 per ounce of silver, $1,150 per tonne of zinc, $1,300 per tonne of lead and $3,500 per tonne of copper.

2 Estimates of mineral reserves are calculated on the basis of blocks exposed by underground workings on one or more sides and having an in-place diluted value equal to or above the cutoff grade ($73/tonne). Proven and probable mineral reserves are extrapolated between 15 and 30 metres down dip depending on vein continuity. See also information in this Annual Information Form under the heading "Mineral Reserve and Mineral Resource Estimate Information".

3 Mineral reserve estimates for Quiruvilca 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.

Mineral Resources

The Company's management estimates that mineral resources at the Quiruvilca mine, as at December 31, 2008, are as follows:

Quiruvilca Mineral Resources [1, 2]

Resource Category	Tonnes	Grams of Silver per Tonne	% Zinc	% Lead	% Copper
Measured	2,871,500	138	2.44	0.85	1.80
Indicated	905,400	162	3.96	1.29	1.07
Inferred	1,180,100	120	1.86	0.85	0.52

1 These resources are in addition to mineral reserves. Calculated using a price of $10 per ounce of silver, $1,150 per tonne of zinc, $1,300 per tonne of lead and $3,500 per tonne of copper. See also information under the heading "Mineral Reserve and Mineral Resource Estimate Information".

2 Mineral resource estimates for Quiruvilca 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 Quiruvilca mine extends over an area that is four kilometres east/west by three kilometres north/south and from an elevation of 4,050 metres at the top of the mountain down to the 460 level (elevation 3,408 metres). Access to the mine is from four adits driven into the side of the mountain at elevations ranging from 3,648 metres to 3,870 metres.

Battery locomotives are used to haul ore and waste from the stopes and development headings to ore and waste passes. Ore from the upper levels of the mine is delivered to ore passes, which transfer it to the 220 main haulage level. Trolley locomotives with mine cars are used to transport ore from the ore passes on the 220 level to coarse ore bins at the crushing plant outside of the mine portal.

A 590 metre long, 76 centimetre wide conveyor is used to transport ore and waste from below the 220 level to a surface bin at the 220 level. The conveyor belt has a capacity of 150 tonnes per hour. The mine completed the extension of this conveyor belt down to the 340 level in August of 2005. Ore from the 460 and 400 levels will be transported up to the 340 level in order to utilize the conveyor belt for haulage to surface. Ore from the 460 and 400 levels Luz Angelica vein system will be trucked up a ramp, and ore from the 400 level Zoila Gata vein system will be hoisted via an inclined shaft. The haulage and access systems for the 400 level were completed in 2007 and ramp development to the 460 level was completed in 2008.

There are, on average, 60 active stopes at any given time, all using the cut and fill mining method, and in the rare case, shrinkage stoping. Approximately one-third of the stopes are typically in the drilling and blasting phase, one-third in the mucking phase and one-third in the filling phase at any given time. In stopes where hydraulic backfill is not available, or in places where the vein is very narrow and would not otherwise be economic, resueing is employed with the waste rock remaining in the stope as backfill. In all other stopes, tailings are poured into the stope hydraulically to serve as backfill.

Tailings from the mill are directed to the hydraulic fill plant located near the Santa Catalina Tailings Impoundment. The fine fraction is removed with cyclones, and the coarse fraction is directed to the storage tanks in the hydraulic fill plant. The sand-fill is pumped 2,700 metres to the Luz Angelica distribution plant, or a further 1,600 metres to the Central distribution plant through a 76 millimetre HDPE line. The distribution plants are equipped with 170 cubic metre storage tanks. When backfill is required underground, the fill is re-slurried and pumped underground. The monthly hydraulic backfill volume employed at the mine averages 5,200 cubic metres.

Milling

The mill flowsheet consists of three-stage-crushing, ball mill grinding and selective flotation of the ore to produce copper, lead and zinc concentrates, followed by thickening and filtering of the concentrates.

Throughout 2008, daily treatment capacity was 1,161 tonnes, with an operative mill working six days a week. In 2008, the concentrator plant processed 349,022 tonnes of ore.

Overall in 2008, the Quiruvilca mine continued to generate positive cash flow and income, with recorded cash costs of $6.61 per ounce, however, in the fourth quarter of 2008, cash costs had reached $13.88 per ounce and management of the Company made the decision in January 2009 to begin the process to suspend operations.

Environment

Environmental regulations are evolving in Peru towards internationally recognised standards. As part of the developing regulatory framework, in 1995 mining companies were required to submit environmental evaluation reports (“EVAP”) summarizing general environmental conditions at their mines and environmental remediation plans. Mina Quiruvilca filed an evaluation report with the MEM in 1995 and filed a PAMA in 1996 in compliance with Peruvian regulations. The PAMA addressed, among other things, stabilization of tailings impoundments, tailings reclamation, mine acid water neutralization and other effluent treatment, revegetation and a contingency plan. For each of these issues, Pan American provided an implementation schedule and estimates of capital expenditures. The PAMA was approved by the MEM in 1997 and the terms of the PAMA were to have been completed by March 2002. However, based on discussions with the MEM auditors, some projects were re-classified as more appropriate for inclusion in a final closure and remediation plan.

The Quiruvilca mine’s PAMA-related expenditures for the years 1997 to 2005 were audited by independent consultants and reviewed by Peruvian environmental regulators. Overall expenditures were greater than budgeted and considerably more than the 1% of gross sales required under Peruvian law. The final field inspection for the

final approval was conducted in August 2008. The inspection report stated that all projects were completed successfully. While the PAMA process defined remediation projects, expenditures and time frames to achieve compliance primarily with respect to water quality, it explicitly excluded closure projects, and in many cases did not fully consider remediation of historic liabilities, whether caused by third parties or predecessor companies.

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 that a certified third party consultant compile detailed closure plans and cost estimates by October 2006. The Quiruvilca's original closure plan for the Quiruvilca mine was filed in early March 2004.

In September of 2006, Pan American submitted a comprehensive closure plan for the Quiruvilca mine to the MEM in accordance with the ministry's regulations. During 2008, Pan American received questions and comments from the MEM on the plan and addressed them in a formal response. The response was accepted by the MEM and the plan was published in local and national newspapers in December 2008 to begin the public comment period. During this 40 day period, members of the public and other governmental agencies were provided with the opportunity to comment on the plan.

The total estimated cost for the MEM closure plan for the Quiruvilca mine was $14.3 million. This cost estimate serves as the basis for the calculation of the financial guarantee required by the ministry's closure plan regulations. The guarantee becomes material when the plan has been officially approved by the MEM. The current estimated present value of expenditures for closure costs has been updated and is now $17.6 million. See "Narrative Description of the Business – Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

The current landfill at Quirivilca is approaching the end of its life and will be replaced. Pan American has generated a new EIS for the proposed replacement landfill. It is expected that the new EIS will be presented to DIGESA during the second quarter of 2009.

The most significant environmental issues currently associated with the Quiruvilca mine are metal-laden acid water discharge from the mine, acid rock drainage from the mine's waste dump areas and the containment and stability of mine tailings ponds. All acid water discharge from the Quiruvilca mine is either treated at the mine's High Density Sludge plant or by passive systems. The Quiruvilca mine maintains a weekly effluent and water quality monitoring program and the results are reported to the MEM and DIGESA on a quarterly basis. During 2008, all effluents at the monitoring point met the applicable discharge limits and compliance has verified by field inspections executed by the MEM and DIGESA during the year.

Health and Safety

All employees at the Quiruvilca mine are required to undergo safety training and all new underground employees are required to undergo training prior to being assigned to their first position. During 2008, a total of 58,800 hours of training were conducted with personnel (employee and contractor) at the Quiruvilca mine. In addition, 40 front line supervisors from the underground mine were trained in their roles and responsibilities at a course conducted by the Company's Director of Health and Safety in Trujillo.

Capital Expenditures

Since 1995, Pan American has undertaken a program of capital and non-operating expenditures at the Quiruvilca mine to improve its operations, ensure compliance with its PAMA and reduce operating costs.

During 2007, capital expenditures were approximately $4.4 million primarily for: (i) equipment replacement and improvements totalling approximately $1.6 million; (ii) mine development and ramp deepening totalling approximately $1.7 million; and (iii) expansion of the Santa Catalina Tailings Impoundment totalling approximately $1.0 million.

In 2008, Pan American incurred capital expenditures of approximately $5.4 million at the Quiruvilca mine consisting primarily of approximately $3.1 million for mine development and equipment, approximately $2.2 million for mine equipment and approximately $0.1 million for ongoing site reclamation work.

Marketing

The principal products from the Quiruvilca mine are zinc, and silver-rich lead and copper concentrates. All of these concentrates are sold under arm's length contracts to metals trading companies or integrated mining and smelting companies. Under the terms of all of its sales contracts, Mina Quiruvilca receives payment for an agreed percentage of the silver, lead, zinc, or copper contained in the concentrate, after deductions for smelting and refining costs.

In 2006, zinc concentrate was sold to Glencore under a contract which runs until 2009.

Currently, the Quiruvilca mine sells its lead concentrate to Glencore pursuant to a contract with fixed terms through to the end of 2009.

A contract for the sale of copper concentrate was renewed with Doe Run Peru for 2008 and 2009. Pan American also has a long-term contract with Xstrata plc.

During 2008, the revenue per type of concentrate produced at the Quirvilca mine was as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$8.8 million	13,401
Lead Concentrate	$8.3 million	3,946
Copper Concentrate	$17.5 million	9,927

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1 Consists of sales to arm's length customers.

During 2007, the revenue per type of concentrate produced at the Quiruvilca mine was as follows:

	Revenue[1]	**Tonnes**
Zinc Concentrate	$10.4 million	12,306
Lead Concentrate	$8.8 million	4,122
Copper Concentrate	$18.6 million	6,524

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1 Consists of sales to arm's length customers.

During 2006, the revenue per type of concentrate produced by the Quiruvilca mine was as follows:

	Revenue[1]	Tonnes
Zinc Concentrate	$18.8 million	15,949
Lead Concentrate	$8.2 million	6,372
Copper Concentrate	$23.2 million	6,705

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1 Consists of sales to arm's length customers.

The zinc concentrates produced by the Quiruvilca mine are highly marketable as they contain high zinc grade, low levels of impurities and low silver content. The lead concentrates have arsenic and antimony as impurities but are attractive to lead smelters due to their high lead, silver and gold content. Although the silver-rich copper concentrate produced by the Quiruvilca mine contains arsenic and antimony impurities, it has maintained marketability due to the high amount of silver contained in the concentrate. To date, Pan American has been able to secure contracts for the sale of the Quiruvilca concentrates, however, there can be no certainty it will always be able to do so.

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 26º, 44', 44.2'' North Latitude and 108º, 40', 00.7'' West Longitude.

The Alamo Dorado mine consists of two contiguous exploitation 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 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.

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

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

Location, Access, Climate and Infrastructure

The Alamo Dorado mine can be accessed from the United States via interstate 19 south of Tucson crossing into Mexico at the border town of Nogales, Arizona continuing on 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 (recently 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 to 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 colluvium. 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 was 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 $11.1 million in 2008, and tax benefits of approximately $0.3 million in 2007 and approximately $1.3 million in 2006.

On October 1, 2007, the Mexican taxing authority enacted a new business flat tax ("IETU") that became effective for years 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 establishes the rate for 2008 at 16.5% and 17% for 2009. The rate applied after 2009 will

be 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. 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 2003 and 2004, a structural geology evaluation of the Alamo Dorado deposit concluded that reserves were structurally controlled rather than disseminated as previously interpreted. This raised the prospect that the mineralization might be better suited to a milling type operation rather than a heap leach operation, as previously interpreted.

A new resource model was prepared in 2003 that reduced the overall resource by 40%, primarily due to a revised structural geology interpretation.

An infill drilling program was conducted on the Alamo Dorado concession in the first half of 2004 in order to confirm the revised interpretation of the reserves, and to provide core samples for the metallurgical testing needed for design of a mill and recovery plant.

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 volcanics overlie a basement of Paleozoic and Mesozoic matemorphic 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 intrusives. 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 underformed, 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, north-west 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 alternation and contain silver mineralization.

Hypogene silver mineralisation occurs predominantly as argentite with fine (50 µm - 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 acanthite intergrown with and rimming galena in a late quartz-sphalerite-pyrite-galena-chalcopyrite vein, in addition to an unidentified silver sulphosalt inter-grown 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 4µm 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 sulpho-salts are also stable. Due to the deep weathering of the deposit in the area of the pit, chloroargyrite is a dominant silver mineral.

Drilling, Sampling and Analysis

The Alamo Dorado mine has been evaluated in five separate 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 new 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 physical samples needed for milling, leaching and pilot plant testing.

The holes generally range in length from 90 to 390 metres, averaging 243 metres. During 2008, an additional 1,736 meters have been drilled at the north end of the open pit. These exploration holes added over 1.1 million silver ounces to the reserves. Drill holes were drilled at a declination of between 38° and 70°, with a single vertical hole. The major bearing was easterly with a subordinate number of holes drilled from the west. Drill hole collars were located respective to a property grid.

Standard logging and sampling conventions were used to capture information from the cuttings and drill core. Inspection of the model and drill hole data in plans and sections, together with the spatial statistical work showed reasonable geologic and grade continuity in the main area of mineralization.

A program was conducted to assure the quality of its sample preparation and assaying. The routine assaying was done at Bondar Clegg, a recognized assay laboratory. This laboratory performed duplicate assays on course reject material, and the precision of these duplicate assays (approximate 15% relative standard deviation of pair differences) is typical of that achieved for similar deposits within the mining industry. Check assays were done on pulps at a number of laboratories. The vast majority of these checks confirm the original assays which will be used to perform mineral resource estimation. A

small percentage of potentially contaminated assay intervals were identified in RC holes, all within zones drilled under wet conditions. These data were set to zero for the purpose of mineral reserve and resource estimation. Management of the Company is of the opinion that the Alamo Dorado mine's quality assurance program meets industry standards.

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, RMI selected 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 industrial 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 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 5kg (normal average 8kg). 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 20 th sample is also sampled for minor elements copper, iron, manganese, lead and zinc.

Mineral Reserves

Principally based on the Alamo Report, but amended for stockpiled ore estimates, milling depletion and current operating cost projections the estimated proven and probable mineral reserves at the Alamo Dorado mine are as follows:

Alamo Dorado Mineral Reserves [1, 2]

Class Reserve Category	Tonnes	Grams of Silver per tonne	Grams of Gold per tonne
Proven	6,095,000	112	0.34
Probable	4,644,000	83	0.28
TOTAL	10,739,000	99	0.31

1 Calculated using a price of $11 per ounce of silver and $700 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".

The Alamo Dorado open cut mine uses a cut off grade that varies by each block, primarily as a function of the copper grade and expected cyanide consumption during the treatment process. The metallurgical recoveries for gold and silver are calculated for each block using the following formulae:

Silver recovery = 0.95 - 5 / silver grade (g/t) – 0.0005 * Copper grade (ppm)
Gold recovery = 0.95 - 0.001 / gold grade (g/t) – 0.0005 * Copper grade (ppm)

The Alamo Dorado cut-off has a cost basis that includes the full milling and tails storage cost (including a variable cyanide cost based on the copper grade), the differential mining cost between ore and waste, the administration cost at the time of milling low grade ore and the low grade rehandle cost. For this mineral reserve calculation these costs total $17.64 per tonne (versus $17.24 per tonne in the previous year).

Mineral Resources

Based on the feasibility study prepared in 2005, utilizing the same pit shell design as used in the feasibility study, but assuming a higher metal price of $11.00 silver and $625 per ounce gold, estimated mineral resources at the Alamo Dorado mine are as follows:

Alamo Dorado Mineral Resources [1, 2]

Class Reserve Category	Tonnes	Grams of Silver per tonne	Grams of Gold per tonne
Measured	920,000	74	0.38
Indicated	2,491,000	69	0.41
Inferred	2,222,000	64	0.34

1 Calculated using a price of $11 per ounce of silver and $625 per ounce of gold.

2 Mineral resource 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”.

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 six 53 tonne mechanical rock trucks for the principal earthmoving. The mine is designed to deliver 4,000 tonnes of ore per day to the plant and remove the necessary waste rock to the waste dumps. At the end of 2008, there were 10,739,000 tonnes of proven and probable ore reserves, with 9,618,000 ore tonnes remaining to be mined from the pit and the rest in ore stockpiles. There are approximately a total of 22,378,000 tonnes of ore and waste remaining to be mined in the pit, meaning that the estimated required overall strip ratio is 1.3:1. The equipment fleet selected for Alamo Dorado has demonstrated capacity of up to 13,000 tonnes per day on a single shift per day basis. In 2009, the mine plans to increase the production rate to 18,000 tonnes per day by adding another operating shift. This will allow the mine to process higher grade ore earlier in the mine life than previously anticipated. The overall strip ratio of 1.65:1 waste to ore reported in the Alamo Report has been improved by: mining a higher strip ratio to start the pit; reducing the effective cut off grade primarily as a result of higher metal prices; and improving the pit design. The mine is being developed in two phases, with an initial phase designed to develop downward into the deeper, higher grade reserves which will complete in 2009, and a second phase of development balancing the material movements with the first phase which will expand the pit to its final high-wall and depth. Mining is currently expected to be completed in 2013 with processing completed in 2016.

The mine stockpiles low grade and mineralized waste category material. The high grade cut-over was selected to maximize return on investment without compromising ore block integrity. The low grade material is above the incremental break even cut-off. The mineralized waste is stockpiled at mineral prices 10% above the current mineral reserve.

After mining completes, 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 were at a level to make such processing economical.

The estimated life of Alamo Dorado's reserves at the current design levels will allow the project to operate within the life cycle of the initial mine equipment and should not require significant replacement capital.

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 neutralize mill tailings, thus reducing the mine's environmental impact and reclamation costs.

During 2007, the process plant milled 1,139,899 tonnes of ore and produced 3,809,003 ounces of silver and 13,355 ounces of gold. During 2008, the process plant milled 1,478,423 tonnes of ore and produced 6,115,836 ounces of silver and 16,822 ounces of gold.

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 Consultoria 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 the Mexican Secretary for Environmental and Natural Resources ("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.

Pan American has estimated the present value of reclamation costs for the Alamo Dorado property to be approximately $5.4 million. See "Narrative Description of the Business – Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

Health and Safely

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. During 2008, personnel employed at Alamo Dorado attended 8,000 hours of safety related training. Alamo Dorado was runner-up for the "Casco de Plata" award in the open pit category for the best safety record in Mexico, going the entire 2008 calendar year without an LTI.

Capital Expenditures

Construction of the Alamo Dorado mine was completed by year end 2006. Total project expenditures through the end of the first quarter of 2007 were approximately $81.5 million. The mine then entered into commercial production in the second quarter of 2007.

In 2008, capital expenditures at Alamo Dorado totalled approximately $1.8 million primarily for the installation of an additional furnace in the refinery, a new lime system for the AVR plant, and storm water containment and drainage system installations.

Marketing Sales

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 U.S. refiners, Johnson Matthey and Essential Metals, 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. Some of this material is trucked to the La Colorada mine and mixed with the lead-silver concentrate for sale to Penoles under current contract agreements. Part of this production has also been sold to H&H Metals Corp.

During 2008, the revenue produced by the Alamo Dorado mine was as follows:

	Revenue[1]	**Quantity**
Silver and Gold in Doré	$105.1 million	5,834,687 Ounces of Silver 16,461 Ounces of Gold

1 Consists of sales to arm's length customers.

During 2007, the revenue produced by the Alamo Dorado mine was as follows:

	Revenue[1]	**Quantity**
Silver and Gold in Doré	$43.6 million	2,810,082 Ounces of Silver 9,628 Ounces of Gold

1 First quarter 2007 sales were accounted for as pre-commercial production.

(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 exploitation claims totaling 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 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 23º, 23' North and latitude 103º, 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 cause 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 is expected to be reduced as the diesel power station and diesel air compressors will be designated for back-up use only.

Water sufficient to support the mining operation is available on site and is supplied from an underground source. 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 $6.4 million in 2008 and $2.2 million in 2007, and a benefit of approximately $5.7 million in 2006.

On October 1, 2007, the Mexican taxing authority enacted the IETU that became effective for years 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. The rate applied after 2009 will be 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 subadjacent 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 hanging wall 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, orogenparallel 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 No Conocida Poniente (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 rhodochorosite. 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, rhodochorosite, 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 reserve contains vein and manto hosted mineralization. The mineral reserve/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 60º 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 remaining mineral resource and reserve ounces of silver.

- *NC2* – Average orientation 045/70S 60º 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 resources have been estimated. The NC2 vein is the most important source of sulphide mineralization and contains 29% of the remaining resource and reserve ounces of silver.

- *Amolillo Vein (Estrella Mine)* – Average orientation 45/70S 59º 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 trachite host rock and limestone at depth.

- *Recompensa* – Average orientation is 090/80N 75º 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 2 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 65º 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. At present these are entirely mineral resources.

- *Inversa* – This vein is a smaller version of the counter vein orientation V4325. 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.

Surface drilling was done with HQ and NQ sized core and underground drilling used NQ and BQ sized core, except for the drilling done in the NCP Corridor in 2000.

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 reserve or resource calculation, 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 45º to minus 90º. 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 2008, a total of 15,567 meters have been drilled targeting various areas throughout the property. There were many successful holes that led to slightly more than replacement of mineral reserves mined during the year.

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 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 broken out by geology and vein and wall rock are sampled separately. Samples are split using a diamond 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 2-5% of the samples and 1-2% 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, 2008, are as follows:

La Colorada Mineral Reserves [1, 2,3,4]

Reserve Category	Tonnes	Grams of Silver per tonne	Grams of Gold per tonne	% Lead	% Zinc
Proven	815,330	445	0.88	0.66	1.26
Probable	483,501	420	0.64	0.79	1.33
Total	1,298,831	436	0.79	0.71	1.29

1 Calculated using a price of $11 per ounce of silver, $700 per ounce of gold, $1,500 per tonne of lead and $1,500 per tonne of zinc.

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 701,665 tonnes grading 500 g/t silver, 1.10 g/t gold, 1.31% lead and 2.38% zinc.

Based on the current mineral reserve and mineral resource estimates, the mine is projected to operate until the end of 2011.

Mineral Resources

The Company's management estimates that mineral resources at La Colorada, as at December 31, 2008, are as follows:

La Colorada Mineral Resources [1, 2, 3]

Resource Category	Tonnes	Grams of Silver per tonne	Grams of Gold per tonne	% Lead	% Zinc
Measured	147,305	322	0.34	0.68	1.34
Indicated	1,095,964	306	0.29	1.16	1.81
Inferred	1,938,465	329	0.38	0.76	1.34

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1 These resources are in addition to La Colorada mineral reserves. Calculated using a price of $11 per ounce of silver, $700 per ounce of gold, $1,500 per tonne of lead and $1,500 per tonne of zinc. 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 741,872 tonnes grading 339 g/t silver, 0.37 g/t gold, 1.85% lead and 2.93% zinc.

Mining

The mining method utilized for the oxide ore is mechanized cut and fill from the property's NCP, NC2 and Amolillo veins. Fill material is sourced from waste development, waste slashed from walls in the stopes and surface stockpiled material. No tailings backfill is planned. Split sets, cemented split sets and shot-crete are used for ground control on various patterns depending on ground support requirements.

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 and battery locomotives/Granby cars for sill haulage. The replacement of the main hoist winch was completed in early 2007.

In June 2004, La Colorada stopped producing sulphides when the sulphide resource was exhausted above the de-watered level of the mine. A dewatering study was conducted and new higher capacity pumping stations were built that allowed the production of sulphides to re-commence in July, 2006. The dewatering system will be expanded in 2009 with the construction of a pumping station on the 438 level in the oxide zone.

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 plan is to reduce the oxide throughput to 360 tpd and the sulphide ore to 390 tpd while focussing on increasing the head grade of the ore delivered to the respective process plants. Personnel and equipment have been re-assigned to the Recompensa mine in order to start production from the higher grade manto Yuri that has been discovered there.

Milling

Milling consists of a 650 tpd conventional cyanide recovery plant for oxide ore as well as a sulphide ore processing plant that was name-plated at 250 tpd but now has been expanded providing maximum throughputs as high as 530 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. This permit was valid for a 5 year period and in October 2005, Pan American received approval for its renewal permit which is valid until October 2010.

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 Envronmental Protection called the "Clean Industry" program. The La Colorada mine obtained its certification under the program in December 2007 and this certification remains valid for a two year period.

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.

Pan American has estimated the present value of the final site reclamation costs for the La Colorada property to be approximately $5.0 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. A subsequent audit was conducted in October, 2007 using 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. During 2008, personnel employed at the mine attended 23,000 hours of training. La Colorada was the recipient of the prestigious "Casco de Plata" award for the best safety record for underground mines in Mexico with in excess of 500 employees.

Capital Expenditures

In 2007, capital expenditures at La Colorada totalled approximately $8.9 million and consisted of: (i) mine equipment replacement and improvement; (ii) mine development; and (iii) diamond drilling totalling.

In 2008, capital expenditures at La Colorada totalled approximately $11.9 million and consisted of: (i) mine development and equipment; (ii) plant equipment replacement; and (iii) mine ventilation system improvement.

Marketing

All of La Colorada's concentrate production is sold under a one-year contract expiring at the end of 2009 to an arm's length smelter located in Torreón, Mexico. All silver doré produced from the oxide mill at La Colorada is sent for refining at arm's length refineries located in Torreón, Mexico and subsequently sold to various banks and traders dealing in bullion.

During 2008, the revenue produced by the La Colorada mine was as follows:

	Revenue[1]	**Quantity**
Silver and Gold in Doré	$26.0 million	1,912,000 ounces silver and 1,883 ounces gold
Lead Concentrate	$29.1 million	2,999 tonnes
Zinc Concentrate	$2.6 million	3,380 tonnes

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1 Consists of sales to arm's length customers.

During 2007, the revenue produced by the La Colorada mine was as follows:

	Revenue[1]	**Quantity**
Silver and Gold in Doré	$35.5 million	2,358,000 ounces silver and 2,300 ounces gold
Lead Concentrate	$19.3 million	1,918 tonnes
Zinc Concentrate	$2.5 million	1,689 tonnes

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1 Consists of sales to arm's length customers.

During 2006, the revenue produced by the La Colorada mine was as follows:

	Revenue[1]	**Quantity**
Silver and Gold in Doré	$37.7 million	3,185,000 ounces silver and 3,600 ounces gold
Lead Concentrate	$3.2 million	441 tonnes

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1 Consists of sales to arm's length customers.

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.

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, were 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 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 69º 30' west longitude and 48º 46' south latitude. The nearest major city is Puerto San Julian, located on the Atlantic coast, 160 kilometres east of 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. 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 glacially-derived gravel and cobble deposits.

The property is in a remote area with a limited population which increases the challenge of finding proper 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 1.74% of operating cash flow payable to the Province of Santa Cruz.

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 Compania 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 $2,500,000, 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 Compania 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 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. By year-end 2006, MTA was in negotiations with Ausenco to extend these services to an engineering, procurement and construction management (EPCM") agreement 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 man-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 239,896 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"), Merril 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. Manantial Espejo is forecast to increase its production rates up to design over a six month period with an orderly commissioning, and be at its designed rate of 2,000 tonnes per day by the end of the first quarter of 2009. Approximately 9,400 ounces of silver and 230 ounces of gold were produced in doré in the month of December 2008. Total expenditures and commitments to complete the construction of the project were approximately $228.4 million.

At full employment, the Manantial Espejo mine is expected to have more than 400 direct work positions plus additional full time contract employees, primarily in equipment maintenance and camp services. Given the extremely sparse population of the region, the Company is undertaking extensive human resource development of the potential workforce in the region, the Province of Santa Cruz, and at the national level in addition to recruiting experienced personnel necessary for the development and eventual operation of the mine.

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 having 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 quarts breccia that often crosscuts the earlier vein and carry 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. Variograms and correlograms indicate mineralization continuity on the order of fifty to one hundred metres for both gold and silver.

Silver occurs as electrum along with minor amounts of argentite, acanthite, sulfosalts, and prousite-pyrargerite. 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 is 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 metre 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. To date, there has not been enough ore mining to conduct a meaningful reconciliation; however, the results to date support the geological interpretation and assumptions used for the ore reserve calculations.

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 drilling. For the entire Manantial Espejo mine, this drilling totals 1,043 drill holes 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 drill holes are located and oriented by geologists in the field to obtain drill spacing in the 25 to 50 metre range on vein, with the 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 in-fill selected areas of known resources, investigated potential for economic mineralization outside of the current resource area, continued the water exploration program, and improved 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.

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

Mineral Reserves

A reserve summary by open pit bench was derived for each pit by extracting the pit volume out of the appropriate resource block model. Dilution was applied according to the mining method to be used. The open pit reserve was derived from the resource block model diluted for open pit mining. The underground reserve was derived from the resource block model diluted for the appropriate underground mining method. Underground reserves were extracted from these models assuming an 85% mining recovery to account for typical mining losses such as in pillars. Pan American's management estimates the mineral reserves at Manantial Espejo, as at December 31, 2008, are as follows:

Manantial Espejo Mineral Reserves[1, 2]

Reserve Category	Tonnes	Grams of Silver per Tonne	Grams of Gold per Tonne
Proven	4,207,345	184	2.62
Probable	2,183,628	186	2.82
TOTAL	6,390,973	185	2.69

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1 Calculated as at December 31, 2008 using prices of $11 per ounce of silver and $700 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, 2008, are as follows:

Manantial Espejo Mineral Resources[1, 2]

Resource Category	Tonnes	Grams of Silver per Tonne	Grams of Gold per Tonne
Measured	1,552,479	93	0.91
Indicated	2,376,326	105	1.10
Inferred	2,069,911	115	1.04

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1 Mineral resources were calculated as at December 31, 2006 using prices of $13.75 per ounce of silver and $875 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 surface and underground mining methods. The surface mining method proposed for the ore is conventional open pit mining using currently owned 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 resources. The underground mining operations consists of either long-hole, cut and fill, or shrinkage methods to accommodate the geometry and accessibility. The majority of the major open pit and underground mine equipment had been delivered by the end of 2007. An underground mine truck and a drill for drilling long holes underground, as well as a rubber tired bulldozer and a RC grade control drill for the open pit, were delivered in 2008.

In some areas, the open pits will also be used for underground access via in-pit portals. In the design, the open pits will be excavated using five metre high, horizontal benches. Ore and waste will be 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 will be constructed for portions of the Maria, Karina-Union, and Concepción deposits. The proposed Maria pit is sub-divided into three sub-pits. To the end of 2008, a total of five million tonnes of material (including 240,000 tonnes of ore) had been mined and removed from the Maria and Karina-Union open pits.

A total of five 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. Two portals are required for the Concepción area, and one is required for the Melissa Vein. The Maria West and Melissa underground mines were in the development phase throughout 2008 and the first two stopes in the Melissa Vein are now in production. The underground mining at Manantial Espejo have been designed, developed and are being managed using modern underground mining techniques and for the most part mechanised equipment. Through the end of 2008, over five kilometres of underground development has been completed at the site.

Processing

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, sulfur 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 will be 2,000 tonnes per day of ore on a 24-hour per day schedule and this design capacity rate is expected to be reached by the end of the first quarter of 2009.

Metallurgy

Process testing of ore from the deposits have validated the proposed treatment method and determined key processing parameters. Representative drill core samples from 76 drillholes were used in metallurgical testing of the ore bodies. A limited amount of grindability tests were completed on near surface trench samples. Gravity separation and cyanidation testing performed by Lakefield Research of Lakefield, Ontario produced data, which was used as the basis for the metallurgical performance target of a commercial operation. Final flowsheet development and optimization testing was conducted on six individual samples and four composites: Karina-Unión and Maria Global, Melissa and Concepción.

Independent third parties have been involved with various aspects of the project metallurgical evaluations.

Testwork was completed to evaluate several processing methods. Testwork included in this review includes 46 gravity separation tests and 127 bottle roll cyanidation tests. Of the 127 bottle roll tests, 55 were completed on whole ore samples, 32 on gravity concentrate samples, and 40 on gravity tails samples. This testing adequately characterizes the metallurgical variability of the deposits. The test data was arranged by ore deposit (Maria, Karina-Unión, Melissa, and Concepción).

Based on the results of the test work, the following recoveries can be expected for the project ores:

- Silver recovery 93.6%
- Gold recovery 94.2%

Metallurgical Ore Recoveries

	Au	Ag
Mine Head Grades (gpt)	2.82	189
Gravity Recovery (%)	58.3	60.2
Concentrate Leach Extraction (%)	99.2	99.4
Gravity Tail Leach Extraction (%)	88.6	85.3
Overall Extraction (%)	94.8	93.8
Soluble Loss (%)	0.6	0.2
Overall Recovery (%)	94.2	93.6

Environment & Permitting, Health & Safety

An environmental impact assessment ("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 attached to the project. The balance between the unwanted effects that could arise by implementing the project, against the local benefits that would be obtained, is favourable to the performance of the project.

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 from the Province of Santa Cruz, Argentina, for the EIA. 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. A preliminary reclamation plan was developed for the project and included in the EIS submitted to the Argentine Government during 2006. This plan will be 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.

Pan American has estimated the present value of reclamation costs for the Manantial Espejo mine to be approximately $4.9 million. See "Narrative Description of the Business – Environmental Protection" for further disclosure regarding forward looking statements related to reclamation costs.

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 the Metalor refinery in Switzerland and Norddeutsche Affinerie in Germany.

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, totaling 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 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 from certain small scale mining and toll milling operations. Once full commercial production of San Vicente begins, after development of new milling facilities, tailings dams and other civil works, the Participation Fee will be reduced by 75% until PASB recovers its investment in the property. Thereafter, the Participation Fee will revert back to its original percentage. In 2008, PASB paid $2.2 million in royalties to COMIBOL.

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.

In December 2007, the Bolivian government introduced a new mining royalty that will affect 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 accreditable. The new royalty law was passed in the Bolivian congress and the tax ruling was issued.

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. As of February 2008, the necessary regulation for this mining surtax has not been approved by the tax authority.

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 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), otherwise it is deductible for income tax purposes.

During 2007 and early 2008, two significant tax exemptions were granted to PASB. First, a VAT and GAC tax exemption on certain operating materials and supplies was 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 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 nearby 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 share holding 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.

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 Paleozoic 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 to 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 50-80 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 core and a further eight holes (405 metres) from inside the mine using NQ 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 varying lengths 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 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.

Mineral Reserves

Pan American's management estimates that proven and probable mineral reserves at the San Vicente mine, as at December 31, 2008, are as follows:

San Vicente Mineral Reserves[1,2,3]

Reserve Category	Tonnes	Grams of Silver per tonne	Zn (%)
Proven	1,615,268	406	4.17
Probable	831,979	417	2.66
TOTAL	2,447,247	410	3.66

1 Calculated using a price of $11.00 per ounce of silver and $1,500 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, 2008, are as follows:

San Vicente Mineral Resources[1,2,3,4]

Class Reserve Category	Tonnes	Grams of Silver per tonne	Zn (%)
Measured	465,129	111	2.46
Indicated	512,235	276	3.54
Inferred	388,708	334	2.63

1 These resources are in addition to San Vicente mineral reserves.
2 Calculated using a price of $11.00 per ounce of silver and $1,500 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 ore reserve calculations, 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 December 31, 2008, the San Vicente mine expansion project was estimated to be 92% complete based on earned value progress. Capital expenditures in 2008 totalled approximately $54.6 million, bring the total project cost as at the end of 2008 to approximately $64.7 million. The current capital cost estimate to completion is approximately $71.3 million. Actual costs may vary, possibly materially, from estimates.

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 includes 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 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. As of December 31, 2008, the ramp had been completed to the - -230 level which is the current bottom of the Litoral zone.

A decision was made in 2006 to proceed with the replacement of the hoist on the Pelayo shaft. A used hoist was purchased, and refurbishment of the hoist and replacement of the hoist electrics was conducted in Canada in 2007. The installation of the new hoisting plant is expected to take place in 2009.

All of the mobile mining equipment necessary for the introduction of mechanized longhold mining has been purchased and is on site. The equipment suppliers and a mining contractor from Peru have been retained to provide safety and operational training on the equipment to the mine workforce.

PASB has 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.

During 2003, a total of 108,809 tonnes of ore were processed under the agreement at an average mill feed grade of 400 g/t silver and 3.45% zinc.

From July 2005 through February 2006, a total of 48,422 tonnes of ore were mined and 25,427 of ore grading 307 g/t silver and 3.97% zinc were tolled. 212,270 ounces of silver and 2,151 tonnes of zinc concentrate were produced (calculated on a 100% basis). 22,995 tonnes of ore were stockpiled at the San Vicente mine.

A 150,000 tonne toll program commenced in August 2006 and was completed in November 2007. A total of 152,303 tonnes grading 296 g/t silver and 2.67% zinc respectively were processed at Chilcobija as of the completion of the program.

Production for the calendar year 2007 totaled 114,645 tonnes processed of silver and zinc grades of 307 g/t and 2.85%, respectively. Production on a 100% basis was 740,541 ounces of silver and 2,224 tonnes of zinc.

Production for 2008 totalled 98,517 tonnes of ore processed, grading 348 g/t silver and 2.72% zinc.

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 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 ramp-up to full production is expected in the third quarter of 2009.

The 750 tpd plant will use 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 will be produced. The majority of the silver is expected to be in the copper concentrate.

Ore from the mine will pass through a jaw crusher at the plant, and then be fed into a SAG mil – ball mill grinding circuit. Following the concentration process in the flotation circuit, the concentrates will be thickened and dewatered in filter presses process prior to shipping.

Water will be 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 are scheduled to be installed in early 2009.

A tailings impoundment area was constructed in 2008 approximately 1.5 kilometres distant 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 will be completed during the first half of 2009.

Community

As part of the plant construction and mine expansion project, upgrades to the existing San Vicente community were also necessary. The community 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 community. 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, Health and Safety

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 334 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 focussed 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 $2.8 million. 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.

Marketing

The San Vicente mine produces zinc-silver and copper-silver concentrates. Contracts are currently in place for these concentrates until the end of 2010. The concentrates are being sold under an agreement with Trafigura and their trading company Cormin. Both the zinc-silver and the copper-silver concentrates are taken by truck and rail to the port of Antofagasta in Chile for shipment.

E. Stockpiles and Investment and Resource Properties

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

Pan American also owns interests in investment and resource properties in each of the jurisdictions in which it operates, 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:

		2008[1]	**2007**[1][2]	**2006**[1][3]
Acquisition		Nil	8,000	47,549
	TOTAL	Nil	8,000	47,549
Development	Huaron	13,472	9,895	5,266
	Morococha	18,809	13,636	10,512
	Quiruvilca	5,295	4,438	1,848
	Alamo Dorado	1,835	10,977	51,331
	La Colorada	11,929	8,948	7,994
	Manantial Espejo	134,223	55,233	22,758
	San Vicente	56,799	11,550	5,013
	Other	1,437	727	583
	TOTAL	243,800	115,405	105,305
Exploration	Huaron	-	-	456
	Morococha	-	445	1,477
	Quiruvilca	-	-	434
	Alamo Dorado	1,972	660	474
	La Colorada	1,847	1,344	2,266
	Manantial Espejo	305	194	201
	San Vicente	-	-	1,610
	Other	1,369	701	1,122
	TOTAL	5,494	3,344	8,040

Notes:

(1) Numbers may not add due to rounding.

(2) These numbers relate to the acquisitions at San Vicente.

(3) These numbers relate to the acquisition of Manantial Espejo.

Metals Trading

In the past, Pan American has engaged in forward sales of base metals production from its mines.

During 2006, the Company settled 13,400 tonnes of zinc forward sale contracts at an average price of $1,553 per tonne. The Company settled 6,000 tonnes of zinc forward purchase contracts at an average price of $2,987 per tonne.

During 2007, the Company did not settle any forward metal contracts.

During 2008, the Company settled 11,933 tonnes of zinc forward sale contracts at an average price of $2,825 per tonne and 1,445 tonnes of lead forward sale contracts at an average price of $2,746 per tonne.

At December 31, 2008, Pan American had 3,000 tonnes of net zinc forward sale contracts outstanding at an average price of $3,770 per tonne. At December 31, 2008, these contracts had a positive mark to market valuation of $7.6 million.

At December 31, 2008, Pan American had no other open base metal forward sale contracts outstanding; however, positive settlements from lead contracts are expected to total $3.2 million in 2009.

Pan American does not engage in any forward sale of its silver production.

Please see the discussion below under “Risks Related to Pan American’s Business – Trading Activities”.

Risks Related to Pan American’s Business

Metal Price Fluctuations

The majority of Pan American’s revenue is derived from the sale of silver, zinc, and, to a lesser degree, copper, lead and gold, 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-GAAP 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:

- levels of supply and demand;
- global or regional consumptive patterns;
- sales by government holders;
- 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 and costs of metal substitutes;
- international economic and political conditions;
- interest rates;
- currency values; and
- inflation.

Declining market prices for these metals could materially adversely affect Pan American's operations and profitability.

Foreign Operations

The majority of the Company's current operations are conducted by its subsidiaries in Peru, Mexico, Bolivia and Argentina, and all of the Company's current production and revenue is derived from its operations in Peru, Mexico, Argentina and Bolivia. As Pan American's business is carried on in a number of foreign countries, it is exposed to a number of risks and uncertainties, including:

- terrorism and hostage taking;
- military repression;
- expropriation or nationalization without adequate compensation;
- difficulties enforcing judgments obtained in Canadian or United States courts against assets located outside of those jurisdictions;
- labour unrest;
- high rates of inflation;
- changes to royalty and tax regimes;
- extreme fluctuations in currency exchange rates;
- volatile local political and economic developments;
- difficulty with understanding and complying with the regulatory and legal framework respecting the ownership and maintenance of mineral properties, mines and mining operations; and
- difficulty obtaining key equipment and components for equipment.

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 Compania de Minas Buenaventura and Newmont Mining Corporation. One person was killed and three injured during the protest. There can be no assurance that such local opposition will not arise in the future with respect to the Company's foreign operations. If the Company were to experience resistance or unrest in connection with its foreign operations, it could have a material adverse effect on the Company's operations or profitability.

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 laws, including those that may affect mining. Risks of doing business in Bolivia include being subject to 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.

Governmental Regulation

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

- environmental protection;
- management and use of toxic substances and explosives;

- management of natural resources;
- exploration, development of mines, production, and post-closure reclamation;
- exports;
- 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 are substantial and possible 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 the Company 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 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 the Company's past and current operations, or possibly even those actions of parties from whom the Company acquired its mines or properties, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. It is difficult to strictly comply with all regulations imposed on the Company. The Company retains competent and well trained individuals and consultants in jurisdictions in which it does business, however, even with the application of considerable skill, the Company may inadvertently fail to comply with certain laws. Such events can lead to financial restatements, fines, penalties, and other material negative impacts on the Company.

Obtaining and Renewing of Government 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 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.

Compliance with Local Laws and Standards

In some of the countries in which Pan American operates, failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. In some circumstances, this may be even more pronounced due to conflicts in the laws themselves or their application. Any such loss, reduction or imposition of partners could have a material adverse impact on Pan American's operations or business.

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 hazards;
- industrial accidents and explosions and third party accidents;
- the encountering of unusual or unexpected geological formations;
- ground fall and cave-ins;
- flooding;
- earthquakes; and
- periodic interruptions due to inclement or hazardous weather conditions.

These occurrences 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;
- 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 company property, and punitive awards in connection with those claims; and
- other liabilities.

Liabilities that Pan American incur may exceed the policy limits of its insurance coverage or may not be insurable, in which event 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 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 reserves to replace or expand current reserves. Unsuccessful exploration or development programs could have a material adverse impact on Pan American's operations and profitability.

Uncertainty in the Calculation of Mineral Reserves, Resources and Silver and Base Metal Recovery

There is a degree of uncertainty attributable to the calculation of mineral reserves and mineral resources and corresponding grades being mined or dedicated to future production. Until mineral reserves or mineral resources are actually mined and processed, the quantity of mineral and reserve grades must be considered as estimates only. In addition, the quantity of mineral reserves and mineral resources may vary depending on, among other things, metal prices. Any material change in quantity of mineral reserves, mineral resources, grade or stripping ratio may affect the economic viability of Pan American's properties. 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.

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, which affect 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 and or development of the Company's projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that: the exploitation and/or development of the Company's projects will be commenced or completed on a timely basis, if at all; the resulting operations will achieve the anticipated production volume; the construction costs and ongoing operating costs associated with the exploitation and/or development of the Company's advanced projects will not be higher than anticipated. In addition, unusual or infrequent 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 mine, particularly the Amistad plant, is old and may require higher capital investment than Pan American has estimated.

Smelter Supply Arrangements

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. 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. Further, there can be no assurance that Pan American will be able to renew agreements to sell concentrates when the existing agreements expire, or that Pan American's concentrates will meet the qualitative requirements of existing or future concentrate agreements or the requirements of buyers.

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 all of the jurisdictions in which Pan American operates is 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. 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.

Responsibility for the construction and operation of the water treatment plant for the Kingsmill Tunnel and tailings mitigation program at Huascacocha Lake, near the Morococha mine, has been apportioned by WMC among the Morococha mine and other mining companies operating neighbouring projects. Subsequent to the apportionment of costs, it appears that in connection with Peru Copper's acquisition of mining concessions near Morococha, Peru Copper has agreed to fund the entire cost of the construction of the Kingsmill water treatment and sludge storage facility. In 2006, Peru Copper established a trust account to fund the design and construction of the proposed water treatment plant for the Kingsmill Tunnel drainage. Peru Copper has not requested that any other parties contribute to the funding of the construction of the treatment plant, but there can be no guarantee that they will not default on such funding obligation or that they will not seek recovery from other interested parties, in which case Pan American's proportionate share of the costs of such environmental projects could increase and would result in reduced cash flow from Morococha 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.

Peruvian Mine Closure Law

On August 15, 2005, the Peruvian government published by way of Supreme Decree No. 033-2005-MEM the regulations for the preparation of mine closure plans. For existing mining operations the law provides that a mine closure plan must be submitted for certification to the MEM within twelve months of the law entering into force. In accordance with this Supreme Decree, Pan American has submitted closure plans to the MEM. Review comments have been received for each of the three mine closure plans submitted for Pan American's operations in Peru. Pan American has addressed the comments from the MEM for each of its Peruvian operations and the process has been advanced to the public comment period phase in respect of Quiruvilca and Morococha.

The law provides that a mine operator must provide a financial warranty for the estimated costs associated with its mine closure plan. The value of the warranty is estimated as the present value of the estimated closure cost less the present value of the proposed concurrent closure and is payable over the estimated life of the mine.

Trading Activities and Credit Risk

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, 2008, Pan American had sold forward 3,000 tonnes of zinc at a weighted average price of $3,770 per tonne. During January 2009, Pan American closed its open zinc positions, thereby crystallizing a gain of approximately $7.6 million, which is expected to settle each month until December 2009. Similarly, prior to December 31, 2008 Pan American closed its open lead positions, which had the effect of establishing a gain of approximately $3.2 million, which is due to settle monthly during 2009.

Approximately one-third of Pan American's operating and capital expenditures are denominated in local currencies other than the United States dollar. These expenditures are exposed to fluctuations in United States dollar exchange rates relative to the local currencies. From time to time, Pan American mitigates part of this currency exposure by accumulating local currencies or by entering into contracts designed to fix or limit Pan American's exposure to changes in the value of local currencies relative to United States dollars. In anticipation of operating expenditures in Peruvian Nuevo sol ("PEN") and Mexican pesos ("MXN"), at December 31, 2008 Pan American has entered into foreign currency contracts with an aggregated nominal value of approximately $51 million for PEN and approximately $37 million for MXN settling between January and December 2009 at an average PEN/US$ exchange rate of 2.82 and an average MXN/US$ exchange rate of 10.99. In addition, Pan American was holding cash balances equivalent to $0.7 million in PEN and $2.5 million in MXN as at December 31, 2008. At December 31, 2008, the mark-to-market value of Pan American's local currencies positions was an unrealized loss of approximately $14.2 million.

In addition, the Company may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity. The Company's current policy is to not hedge the price of silver and therefore it is fully exposed to fluctuations in the price of silver.

Pan American 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 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 our concentrates. At December 31, 2008, Pan American had receivable balances associated with buyers of our concentrates of $11.8 million. The vast majority of our concentrate is sold to four 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 five 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 our precious metals in such circumstances. At December 31, 2008, Pan American had approximately $6 million of value contained in precious metal inventory at refineries. Pan American maintains insurance coverage against the loss of precious metals at our mine sites, in-transit to refineries and while at the refineries.

Pan American has never had any material performance or payment disputes with its refiners, trading counterparties or customers; however management constantly monitors and assesses the credit risk resulting from its refining arrangements, concentrate sales and commodity contracts. Furthermore, Pan American carefully considers credit risk when allocating prospective sales and refining business to counterparts. In making allocation decisions, Pan American attempts to avoid unacceptable concentration of credit risk to any single counterpart.

From time to time, the Company 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 Annual Information Form, by investing in other companies the Company will be exposed to the risks associated with owning equity securities and those risks inherent in the investee companies.

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 increase. 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 cannot be guaranteed and may be subject to third party claims or other defects

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. Pan American has used its reasonable commercial efforts to investigate its title or claims to its various properties and, to its knowledge, except where Pan American has otherwise identified, those titles or claims are in good standing. However, 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 to accept the risks associated with the subject property which determination Pan American believes is reasonable in the circumstances), 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.

According to Peruvian law, legal rights applicable to mining concessions are different and separate from legal rights applicable to surface lands; accordingly, under Peruvian law, title holders of mining concessions must agree with surface land owners on compensation in respect of the mining activities conducted on such land.

Pan American does not hold 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. Most of these rights were previously held by Centromin. In May 2003, Centromin granted an Easement, Usufruct and Superficiary Rights Agreement in favour of Natividad (which merged with the Company's subsidiary, Argentum, in 2005) in respect of these surface lands.

In May 2008, Peru Copper (promoter of the Toromocho disseminated copper system) acquired certain surface rights from Centromin covering the main Morococha area that had been reserved for the Toromocho project by the Government of Peru. In addition, Peru Copper 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 Peru Copper would also provide the Company with easier and less costly underground access to some areas of the Morococha concessions.

Since 2005, the Company, with the opposition of Centromin (currently, Activos Mineros S.A.), has engaged in administrative and judicial proceedings to obtain legal title to surface lands and underground access that may comprise part of the rights recently acquired by Peru Copper from Centromin. These actions have not been definitively resolved.

Peru Copper may begin development of the Toromocho project and there is no assurance that Peru Copper will not take action and seek to extinguish the rights granted under the May 2003 Easement, Usufruct and

Superficiary Rights Agreement, thereby impeding use of these surface lands and underground rights at the Morococha mine. In said circumstances, Pan American may be forced to incur potentially significant costs and expenses in order to acquire and/or obtain surface and underground rights at the Morococha mine, and could ultimately be required to cease certain operations at the Morococha mine altogether if such surface lands and underground rights cannot be obtained for reasonable consideration.

Pan American acquired its interest in the Manantial Espejo mine on the understanding that while strict compliance with the mining law had not occurred in connection with expenditure requirements, prior owners had reached an agreement on this point with the mining authorities. With respect to the required minimum expenditure threshold originally applicable to Barrick'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. However, on March 23, 2006 the Argentine government approved the EIS submitted to it by the Company, effectively authorizing construction of the mine. As such, management of the Company believes that this approval waives a significant amount of uncertainty and confirms the government recognizes and will abide by Pan American's title to the properties.

Acquisitions

An element of the Company's business strategy is to make selected acquisitions. For example, the Company completed the acquisition of Corner Bay in February 2003, the acquisition of Argentum and the Morococha mine in August 2004, the acquisition from SSR in 2006 of SSR's 50% interest in the Manantial Espejo project and in May 2007, the 40% interest in the San Vicente mine. 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.

Competition for New Properties

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 Pan American 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 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 may Impact Operations and Development Projects

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.

United States Mining Legislation

There is a movement in the United States Congress to reform the current mining laws. While it is not expected that any reform legislation will pass the United States Congress in the current session, it is not unlikely that some changes to U.S. mining laws will occur in the future. These changes may include the payment of royalties to the government, increased holding fees and restrictions or prohibitions on patenting mining claims. In addition, prospective legislation could be expected to include various environmental and land use requirements, which may restrict, or in some cases, prevent mining operations. Pan American's interest in unpatented claims on federal land could have an overall impact on the value of its properties in the United States.

Foreign Exchange Rate Fluctuations

Fluctuations in currency exchange rates, particularly the weakening or strengthening of the U.S. dollar (being the currency in which Pan American's products are sold) against the Canadian dollar (used to pay corporate head office costs), the Peruvian sol, the Mexican peso, the Argentinean peso and the Bolivian boliviano (being the currencies in which a significant portion of Pan American's capital and operating costs are incurred), could have a significant effect on Pan American's results of operations. From time to time, the Company engages in trading activities in connection with foreign currency requirements in order to minimize the effect of strengthening of foreign currencies on Pan American's operating results.

Developments regarding Aboriginal, First Nations and Indigenous Peoples

Pan American operates in areas inhabited by aboriginal, First Nations, and indigenous people. Developing laws and movements respecting the acquisition of lands and other rights from such people and communities may alter decades old arrangements made by prior owners of Pan American's mines and properties or even those made by Pan American in more recent years. Pan American has used commercially reasonable efforts in its dealing with all aboriginal, First Nations, and indigenous people to ensure all agreements are entered into in accordance with the laws governing aboriginal, First Nations, and indigenous peoples and their communities but because of complex procedural and administrative requirements in some jurisdictions, there is no guarantee that such agreements will ultimately protect Pan American's interest, nor can there be any guarantee that future laws and actions will not have a material adverse effect on Pan American's financial position, cash flow and results of operations.

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.

The Company may fail to achieve and maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act

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 of the effectiveness of the Company's internal control over financial reporting and an attestation report by the Company's independent auditors addressing this assessment. 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 controls 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 controls over financial reporting will increase and will require that the Company continue to improve its internal controls 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, 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. 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 have a material adverse impact on Pan American's financial position, cash flow and results of operations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Annual Information

Selected audited consolidated financial information of the Company for each of the last five completed financial years is as follows:

	2008[1]	2007[1]	2006[1]	2005[1]	2004[1]
Sales	$ 338,600	$ 301,064	$ 255,447	$ 122,401	$ 94,825
Mine operating earnings/(loss)	93,219	104,275	93,650	(20,970)	940
Net income/(loss)	24,602	88,860	58,206	(28,594)	15,214
Net earnings/(loss) per share					
- basic	$ 0.31	$ 1.16	$ 0.79	$ (0.43)	$ 0.06
- diluted	$ 0.30	$ 1.12	$ 0.76	$ (0.43)	$ 0.06
Cash and short-term investments	30,139	107,315	171,948	55,322	98,136
Total assets	873,383	762,903	679,995	362,280	370,086
Total long-term financial liabilities	102,715	99,219	92,808	73,794	66,900
Total shareholder's equity	685,641	599,617	512,026	257,322	275,516

[1] In thousands, except per share amounts

Selected unaudited consolidated financial information of the Company for each of the last eight quarterly periods is as follows:

	2008				2007			
	Three months ended March 31	Three months ended June 30	Three months ended Sept. 30	Three months ended Dec. 31	Three months ended March 31	Three months ended June 30	Three months ended Sept. 30	Three months ended Dec. 31
	(in thousands, except per share amounts)				(in thousands, except per share amounts)			
Sales	$ 108,750	$ 104,079	$ 79,493	$ 46,278	$ 48,057	$ 79,211	$ 87,907	$ 85,889
Cost of sales	50,511	52,101	52,807	43,613	28,962	40,800	49,233	48,803
Depreciation and depletion	9,864	12,719	11,217	12,549	4,222	6,994	9,549	8,227
Mine operating earnings	48,375	39,259	15,469	(9,884)	14,873	31,417	29,125	28,859
General & Administrative.	1,596	3,751	2,305	2,783	1,858	2,684	1,860	3,120
Accreation of Asset retirement obligation	672	671	672	672	636	760	790	674
Exploration	714	1,008	1,507	2,265	549	720	101	1,992
Write-down of non-producing property	-	-	-	15,117	-	-	-	-
Operating earnings	45,393	33,829	10,985	(30,721)	11830	27,253	26,374	23,073
Foreign exchange gain (loss)	(2,173)	(29)	(2,900)	(1,045)	(60)	84	273	631
Other income and expense	(200)	1,059	784	(4,564)	6,699	1,773	1,355	(485)
Gain (Loss) on commodity and foreign currency contracts	1,554	(1,077)	3,718	(5,814)	(160)	887	613	4,005
Gain (loss) on sale of assets	1,100	(2)	(94)	(6)	10,250	-	2,250	(75)
Income (loss) before tax					23,035	28,632	30,137	26,661
Net income before taxes and non-controlling interest	45,674	33,780	12,493	(42,150)	23,559	29,997	30,865	27,149
Income Taxes	(14,497)	(12,451)	(5,988)	8,506	(2,600)	(10,160)	(6,246)	(599)
Non-controlling interest	(1,020)	28	(101)	328	(524)	(1,365)	(728)	(488)
Net income for the period	$ 30,157	$ 21,357	$ 6,404	$ (33,316)	$ 20,435	$ 18,472	$ 23,891	$ 26,062
Earnings (loss per share)								
Basic	$ 0.38	$ 0.26	$ 0.08	$ (0.41)	$ 0.27	$ 0.24	$ 0.31	$ 0.34
Fully Diluted	$ 0.38	$ 0.26	$ 0.08	$ (0.41)	$ 0.26	$ 0.23	$ 0.30	$ 0.33

Quarterly per share amounts have been adjusted to reflect the weighted average common shares of the Company outstanding for the full year.

Further discussion of the Company's financial results is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2008, incorporated by reference into this Annual Information Form.

Dividends

The Company has not, since the date of its incorporation, declared or paid any dividends on its common shares and does not currently intend to pay dividends. Earnings will be retained to finance further exploration and development. Currently there are no restrictions with respect to the Company's present or future ability to declare or pay dividends.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company for the years ended December 31, 2008 and 2007, which are incorporated by reference herein.

DIRECTORS AND OFFICERS

The names and municipalities of residences of the directors and officers of the Company, 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 Vancouver, B.C. Canada	Director and Chairman (director of the Company since September 30, 1988)	Chairman of the Company since April 1994; former CEO of the Company.
Geoff A. Burns [4] North Vancouver, B.C. 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; and Chief Operating Officer from July 1, 2003 to May 11, 2004 and prior thereto CFO of Coeur D'Alene Mines Corporation.
William A. Fleckenstein [3,5] Seattle, Washington, U.S.A.	Director of the Company since May 9, 1997	President of Fleckenstein Capital, Inc. (an investment counselling firm)
Michael Larson [1] Seattle, Washington, U.S.A.	Director of the Company since November 29, 1999	Business Manager of Cascade Investment LLC (a private investment company)
Michael J.J. Maloney [1, 2, 3] 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 [4] Vancouver, B.C. Canada	Director, General Counsel and Secretary (director of the Company since April 30, 2007)	General Counsel and Secretary of the Company.
David Press [2, 4] West Vancouver, B.C. Canada	Director of the Company since May 13, 2008	President, Press Mining Consulting Inc.

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
PAUL B. SWEENEY [1, 2] Surrey, B.C. Canada	Director of the Company since August 5, 1999	Executive Vice President – Corporate Development of Plutonic Power Corporation (hydroelectric company) since January 1, 2007; prior thereto Vice President and Chief Financial Officer of Canico Resource Corp.
NADINE BLOCK Surrey, B.C. Canada	Vice President, Human Resources	Vice President, Human Resources since September 8, 2008; prior thereto Senior Vice President, Human Resources for Finning International Inc.
STEVEN BUSBY Vancouver, B.C. 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.
ANDRES DASSO Vancouver, B.C. Canada	Senior Vice President, Mining Operations	Senior Vice President, Mining Operations since December 1, 2008; Country Manager-Peru for the Company since 1995.
ROBERT G. DOYLE Vancouver, B.C. Canada	Chief Financial Officer	Chief Financial Officer of the Company since January 2004; and prior thereto Senior Vice President-Mining Finance and Metals Marketing with Standard Bank.
JOSEPH PHILLIPS North Vancouver, B.C. Canada	Senior Vice President, Project Development	Senior Vice President, Project Development since September 2008; Country Manager-Mexico for the Company from June 2006 to August 2008; President, MCB, from September 2004 to May 2006.
MICHAEL STEINMANN North Vancouver, B.C. 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; Vice President Geology of the Company from March 2004 to October 2005; prior thereto Manager of Geology for Glencore, South American operations and projects.
WAYNE VINCENT Blaine, WA, USA	Vice President, Accounting and Financial Reporting	Vice President, Accounting and Financial Reporting of the Company since May 13, 2008; Controller of the Company from April 2005 to May 13, 2008, prior thereto Controller for Coeur D'Alene Mines Corporation.

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
MARTIN WAFFORN Coquitlam, B.C. Canada	Vice President, Technical Services	Vice President, Technical Services since May 13, 2008; prior thereto Vice President, Mine Engineering for the Company, and prior thereto Director of Mine Engineering of the Company since February 2004; Prior thereto Manager of Mine-Engineering with Barrick Gold Corporation.

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1 Member of the Audit Committee
2 Member of the Compensation Committee
3 Member of the Nominating and Governance Committee
4 Member of the Health, Safety and Environment Committee
5 Lead Independent Director

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. The board currently consists of eight directors five of whom, William A. Fleckenstein, Michael Larson, Michael J.J. Maloney, Paul B. Sweeney and David Press, qualify as unrelated directors who are independent of management. The board has established four committees: the Audit Committee, the Compensation Committee, the Health, Safety and Environment Committee and the Nominating and Governance 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, 2008 is set forth in the preceding table.

As at March 24, 2009, the directors and officers of the Company named above as a group exercised control or direction or beneficially owned, directly or indirectly, 4,168,686 common shares of the Company representing 4.8% of the issued and outstanding common shares of the Company.

Audit Committee

The members of the Audit Committee are Paul B. Sweeney (Chair), Michael J. J. Maloney and Michael Larson. 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 Multilateral 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 Paul B. Sweeney, 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)(a) 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:

Paul B. Sweeney (Chair) was a member of the Certified General Accountants Association of Canada, and has experience serving on public boards and their audit committees. He is currently the Executive Vice-President – Corporate Development of Plutonic Power Corporation and was formerly the Chief Financial Officer of Canico Resources Corp. from February 2002 to November 2005 and Manhattan Minerals Inc. from December 1999 to May 2001. Mr. Sweeney has also held senior officer positions in other companies.

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.

Michael Larson holds a Bachelor of Arts degree from Claremont McKenna College and an MBA from the University of Chicago. He has over 25 years of experience in financial analysis and serves as director or officer in several organizations.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountant for the fiscal years ended December 31, 2007 and 2008 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 C$1,331,800 and C$1,194,200, respectively.

Audit-Related Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2007 and 2008 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 NIL and NIL, respectively.

Tax Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2007 and 2008 for professional services rendered by it for tax compliance, tax advice, tax planning and other services were C$64,500 and C$45,200, respectively.

All Other Fees

The aggregate fees billed by Deloitte & Touche LLP for the fiscal years ended December 31, 2007 and 2008 for products and services provided by Deloitte & Touche LLP, other than the services reported in the preceding three paragraphs, were NIL and NIL, 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.

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 2008:

	Toronto Stock Exchange (C$)			Nasdaq Stock Market (US$)			
Month	**High**	**Low**	**Volume**	**Month**	**High**	**Low**	**Volume**
January	$40.47	$33.11	9,006,605	January	$39.74	$32.05	33,355,400
February	$40.86	$33.12	5,848,373	February	$41.72	$32.72	26,414,600
March	$43.66	$35.23	5,724,550	March	$44.10	$34.32	36,087,500
April	$41.28	$32.38	3,886,322	April	$40.95	$32.02	25,390,500
May	$36.43	$32.27	2,627,065	May	$36.67	$31.62	19,765,600
June	$36.17	$30.16	3,233,267	June	$35.73	$29.41	18,285,600
July	$37.15	$30.47	5,761,743	July	$37.16	$29.65	22,228,600
August	$32.24	$25.71	6,191,901	August	$31.21	$24.11	24,396,000
September	$27.50	$19.57	7,544,225	September	$26.53	$18.14	46,650,400
October	$24.38	$11.83	5,732,100	October	$22.99	$9.10	56,517,300
November	$18.60	$11.12	5,765,034	November	$14.44	$8.93	28,167,600
December	$21.25	$12.56	5,874,304	December	$17.80	$9.64	31,999,600

Source for tabulation of 2008 Monthly Aggregate Data – TSX and finance.yahoo.com

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 18 to the Company’s consolidated financial statements for the year ended December 31, 2008, 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, independent registered chartered accountants, 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 the Company's mineral reserve and mineral resource estimates as at December 31, 2008 and disclosed in this Annual Information Form are Michael Steinmann, Senior Vice President, Geology and Exploration of Pan American and Martin Wafforn, Vice President, Mine Engineering of Pan American who are both employees of the Company.

Deloitte & Touche LLP, Michael Steinmann, P. Geo. and Martin Wafforn, P. Eng. are companies or persons who have prepared or certified a statement, report or valuation described in this Annual Information Form.

Neither of Michael Steinmann, P. Geo and Martin Wafforn, P. Eng. 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, 2008 and 2007, and Management Discussion and Analysis. Additional information relating to the Company may be found on SEDAR at www.sedar.com.

"*adit*" - a horizontal or nearly horizontal passage driven from the surface for the working of a mine.

"*adularia*" - a very low-temperature monoclinic potassium feldspar.

"*andesite*" - a dark-coloured, fine-grained extrusive rock that, when porphyritic, contains phenocrysts composed primarily of zoned sodic plagioclase (esp. andesine) and one or more of the mafic minerals (e.g. biotite, horneblend, pyroxene), with a ground-mass composed generally of the same minerals as the phenocrysts; the extrusive equivalent of diorite.

"*argillic*" - pertaining to clay or clay minerals, e.g. in "argillic alternation" in which certain minerals are converted to minerals of the clay group.

"*arroyo*" - a term applied in the arid and semi-arid southwestern U.S. to a small deep flat-floored channel or gully of an ephemeral or intermittent stream. It is usually dry and has steep or vertical banks of unconsolidated material.

"*AVR*" – acidification, volatilization and neutralization circuit, used to recover cyanide from barren solution resulting from the electrowinning process.

"*basalt*" - a dark-coloured igneous rock, commonly extrusive, composed primarily of calcic plagioclase and pyroxene.

"*berm*" - the space left between the upper edge of a cut and the toe of an embankment.

"*breccia*", "*brecciation*" - rock broken up by geological forces.

"*calcareous*" - containing calcium carbonate. When applied to a rock name, it implies that as much as 50% of the rock is calcium carbonate.

"*chalcopyrite*" - a bright brass-yellow tetragonal mineral; generally found massive and constitutes the most important ore of copper.

"*chert*" - a hard, dense, dull to semivitreous, microcrystalline or cryptocrystalline sedimentary rock, consisting dominantly of interlocking crystals of quartz less than about 30mu m in diameter; it may contain amorphous silica (opal). It sometimes contains impurities such as calcite, iron oxide, and the remains of siliceous and other organisms. Chert occurs principally as nodular or concretionary nodules in limestone and dolomites, and less commonly as layered deposits (bedded chert).

"*conglomerate*" - a coarse-grained clastic sedimentary rock, composed of rounded to sub-angular fragments larger than 2mm in diameter (granules, pebbles, cobbles, boulders) set in fine-grained matrix of sand or silt and commonly cemented by calcium carbonate, iron oxide, silica or hardened clay.

"*cut-and-fill*" - a method of stoping in which ore is removed in slices, or lifts, following which the excavation is filled with rock or other waste material known as back fill, before the subsequent slice is mined. The back fill supports the walls of the stope.

"*dacite*" - a fine-grained extrusive rock with the same general composition as andesite, but having less calcic plagioclase and more quartz.

"*diamond drill*" - a type of rotary drill in which the cutting is done by abrasion rather than by percussion. The drill cuts a core of rock which is recovered in long cylindrical sections.

"*doré*" - unrefined gold and silver in bullion form.

"*drift*" - a horizontal passage underground that follows along the length of a vein or rock formation.

"*enargite*" - a grayish-black or iron-black orthorhombic mineral. It is an important ore of copper.

"*epidote*" - a basic silicate of aluminium, calcium and iron.

"*epithermal*" - formed by low-temperature (100 - 200° C.) hydrothermal processes.

"*fault*" - a fracture in a rock where there has been displacement of the two sides.

"*feldspar*" - a prominent group of rock-forming silicate minerals.

"*fracture*" - breaks in a rock, usually due to intensive folding or faulting.

"*galena*" - the most important ore of lead, found in hydro-thermal veins and as a replacement mineral.

"*gangue*" - that part of an ore deposit from which a metal or metals is not extracted.

"*gneiss*" - a foliated rock formed by regional metamorphism, in which bands or lenticles of granular minerals alternate with bands or lenticles in which minerals having flaky or elongated prismatic habits predominate.

"*granodioritic*" - similar to granitic, except that graphic texture does not seem to occur, and a lower percentage of silicon, and a higher calcium and magnesium content is present.

"*indicated mineral resource*" - mineral resources for which quantity, grade or quality, densities, shape, 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 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.

"*inferred mineral resource*" - mineral resources 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.

"*lacustrine*" - pertaining to, produced by, or inhabiting a lake or lakes.

"*loop*" - a pattern of field observations that begin and end at the same point with a number of intervening observations.

"*manto*" - a blanket-like replacement of rock (commonly limestone) by ore. In some districts, the term has been modified to designate a pipe-shaped deposit confined within a single stratigraphic horizon.

"*marls*" - a variety of materials, most of which occur as loose, earthy deposits consisting chiefly of an intimate mixture of clay and calcium carbonate.

"measured mineral resource" – the 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 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*" – 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.

"*mineralization*" or "*resources*" or "*mineral resources*" – is a concentration or occurrence of natural, solid, inorganic or fossilized organic material 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.

"*monzonite*" - a granular plutonic rock containing approximately equal amounts of orthoclase and plagioclase, and thus intermediate between syenite and diorite. Quartz is minor or absent.

"*muck*" - ore or rock that has been broken by blasting.

"*open pit*" - a surface working open to daylight, such as a quarry.

"*ore shoot*" - a pipelike, ribbonlike or chimneylike mass of ore within a deposit (usually a vein), representing the more valuable part of a deposit.

"*orogeny*" - a period of mountain building.

"*pearceite*" - a monoclinic mineral $Ag_{16}As_2S_{11}$, having copper as an apparent necessary minor component which is metallic black, brittle and occurs in low-to moderate-temperature silver and base-metal ores.

"*pinch*" - a compression of the walls of a vein, or the roof and floor of a coal bed, which more or less completely displaces the ore or coal.

"*polybasite*" - a monoclinic mineral $(Ag,Cu)_{16}Sb_2S_{11}$ that is soft, metallic and grey to black occurring in low-temperature veins. A source of silver.

"*porphyry*" - an igneous rock of any composition that contains conspicuous phenocrysts in a fine-grained ground mass.

"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.

"*proustite*" - a triangle mineral, Ag_3AsS_3, with rhombohedral cleavage that is soft, ruby red and occurs in low temperature or secondary enrichment veins. A minor source of silver.

"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.

"*pyrite*" - a mineral containing iron sulphide.

"*pyroclastic*" - rock formed by the mechanical combination of volcanic fragments.

"*pyrrhotite*" - a monoclinic and hexagonal mineral, FeS, invariably deficient in iron, variably ferrimaganetic, which is metallic, bronze yellow with iridescent tarnish and occurs in mafic igneous rocks, contact metamorphic deposits, high temperature veins and granite pegmatites.

"qualified person" - is an individual who is an engineer or geoscientist with at least five years experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; and has experience relevant to the subject matter of the mineral project; and who is a member in good standing of a recognized self-regulatory organization of engineers or geoscientists.

"*raise*" - a vertical or inclined underground working that has been excavated from the bottom upward.

"*resuing*" - a method of stoping wherein the wall rock on one side of the vein has been blasted after the ore itself is broken, with the waste rock used as fill. Resuing is employed on narrow veins and permits a recovery with a minimum of dilution.

"*rhodochrosite*" - a hexagonal carbonate mineral, found in lead and silver-lead ore veins and in metasomatic deposits.

"*schist*" - a strongly foliated crystalline rock formed by dynamic metamorphism, that can be readily split into thin flakes or slabs due to the well developed parallelism of more than 50% of the minerals present, particularly those of lamellar or elongate prismatic habit (*e.g.*, mica and hornblende).

"*shrinkage stoping*" - a method of stoping which utilizes part of the broken ore as a working platform and as support for the walls.

"*silicified*" - a rock altered by a silica hydrothermal solution.

"*skarn*" - rocks composed nearly entirely of lime-bearing silicates and derived from nearly pure limestones and dolomites in which large amounts of silicon, aluminium, iron and magnesium has been introduced.

"*sphalerite*" - the main zinc ore, found in metasomatic deposits with galena, in hydro-thermal vein deposits, and in replacement deposits.

"*split*" - a coal seam that is separated from the main seam by a thick parting of other sedimentary rock.

"*stope*" - an excavation in a mine from which ore is being or has been extracted.

"*strike*" - the course or bearing of a layer of rock.

"*stripping ratio*" - the ratio of waste material to ore experienced in mining an ore body by open pit.

"*supergene*" - said of a mineral deposit or enrichment formed near the surface, commonly by descending solutions; also, said of the solutions and of that environment.

"*swell*" - an enlarged place in an orebody, as opposed to a *pinch.*

"*tailings*" - material rejected from a mill after recoverable valuable minerals have been extracted.

"*tennantite*" - a blackish lead-gray isometric mineral. It is isomorphous with tetrahedrite, and sometimes contains zinc, silver, or cobalt replacing part of the copper. It is an important ore of copper.

"*tetrahedrite*" - a metallic isometric mineral. It is isomorphous with tennantite, and often contains silver or other metals replacing part of the copper. Tetrahedrite is an important ore of copper and sometimes an ore of silver.

"*trachytes*" - fine-grained, alkali, intermediate igneous rocks.

"*tuff*" - a general term for all consolidated pyroclastic rocks. Adj: *tuffaceous.*

"*tuffs*" - upon consolidation, the general name for the material derived from solid volcanic material which has been blown into the atmosphere by explosive activity.

"*vein*" - an epigenetic mineral filling of a fault or other fracture, in tabular or sheetlike form, often with associated replacement of the host rock; a mineral deposit of this form and origin.

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. [2]

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.

[2] 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.

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.

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.

Exhibit 1.2



Consolidated Financial Statements
for the Year Ended December 31, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

March 4, 2009

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, 2008 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 Canadian generally accepted accounting principles ("Canadian GAAP"). Pan American's significant accounting policies are set out in Note 2 of the audited consolidated financial statements. Differences between Canadian and United States generally accepted accounting principles ("US GAAP") that would have affected the Company's reported financial results are set out in Note 22. This MD&A refers to various non-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, we have provided detailed descriptions and reconciliations where applicable. This MD&A is comprised of the following sections:

		Page
1	The **"Profile and Strategy"** section provides an overview of Pan American and its strategy for growth	3
2	The **"Review of 2008"** section discusses the *highlights and significant events* that occurred during the year and provides an analysis of Pan American's *2008 operating performance* and *2008 financial results*	4
3	In the **"Outlook"** section, we present the Company's operating forecasts for each of our operating mines in 2009	20
4	The **"Liquidity and Capital Resources"** section reviews our *cash flow* over the past three years, describes our current *liquidity* and *financial position* and discusses our expected *capital requirements* for 2009 and beyond	24
5	The **"Risks and Uncertainty"** section discusses the risks associated with Pan American's business and our risk management programs to mitigate such risks	28
6	The "**Critical Accounting Policies and Estimates"** section identifies those accounting estimates that have the largest impact on the financial presentation	32
7	The "**Future Accounting Changes"** section identifies those accounting changes that may have a significant impact on the Company	33
8	Finally, the **"Controls and Procedures"** section describes the Company's approach to internal controls and management's assessment of the effectiveness of internal controls over financial reporting	35

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 40F and Annual Information Form on file with the US Securities and Exchange Commission and the Canadian provincial securities regulatory authorities. Additional information about Pan American and its business activities is available on SEDAR at www.sedar.com

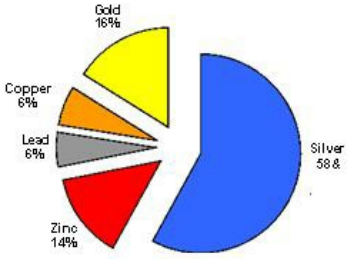
All scientific or technical information in this MD&A, including reserve estimates, for the Huaron, Morococha, Quiruvilca, Alamo Dorado, La Colorada, Manantial Espejo, and San Vicente properties was based upon information prepared by or under the supervision of Michael Steinmann, P.Geo., Executive Vice President Geology & Exploration and Martin G. Wafforn, P.Eng., Vice President Technical Services, who are "Qualified Persons" for purposes of National Instrument 43-101.

The Company's 2009 budget and the resultant forecast numbers 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: (a) silver: $10.00 per ounce, zinc: $1,150 per tonne ($0.52 per lb), lead: $1,300 per tonne ($0.59 per lb), copper: $3,500 per tonne ($1.59 per lb), and gold: $725 per ounce; (b) that we are able to ship and sell all of our 2009 production in the 2009 financial year; (c) the Company's forecast production for each individual mine is achieved; (d) the Company's schedule for the ramp-up of production from Manantial Espejo and San Vicente is achieved; (e) there is no disruption in production, increase in costs or disruption due to: 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.

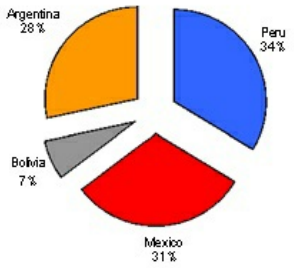
No assurance can be given that the indicated quantities of silver and other metals will be produced, or that projected cash costs or forecast capital costs will be achieved. Expected future production, cash costs and capital costs are inherently uncertain and could materially change over time. If actual 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.

PROFILE AND STRATEGY

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. To achieve this objective, the Company 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 following pie graphs show the expected contribution to Pan American's consolidated sales in 2009 from the various metals it produces and from each jurisdiction where the Company operates.



Expected Sales by Metal – 2009



Expected Sales by Jurisdiction - 2009

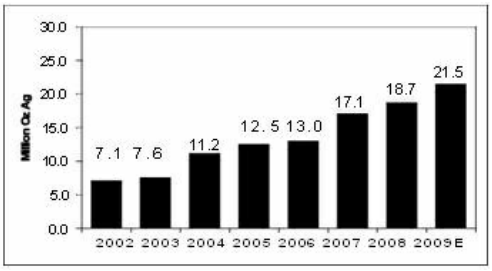
The Company's mission is to be the largest and lowest cost primary silver mining company globally, and to achieve this by constantly increasing its silver production and its silver reserves while optimizing its production methods.

To realize this mission, Pan American has focused on growing its base of low cost silver production by acquiring, exploring for and developing new silver deposits. Having successfully executed this strategy to date, Pan American has uniquely positioned itself to take full advantage of certain strategic opportunities in the silver market, particularly in the current, volatile economic environment.

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 a new discovery or acquisition from discovery to development through construction and into operation.

Silver production has grown for 13 consecutive years. At the end of 2008, Pan American had seven operating mines plus production from the pyrite stockpiles - a considerable portfolio of quality silver producing assets providing diversification of political and operational risk. In 2009, the Company expects to increase production by 15% to 21 .5 million ounces of silver and maintain that level of silver production for the next several years, as illustrated by the following bar chart.

Silver Production



Pan American is determined to carry out its mission in a responsible and sustainable manner. The Company is focused on health and safety standards at all of our operations and is constantly striving to improve our safety record. We have a proactive approach to minimizing and mitigating the environmental impacts of our activities by applying prudent design and operating practices and by continuing environmental education for employees and contractors. Pan American is committed to maintaining positive relations with its employees, the local communities and government agencies, whom we view as partners in our enterprise.

REVIEW OF 2008

Highlights and Significant Events Increased Silver and By-product Metal Production

Pan American produced 18.7 million ounces of silver in 2008, which was a 9% increase in silver production relative to 2007 or an additional 1.6 million ounces. A full year of production at design capacity at the Alamo Dorado silver mine in Mexico, which produced 6.1 million ounces of silver in 2008, was the primary factor behind this achievement. Pan American also increased its gold production by 7% to over 25,000 ounces and achieved 7% and 2% increases in the production of copper and zinc, respectively, while lead production decreased by 2% in 2008.

Record Sales and Operating Cash Flow

Pan American's record annual sales in 2008 totalled $338.6 million, an increase of 12% over the sales recorded in 2007. Cash generated by operating activities grew by 38% to $93.0 million in 2008. The increases in sales and operating cash flow in 2008 relative to 2007 was driven by increased production and higher realized silver and gold prices, partially offset by declines in base metal prices and higher operating costs.

Robust Proven and Probable Silver Reserves

A successful exploration and reserve conversion program in 2008 allowed Pan American to replacethe vast majority of the reserves that were mined during the year. As at December 31, 2008,

proven and probable reserves totalled 223.7 million ounces, a decrease of 2% over the previous year (227.8 million ounces - 2007), after replacing ounces mined during 2008 and reducing the base metal price assumptions used to calculate reserves to reflect the declines in zinc, lead and copper prices in 2008. For the complete breakdown of reserves and resources by property and category, please refer to Appendix 1 of this MD&A.

Completion of Manantial Espejo

The construction of Manantial Espejo (100% owned) in Argentina, Pan American's seventh mine, was completed by the end of 2008. The capital costs associated with the construction project totalled $228.4 million, which includes $31 .2 million in refundable VAT tax. The construction project consisted of developing two underground and two surface mines, constructing a 2,000 metric ton per day processing facility, installing the necessary site infrastructure and expanding housing in the local community.

With mechanical completion achieved by the end of 2008, the mine is moving successfully through commissioning activities and is expected to reach full capacity in the first quarter of 2009. Manantial Espejo is projected to produce 4.3 million ounces of silver and over 63,000 ounces of gold in 2009 at a cash cost of $2.25 per ounce of silver.

Expansion at San Vicente

As of the end of December 2008, the San Vicente expansion project was estimated to be 92% complete based on earned value progress. Capital expenditures at San Vicente in 2008 totalled $58.8 million, bringing the total project costs at the end of 2008 to $70.3 million. The capital cost at completion is currently estimated to be $73.3 million, inclusive of refundable VAT of $9.0 million.

At the end of 2008, construction work at the plant was focused on the installation of the ball and SAG mills, together with piping and electrical installations. All other major equipment was in place in the plant. The tailings dam was completed, along with two downstream collection ponds. Power to the site on a new power line was activated in late January, 2009. Plant commissioning activities have commenced and the first ore was introduced into the plant near the end of February, 2009.

Pan American expects to produce 1.9 million ounces of silver at a cash cost of $6.98 per ounce in 2009. This forecast is based on a production ramp-up schedule, beginning in April and achieving design capacity (750 tonnes per day) by August.

2008 Operating Performance

Pan American operated six mines and a pyrite stockpile operation in Mexico and South America during 2008. In Peru, the Company operates the Huaron mine (99.9% owned), the Morococha mine (92.2% owned), and the Quiruvilca mine (99.9% owned) and has rights to process certain of the Pyrite Stockpiles. The Alamo Dorado and La Colorada mines are located in Mexico and are 100% owned. Pan American also operated the San Vicente mine in Bolivia through its 95% ownership of the entity which operates the mine through a joint venture agreement.

Consolidated Production and Cash Costs (Non-GAAP Measure)

The following table sets out select historic operating information for each operation and consolidated totals for the past three years.

2008	HUARON	MOROCOCHA	QUIRUVILCA	PYRITE STOCKPILES	ALAMO DORADO	LA COLORADA	SAN VICENTE	CONSOLIDATED TOTAL
PRODUCTION DATA								
Tonnes Milled	732,146	599,174	349,022	38,712	1,478,423	377,844	93,591	**3,630,200**
Silver head grades (grams/tonne)	194	153	145	228	149	371	348	
Silver recoveries	79%	84%	85%	-	89%	86%	84%	
Silver ounces (000's)	**3,628**	**2,476**	**1,383**	**284**	**6,116**	**3,911**	**875**	**18,673**
Gold ounces	1,552	1,191	1,807	-	16,822	3,773	-	**25,146**
Zinc tonnes	11,047	16,677	8,263	-	-	1,835	1,989	**39,811**
Lead tonnes	5,903	6,266	2,793	-	-	1,012	-	**15,974**
Copper tonnes	1,707	2,026	2,185	-	-	-	152	**6,069**
COSTS								
Cash costs per ounce	$ 8.06	$ 2.84	$ 6.61	$ 4.41	$ 4.38	$ 8.06	$ 7.57	**$ 5.96**
Non-cash costs per ounce	$ 1.32	$ 2.15	$ 2.45	$ -	$ 4.63	$ 2.03	$ 1.17	**$ 2.79**
Total costs per ounce	$ 9.38	$ 4.98	$ 9.05	$ 4.41	$ 9.02	$ 10.09	$ 8.75	**$ 8.76**

2007	HUARON	MOROCOCHA	QUIRUVILCA	PYRITE STOCKPILES	ALAMO DORADO	LA COLORADA	SAN VICENTE	CONSOLIDATED TOTAL
PRODUCTION DATA								
Tonnes Milled	750,799	609,540	362,141	52,547	1,139,899	331,067	82,855	**3,276,301**
Silver head grades (grams/tonne)	196	172	162	269	127	437	296	
Silver recoveries	81%	85%	83%	-	87%	85%	79%	
Silver ounces (000's)	**3,827**	**2,870**	**1,569**	**454**	**3,809**	**3,964**	**619**	**17,113**
Gold ounces	3,496	1,306	1,566	-	13,335	3,877	-	**23,580**
Zinc tonnes	12,064	17,133	7,234	-	-	943	1,701	**39,074**
Lead tonnes	6,985	6,085	2,528	-	-	686	-	**16,284**
Copper tonnes	1,658	2,088	1,805	-	-	-	99	**5,650**
COSTS								
Cash costs per ounce	$ 2.78	$ (2.16)	$ 2.43	$ 3.24	$ 4.41	$ 6.88	$ 5.41	**$ 3.42**
Non-cash costs per ounce	$ 1.19	$ 1.72	$ 1.54	$ -	$ 4.55	$ 1.80	$ 2.07	**$ 2.27**
Total costs per ounce	$ 3.97	$ (0.44)	$ 3.97	$ 3.24	$ 8.96	$ 8.68	$ 7.47	**$ 5.69**

2006	HUARON	MOROCOCHA	QUIRUVILCA	PYRITE STOCKPILES	ALAMO DORADO	LA COLORADA	SAN VICENTE	CONSOLIDATED TOTAL
PRODUCTION DATA								
Tonnes Milled	693,285	577,201	370,115	58,016	-	233,743	29,618	**1,903,963**
Silver head grades (grams/tonne)	200	186	209	304	-	540	326	
Silver recoveries	82%	85%	85%	-	-	85%	85%	
Silver ounces (000's)	**3,665**	**2,923**	**2,105**	**566**	**-**	**3,494**	**265**	**13,018**
Gold ounces	1,832	1,019	1,106	-	-	3,501	-	**7,457**
Zinc tonnes	11,735	18,115	8,712	-	-	-	805	**39,366**
Lead tonnes	6,858	5,722	2,574	-	-	153	-	**15,307**
Copper tonnes	1,603	1,546	1,345	-	-	-	52	**4,546**
COSTS								
Cash costs per ounce	$ 2.41	$ (3.71)	$ (0.04)	$ 3.17	-	$ 6.49	$ 3.49	**$ 1.89**
Non-cash costs per ounce	$ 1.30	$ 1.75	$ 1.28	-	-	$ 1.80	$ 0.28	**$ 1.49**
Total costs per ounce	$ 3.71	$ (1.96)	$ 1.25	$ 3.17	-	$ 8.29	$ 3.78	**$ 3.38**

Pan American's silver production increased by 1.6 million ounces to 18.7 million ounces in 2008 primarily driven by increased production at Alamo Dorado. Silver production in 2008 was roughly in line with our forecast of 18.8 million ounces. Higher than forecast silver production at Alamo Dorado and San Vicente made up for shortfalls relative to management's expectations at the Peruvian operations.

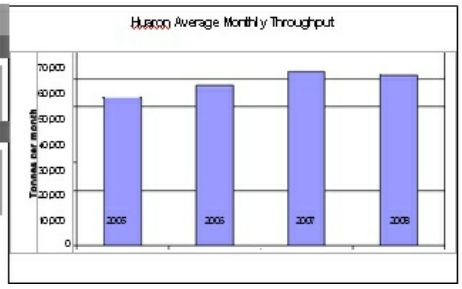
Consolidated cash costs per ounce of silver were $5.96 in 2008, up from 2007's cash costs per ounce of $3.42. The higher cash costs in 2008 reflected the sharp decline in by-product credits as a result of the collapse in base metal prices in the second half of 2008 and the negative impact on the Company's operating costs of the industry-wide escalations in energy, freight, consumables, and labour costs. Consolidated cash costs per ounce in 2008 were 40% higher than management's forecast of $4.27 per ounce due to lower than expected by-product credits and higher than expected cost escalations as just described.

Pan American achieved increases in gold, copper and zinc production relative to 2007, while lead production declined slightly. Actual production in 2008 exceeded management's forecasts in the case of copper by 12%, while zinc, lead and gold production fell short of management's expectations (by 9%, 7% and 15%, respectively) due primarily to variations in actual grades relative to forecast grades and a delay in the completion of the construction of Manantial Espejo.

A description of each mine and an analysis of their 2008 operating performance, measured against 2007 operating performance and management's forecasts follows:

Huaron Mine

Location — Pasco, Peru		
Ownership:		99.9%
Proven & Probable Silver Reserves as at Dec 31, 2008 (000's ounces):		62,005
Employment:		1,655
2008 Production	Silver:	3,628,490 oz
	Cash Costs:	$8.06 per oz



The Huaron silver-zinc underground polymetallic mine is Pan American's most consistent silver producer.

The property is located 320 km 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 224 million ounces of silver from 70 known veins.

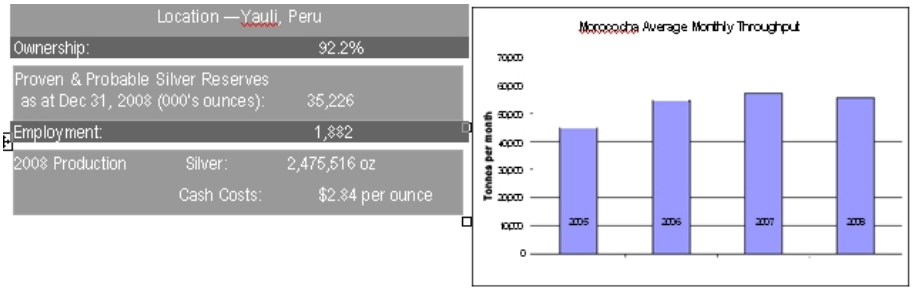
Pan American acquired a majority interest in Huaron in March 2000. The Company fast-tracked the project through feasibility, financing and rehabilitation to re-open the mine and commence full-scale operation in April 2001. Productivity improvements in recent years have increased tonnage capacity to over 60,000 tonnes per month.

During 2008, Huaron's mill throughput decreased by 2% over the previous year primarily due to mechanical breakdowns related to a failure of the pinion gear of the primary ball mill. A new replacement pinion gear has been ordered from the manufacturer and is expected to be delivered by mid-2009. Meanwhile, the Company has been able to acquire a locally produced pinion that is operating satisfactorily. Lower throughput combined with slightly lower grades resulted in 5% lower silver production compared to 2007. Decreased mill tonnage and lower ore grades were also the primary factors behind the decrease in by-product production in 2008 relative to 2007.

Cash costs at Huaron increased significantly in 2008 to $8.06 per ounce from $2.78 per ounce in 2007. Sharply lower by-product credits resulting from weaker base metal prices in 2008 and decreased production and increases in operating costs, particularly energy costs, combined to cause the deterioration in cash costs. Huaron was negatively impacted by extremely high energy costs in 2008 caused from a shortage of power availability during the dry season between May and October 2008 when the hydro & carbon fuel generation capacities could not keep pace with the significant increase in demand. Due to contractual provisions, Huaron was forced to pay extremely high margin power rates during periods when power supply was constrained. The Company has been successful in adjusting these terms and does not anticipate a reoccurrence to the degree experienced in the dry season of 2008.

Silver production at Huaron in 2008 was within 2% of management's forecast despite throughput rates being 5% lower than expected due to the ball mill pinion failure described previously. However, the lower than expected throughput rates combined with lower than expected base metal grades and recoveries resulted in zinc and lead production trailing expectations by 24% and 19%, respectively. In addition, by-product metal prices were lower than expected and resulted in actual cash costs of $8.06 per ounce that were 57% above forecast of $5.12 per ounce.

Morococha Mine



Pan American acquired the Morococha mine in Peru in August 2004. Morococha is an underground, polymetallic vein mine located 50 kilometres southwest of the Company's Huaron mine.

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 prolific network of veins, mantos, chimneys, skarns, and other replacement bodies within a mineral rights package covering 110 square kilometres of concessions.

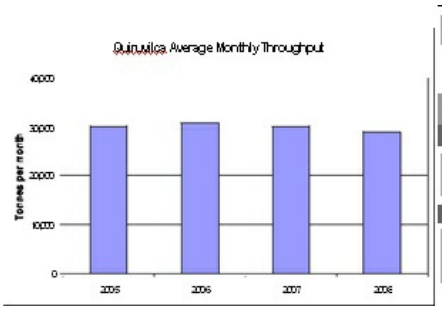
Mill tonnage at Morococha decreased by 2% in 2008, which together with lower silver grades and recoveries resulted in a 14% decrease in silver production compared to 2007. The lower tonnage also resulted in 3% declines in the production of zinc and copper, but lead production increased by 3% due to higher grades and recoveries compared to 2007.

Morococha's cash costs per ounce were $2.84 in 2008, compared to negative $2.16 in 2007. Significant decreases in by-product credits that resulted from lower base metal production and sharply lower by-product prices in 2008 were the main factors behind the increase in cash costs per ounce.

Morococha's performance was below management's forecast of tonnage and silver grades in 2008, resulting in 7% lower silver production than expected primarily as a result of work stoppages due to labour disputes, many of which were driven by the National Miners Union not specifically targeting the Morococha operation. Recoveries of zinc and lead were, however, above expectations and offset the shortfall in throughput rates, resulting in production that was in-line with forecasts. Copper production fell short of management's forecast by 8% due to lower than expected recoveries. Morococha's cash costs per ounce of silver in 2008 were expected to be $0.33, however, lower than expected by-product credits that resulted from sharply lower base metal prices resulted in actual cash costs of $2.84 per ounce.

Quiruvilca Mine

Location — Santiago de Chuco, Peru		
Ownership:		99.9%
Proven & Probable Silver Reserves as at Dec 31, 2008 (000's ounces):		3,357
Employment:		988
2008 Production	Silver:	1,382,990 oz
	Cash Costs:	$6.61 per oz



The Quiruvilca mine is located approximately 130 kilometres inland from 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 late 1995.

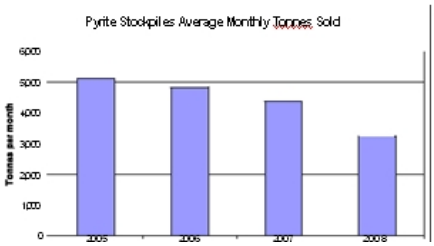
In 2008, Quiruvilca produced 12% less silver ounces than in 2007 due to lower ore grades and a decrease in tonnage milled. Base metal ore grades at Quiruvilca were all higher in 2008 resulting in increases in the production of zinc, lead and copper of 14%, 10%, and 21%, respectively.

Higher operating costs, combined with lower silver grades and by-product credits resulted in cash costs per ounce rising from $2.43 in 2007 to $6.61 in 2008.

Silver production during 2008 fell 8% short of management's expectations, primarily because tonnage milled and silver ore grades were lower than expected. Zinc production was 1% below forecast for the same reasons, while lead and copper production exceeded forecasts by 10% and 24% respectively, due to higher ore grades and recoveries from the areas mined. Cash costs of $6.61 per ounce were 22% above management's forecast of $5.40 per ounce primarily as a result of lower than expected base metal prices.

Pyrite Stockpiles

Location — Pasco, Peru	
Ownership:	99.9%
Probable Silver Reserves as at Dec 31, 2008 (000's ounces):	2,033
Employment:	5
2008 Production Silver:	284,194 oz
Cash Costs:	$4.41 per oz



The large, silver-rich stockpiles are located in the Cerro de Pasco mining district of Peru. Volcan Compañía Minera, a Peruvian mining company, is the largest ore producer in this district. For many decades, Volcan's Cerro de Pasco mine accumulated silver-rich stockpiles from which the silver could not be extracted by standard metallurgical processes. In November 2002, Pan American acquired the stockpiles and entered into an agreement to mine and sell 600,000 tonnes of the highest grade silver stockpiles to the La Oroya smelter, where the ore is used as a process flux.

In 2008, demand for the stockpiled ore from the only buyer of this material, Doe Run Peru, decreased by 26% from 2007. The average grade of the pyrite material sold declined by 15% in 2008, resulting in a 37% decrease in silver production. Pan American's agreement with Volcan entitles Volcan to a one-third interest in net operating cash flow from the Stockpiles. As a result of Volcan's interest, the higher the price of silver, the higher the cash cost per ounce at the stockpiles. Since the average silver price in 2008 was higher than in 2007, and also exceeded management's expectations, the actual cost per ounce of $4.41 exceeded 2007 costs per ounce of $3.24 and management's forecast of $3.28 per ounce.

Alamo Dorado Mine

Alamo Dorado is an open-pit mine located in the Mexican state of Sonora, approximately 320 km from the state capital of Hermosillo. Corner Bay Silver, a Toronto-listed exploration company, began grassroots reconnaissance of the area in 1997. Pan American acquired Corner Bay and 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 by the end of 2006. The capital expenditures required for the construction of Alamo Dorado totalled approximately $80 million.

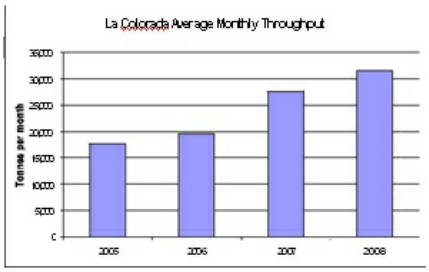
Mill tonnage at Alamo Dorado increased by 30% in 2008 to 1.56 million tonnes, which together with substantial improvements in silver grades to 149 gpt silver and recoveries to 89% resulted in a 61% increase in silver production to 6.1 million ounces compared to 2007's 3.8 million ounces. The higher mill throughput and gold recoveries in 2008 of 84%, partially offset by lower gold grades of 0.42 gpt resulted in a 26% increase in the production of gold to 16,822 ounces compared to 13,335 ounces in 2007.

Alamo Dorado's cash costs per ounce were $4.38 in 2008, which was similar to 2007's cash costs of $4.41. The cash cost benefits of higher throughput rates, improved recoveries and higher gold by-product credits were offset by escalations in operating costs.

Alamo Dorado performed well above management's forecasts of silver grades and recoveries in 2008, resulting in 17% higher silver production than the 5.2 million ounces expected. Gold production was slightly above the 16,369 ounce forecast while cash costs per ounce of silver of $4.38 in 2008 were within 5% of forecasted cash costs of $4.19 per ounce.

La Colorada Mine

Location — Zacatecas, Mexico		
Ownership:		100%
Proven & Probable Silver Reserves as at Dec 31, 2008 (000's ounces):		18,192
Employment:		579
2008 Production	Silver:	3,910,830 oz
	Cash Costs:	$8.06 per oz



Pan American acquired the La Colorada mine in 1998. It consists of six contiguous blocks of exploration permits and exploitation claims totalling 2,230 hectares.

The project lies within a geologic belt known as the "faja de plata" (silver belt) that extends for 800 km along the Sierra Madre Mountains and is defined by prolific silver deposits that make Mexico the largest silver producing country in the world. At La Colorada, in the opinion of management, the potential for extending reserves through discovery and additional development is considered to be excellent.

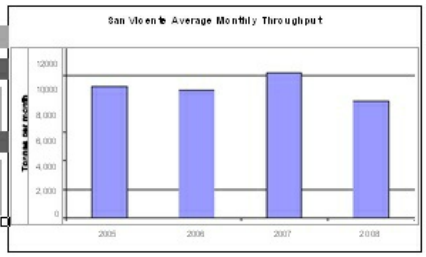
In 2008, silver production at La Colorada was in-line with 2007 production as a 14% increase in tonnage milled was offset by a 15% decrease in silver head grades. The increased throughput rates and lower silver head grades was a consequence of expanding the capacity of the sulphide operation according to the mine's remaining reserve distribution. Production of zinc and lead also benefited from the expansion of the sulphide operation, increasing over 2007 production by 97% and 47% respectively.

Cash costs per ounce for 2008 averaged $8.06, which was 17% higher than the $6.88 previous year. Operating cost benefits attributable to increasing mill throughput was partially offset by cost increases in labour and consumables.

Actual performance at La Colorada in 2008 with respect to throughput rates, silver grades and recoveries were all roughly in-line with management's forecasts, resulting in the 3.9 million ounces of silver production that exceeded the anticipated production by 1 %. Zinc and lead head grades lagged below management's expectations and, as a consequence, base metal production was approximately 10% below forecasts. Actual cash costs of $8.06 per ounce were 8% higher than management's forecast, mainly due to lower than expected by-product credit metal prices.

San Vicente Mine

Location — Potosi, Bolivia		
Ownership:		95%
Proven & Probable Silver Reserves as at Dec 31, 2008 (000's ounces):		30,640
Employment:		789
2008 Production	Silver:	875,083 oz
	Cash Costs:	$7.57 per oz



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 1.5 kilometres on surface 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. In 2005 Pan American restarted operations with a 55% interest in the project, milling ore at a nearby third party plant. In June 2007 Pan American increased its ownership interest by 40% to 95%.

During 2008, San Vicente contributed 0.9 million ounces of silver to Pan American's account, compared to 0.6 million ounces the previous year. The increase was due to higher tonnage rates and increased head grades, and because of the 40% increase in Pan American's ownership interest. Zinc and copper tonnage attributable to Pan American increased in 2008 for the same reasons.

Cash costs of $7.57 per ounce in 2008 were 40% higher than $5.41 in 2007. General escalations in operating costs and a significant decrease in the by-product credits due to lower base metal prices were the primary factors behind the increase.

Actual silver production attributable to Pan American in 2008 exceeded management's forecast by 22% due to processing better than expected grades. Attributable zinc and copper production were in-line with expectations and actual cash costs per ounce of $7.57 were within 1% of forecast $7.49.

Reconciliation of Cash and Total Costs per Ounce of Silver (Non-GAAP Measures)

The non-GAAP 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, we have provided a detailed reconciliation of this measure to our cost of sales, as reported in our audited Consolidated Statement of Operations for 2008, 2007 and 2006.

Cash and Total Cost per Ounce Reconciliation (in thousands of US dollars)		2008	2007	2006
Cost of Sales		**$ 199,032**	**$ 167,797**	**$ 124,608**
Add / (Subtract)				
Smelting, refining, & transportation charges		58,378	87,019	69,394
By-product credits		(160,276)	(210,701)	(168,639)
Mining royalties		4,843	5,761	5,269
Worker's participation and voluntary payments		(1,700)	(6,304)	(9,250)
Change in inventories		1,419	8,595	(2,016)
Other		3,980	(579)	2,634
Non-controlling interest adjustment		(1,043)	172	586
Alamo Dorado Commissioning Costs		-	2,719	
Cash Operating Costs	**A**	**104,663**	**54,478**	**22,587**
Add / (Subtract)				
Depreciation & amortization		46,349	28,992	17,520
Asset retirement & reclamation		2,687	2,860	2,457
Change in inventories		839	4,081	(1,455)
Other		(232)	(175)	(125)
Non-controlling interest adjustment		(605)	(933)	(652)
Alamo Dorado Commissioning Costs		-	1,304	
Total Costs	**B**	**$ 153,671**	**$ 90,607**	**$ 40,332**
Payable Silver Production (000's ounces)	**C**	**17,543**	**15,912**	**11,922**
Cash Costs per ounce	**A/C**	**$ 5.96**	**$ 3.42**	**$ 1.89**
Total Costs per ounce	**B/C**	**$ 8.76**	**$ 5.69**	**$ 3.38**

2008 Financial Results

The table below sets out highlights of Pan American's quarterly results, expressed in thousands of US dollars (except for per share detail), for the past 12 quarters, together with select balance sheet information for the prior three years.

2008	QUARTERS ENDED *(UNAUDITED)* MARCH 31	JUNE 30	SEPT. 30	DEC. 31	YEARS ENDED DEC. 31
Sales	$ 108,750	$ 104,079	$ 79,493	$ 46,278	$ 338,600
Mine operating earnings (losses)*	$ 48,375	$ 39,259	$ 15,469	$ (9,884)	$ 93,219
General & Administrative	$ (1,596)	$ (3,751)	$ (2,305)	$ (2,783)	$ (10,435)
Exploration	$ (714)	$ (1,008)	$ (1,507)	$ (2,265)	$ (5,494)
Net income (loss) for the period	$ 30,157	$ 21,357	$ 6,404	$ (33,316)	$ 24,602
Net income (loss) per share - Basic	$ 0.38	$ 0.26	$ 0.08	$ (0.41)	$ 0.31
- Diluted	$ 0.38	$ 0.26	$ 0.08	$ (0.41)	$ 0.30
Other financial information:					
Total Assets	$				873,383
Total long-term financial liabilities					$ 102,715
Total Shareholders Equity					$ 685,641

2007	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	DEC. 31
Sales	$ 48,057	$ 79,211	$ 87,907	$ 85,889	$ 301,064
Mine operating earnings*	$ 14,874	$ 31,417	$ 29,125	$ 28,859	$ 104,275
General & Administrative	$ (1,858)	$ (2,684)	$ (1,860)	$ (3,120)	$ (9,522)
Exploration	$ (549)	$ (720)	$ (101)	$ (1,992)	$ (3,362)
Net income for the period	$ 20,435	$ 18,472	$ 23,891	$ 26,062	$ 88,860
Net income per share- Basic	$ 0.27	$ 0.24	$ 0.31	$ 0.34	$ 1.16
- Diluted	$ 0.26	$ 0.23	$ 0.30	$ 0.33	$ 1.12
Other financial information:					
Total Assets	$				762,903
Total long-term financial liabilities					$ 99,219
Total Shareholders Equity					$ 599,617

2006	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	DEC. 31
Sales	$ 45,744	$ 62,848	$ 64,268	$ 82,588	$ 255,447
Mine operating earnings*	$ 17,976	$ 31,060	$ 29,221	$ 35,063	$ 113,319
General & Administrative	$ (1,933)	$ (2,416)	$ (2,739)	$ (2,084)	$ (9,172)
Exploration	$ (1,234)	$ (637)	$ (2,267)	$ (3,902)	$ (8,040)
Net income (loss) for the period	$ (2,761)	$ 14,964	$ 16,355	$ 29,648	$ 58,206
Net income/(loss) per share - Basic	$ (0.04)	$ 0.21	$ 0.22	$ 0.39	$ 0.79
- Diluted	$ (0.04)	$ 0.20	$ 0.20	$ 0.38	$ 0.76
Other financial information:					
Total Assets					$ 679,995
Total long-term financial liabilities					$ 92,808
Total Shareholders Equity					$ 512,026

* Mine operating earnings/(loss) is equal to sales less cost of sales less depreciation and amortization, which is considered to be substantially the same as gross margin.

Notes:

- The Company did not declare or pay any dividends during the periods under review.
- The Alamo Dorado Mine achieved commercial production on April 1, 2007 and was the primary reason for the increases in sales beginning in the second quarter of 2007.
- Other variations noted in the Company's quarterly sales figures occurred as a result of fluctuations in the realized metal prices and in the quantity of concentrates shipped in each period.

Net income for 2008 was $24.6 million, compared to a *net income* of $88.9 million for 2007. Basic earnings per share for 2008 were $0.31 compared to earnings per share of $1.16 in 2007. Net *income* for 2008 included (i) a write-down of the Quiruvilca mine of $15.1 million, (ii) foreign exchange losses of $8.8 million relating to devaluation of the Company's monetary net assets that are denominated in currencies other than US dollars, (iii) other expenses of $4.7 million related to reductions in personnel, and (iv) a loss on commodity and foreign currency contracts of $1 .6 million. Net *income* for 2007 included a gain on the sale of the Company's interest in the Dukat mine in Russia of $12.4 million and a gain on commodity and foreign currency contracts of $5.3 million.

Sales in 2008 were $338.6 million, a new annual record and an increase of 12% relative to *sales* of $301 .1 million in 2007. The average realized prices for the precious metals that the Company produces increased in 2008 compared to 2007; in particular, the average realized silver price increased by 11% to $14.93 per ounce while the average realized gold price increased 22% to $881 per ounce. However, realized prices for base metals declined sharply in 2008 compared to 2007 prices. Zinc prices declined, on average, by 42% in 2008 while average lead and copper prices declined by 20% and 4% over the same period, respectively. The Company increased the quantity sold of all the metals it produced in 2008. Silver sales increased by 16% to 17.5 million ounces, gold sales increased by 33% to 23,878 ounces while quantities of zinc, lead and copper increased by 1%, 13% and 15% respectively.

Cost of sales in 2008 was $199.0 million, a $31.2 million increase from the *cost of sales* recorded in 2007. The main reasons for the higher *cost of sales* relative to a year ago were (i) a full year of commercial production at Alamo Dorado, which recorded cost of sales of $38.2 million in 2008 ($19.5 million in 2007), and (ii) the industry-wide escalations experienced in the cost of energy, labour, local currencies and consumables, which increased costs by 7% over 2007's costs, on a per tonne basis.

Depreciation and amortization expense of $46.3 million was $17.4 million higher in 2008 than 2007 ($29.0 million). The increase is mostly attributable to the increase in throughput rates and a full year of commercial production at Alamo Dorado.

Mine operating earnings, defined as sales less cost of sales and depreciation and amortization, were $93.2 million in 2008, a decline of 11% from 2007's *mine operating earnings* of $104.3 million. The decrease in *mine operating earnings* was a result of the increases in *cost of sales* and *depreciation and amortization expense*, which outweighed the increase in *sales.*

General and administrative costs, including stock based compensation, increased by 9% in 2008 to $10.4 million (2007: $9.5 million), reflecting increased staffing costs and travel costs.

Exploration and project development expenses in 2008 were $5.5 million compared to $3.4 million incurred in 2007. The *expenses* recorded in 2008 primarily represented the costs associated with exploration drilling at La Colorada and Alamo Dorado and the Company's business development activities. 2007's *expenses* related mostly to the preparation of feasibility studies and holding costs at San Vicente and due diligence expenses associated with the Company's business development activities.

Asset retirement and reclamation expense for 2008 was $2.7 million, similar to the $2.9 million incurred in 2007. This cost was related to the accretion of the liability that the Company has recorded with respect to its mining operations as required by CICA Handbook Section 3110 – "Accounting for Asset Retirement Obligations". There were no significant changes to the Company's

closure estimates at any of its operations in 2008, other than an increase of closure liabilities at Manantial Espejo and San Vicente linked to construction activities.

Investment and other income for 2008 totalled $2.7 million (2007: $5.4 million) and was primarily made up of interest generated by the Company's short-term investment portfolio.

Interest and financing expenses in 2008 were $1.0 million, which were primarily made up of financing and transactional charges, compared to $0.7 million incurred in 2007.

In the fourth quarter of 2008, the Company incurred a ***write-down of mining assets*** of $15.1 million related to the Quiruvilca mine. The charge was a result of an impairment assessment that was completed at December 31, 2008, considering the Company's plans to prepare the mine for care and maintenance in 2009. The effect of this impairment charge is to reduce the carrying value of Quiruvilca to zero at December 31, 2008. No *write-down of assets* was recorded in 2007.

Other charges in connection with the planned care and maintenance of Quiruvilca of $2.2 million were incurred in ***other expenses***. These charges related to employee severance expenses and together with general reductions in personnel at the Company's other operations, totalled $4.7 million in 2008, which compared to a charge of $0.3 million in 2007.

Foreign exchange loss for 2008 was $6.1 million compared to a gain of $0.9 million in 2007. This loss was a result of the impact of fluctuations in local currencies in Canada, Argentina, Peru, and Mexico on cash and working capital balances that are denominated in those currencies, when re-measured in USD. The extremely volatile conditions which prevailed in the currency markets in the second half of 2008 saw the USD strengthening significantly against all the currencies in which the Company operates, resulting in the loss. The opposite was true in 2007, during which the USD showed weakness against many currencies, giving rise to the gain in the comparable period.

The Company recorded a ***loss on commodity and currency contracts*** of $1.6 million in 2008, compared to a gain of $5.3 million in 2007. The loss in 2008 was comprised of a mark-to-market, unrealized loss of $8.9 million, offset by a realized $7.3 million gain. The $1 .6 million loss in 2008 was made up by a $16.1 million loss resulting from the strengthening of the US dollar relative to the Mexican Peso ("MXN") and Peruvian New Sol ("PEN") on the Company's foreign exchange positions, offset in part by a gain of $14.5 million recorded on the Company's base metal positions, which resulted from declines in the prices of zinc and lead. Please see "Financial Instruments" under the "Liquidity and Capital Resources" section of this MD&A for more details. The gain in 2007 was primarily attributed to the unrealized gain on open zinc and lead positions as at December 31, 2007.

The Company recognized a ***gain on sale of assets*** of $1.0 million related to the disposal of mineral interests in Peru compared to $12.4 million in 2007, which was related to the sale of the Company's interest in the Dukat mine in 2004.

Income tax provision for 2008 amounted to $24.4 million compared to $19.6 million in 2007. The increased income tax expense resulted primarily from higher taxable income in Mexico and alternative minimum tax in Mexico offset in part by lower current taxable income generated by our Peruvian operating subsidiaries in 2008 than in 2007.

The ***non-controlling interest*** in 2008 was $0.8 million compared to $3.1 million in 2007. The *non-controlling interest* reflects the income after tax that is attributable to the minority shareholders of the entities which own the Morococha and San Vicente mines. The Company owns approximately a 92.2% interest in the Morococha mine and a 95% interest in the San Vicente mine. The Company's Morococha mine had substantially lower net income in 2008 due to declining base metal prices, which was the main reason for the lower *non-controlling interest* recorded in 2008.

Financial Results: Fourth Quarter 2008

For the fourth quarter ("Q4") of 2008, the Company recorded a ***net loss*** of $33.3 million compared to a $26.1 million ***net income*** in the comparable period of 2007. Basic loss per share in Q4 of 2008 was $0.41 compared to earnings per share of $0.34 in the comparable period of 2007. Q4 of 2008 included several atypical charges including (i) a write-down of the Quiruvilca mine of $15.1 million, (ii) negative sales adjustments related to provisionally priced sales in previous periods of $8.8 million, (iii) a loss on commodity and foreign currency contracts of $5.8 million (iv) other expenses of $4.7 million related to reductions in personnel and (v) foreign exchange losses of $1 .0 million relating to devaluation of the Company's net monetary assets that are denominated in currencies other than US dollars. Q4 of 2007 benefited from significantly higher metal prices and the recognition of a $4.0 million gain on commodity and foreign currency contracts.

Sales for Q4 of 2008 were $46.3 million compared to $85.9 million in the comparable period of 2007 due primarily to the lower price environment for the metals the Company produced and to lower quantities of concentrates sold, partially offset by higher quantities of silver sold from Alamo Dorado in Q4 of 2008. Concentrate inventories grew during the quarter and the Company ended 2008 with 13,800 tonnes of concentrates, which represents more than onemonth's production.

Cost of sales in Q4 of 2008 was $43.6 million compared to $48.8 million in Q4 of 2007, primarily due to the decrease in the quantity of concentrates sold relative to the comparable period.

Depreciation and amortization expense in Q4 of 2008 was $12.5 million compared to $8.2 million in Q4 of 2007. The increase in depreciation and amortization expenses in Q4 of 2008 is due to the increased sales at Alamo Dorado relative to Q4 of 2007.

As previously described in this MD&A, the Company incurred a ***write-down of mining assets*** related to the Quiruvilca mine in Q4 2008. Other charges in connection with the planned care and maintenance of Quiruvilca were incurred in other expenses related to employee severance expenses and general reductions in personnel at the Company's other operations and totalled $4.7 million in Q4 2008, which compared to a charge of $0.3 million in the same period of 2007.

The ***loss on commodity and currency contracts*** in Q4 of 2008 was $5.8 million compared to a gain of $4.0 million in Q4 of 2007. The loss in Q4 of 2008 was primarily attributed to the loss on currency positions in the MXN and PEN of $12.3 million offset in part by the gains on open zinc and lead positions of $6.4 million.

The ***income tax benefit*** recorded in Q4 of 2008 was $8.5 million, which is the tax benefit attributable to the loss generated by the Company during the period. The income tax benefit compared to a tax provision of $0.6 million in Q4 of 2007, based on the taxable income generated in that period.

Financial Results: 2007 Compared to 2006

Net income for 2007 was $88.9 million, compared to *net income* for 2006 of $58.2 million. Basic earnings per share for 2007 were $1 .16 compared to $0.79 in 2006. *Net income* for 2007 included a gain on the sale of the Company's interest in the Dukat mine in Russia of $12.4 million and a gain on commodity and foreign currency contracts of $5.3 million. Included in *net income* for 2006 were a loss on commodity and foreign currency contracts of $18.3 million, and a gain on the sale of the Company's interest in Dukat of $7.5 million.

Sales in 2007 were $301.1 million, an increase of 18% relative to 2006 *sales*. The average realized prices for all of the metals that the Company produces increased in 2007 compared to 2006; in particular the average realized silver price increased by 21% to $13.48 per ounce while the average realized lead price increased 125% to $2,933 per tonne. In addition to higher realized prices, the Company also increased the quantity of silver, gold and copper sold in 2007. Silver sales increased by 21% to 15.1 million ounces, gold sales increased by 141% to 17,985 ounces while copper sales increased by 15% to 5,127 tonnes. Sales of lead and zinc partially offset these increases, declining from the quantities sold in 2006 by 8% and 12% respectively.

Cost of sales in 2007 was $167.8 million, a $43.2 million increase from the *cost of sales* recorded in 2006. The main reasons for the higher *cost of sales* relative to the prior year were (i) the commencement of commercial production at Alamo Dorado, which recorded cost of sales of $19.5 million in 2007, (ii) an increase in the mill throughput rates at the Company's other operations of, on average, 12%, and (iii) the industry-wide escalations experienced in the cost of energy, labour, local currencies and consumables, which increased costs by 15% over 2006 costs, on a per tonne basis.

Depreciation and amortization expense of $29.0 million was $11.5 million higher in 2007 than 2006. The increase is entirely attributable to the commencement of commercial production at Alamo Dorado.

Mine operating earnings, defined as sales less cost of sales and depreciation and amortization, were $104.3 million in 2007, a decline of 8% from 2006's *mine operating earnings*. The decrease in *mine operating earnings* was a result of the increase in *sales* being outweighed by the increases in *cost of sales* and *depreciation and amortization expense*.

General and administrative costs, including stock based compensation, increased by 4% in 2007 to $9.5 million (2006: $9.2 million), reflecting increased staffing costs, a stronger Canadian dollar against the US dollar, and increased travel costs. Partially offsetting these factors was a decline in stock-based compensation, which declined to $2.1 million in 2007 from $2.9 million in 2006.

Exploration and project development expenses in 2007 were $3.4 million compared to $8.0 million incurred in 2006. The *exploration expenses* recorded in 2007 primarily represented the costs associated with exploration drilling at La Colorada and Morococha. 2006's *expenses* related mostly to the preparation of feasibility studies and holding costs at Manantial Espejo and San Vicente and due diligence expenses associated with the Company's business development activities.

Asset retirement and reclamation expense for 2007 was $2.9 million, similar to the $2.5 million incurred in 2006. These costs were related to the accretion of the liability that the Company has recorded with respect to its mining operations as required by CICA Handbook Section 3110 – "Accounting for Asset Retirement Obligations". There were no significant changes to the Company's closure estimates at any of its operations in 2007, other than an increase of closure liabilities at

Manantial Espejo linked to construction activities. The resultant increase in our asset retirement obligation provision gave rise to a higher accretion charge associated with this liability.

Investment and other income, *inclusive of* ***foreign exchange gains*** for 2007 totalled $5.9 million (2006: $5.2 million) and were primarily made up of interest generated by the Company's short-term investment portfolio.

Interest and financing expenses in 2007 were $0.7 million, which was primarily made up of financing and transactional charges, compared to $0.6 million incurred in 2006.

The Company recorded a ***gain on commodity and currency contracts*** of $5.3 million in 2007, compared to a loss of $18.3 million in 2006. The gain in 2007 was primarily attributed to the unrealized gain on open zinc and lead positions as at December 31, 2007. Please see "Financial Instruments" under the "Liquidity and Capital Resources" section of this MD&A. The loss in 2006 was comprised of a loss on our zinc price protection program of $14.4 million, a loss on our silver fixing program of $3.6 million, and a loss on our Mexican peso forward purchases of $0.3 million.

The Company recognized a ***gain on sale of assets*** of $12.4 million in 2007, of which $10.3 million has been received and the balance was payable in December 2008 under the terms of the sale of our interest in the Dukat mine in 2004. In 2006, the Company recorded an $8 million gain on the sale of our interest in Dukat and $0.6 million for the loss on the sale of obsolete equipment, all of which was recorded in Q4 of 2006. The Company received the $8 million, booked on the sale of our interest in Dukat as a receivable in 2006, as expected in January 2008. No further gains were recorded on the sale of our interest in Dukat.

Income tax provision for 2007 amounted to $19.6 million compared to $25.5 million in 2006. The reduced income tax expense resulted primarily from lower current taxable income generated by our Peruvian operating subsidiaries in 2007 than in 2006 and the recognition of a future income tax benefit related to tax loss carry forward associated with the Manantial Espejo project. Management assessed that some of these tax losses will be utilized to shield future taxable income, thereby decreasing the future income tax provision, with a corresponding increase to income in the fourth quarter of 2007.

The ***non-controlling interest*** in 2007 was $3.1 million compared to $3.8 million in 2006. The *non-controlling interest* reflects the income after tax that is attributable to the minority shareholders of the entities which own the Morococha and San Vicente mines. The Company owned approximately an 89.4% interest in the Morococha mine and a 95% interest in the San Vicente mine as at December 31, 2007. The Company acquired an additional 40% interest in San Vicente in June 2007, which was the main reason for the lower *non-controlling interest* recorded in 2007.

OUTLOOK

This section of the MD&A provides management's production and costs forecasts for 2009. We also discuss the major capital projects planned for each of the operations in 2009. As the timing of cessation of mining activities at Quiruvilca is uncertain, no production from the mine has been incorporated in our forecasts for 2009. 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.

Production Forecast – 2009:

2009	HUARON	MOROCOCHA	PYRITE STOCKPILES	ALAMO DORADO	LA COLORADA	SAN VICENTE	MANANTIAL ESPEJO	CONSOLIDATED TOTAL
PRODUCTION DATA								
Tonnes Milled (000's)	722	607	39	1,473	273	176	630	**3,920**
Silver head grades (grams/tonne)	224	165	200	114	436	400	235	
Silver recoveries %	81%	84%	-	89%	88%	84%	90%	
Silver ounces (000's)	**4,200**	**2,700**	**250**	**4,800**	**3,350**	**1,900**	**4,300**	**21,500**
Gold ounces	1,455	-	-	11,610	9,709	-	62,226	**85,000**
Zinc tonnes	13,473	17,331	-	-	1,506	3,818	-	**36,129**
Lead tonnes	5,414	6,488	-	-	913	-	-	**12,814**
Copper tonnes	2,344	2,214	-	-	-	438	-	**4,996**
COSTS								
Cash costs per ounce	$ 8.14	$ 7.82	$ 2.93	$ 6.32	$ 8.01	$ 6.98	$ 2.25	$ 6.28
Non-cash costs per ounce	$ 1.26	$ 2.35	$ -	$ 4.44	$ 2.80	$ 2.94	$ 6.24	$ 3.56
Total costs per ounce	$ 9.40	$ 10.17	$ 2.93	$ 10.76	$ 10.81	$ 9.92	$ 8.49	$ 9.84

Silver production is expected to increase 15% in 2009 to 21.5 million ounces, as compared to 2008's production. The planned increase is primarily due to the commencement of production at Manantial Espejo and at the new processing facility at San Vicente. Higher silver grades at Huaron in 2009 are also expected to result in increased silver production at that mine. These increases are expected to be partially offset by lower silver production at Alamo Dorado, as mining activities transition from the phase 1 pit to the phase 2 pit between late 2009 through most of 2010 and by decreased production from Quiruvilca as that operation is prepared for closure in 2009.

The ramp-up of operations at Manantial Espejo should result in a significant increase in our anticipated gold production in 2009 as compared to 2008. Increased gold production is also anticipated at La Colorada as the high-grade Manto Yuri is mined and processed. Base metal production is expected to decrease in 2009, primarily due to the Quiruvilca mine being prepared for care and maintenance and lower throughput rates at La Colorada. These decreases are expected to be partially offset by an almost doubling of zinc production at San Vicente as the new processing facility commences operations and generally higher grades at Huaron and Morococha.

Cash costs are expected to increase to $6.28 per ounce compared to the 2008 cash costs of $5.96 per ounce. Forecasted reduction in by-product credits on a per silver ounce basis due to anticipated lower base metal prices account for most of the expected increase in cash costs, which should be offset by the addition of low-cost ounces from Manantial Espejo.

We are planning to invest $29.5 million in capital in 2009, split between development and construction capital of $5.5 million and sustaining capital of $24.0 million. Development capital is required to complete the expansion and development of San Vicente (our 95% share). The majority of the sustaining capital in 2009 is planned for Manantial Espejo mine developments and powerline project, Huaron deepening project and mine developments and Morococha mine developments.

Management's forecast for each mine's operating performance and capital requirements in 2009 follows:

Huaron Mine

In 2009, we expect to produce 4.2 million ounces of silver at a cash cost of $8.14 per ounce. Huaron plans to reduce mining and milling rates slightly from its 2008 rates by raising cut-off grades for ore mined to sustain positive operating cashf lows during the depressed base metal price expectations. As such, the reduced throughput is expected to be more than offset by higher silver grades and recoveries, resulting in a 16% increase in expected silver production. Similarly, increases in zinc and copper grades are expected to overcome the lower throughput rates, resulting in increases to the expected production of these metals. Lead grades and recoveries are expected to decline, resulting in an 8% decrease in lead production due to mine plan adjustments. Despite weaker local currency and lower mining costs and higher grades, cash costs per ounce are expected to increase slightly over the 2008 cash costs due to lower base metal prices, which reduce the by-product credits.

Capital spending at Huaron in 2009 will be significantly curtailed from the level of investments made in recent years focusing towards development capital necessary to open accesses to ore zones that are only 1 to 2 years away. The capital budget of $6.4 million also allows for the continuation of the deepening project to the 180 level of the mine with a significant portion of the budget allocated to ramp development and the rehabilitation of the D Shaft which will likely provide access to ore zones for many years to come.

Morococha Mine

We expect to produce 2.7 million ounces of silver at a cash cost of $7.82 per ounce in 2009. Tonnes milled are expected to increase slightly from 2008 tonnage to a monthly average of 56,000 tonnes to off-set the effects of the depressed base metal prices. Silver and base metal grades are also expected to increase relative to 2008 on account of higher mine cut-off grades, resulting in increases in expected production of all metals. Operating costs are expected to decline over 2008 costs on a per tonne basis, especially in the mine, which relates to the reduction in the work force that took place at the end of 2008. We anticipate cash cost per ounce in 2009 to increase sharply to $7.82 compared to 2008's cash cost of $2.82. Despite the lower operating cost per tonne, cash costs per ounce are expected to increase due to lower base metal price impacts on the by-product credits.

The primary objective at Morococha in 2009 is the integration of the mine production from various ore sources, including Codiciada, Morro Solar and La Paz veins, and to continue the mine development program on the 400 level. Morococha's 2009 capital budget totals $5.4 million.

Quiruvilca Mine

The Company has decided to initiate the process necessary to suspend operations at its Quiruvilca mine in Perú during 2009. Quiruvilca has been in operation for over 80 years and more recently has become increasingly reliant on base metal production, particularly zinc. Declining base metal prices have rendered current reserves uneconomic. Quiruvilca contributed less than 8% to the Company's total silver production in 2008 and was expected to contribute even less, on a percentage basis, in 2009. The objectives are to minimize the social and economic impacts and to maintain safety policies and procedures during the process. The Company intends to significantly reduce underground development, maximize existing developed ore and prioritize the most cost efficient areas of the mine while methodically preparing the mine for a period of care and maintenance. These activities could take approximately 6 to 8 months to complete.

While some silver and base metal production is expected at Quiruvilca in 2009, we have not included any production from Quiruvilca in our 2009 forecasts. We expect to spend approximately $7 million to $10 million to decommission all personnel, perform some environmental stabilization projects, and maintain operations and monitor performance of the environmental systems, net of operating cash flow.

Pyrite Stockpile

In 2009, we expect to produce 0.25 million ounces of silver at a cash cost of $2.93 per ounce. We expect the declining trend in both the grade and quantity of fluxes sold to continue in 2009, resulting in lower silver production.

Alamo Dorado Mine

In 2009, we expect to produce 4.8 million ounces of silver at a cash cost of $6.32 per ounce. We assume Alamo Dorado will process an average of 4,150 tonnes per day of ore grading 114 gpt silver and that silver recoveries will average around 89%, resulting in a 22% decrease in silver production compared to 2008. Gold production is also expected to decline to 11,610 ounces, 31% less than 2008's gold production. The reduction in expected silver and gold production in 2009 is a consequence of mining activities transitioning from the phase 1 pit to the phase 2 pit resulting in reduced availability of high grade ores between late 2009 through all of 2010. During 2009, the mine is expected to move 6.3 million tonnes of material, of which 2.0 million tonnes are expected to be ore grade (strip ratio of 2.09).

Cash costs per ounce are expected to increase to $6.32, as higher mining rates, lower silver grades and higher cyanide consumption (due to elevated copper grades in the planned mined ore zones) are expected to outweigh the benefits of cost reductions and a weaker MXN. The relatively high depreciation charge at Alamo Dorado will add another $4.44 per ounce for a total cost per ounce of $10.76 in 2009.

Capital expenditures are expected to be $1.0 million, primarily for the purchase of mobile mine maintenance spares and the installation of an additional water supply well.

La Colorada Mine

In 2009, we plan to decrease production from the higher-cost Candelaria zone and to increase production from the Recompensa sulphide zone and the Estrella oxide zone to maximize profitability. Overall, throughput rates are expected to decrease by 28% relative to 2008 tonnage. Silver grades are expected to increase 18% over 2008 due to increasing cut-off grades and avoiding processing marginal ore. Higher gold grades are expected to result from the inclusion of the higher-grade Manto Yuri in the mine plan, which is the primary reason for the significant increase in gold production.

Operating costs in 2009 are expected to remain similar to 2008's costs, with the cost implications of lower throughput being partially offset by cost reductions and a weak MXN. Cash costs per ounce are expected to decrease by 1% from 2008's costs as a result of processing higher silver grades and the benefit of higher by-product gold credits.

Capital expenditures at La Colorada in 2009 are expected to be $1 .3 million, significantly reduced from the previous two capital budgets. Planned capital expenditures in 2009 are related to completing the deep Candelaria zone raise bore and related ventilation project and the installation of an additional pumping station. The next phase of tailings dam expansion has been delayed until 2010 on account of the reduced ore being processed in 2009.

Manantial Espejo Project

In 2009, we expect to produce 4.3 million ounces of silver at a cash cost of $2.25 per ounce, net of the expected by-product credits received from over 60,000 ounces of gold production. The key objectives of the 2009 Manantial Espejo budget are to complete commissioning of all systems in the first quarter and to achieve full production milling and recovery rates by May. Another important objective in 2009 is to substantially advance the 132 kV government- sponsored power line project construction, as reducing our reliance on diesel generators is an important component of the plan to reduce operating costs at the mine in the future.

Capital expenditures are expected to total $9.8 million in 2009. The largest capital item is $5.4 million to be spent on advancing the power line. Other significant capital expenditures of approximately $1.9 million are expected in underground mine development.

San Vicente Project

In 2009, we expect to produce 1.9 million ounces of silver at a cash cost of $6.98 per ounce. Plant commissioning activities at San Vicente began in January, and our expectation is to achieve 100% of design capacity (750 tonnes per day) by August. Our 2009 forecasts are reliant on sufficient water being available for planned throughput rates and to achieve assumed recovery rates. Production is expected to ramp up in the new mine, with longhole production from the high-grade Litoral vein initiating in April.

The capital budget for 2009 totals $5.5 million, including commissioning costs of $2.1 million and mine development costs of $1 .4 million. The main capital projects include the installation of a hoist and head frame above the Pelayo shaft, the construction of a concentrates storage facility in Uyuni, completion of the Angosta Mica waterline and pump project and communication upgrades.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow: 2008 and 2007

Operating activities generated $93.0 million in 2008, a record for the Company, compared to $67.4 million generated by operations in 2007. Before changes in non-cash working capital items, which used $6.9 million in 2008 (2007 - $38.6 million), cash flow from operations in 2008 was $99.9 million (2007 - $105.9 million). Operating cash flow in 2008 was negatively impacted by realized foreign exchange losses of $8.9 million.

Investing activities used $168.8 million in 2008 and were dominated by construction expenditures at Manantial Espejo of $126.4 million, while $54.6 million was spent on the expansion at San Vicente. In addition, significant investments in property, plant, and equipment were made at Morococha, La Colorada, Huaron, and Quiruvilca where $18.8 million, $11.9 million, $13.5 million, and $5.3 million were spent, respectively. Partly funding these expenditures and included in investing activities in 2008 was the sale of $62.8 million of short- term investments and the receipt of $12.2 million from the sale of our interest in other mineral assets.

Investing activities in 2007 consisted primarily of construction expenditures at Manantial Espejo of $66.3 million and San Vicente of $1 1 .6 million. Significant capital investment also occurred at Morococha, La Colorada, Huaron, and Quiruvilca where $13.6 million, $9.1 million, $9.9 million, and $4.4 million were spent, respectively. The Company also invested $1 1 .1 million into final construction of the Alamo Dorado mine. Included in investing activities in 2007 was the sale of $24.9 million of short-term investments.

Financing activities in 2008 generated $50.7 million including proceeds from the exercise of warrants and share options of $50.8 million. Also included are contributions from minority shareholders in the San Vicente project and short term loans of $2.5 million, partially offset by $2.6 million in dividends paid to minority shareholders of the entity that operates the Morococha mine in Peru. Financing activities in 2007 included proceeds from the exercise of stock options of $5.2 million offset in part by dividends paid to minority shareholders of the Morococha mine in Peru.

Cash Flow: Fourth Quarter 2008

Cash flow used in operating activities in Q4 of 2008 was $4.9 million compared to cash generated from operating activities of $26.7 million in the comparable quarter of 2007. Operating cash flow in Q4 of 2008 was negatively impacted by realized foreign exchange losses of $7.1 million.

Cash used in investing activities in Q4 of 2008 was $34.3 million, mainly to complete the construction of Manantial Espejo, where $26.4 million was spent, and to advance the expansion of San Vicente, where $22.6 million was spent during the quarter. The Company also invested approximately $11.5 million at the other operations in Q4, offset in part by sales of short term investments of $23.3 million. Q4 of 2007 used $40.1 million, mostly on the construction of Manantial Espejo and expansion of San Vicente. During the quarter, we also invested $2.0 million in our short term investment portfolio.

In Q4 of 2008, cash generated by financing activities totalled $1.5 million and was comprised of advances against concentrate shipments. In Q4 of 2007, cash used by financing activities totalled $0.5 million and was comprised of $3.0 million used to repay advances against concentrate shipments while the exercise of stock options and warrants generated $1.8 million and $0.7 million was contributed by minority shareholders as their share of the capital required for the expansion at San Vicente.

Cash Flow: 2006

Operating activities in 2006 generated cash flow of $65.9 million, while financing activities of $145.9 million in 2006 included the issuance of shares for cash. Investing activities in 2006 consisted primarily of construction expenditures at Alamo Dorado of $46.4 million and Manantial Espejo of $20.2 million. Significant capital investment also occurred at Morococha, La Colorada, Huaron, and Quiruvilca where $10.5 million, $7.9 million, $5.6 million, and $1.5 million were spent, respectively. The Company also invested $4.3 million into upgrading infrastructure, equipment orders and engineering services at San Vicente in preparation for the expansion. Included in investing activities in 2006 was the purchase of $65.6 million of short-term bonds as part of the Company's cash management policy.

Liquidity and Capital Requirements

The Company's cash balance at December 31, 2008 was $26.8 million, which was a decrease of $25.1 million from the balance at December 31, 2007. This decrease in liquidity in 2008 resulted from the requirement to fund $243.8 million that was invested in the development and acquisition of mineral property, plant and equipment including $28.2 million in VAT payments, which are refundable. The balance of this funding requirement was met from cash generated by operating activities of $93.0 million, plus the liquidation of $62.8 million of the Company's investment portfolio, plus $12.2 million received from the sale of our interest in Dukat, plus financing activities of $50.7 million. The balance of the Company's short-term investments at December 31, 2008 was $3.4 million (2007: $55.4 million). The Company does not own any asset-backed commercial paper in its investment portfolio.

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 and lien of Pan American's equity interests in its material subsidiaries, has a term of four years. The interest margin on drawings under the Facility ranges from 1.25% to 2.00% over libor, based on the Company's net debt to EBITDA ratio. Pan American has agreed to pay a commitment fee of between 0.55% and 0.375% on undrawn amounts under the Facility, depending on the level of drawings and the Company's net debt to EBITDA ratio. Pan American has the ability to increase the Facility amount to $100 million by receiving additional commitments from one or more banks acceptable to the Lenders. To the date of this MD&A, the Company has not made any drawings under the Facility.

On February 12, 2009, Pan American closed a public offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued 6,371,000 common shares at a price of US$16.25 per share, for aggregate gross proceeds of US$103.5 million and net proceeds, after underwriting fees, of US$98.6 million, including the exercise in full of the underwriters' overallotment option. The Company estimates that an additional $1.5 million of other expenses were incurred related to the Offering. The Company expects to use the net proceeds from the

Offering to fund acquisitions, development programs on acquired mineral properties, working capital requirements and for other general corporate purposes.

In October 2007 the Company secured a $50 million revolving credit facility primarily to fund the launch of a business development opportunity. The credit facility was secured by certain of the Company's short term investments. This facility was cancelled by the Company early in 2008 after deciding not to pursue the business development opportunity further.

Pan American plans to invest $29.5 million in capital projects in 2009, split between development and construction capital of $5.5 million and sustaining capital of $24.0 million. Please refer to the "Outlook" section of this MD&A for a more detailed description of the capital expenditures planned for each mine in 2009. Alternatives for financing our future capital needs include our significant liquidity position, future operating cash flow, unutilized credit facilities and the proceeds of exercised share options. In the opinion of management, based on the Company's current liquidity position and the operating cash flows that are expected in 2009 of $56.6 million, the Company's liquid assets will be sufficient to discharge liabilities as they come due and to fund planned project development and sustaining capital expenditures in 2009.

The impact of inflation on the Company's financial position, operational performance, or cash flows over the next twelve months can not be determined.

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 2008:

PAYMENTS DUE BY PERIOD (*IN THOUSANDS OF DOLLARS*)					
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Capital Lease Obligations	$2,002	$1,473	$529	-	-
Purchase Obligations [(1)]	3,085	3,085	-	-	-
Retention Plan [(2)]	8,783	2,196	6,587	-	-
Total contractual obligations[(3)]	$ 13,870	$6,754	$7,116	-	-

(1) Contract commitments for construction materials for the San Vicente project existing at December 31, 2008, which will be incurred during 2009.

(2) In June 2008 the Company initiated a 3 year contractual retention plan for key officers and management, further discussed in Note 12. Contract commitments for the plan represent minimum payments expected to be paid out.

(3) Amounts above do not include payments related to the Company's anticipated asset retirement obligation (Note 10), nor do they include current liabilities of $79,281.

Financial Position

Capital resources at December 31, 2008 amounted to shareholders' equity of $685.6 million (2007:$599.6 million). At the date of this MD&A, March 4 2009, the Company had issued 87,179,107 shares. Working capital at December 31, 2008 was $95.1 million, a decrease of $94.2 million from the prior year-end's working capital of $186.3 million. The decrease in working capital was mainly

due to a $77.2 million decrease in cash and short-term investments, a decrease in accounts receivable of $6.3 million, and increased current liabilities of $22.7 million partially off-set by increases in inventories of $20.9 million, and unrealized gains on commodity contracts of $5.3 million. The increase in inventories is mainly a result of stockpile additions at Manantial Espejo and San Vicente in anticipation of commencement of commercial production. The increase in current liabilities is primarily a result of significantly higher taxes payable in Mexico as a result of an increase in taxable income generated.

Working capital at December 31, 2007 was $186.3 million, a decrease of $18.3 million from the prior year-end's working capital of $204.6 million. The decrease in working capital was mainly due to a $64.6 million decrease in cash and short-term investments partially off-set by increases in inventories of $29.5 million, unrealized gains on commodity contracts of $5.3 million and in accounts receivable of $2.6 million, plus a net decrease in current liabilities totalling $6.9 million. The increases in inventories are a result of commencement of commercial production at Alamo Dorado and because of 9,800 dry metric tonnes of concentrates produced but not shipped at our Peruvian operations during 2007. The decrease in current liabilities is primarily a result of significantly lower taxes payable in Peru as a result of paying tax instalments during the year, offset by an increase in accounts payable mainly resulting from commercial production at Alamo Dorado.

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, 2008, the Company had sold forward 3,000 tonnes of zinc at a weighted average price of $3,770 per tonne. During January 2009, the Company closed its open zinc positions, thereby crystallizing a gain of $7.6 million, which is expected to settle each month until December 2009. Similarly, prior to December 31, 2008 Pan American closed its open lead positions, which had the effect of establishing a gain of $3.2 million, which is due to settle monthly during 2009. At the date of this MD&A, the Company had no net open positions in base metals.

Approximately one-third of the Company's operating and capital expenditures are denominated in local currencies other than the US dollar. These expenditures are exposed to fluctuations in US dollar 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 US dollars. In anticipation of operating expenditures in Peruvian Nuevo sol ("PEN") and Mexican pesos ("MXN"), at December 31, 2008 the Company has entered into foreign currency contracts with an aggregated nominal value of $51 million for PEN and $37 million for MXN settling between January and December 2009 at an average PEN/US$ exchange rate of 2.82 and an average MXN/US$ exchange rate of 10.99. In addition, Pan American was holding cash balances equivalent to $0.7 million in PEN and $2.5 million in MXN as at December 31, 2008. At December 31, 2008, the mark-to-market value of the Company's local currencies positions was an unrealized loss of $14.2 million.

RISKS AND UNCERTAINTIES

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 following table illustrates the effect of changes in silver and gold prices on anticipated sales for 2009: This analysis assumes that quantities of silver and gold produced and sold remain constant under all price scenarios presented.

		Gold Price						
		$500	$600	$725	$800	$900	$1,000	$1,100
Silver Price	$5.00	$192,118	$200,470	$210,881	$217,124	$225,446	$233,764	$242,080
	$6.00	$214,116	$222,449	$232,854	$239,096	$247,417	$255,732	$264,048
	$7.00	$236,071	$244,398	$254,802	$260,992	$269,308	$277,623	$285,939
	$8.00	$257,963	$266,286	$276,689	$282,925	$291,241	$299,556	$307,816
	$9.00	$279,559	$287,882	$298,280	$304,516	$312,831	$321,147	$329,462
	$10.00	$301,381	$309,702	$320,095	$326,332	$334,647	$342,962	$351,277
	$11.00	$323,254	$331,569	$341,963	$348,199	$356,514	$364,829	$373,074
	$12.00	$345,048	$353,363	$363,757	$369,993	$378,308	$386,623	$394,937
	$13.00	$366,912	$375,226	$385,620	$391,856	$400,171	$408,486	$416,801
	$14.00	$388,690	$397,004	$407,398	$413,634	$421,948	$430,263	$438,578
	$15.00	$410,548	$418,863	$429,256	$435,492	$443,807	$452,121	$460,436

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 "Financial Instruments" in the "Liquidity and Capital Resources" 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 sales 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 2009 budget against various price assumptions for the Company's two main byproduct credits, zinc and gold.

		Gold Price						
		$500	$600	$725	$800	$900	$1,000	$1,100
Zinc Price	$850	$7.71	$7.33	$6.84	$6.56	$6.17	$5.79	$5.40
	$950	$7.60	$7.21	$6.73	$6.45	$6.06	$5.68	$5.29
	$1,050	$7.49	$7.10	$6.62	$6.34	$5.95	$5.57	$5.18
	$1,150	$7.37	$6.98	$6.50	$6.21	$5.83	$5.44	$5.06
	$1,250	$7.26	$6.87	$6.39	$6.10	$5.72	$5.33	$4.95
	$1,350	$7.20	$6.81	$6.33	$6.04	$5.66	$5.27	$4.89
	$1,450	$7.09	$6.70	$6.22	$5.93	$5.55	$5.16	$4.78

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 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. At December 31, 2008 the Company had receivable balances associated with buyers of our concentrates of $1 1 .8 million (2007 - $31 .3 million). The vast majority of our concentrate is sold to four 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 five 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 our precious metals in such circumstances. At December 31, 2008 the Company had approximately $6 million of value contained in precious metal inventory at refineries (2007 - $3 million). The Company maintains insurance coverage against the loss of precious metals at our mine sites, in-transit to refineries and while 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 us to the credit risk of our counterparties to the extent that our trading positions have a positive mark-to-market value. As described more fully under "Financial Instruments" in the "Liquidity and Capital Resources" section of this MD&A, the Company expects to receive settlements of its zinc and lead positions totalling $10.8 million during 2009, which are subject to credit risk of three large financial institutions.

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.

The Company has never had any material performance or payment disputes with its refiners, trading counterparties or customers; however management constantly monitors and assesses the credit risk resulting from its refining arrangements, concentrate sales 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 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. The local currencies that we have the most exposure to are the PEN and MXN. 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 2009, expressed in percentage terms: Under this analysis, our cost of sales is reflected at 100% at our budget foreign exchange assumptions for the PEN and MXN of 3.10 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.

		MXN						
		10.00	11.00	12.00	13.00	14.00	15.00	16.00
PEN	2.50	110%	108%	106%	105%	103%	102%	102%
	2.70	108%	106%	104%	103%	102%	101%	100%
	2.90	106%	104%	103%	101%	100%	99%	98%
	3.10	105%	103%	101%	100%	99%	98%	97%
	3.30	104%	102%	100%	99%	98%	97%	96%
	3.50	103%	101%	99%	98%	97%	96%	95%
	3.70	102%	100%	98%	97%	96%	95%	94%

In order to mitigate this exposure, from time to time the Company has purchased PEN, MXN and Canadian dollars to match anticipated spending. At December 31, 2008, the Company open currency forward positions are described under "Financial Instruments" in the "Financial Position" section of this MD&A.

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 cash equivalents and committed loan facilities.

The recent volatility of the metals markets and the decreases in the price of all the metals that the Company produces has adversely impacted the Company's profitability and ability to generate cash flow from operations. The Company continues to evaluate and review all capital and operating expenditures in order to identify, decrease and curtail all non-essential expenditures. The Company expects to continue to generate positive cash flow from operations and to benefit from the actions taken to improve the cost structure.

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. The Company is not able 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 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 health and safety laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. 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, 2008 the Company employed approximately 7,200 employees and the employees of mining contractors, of which approximately 600 were represented by unions in Peru and a further 200 by a union in Bolivia. The Company has experienced short-duration labour strikes and work stoppages in the past and may experience future labour related events.

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 that may result in litigation, which may result in a material adverse impact on our financial condition, cash flow and results of operations. Please refer to Note 18 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. For example, the Company completed the acquisition of Corner Bay Silver Inc. in February 2003, the acquisition of Argentum and the Morococha mine in August 2004, and the acquisition from Silver Standard Resources Inc. in 2006 of that company's 50% interest in the Manantial Espejo project. 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 ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of sales and expenditures during the reporting period. Management has identified (i) Mineral property, plant, and equipment, Construction in progress and Investments in non-producing property (ii) Future income tax provision, (iii) Provision for reclamation and closure, (iv) Stock based compensation and (v) accounting for derivative instruments as the main estimates for the following discussion. Please refer to Note 2 of the Company's consolidated financial statements for a description of all of the significant accounting policies.

Mineral property, plant and equipment, Construction in progress, and Investment in non-producing properties are the most significant assets of the Company, representing assets in aggregate of $697.1 million at December 31, 2008. This amount represents the capitalized expenditures related to the acquisition, exploration, construction and development of mineral deposits. Construction costs on development projects are capitalized until the mine is substantially complete and ready for production. The Company estimates its reserves and resources and the economic life of its mines and utilizes this information to calculate depletion and amortization expense. Annually, or more frequently as circumstances require, Pan American assesses the recoverability of the carrying values of its mining properties and investments by performing impairment evaluations. These evaluations consist of comparing each asset's carrying value with the estimated undiscounted future net cash flows. Future cash flows are estimated based on production, metal prices, capital and operating costs. Where those estimated cash flows are less than the carrying value, the Company records a write-down of the asset to the estimated fair value.

Based on this impairment analyses it was determined that the assets of the Quiruvilca mine were impaired as of December 31, 2008 and the Company reduced the carrying amount to zero and charged a write-down of $15.1 million. No other impairments were recorded in 2008. Other estimates incorporated in the impairment evaluations include processing and mining costs, mining tonnage, ore grades and recoveries, which are all subject to uncertainty. If silver prices fall below $11.30 per ounce or some of the other assumptions prove inaccurate, material asset impairment charges may be required in the future.

The future income tax provision is based on the liability method. Future taxes arise from the recognition of the tax consequences of temporary differences by applying enacted or substantively enacted tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of certain assets and liabilities. The Company records a valuation allowance against any portion of those future income tax assets that it estimates will, more likely than not, fail to be realized. The future income tax provision also incorporates management's estimates regarding the utilization of tax loss carry forwards, which are dependent on future operating performance and transactions. Please refer to note 19 of the Company's consolidated financial statements for a description of our future income tax provision.

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements, however, changes in regulatory requirements and new information may result in revisions to the estimates. The Company recognizes the present value of liabilities for reclamation and closure costs in the period in which they are incurred. A corresponding increase to the carrying amount of the related assets is generally recorded and depreciated over the life of the asset. Accordingly, at December 31, 2008 the expected present value of future site restoration costs for the Huaron, Morococha, Quiruvilca, La Colorada and Alamo Dorado mines, and Manantial Espejo and San Vicente projects were estimated using discount rates between 6% and 9% at $57.3 million (2007 - $50.4 million). This estimate was increased in 2008 primarily as a result of accretion of the liability of $2.7 million and the recognition of an additional $4.4 million related to the construction of Manantial Espejo and San Vicente. The reclamation provision was reduced in 2008 by $0.2 million of closure expenditures.

Pan American estimates expenses related to **stock-based compensation** on the fair value method of accounting. Under this method, Pan American is required to recognize a charge to the income statement based on an option-pricing model for all stock options that were granted and vested in each period, with a corresponding credit to Contributed Surplus under the Shareholders' Equity section of the balance sheet. In 2008, the fair value of the stock options granted was calculated using an option-pricing model based on the following assumptions – no dividends will be paid, a weighted average volatility of the Company's share price of 42%, a weighted average annual risk free rate of 3.5% and an expected life of between 1 .5 and 3 years. The resulting weighted average option valuation was $CDN 11.30 per share for a total expense related to stock options in 2008 of $1 .7 million (2007 - $2.5 million, 2006 - $2.5 million). The charge to the Company's income statement is incorporated as part of the general and administrative expenses.

The Company has considered **CICA 3865 – Hedges**, which specifies the conditions under which hedge accounting is appropriate and includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting. Based on CICA 3865, the Company's conclusion is that its forward contracts for the sale of base metals (lead and zinc), its forward contracts for purchasing PEN and MXN with US dollars, and its silver fixing contracts do not qualify for hedge accounting. As a result, Pan American is required to recognize mark-to-market valuations of its open forward contract positions through its income at the end of each period.

FUTURE ACCOUNTING CHANGES

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

Business Combinations

The Canadian Institute of Chartered Accountants' ("CICA") Accounting Standards Board issued a new accounting standard, Section 1582, "Business Combinations", which aligns Canadian GAAP with International Reporting Standard 3 of the same name. This standard is effective for the Company beginning January 1, 2011, but earlier application is permitted starting January 1, 2009. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Section 3064, "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and, as a result, start-up costs must be expensed as incurred. This standard, which is effective for us beginning January 1, 2009, is not expected to materially impact our consolidated financial position or results of operations.

International Financial Reporting Standards

The CICA has announced that Canadian GAAP for publicly accountable enterprise companies will be replaced with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for fiscal years beginning on or after January 1, 2011. We will begin reporting our financial statements in accordance with IFRS on January 1, 2011, with comparative figures for 2010.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010.

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

We have begun planning our transition to IFRS and the conversion project consists of three phases: Scoping and Diagnostics, Analysis and Development, and Implementation and Review.

Phase One: Scoping and Diagnostics, which involved project planning and identification of differences between current Canadian GAAP and IFRS, has been completed. The resulting identified areas of accounting difference of highest potential impact to the Company, based on existing IFRS, are business combinations, impairment of assets, property plant and equipment, provisions and contingent liabilities, exploration and evaluation expenditures, income taxes, and initial adoption of IFRS under the provisions of IFRS 1 First-Time Adoption of IFRS.

Phase Two: Analysis and Development involves detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; initial staff training; analysis of IFRS 1 optional exemptions and mandatory exceptions to the general requirement

for full retrospective application upon transition to IFRS; summarization of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues.

It is not anticipated that the adoption of IFRS will have a significant impact on information systems requirements but the company is assessing the need for system upgrades or modifications to ensure an efficient conversion to IFRS. As part of Phase Two, information systems plans will be prepared for implementation in Phase Three if necessary. The extent of the impact on the Company's information systems is not reasonably determinable at this time.

Phase Three: Implementation and Review, expected to commence mid-year 2009, will involve the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across the Company's finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS in business processes; and, audit committee approval of IFRS-compliant financial statements.

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, 2008 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, 2008, the Company's disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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 Canadian generally accepted accounting principles. It includes those policies and procedures that:

(1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to the acquisition and dispositions of Pan American's assets,

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and receipts and expenditures are made only in accordance with authorizations of management and Pan American's directors, and

(3) 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 financial statements.

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, 2008, 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, 2008, Pan American's internal control over financial reporting is effective. Also, management determined that there were no material weaknesses in Pan American's internal control over financial reporting as at December 31, 2008.

Management reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. Deloitte & Touche LLP, independent registered 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, 2008. Deloitte & Touche LLP has provided such opinions.

Appendix 1
Mineral Reserves and Resources
As of December 31, 2008

MINERAL RESERVES - PROVEN AND PROBABLE

	Location	Type	Classification	Tonnes (000's)	Ag (g/mt)	Ag Cont. (000,s ozs)	Au (g/mt)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Vein	Proven	5,337	188	32,336	N/A	0.34	1.56	3.14
		Vein	Probable	4,744	195	29,669	N/A	0.31	1.67	3.16
Morococha (92.2%)	Peru	Vein/Mantos	Proven	3,895	153	19,178	N/A	0.38	1.42	3.90
		Vein/Mantos	Probable	2,739	182	16,048	N/A	0.37	1.49	4.04
La Colorada	Mexico	Vein	Proven	815	445	11,664	0.88	N/A	0.66	1.26
		Vein	Probable	484	420	6,528	0.64	N/A	0.79	1.33
Quiruvilca (b)	Peru	Vein	Proven	350	185	2,080	0.40	0.66	2.15	5.87
		Vein	Probable	217	183	1,277	0.40	0.58	2.49	5.92
Silver Stockpiles (a)	Peru	Flux Material	Probable	203	311	2,033	N/A	N/A	N/A	N/A
Alamo Dorado	Mexico	Disseminated	Proven	6,095	112	21,948	0.34	N/A	N/A	N/A
		Disseminated	Probable	4,644	83	12,393	0.28	N/A	N/A	N/A
Manantial Espejo	Argentina	Vein	Proven	4,207	184	24,890	2.62	N/A	N/A	N/A
		Vein	Probable	2,184	186	13,058	2.82	N/A	N/A	N/A
San Vicente (95%)	Bolivia	Vein	Proven	1,535	406	20,046	N/A	N/A	N/A	4.17
		Vein	Probable	790	417	10,593	N/A	N/A	N/A	2.66
TOTALS			**Proven + Probable**	**38,239**	**182**	**223,742**				

MINERAL RESOURES - MEASURED AND INDICATED

	Location	Type	Classification	Tonnes (000's)	Ag (g/mt)	Ag Cont. (000,s ozs)	Au (g/mt)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Vein	Measured	1,240	161	6,430	N/A	0.42	2.48	4.00
		Vein	Indicated	828	164	4,369	N/A	0.61	2.17	4.02
Morococha (92.18%)	Peru	Vein/Mantos	Measured	1,418	158	7,223	N/A	0.37	1.28	3.10
		Vein/Mantos	Indicated	1,230	214	8,468	N/A	0.38	1.75	2.92
La Colorada	Mexico	Vein	Measured	147	322	1,523	0.34	N/A	0.68	1.34
		Vein	Indicated	1,096	306	10,767	0.29	N/A	1.16	1.81
Quiruvilca (b)	Peru	Vein	Measured	2,872	138	12,702	0.59	1.80	0.85	2.44
		Vein	Indicated	905	162	4,721	0.45	1.07	1.29	3.96
Alamo Dorado	Mexico	Disseminated	Measured	920	74	2,189	0.38	N/A	N/A	N/A
		Disseminated	Indicated	2,491	69	5,525	0.41	N/A	N/A	N/A
Manantial Espejo	Argentina	Vein	Measured	1,552	93	4,642	0.91	N/A	N/A	N/A
		Vein	Indicated	2,376	105	8,022	1.10	N/A	N/A	N/A
San Vicente (95%)	Bolivia	Vein	Measured	442	111	1,582	N/A	N/A	N/A	2.46
		Vein	Indicated	487	276	4,322	N/A	N/A	N/A	3.54
TOTALS			**Measured + Indicated**	**18,004**	**142**	**82,484**	**-**	**-**	**-**	**-**

MINERAL RESOURES - INFERRED

	Location	Type	Classification	Tonnes (000's)	Ag (g/mt)	Ag Cont. (000,s ozs)	Au (g/mt)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Vein	Inferred	5,260	178	30,179	N/A	0.26	1.44	2.72
Morococha (92.18%)	Peru	Vein/Mantos	Inferred	7,931	160	40,800	N/A	0.36	1.26	3.49
La Colorada	Mexico	Vein	Inferred	1,938	329	20,519	0.38	N/A	0.76	1.34
Quiruvilca (b)	Peru	Vein	Inferred	1,180	120	4,542	0.64	0.52	0.85	1.86
Alamo Dorado	Mexico	Disseminated	Inferred	2,222	64	4,572	0.34	N/A	N/A	N/A
Manantial Espejo	Argentina	Vein	Inferred	2,070	115	7,653	1.04	N/A	N/A	N/A
San Vicente (95%)	Bolivia	Vein	Inferred	369	334	3,968	N/A	N/A	N/A	2.63
TOTALS				**20,971**	**166**	**112,233**	**-**	**-**	**-**	**-**

HISTORICAL ESTIMATES

Property	Location	Unclassified	Tonnes (000's)	Ag (g/mt)	Ag Cont. (000,s ozs)	Au (g/mt)	Pb (%)	Zn (%)	Cu (%)
Hog Heaven [ii]	USA	Historical [ii][iii]	2,705	167	14,550	~~0.62~~	~~N/A~~	~~N/A~~	~~N/A~~
Hog Heaven [ii]	USA	Historical [ii][iv]	7,639	133	32,730	0.70	N/A	N/A	N/A
Waterloo [v]	USA	Historical	33,758	93	100,937	N/A	N / A	N / A	N / A
TOTAL		**Historical**	**44,102**	**104**	**148,217**				

NOTES:

Mineral Reserves and Resources are prepared in accordance with National Instrument 43-101 – standards of Disclosure for Mineral Projects ("NI 43-101") and 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 or were reviewed by 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. Reserve/resource estimates for Silver Stockpiles were prepared in previous years by other Qualified Persons, and are adjusted for 2008 production where applicable[(a)]. Mineral resource estimates for Hog Heaven and Waterloo based on historical third party estimates.

(a) 2007 mineral reserve and resource estimates less 2008 production

Metal Prices Used for all Mines (except Quiruvilca): Ag: $11.00/oz, Au: $700/0z, Pb: $1,500/Tonne, Cu: $4,000/Tonne, Zn: $1,500/Tonne

(b) Metal Prices Used for Quiruvilca: Ag: $10.00/oz, Au: $725/0z, Pb: $1,300/Tonne, Cu: $3,500/Tonne, Zn: $1,500/Tonne

[(ii)]The historical estimate for Hog Heaven was calculated 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 calculated 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 calculation). Michael Steinmann, P.Geo., QP for the Company, has reviewed the available data, including drill sections, surface maps, and additional supporting information sources, and believes that the historic calculation 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 subcategorized 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.

(iii) The Company believes that the historical estimate category of "proven reserves" for Hog Heaven most closely corresponds to 2,705,000 tonnes in the NI 43-1 01 category of "indicated resources".

(iv) 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 NI 43-101 category of "inferred resources."

(v) The historical estimate for Waterloo was initially calculated 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 calculated using a silver price of $5.00 per ounce (the relevant price at the time of the calculation). Michael Steinmann, P.Geo., QP for the Company, has reviewed the Technical Evaluation Report and believes the historic calculation 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 correspond to 33,758,000 tonnes in the NI 43-1 01 category of "indicated 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

THIS MD&A CONTAINS "FORWARD-LOOKING INFORMATION" WITHIN THE MEANING OF THE UNITED STATES *"PRIVATE SECURITIES LITIGATION REFORM ACT"* OF 1995 AND APPLICABLE CANADIAN SECURITIES LEGISLATION. STATEMENTS CONTAINING FORWARD-LOOKING INFORMATION EXPRESS, AS AT THE DATE OF THIS MD&A, THE COMPANY'S PLANS, ESTIMATES, FORECASTS, PROJECTIONS, EXPECTATIONS, OR BELIEFS AS TO FUTURE EVENTS OR RESULTS AND THE COMPANY DOES NOT INTEND, AND DOES NOT ASSUME ANY OBLIGATION TO, UPDATE SUCH STATEMENTS CONTAINING THE FORWARD-LOOKING INFORMATION. GENERALLY, FORWARD-LOOKING INFORMATION CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "PLANS", "PROJECTS" OR "PROJECTED", "EXPECTS" OR "DOES NOT EXPECT", "IS EXPECTED", "ESTIMATES", "FORECASTS", "SCHEDULED", "INTENDS", "ANTICIPATES" OR "DOES NOT ANTICIPATE", OR "BELIEVES", OR VARIATIONS OF SUCH WORDS AND PHRASES, OR STATEMENTS THAT CERTAIN ACTIONS, EVENTS OR RESULTS "MAY", "CAN", "COULD", "WOULD", "MIGHT" OR "WILL BE TAKEN", "OCCUR" OR "BE ACHIEVED". STATEMENTS CONTAINING FORWARD- LOOKING INFORMATION INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO TIMING AND BUDGET OF CONSTRUCTION, RAMP-UP, AND COMMISSIONING ACTIVITIES AT MANANTIAL ESPEJO AND SAN VICENTE, THE EXPECTED RESULTS FROM EXPLORATION ACTIVITIES AND THE SUITABILITY OF FUTURE EXPLORATION TARGETS, THE ECONOMIC VIABILITY OF THE DEVELOPMENT OF NEWLY DISCOVERED ORE BODIES, THE ESTIMATION OF MINERAL RESERVES AND RESOURCES, FUTURE PRODUCTION LEVELS, EXPECTATIONS REGARDING MINE PRODUCTION RATES AND COSTS, AND PER OUNCE CASH COSTS, FUTURE PRECIOUS METAL PRICES, THE SUFFICIENCY OF CURRENT CAPITAL, AND THE REQUIREMENTS FOR ADDITIONAL CAPITAL, FUTURE SALES OF METALS, CONCENTRATES, OR OTHER PRODUCTS PRODUCED BY THE COMPANY, THE RESULTS OF DRILLING, AND PAN AMERICAN SILVER'S COMMITMENT TO, AND PLANS FOR DEVELOPING, NEWLY DISCOVERED AND EXISTING MINERALIZED STRUCTURES.

STATEMENTS CONTAINING FORWARD-LOOKING INFORMATION INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE THE ACTUAL RESULTS, LEVEL OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS OF PAN AMERICAN SILVER AND ITS OPERATIONS TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY SUCH STATEMENTS. SUCH FACTORS INCLUDE, AMONG OTHERS, RISKS RELATED TO TECHNOLOGICAL AND OPERATIONAL NATURE OF THE COMPANY'S BUSINESS, CHANGES IN LOCAL AND NATIONAL GOVERNMENT LEGISLATION, TAXATION OR THE POLITICAL OR ECONOMIC ENVIRONMENT, THE ACTUAL RESULTS OF CURRENT EXPLORATION ACTIVITIES, CONCLUSIONS OF ECONOMIC EVALUATIONS, CHANGES IN PROJECT PARAMETERS TO DEAL WITH UNANTICIPATED ECONOMIC FACTORS, FLUCTUATIONS IN SPOT AND FORWARD MARKETS AND PRICES OF SILVER, GOLD, BASE METALS, AND CERTAIN OTHER COMMODITIES SUCH AS NATURAL GAS, FUEL OIL, AND ELECTRICITY, INCREASED COMPETITION IN THE MINING INDUSTRY FOR PROPERTIES, EQUIPMENT, QUALIFIED PERSONNEL, AND THEIR RISING COSTS, UNPREDICTABLE RISKS AND HAZARDS RELATING TO THE OPERATION AND DEVELOPMENT OF OUR MINES OR PROPERTIES, THE SPECULATIVE NATURE OF EXPLORATION AND DEVELOPMENT, AS WELL AS THOSE FACTORS DESCRIBED IN THE SECTION "RISK RELATED TO PAN AMERICAN'S BUSINESS" CONTAINED IN THE COMPANY'S MOST RECENT FORM 40F/ANNUAL INFORMATION FORM FILED WITH THE SEC AND CANADIAN PROVINCIAL SECURITIES REGULATORY AUTHORITIES AND THOSE FOUND UNDER THE HEADING "RISK AND UNCERTAINTIES" CONTAINED HEREIN. ALTHOUGH THE COMPANY HAS ATTEMPTED TO IDENTIFY IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN FORWARD-LOOKING STATEMENTS, THERE MAY BE OTHER FACTORS THAT CAUSE RESULTS TO BE MATERIALLY DIFFERENT FROM THOSE ANTICIPATED, DESCRIBED, ESTIMATED, ASSESSED OR INTENDED. THERE CAN BE NO ASSURANCE THAT ANY STATEMENTS CONTAINING FORWARD-LOOKING INFORMATION WILL PROVE TO BE ACCURATE AS ACTUAL RESULTS AND FUTURE EVENTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN SUCH STATEMENTS. ACCORDINGLY, READERS SHOULD NOT PLACE UNDUE RELIANCE ON STATEMENTS CONTAINING FORWARD-LOOKING INFORMATION.

Management's Responsibility for 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 Canadian generally accepted accounting principles (Canadian GAAP). 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.

"signed"

Geoff Burns
President and Chief Executive Officer

"signed"

A. Robert Doyle
Chief Financial Officer

March 04, 2009

Management's Report on Internal Control over Financial Reporting

Management of Pan American is responsible for establishing and maintaining adequate internal control 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 Canadian generally accepted accounting principles. It includes those policies and procedures that:

(i) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to and dispositions of Pan American's assets;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and Pan American receipts and expenditures are made only in accordance with authorizations of management and Pan American's directors;
(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Pan American assets that could have a material effect on Pan American's financial statements.

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 controls over financial reporting as of December 31, 2008, 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, 2008, Pan American's internal control over financial reporting was effective. Also, management determined that there were no material weaknesses in Pan American's internal control over financial reporting as at December 31, 2008.

"signed"

Geoff Burns
President and Chief Executive Officer

"signed"

A. Robert Doyle
Chief Financial Officer

March 04, 2009

Deloitte.

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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, 2008, 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.

Member of
Deloitte Touche Tohmatsu

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, 2008, 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 of and for the year ended December 31, 2008 of the Company and our report dated March 4, 2009 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference referring to changes in accounting principles

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 4, 2009

Deloitte.

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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 balance sheets of Pan American Silver Corp. and subsidiaries (the Company) as at December 31, 2008 and 2007 and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Pan American Silver Corp. and subsidiaries as at December 31, 2008 and 2007 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 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 4, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 4, 2009

Member of
Deloitte Touche Tohmatsu

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the change described in Note 2(c) to the consolidated financial statements. Our report to the Board of Directors and Shareholders, dated March 4, 2009, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 4, 2009

Pan American Silver Corp

Consolidated Balance Sheets As at December 31, 2008

(In thousands of U.S. dollars)		2008		2007
Assets				
Current				
Cash	**$**	**26,789**	$	51,915
Short-term investments (Note 5)		**3,350**		55,400
Accounts receivable		**51,067**		68,600
Inventories (Note 6)		**72,650**		51,737
Unrealized gain on commodity contracts		**10,829**		5,502
Future income taxes (Note 19)		**5,602**		8,388
Prepaid expenses and other current assets		**4,076**		3,376
Total Current Assets		**174,363**		244,918
Mineral property, plant and equipment, net (Note 7)		**697,061**		500,284
Other assets (Note 8)		**1,959**		17,701
Total Assets	**$**	**873,383**	$	762,903
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 9)	**$**	**49,208**	$	53,736
Taxes payable		**9,892**		1,771
Unrealized loss on foreign currency contracts		**14,267**		27
Other current liabilities		**5,914**		3,047
Total Current Liabilities		**79,281**		58,581
Provision for asset retirement obligation and reclamation (Note 10)		**57,323**		50,370
Future income taxes (Note 19)		**45,392**		48,698
Other liabilities and provisions		**-**		151
Total Liabilities		**181,996**		157,800
Non-controlling interests		**5,746**		5,486
Shareholders' Equity				
Share capital (authorized: 200,000,000 common shares of no par value) (Note 12)		**655,517**		592,402
Contributed surplus		**4,122**		14,233
Accumulated other comprehensive loss (Note 11)		**(232)**		(8,650)
Retained earnings		**26,234**		1,632
		26,002		(7,018)
Total Shareholders' Equity		**685,641**		599,617
Total Liabilities, non-controlling interests and Shareholders' Equity	**$**	**873,383**	$	762,903

APPROVED BY THE BOARD

"signed" Ross J. Beaty, Director

"signed" Geoff A. Burns, Director

See accompanying notes to consolidated financial statements

Pan American Silver Corp.

Consolidated Statements of Operations
For the years ended December 31, 2008, 2007 and 2006

(in thousands of US Dollars, except for per share amounts)	**2008**	2007	2006
Sales	**$338,600**	$301,064	$255,447
Cost of sales	**199,032**	167,797	124,608
Depreciation and amortization	**46,349**	28,992	17,520
Mine operating earnings	**93,219**	104,275	113,319
General and administrative	**10,435**	9,522	9,172
Exploration and project development	**5,494**	3,362	8,040
Accretion of asset retirement obligation	**2,687**	2,860	2,457
Write-down of mining assets (Note 7)	**15,117**	-	-
Operating earnings	**59,486**	88,531	93,650
Investment and other income	**2,704**	5,371	6,562
Foreign exchange (losses) gains	**(6,147)**	928	(799)
Interest and financing expenses	**(951)**	(660)	(573)
Other expenses (Note 16)	**(4,674)**	(370)	(528)
Net (losses) and gains on commodity and currency contracts	**(1,619)**	5,345	(18,328)
Net gains on sale of assets	**998**	12,425	7,483
Net earnings before non-controlling interest and taxes	**49,797**	111,570	87,467
Non-controlling interest	**(765)**	(3,105)	(3,777)
Income tax provision (Note 19)	**(24,430)**	(19,605)	(25,484)
Net income for the year	**$24,602**	$ 88,860	$ 58,206
Earnings per share (Note 13)			
Basic income per share	**$ 0.31**	$ 1.16	$ 0.79
Diluted income per share	**$ 0.30**	$ 1.12	$ 0.76
Weighted average shares outstanding (in thousands):			
Basic	**80,236**	76,453	73,628
Diluted	**80,773**	79,174	76,152

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income
(in thousands of US dollars)

	Year ended December 31, 2008	**Year ended December 31, 2007**
Net income	$ 24,602	$ 88,860
Other comprehensive income (loss)		
Unrealized gains / (losses) on available for sale securities (net of tax)	9,913	(8,803)
Reclassification adjustment for (gains) and losses included in income (net of tax)	(1,495)	-
Comprehensive income	$ 33,020	$ 80,057

See accompanying notes to the consolidated financial statements

Pan American Silver Corp.

Consolidated Statements of Shareholders' Equity
For the years ended December 31, 2008, 2007, 2006
(in thousands of US dollars, except for numbers of shares)

	Common Shares				Accumulated Other		
	Shares	Amount	Convertible Debentures	Contributed Surplus	Comprehensive Income (Loss)	Retained Earnings/ (Deficit)	Total
Balance, December 31, 2005	67,564,903	$388,830	$ 762	$13,117	$ -	$ (145,387)	$257,322
Issued on the exercise of stock options	275,358	4,477	-	(1,120)	-	-	3,357
Issued on the exercise of share purchase warrants	23,970	310	-	(56)	-	-	254
Issued on the conversion of convertible debentures	73,557	881	(793)	-	-	-	88
Issued as compensation	26,231	559	-	70	-	-	629
Issued to acquire mineral interests	1,950,000	47,381	-	-	-	-	47,381
Issued for cash, net of issue costs	6,281,407	142,331	-	-	-	-	142,331
Accretion of convertible debentures	-	-	47	-	-	(47)	-
Stock-based compensation on options granted	-	-	-	2,474	-	-	2,474
Repurchase convertible debentures	-	-	(16)	-	-	-	(16)
Net income	-	-	-	-	-	58,206	58,206
Balance, December 31, 2006	76,195,426	$584,769	$ -	$14,485	$ -	$(87,228)	$512,026
Issued on the exercise of stock options	403,297	6,332	-	(1,502)	-	-	4,830
Issued on the exercise of share purchase warrants	30,105	406	-	(70)	-	-	336
Issued as compensation	33,823	895	-	-	-	-	895
Stock-based compensation on options granted	-	-	-	1,320	-	-	1,320
Cumulative impact of accounting changes relating to short term investments	-	-	-	-	153	-	153
Other comprehensive loss	-	-	-	-	(8,803)	-	(8,803)
Net income	-	-	-	-	-	88,860	88,860
Balance, December 31, 2007	76,662,651	$592,402	$ -	$14,233	$ (8,650)	$1,632	$599,617
Issued on the exercise of stock options	129,371	3,310		(651)	-	-	2,659
Issued on the exercise of share purchase warrants	3,969,016	58,928	-	(10,744)	-	-	48,184
Issued as compensation	25,069	877	-	-	-	-	877
Stock-based compensation on options granted	-	-	-	1,284	-	-	1,284
Other comprehensive income	-	-	-	-	8,418	-	8,418
Net income	-	-	-	-	-	24,602	24,602
Balance, December 31, 2008	**80,786,107**	**$ 655,517**	**$ -**	**$ 4,122**	**$ (232)**	**$26,234**	**$ 685,641**

See accompanying notes to consolidated financial statements

Pan American Silver Corp.

Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)

	2008	2007	2006
Operating activities			
Net income	**$ 24,602**	$ 88,860	$ 58,206
Reclamation expenditures	**(167)**	(767)	(1,172)
Items not affecting cash;			
Depreciation and amortization	**46,349**	28,992	17,520
Write-down of mining assets	**15,117**	-	-
Future income taxes	**3,210**	(1,448)	(3,343)
Asset retirement and reclamation accretion	**2,687**	2,860	2,457
Non-controlling interest	**765**	3,105	3,777
Unrealized foreign exchange gain	**(2,769)**	-	-
Stock-based compensation	**2,223**	2,052	2,943
Unrealized gain (loss) on commodity and currency contracts	**8,913**	(5,290)	(4,125)
Gain on sale of assets	**(998)**	(12,425)	(7,483)
Changes in non-cash operating working capital (Note 14)	**(6,947)**	(38,578)	(2,881)
Cash generated by operations	**92,985**	67,361	65,899
Investing activities			
Mining property, plant and equipment expenditures (net of accruals)	**(243,800)**	(117,170)	(96,233)
Acquisition of net assets of subsidiary, net of cash (Note 7)	**-**	(6,245)	(168)
Proceeds from sale of assets	**12,199**	10,267	2,000
Proceeds from/(purchase of) short-term investments	**62,779**	24,931	(65,570)
Purchase of other assets	**-**	(11,272)	(766)
Cash used in investing activities	**(168,822)**	(99,489)	(160,737)
Financing activities			
Proceeds from issuance of common shares	**50,843**	5,164	153,611
Share issue costs	**-**	-	(7,669)
Dividends paid by subsidiaries to non-controlling interests	**(2,626)**	(2,347)	-
Contributions received/receipts (payments) of debt	**2,494**	879	(48)
Cash generated by financing activities	**50,711**	3,696	145,894
(Decrease) increase in cash during the year	**(25,126)**	(28,432)	51,056
Cash, beginning of year	**51,915**	80,347	29,291
Cash, end of year	**$ 26,789**	**$** 51,915	$ 80,347
Supplemental Cash Flow Information (Note 15)			
Interest paid	**$ -**	$ -	$ 48
Taxes paid	**$ 27,577**	$ 44,376	$ 7,946

See accompanying notes to consolidated financial statements

1. Nature of Operations

Pan American Silver Corp and its subsidiary companies (collectively, the "Company", or "Pan American") are engaged in silver mining and related activities, including exploration, extraction, processing, refining and reclamation. The Company's primary product (silver) is produced in Peru, Mexico and Bolivia. The Company has current project development activities in Argentina, Mexico and Bolivia, and exploration activities throughout South America and Mexico.

2. Summary of Significant Accounting Policies

a) Basis of Presentation: The Company's consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The United States dollar is the principal currency of measure in all the Company's operations. The Company prepares and files its consolidated financial statements in accordance with generally accepted accounting principles (GAAP) in Canada. Significant differences from United States generally accepted accounting principles are discussed in Note 22.

b) Principles of Consolidation: 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	99.9%	Consolidated	Huaron Mine/Quiruvilca Mine
Compañía Minera Argentum S.A.	Peru	92.2%	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 Triton S.A.	Argentina	100%	Consolidated	Manantial Espejo Project
Compañía Minera PAS (Bolivia) S.A.	Bolivia	95%	Consolidated	San Vicente Mine

Inter-company balances and transactions have been eliminated on consolidation.

c) Significant Changes in Accounting Policy:

On January 1, 2008, the Company adopted four new Handbook Sections of the Canadian Institute of Chartered Accountants ("CICA"): Section 1535, "Capital Disclosures", Section 3031, "Inventories", Section 3862, "Financial Instruments-Disclosure" and Section 3863, "Financial Instruments – Presentation". The adoption of these guidelines did not have a material effect on the Company's results, financial position or cash flows.

Section 1535 "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. These standards require a company to disclose its objectives, policies and processes for managing capital along with summary quantitative data about what it manages as capital. In addition, disclosures are to include whether a company has complied with externally imposed capital requirements and when a company has not complied with capital requirements, the consequences of such non-compliance.

Section 3031, "Inventories", replaces the existing inventories standard. The new standard requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment. The adoption of this standard does not have a material impact on the Company's Consolidated Financial Statements.

Section 3862 *"Financial Instruments – Disclosures"* and Section 3863 *"Financial Instruments – Presentation"*, replace Section 3861 *"Financial Instruments – Disclosure and Presentation"*. The new disclosure standard

increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and in addition requires companies to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the company's financial position and performance and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. The new presentation standard carries forward the former presentation requirements.

d) Use of Estimates: The preparation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are: quantities of proven and probable silver reserves; the value of mineralized material beyond proven and probable reserves; future costs and expenses to produce proven and probable reserves; future commodity prices and foreign currency exchange rates; the future cost of asset retirement obligations; amounts of contingencies; and the fair value of acquired assets and liabilities including pre-acquisition contingencies. Significant items that require estimates as the basis for determining the stated amounts include inventories, trade accounts receivable, mineral property plant and equipment, investments in non-producing properties, revenue recognition, stock based compensation, unrealized gains and losses on commodity and foreign currency contracts, fair value of assets and liabilities acquired in a business combination, and taxes.

e) Revenue Recognition: Revenue is recognized upon delivery when title and risk of ownership of metals or metal bearing concentrate passes to the buyer and when collection is reasonably assured. The passing of title to the customer is based on the terms of the sales contract. Product pricing is determined at the point revenue is recognized by reference to active and freely traded commodity markets.

Under the Company's concentrate sales contracts with third-party smelters, final commodity prices are set on a specified quotational period, 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. Revenues are recorded under these contracts at the time title passes to the buyer based on the expected settlement period. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on the average applicable price for a specified future period, and generally occurs from three to six months after shipment. 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. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded in final settlement. Royalties and refining and treatment charges are netted against revenue for sales of metal concentrate.

f) Financial Instruments: The Company applies as prescribed Section 3855, " *Financial Instruments – Recognition and Measurement*". CICA Standard 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. Under CICA 3855, all financial assets must be classified as either held-for-trading, available-for-sale, held-to-maturity investments or loans and receivables. All financial liabilities must be classified as held-for-trading or other financial liabilities. All financial instruments, including derivatives, are included on the Consolidated Balance Sheets and are measured at fair value, except for held-to-maturity investments, loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurements and recognition of changes in fair value depend on the instrument's initial classification.Held-for-trading financial instruments are measured at fair value, and all gains and losses are included in net income (loss) in the period in which they arise. Available- for-sale financial instruments are measured at fair value, determined by published market prices in an active market, except for investments in equity instruments that do not have quoted market prices in an active market which are measured at cost. Changes in fair value are recorded in other comprehensive income (loss) until the assets are removed from the balance sheet. Investments classified as available-for-sale are written down to fair value through income whenever it is necessary to reflect other-

than-temporary impairment. Realized gains and losses on the disposal of available-for-sale securities are recognized in investment and other income. Also, transactior costs related to all financial assets and liabilities are recorded in the acquisition or issue cost, unless the financial instrument is classified as held-fortrading, in which case the transaction costs are recognized immediately in net income (loss).

CICA Section 3855 also requires financial and non-financial derivative instruments to be measured at fair value and recorded as either assets or liabilities. Certain derivatives embedded in non-derivative contracts must also be measured at fair value. Any changes in the fair value of recognized derivatives are included in net income (loss) for the period in which they arise, unless specific hedge accounting criteria are met, as defined in CICA Section 3865. The same accounting treatment applied to these non-financial derivative contracts prior to the adoption of CICA Section 3855. Fair values for the Company's recognized commodity-based derivatives are based on the forward prices of the associated market index.

The Company has made the following classifications:

- Short-term and other investments including debt and equity securities are classified as "Available for sale securities". Changes in the market value of the securities are recorded as other comprehensive income.

- Accounts receivable and long term receivables are classified as "Loans and Receivables". They are recorded upon their initial measurement at fair value, which is equal to their cost. At December 31, 2008, the recorded amount approximates fair value.

- Accounts payable and accrued liabilities are classified as "Other financial liabilities". They are initially measured at their fair value. At December 31, 2008, the recorded amount is at fair value.

- Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest rate method.

g) Derivatives and Trading Activities: 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. Changes in the fair value of derivative instruments are reported in income or accumulated other comprehensive income ("AOCI"), depending on the use of the derivative and whether it qualifies for hedge accounting treatment under the provisions of CICA 3865, "*Hedges*". Unrealized gains and losses on derivative instruments qualifying as cash flow hedges are recorded in AOCI to the extent the hedges are effective, until the underlying transactions are recognized in the Consolidated Statement of Operations. To the extent effective, unrealized gains and losses on the derivative and non-derivative instruments used as hedges of the Company's net investment in foreign operations are recorded in AOCI. The ineffective portions of cash flow hedges and hedges of net investment in foreign operations, if any, are recognized in income immediately. At December 31, 2008 the Company had no derivative positions or net investments in foreign operations to which it was applying hedge accounting. All derivative instruments are recorded on the balance sheet at fair value.

Unrealized gains and losses on derivative instruments designated as fair value hedging instruments, as well as offsetting unrealized gains and losses on the hedged items, are recognized in the Consolidated Statement of Operations in the same accounting period. Unrealized gains and losses on derivative instruments that do not qualify or are not designated as hedges are marked to market at the end of each accounting period with the results included in gain or loss on commodity and foreign currency contracts in the Consolidated Statement of Operations.

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. The Company selected January 1, 2003 as its transition date for embedded derivatives. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

h) Cash: Cash includes cash in banks, held primarily in U.S. dollars ("USD") and considered "held for trading" and therefore is stated at its carrying value which approximates its fair value.

i) 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. The debt securities include corporate bonds with Standard & Poor's rating of A- to AAA with an overall average of single A high. 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.

j) Inventories: Inventories include concentrate ore, doré, ore in stockpiles, processed silver, and operating materials and supplies. 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 actual production costs incurred or estimated net realizable value based upon the period ending prices of contained metal. 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. All metal inventories are stated at the lower of cost or net realizable value, with cost being determined using the weighted average cost method. Supplies inventories are valued at the lower of average cost and net realizable value, net of obsolescence. Concentrate and doré inventory includes product at the mine site, the port warehouse and product held by refineries, and are also valued at lower of cost or net realizable value. At times, the Company has a limited amount of finished silver at a minting operation where coins depicting Pan American's emblem are stamped.

k) Mineral Property, Plant, and Equipment: Expenditures for new facilities, new assets or expenditures that extend the useful lives of existing facilities are capitalized. Maintenance, repairs and renewals are charged to operations. Any gains or losses on disposition of property, plant and equipment are reflected in the statement of operations. Mineral property costs are depreciated using the units-ofproduction method based upon estimated total proven and probable reserves. Depreciation of plant and equipment is calculated on a straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets or the useful life of the individual assets ranging from three to twenty years and the life of the mineral property to which it relates.

l) Operational Mining Properties and Mine Development: Mineral exploration costs are expensed as incurred. 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 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 over the life of the mine, commencing on the date of commercial service.

Significant payments 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 we have 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 we ultimately recover amounts that have been deferred, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Gains or losses from sales or retirements of assets are included in gain or loss on sale of assets. Costs incurred and revenue recognized during the start-up phase of a mine are capitalized in mineral property, plant and equipment. Ongoing mining expenditures on producing properties are charged against earnings as incurred. Major development expenditures incurred to increase production or extend the life of the mine are capitalized.

m) Asset Impairment: Management reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows or probability-weighted cash flows on an undiscounted basis are less than the carrying amount of the assets, including mineral property, plant and equipment and non-producing property. An impairment loss is measured and recorded based on discounted estimated future cash flows or the application of an expected present value technique to estimate fair value in the absence of a market price. Future cash flows include recoverable proven and probable reserves and a portion of recoverable resources, silver, zinc, copper, lead and gold prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation costs, all based on detailed engineering life-of-mine plans. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions and market conditions and/or the Company's performance could have a material effect on any impairment provision, and on the Company's financial position and results of operations. In estimating future cash flows, assets are grouped at the lowest levels for which there are identifiable cash flows that are largely independent of cash flows from other groups. Generally, in estimating future cash flows, all assets are grouped at a particular mine for which there is identifiable cash flow.

n) Reclamation and Remediation Costs: Estimated future reclamation and remediation costs are based principally on legal and regulatory requirements.

The asset retirement obligation is measured using assumptions for cash outflows such as expected labor costs, allocated overhead and equipment charges, contractor markup, and inflation adjustments to determine the total obligation. The sum of all these costs is discounted, using the credit adjusted risk-free interest rate from the time the Company expects to pay the retirement obligation to the time the Company incurs the obligation.

Upon initial recognition of a liability for an asset retirement obligation, the Company capitalizes the asset retirement cost to the related long-lived asset. The Company amortizes this amount to operating expense using the units-of-production method. The Company evaluates the cash flow estimates at the end of each reporting period to determine whether the estimates continue to be appropriate. Upward revisions in the amount of undiscounted cash flows will be discounted using the current credit-adjusted risk-free rate.

Downward revisions will be discounted using the credit-adjusted risk-free rate that existed when the original liability was recorded.

o) Foreign Currency Translation: The Company's functional currency and that of its subsidiaries is the U.S. dollar. Transaction amounts denominated in foreign currencies (currencies other than U.S. dollars) are translated into U.S. dollars at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are adjusted at each balance sheet 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.

The accounts of subsidiaries, which are considered to be integrated operations, are translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities of foreign subsidiaries are translated at exchange rates in effect at the end of each period and non-monetary assets and liabilities are translated using historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency transaction gains and losses are included in the determination of net income or loss.

p) Stock-based Compensation Plans: The Company provides stock grants or options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to ten years, with vesting periods determined at their sole discretion and at prices equal to or greater than the weighted average market price of the five trading days prior to the date the options were granted.

The Company applies the fair-value method of accounting in accordance with the recommendations of CICA Handbook Section ("CICA 3870"), " *Stock-based Compensation and Other Stock-based Payments*". Stock-based compensation expense is calculated using the Black-Scholes option pricing model or by using the market price of the Company's stock.

q) Income Taxes: The Company computes income taxes in accordance with CICA Handbook Section ("CICA 3465"), " *Income Taxes*", which requires an asset and liability approach. This results in the recognition of future tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities, as well as operating loss and tax credit carry-forwards, using substantively enacted tax rates in effect in the years in which the differences are expected to reverse. The Company records a valuation allowance against a portion of those future income tax assets that management believes will, more likely than not, fail to be realized. On business acquisitions, where differences between assigned values and tax bases of assets acquired (other than non-tax deductible goodwill) and liabilities assumed exist, the Company recognizes the future tax assets and liabilities for the tax effects of such differences.

r) Earnings (loss) Per Share: Basic earnings (loss) per share calculations are based on the net income (loss) for the period divided by the weighted average number of common shares issued and outstanding during the period.

The diluted earnings/ (loss) per share calculations are based on the weighted average number of common shares outstanding during the period, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period, but only if dilutive.

For convertible securities that may be settled in cash or shares at the holder's option the more dilutive of cash settlement and share settlement is used in computing diluted earnings/(loss) per share. For settlements in common shares, the if-converted method is used, which requires that returns on senior convertible equity instruments and income charges applicable to convertible financial liabilities be added back to net earnings/(loss), from the beginning of the period (or at the time of issuance, if later).

s) Recently Released Canadian Accounting Standards: The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company.

Goodwill and Intangible Assets: The CICA issued a new accounting standard, Section 3064, "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and, as a result, commissioning costs must be expensed as incurred. This standard, which is effective for us beginning January 1, 2009, is not expected to materially impact our consolidated financial position or results of operations.

International Financial Reporting Standards (IFRS): The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on January 1, 2011. We have begun planning our transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined. The Company is presently undergoing a diagnostic assessment of its current accounting policies, systems and processes in order to identify differences between current Canadian GAAP and IFRS treatment. The Company intends to update the critical accounting policies and procedures to incorporate the changes required by converting to IFRS and the impact of these changes on its financial disclosures.

Business Combinations: In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted. The Company is evaluating the attributes of early adoption of this standard and its potential effects if events or transactions occurred that this standard applies to.

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 provide returns to its shareholders. The Company's capital structure consists of shareholders' equity, comprising issued share capital plus contributed surplus plus retained earnings less accumulated other comprehensive loss. The Company has entered into a $70 million credit facility 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, 2007.

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, 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, 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.

Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, Company policy is not to hedge the price of silver.

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 assesses the Company's strategy towards its base metal exposure, depending on market conditions.

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets 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. At December 31, 2008 the Company had receivable balances associated with buyers of our concentrates of $1 1 .8 million (2007 - $31.3 million). The vast majority of our concentrate is sold to four 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 five 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 our precious metals in such circumstances. At December 31, 2008 the Company had approximately $6 million of value contained in precious metal inventory at refineries (2007 - $3 million). The Company maintains insurance coverage against the loss of precious metals at our 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 us to the credit risk of our 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. The Company expects to receive settlements of its zinc and lead positions

totaling $10.8 million during 2009, which are subject to the described credit risk of three large financial institutions.

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 a spot sale contracts.

The Company has never had any material performance or payment disputes with its refiners, trading counterparties or customers; however management constantly monitors and assesses the credit risk resulting from its refining arrangements, concentrate sales and commodity contracts. Furthermore, management carefully considers credit risk when allocating prospective sales and refining business to counterparts. In making allocation decisions, Management attempts to avoid unacceptable concentration of credit risk to any single counterparty. At December 31, 2008 and December 31, 2007, the Company has no material past due trade receivables. Accounts receivable on the Consolidated Balance Sheets is presented with $ NIL provision for doubtful accounts (2007 - $ NIL).

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

Foreign Exchange Rate Risk:

The Company reports its financial statements in US dollars (“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 Canadian dollars (“CAD”) to match anticipated spending. At December 31, 2008, the Company had forward contracts to purchase $51 million of PEN and $37 million of MXN which represent substantially all 2009 planned operating expenditures in those currencies. A 10% increase or decrease in the exchange rate of these currencies relative to the USD would have the effect of an $8.0 million charge or benefit through the gains and losses on commodity contracts line on the Company’s statement of operations, however, the Company expects this would be offset with the same benefit or cost affecting the cost of sales. The Company’s net income is also 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 foreign currencies in which its December 31, 2008 non-USD net monetary liabilities were held would result in a net income change of $1.5 million. At December 31, 2008 the Company was holding $6.4 million in CAD.

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 cash equivalents, and its committed loan facilities.

The Company's liabilities have contractual maturities which are summarized below:

	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Capital Lease Obligations	$ 2,002	$ 1,473	$ 529	-	-
Purchase Obligations[1]	3,085	3,085	-	-	-
Contribution Plan[2]	8,783	2,196	6,587	-	-
Total contractual obligations[3]	$ 13,870	$ 6,754	$7,116	-	-

(1) Contract commitments for construction materials for the San Vicente project existing at December 31, 2008, which will be incurred during 2009.

(2) In June 2008 the Company initiated a 3 year contractual retention plan for key officers and management, further discussed in Note 12. Contract commitments for the plan represent minimum payments expected to be paid out.

(3) Amounts above do not include payments related to the Company's anticipated asset retirement obligation (Note 10), nor do they include current liabilities of $79,281.

Fair value of financial instruments:

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities, approximate their fair value due to the relatively short periods to maturity and terms of these financial instruments.

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.

5. Short term investments and other investments

	December 31, 2008			December 31, 2007		
Available for Sale	**Fair Value**	**Cost**	**Accumulated unrealized holding gains (losses)**	Fair Value	Cost	Accumulated unrealized holding gains (losses)
Short term investments	**$3,350**	**3,892**	**(542)**	$ 55,400	$ 66,670	$(11,270)
Investments[1]	**715**	**405**	**310**	3,025	405	2,620
	$4,065	**4,297**	**(232)**	$ 58,425	$ 67,075	$(8,650)

(1) Investments in certain equity securities are presented in other assets on the balance sheet.

The Company has not recognized a future income tax benefit related to the cumulative mark-to-market losses on the available-for-sale securities and investments held by the Company as it is not significant.

6. Inventories

Inventories consist of:

	December 31, 2008	December 31, 2007
Concentrate inventory	**$ 13,033**	$ 14,617
Stockpile ore	**21,301**	7,790
Direct smelting ore	**1,570**	1,830
Doré and finished inventory	**11,479**	11,356
Materials and supplies	**26,386**	17,523
	73,769	53,116
Less: non-current direct smelting ore **(Note 8)**	**(1,119)**	(1,379)
	$ 72,650	$ 51,737

Under an agreement entered into in 2002 with Minera Volcan S.A. (“Volcan”), a Peruvian mining company which is one of the largest silver producers in the Cerro de Pasco mining district in Central Peru, the Company acquired the right to mine and sell 600,000 tonnes of silver-bearing ore stockpiles. The Company has sold from the time of purchase to December 31, 2008, 375,374 tonnes leaving approximately 224,626 tonnes remaining, at a carrying value of $1.6 million and classified as direct smelting ore. The consideration paid was $4.5 million and a one-third net operating cash flow interest, payable after the Company has recovered their $4.5 million of purchase price net of operating costs, deemed taxes and interest on the acquisition cost. For the year ended December 31, 2008, 2007 and 2006 the Company recorded a charge against income and included in the statement of operations within cost of sales of $0.5 million, $0.4 million and $0.4 million relating to the operating cash flow interest, respectively.

The amounts of inventory recognized as expenses during 2008, 2007 and 2006 are equivalent to the cost of sales for the respective periods.

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.

Mineral property, plant and equipment consist of:

	December 31, 2008			December 31, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Huaron mine, Peru	**$ 85,930**	**$ (30,377)**	**$ 55,553**	$ 71,781	$ (23,956)	$ 47,825
Morococha mine, Peru	**88,336**	**(18,335)**	**70,001**	65,495	(13,843)	51,652
Quiruvilca mine, Peru	**-**	**-**	**-**	24,364	(15,912)	8,452
Alamo Dorado mine, Mexico	**180,438**	**(44,404)**	**136,034**	180,249	(16,802)	163,447
La Colorada mine, Mexico	**50,984**	**(20,861)**	**30,123**	39,010	(13,564)	25,446
Manantial Espejo project, Argentina	**6,914**	**(4,861)**	**2,053**	6,388	(3,724)	2,664
San Vicente mine, Bolivia	**8,037**	**(4,389)**	**3,648**	9,002	(3,229)	**5,773**
Other	**1,904**	**(1,032)**	**872**	1,461	**(**802)	659
TOTAL	**$ 422,543**	**$ (124,259)**	**$ 298,284**	$ 397,750	$ (91,832)	$ 305,918
Construction in progress:						
Manantial Espejo, Argentina			**$ 228,410**		84,533	
San Vicente, Bolivia			**70,261**		11,448	
TOTAL			**$ 298,671**		$ 95,981	
Non-producing properties:						
Morococha, Peru			$ **19,664**		$ 23,135	
Manantial Espejo, Argentina			**65,856**		63,543	
San Vicente, Bolivia			**12,976**		10,224	
Other			**1,610**		1,483	
TOTAL Non-producing properties			**$ 100,106**		$ 98,385	
TOTAL Mineral Property, Plant and Equipment			**$ 697,061**		$ 500,284	

Major categories of depreciable and depletable assets consist of:

	2008	2007
Plant and equipment	**$ 163,438**	$ 112,754
Mineral properties and mine development	**249,497**	280,835
Capital lease (equipment)	**9,608**	4,161
	422,543	397,750
Less: Accumulated depletion and depreciation	**(122,358)**	(91,188)
Depreciation of capitalized lease equipment	**(1,901)**	(644)
	$ 298,284	$ 305,918

Write-Down of Mining Assets

Annually, or more frequently as circumstances require, the Company performs property evaluations to assess the recoverability of its mining properties. As a result of this review in 2008, the Company recorded a writedown of carrying value of its Quiruvilca silver and zinc mine in Peru totaling $15.1 million. The recent sharp decline in the price of zinc, which is a significant portion of Quiruvilca's revenue, has rendered the mine operations uneconomical in such a price environment. As such, the Company has made the decision to place the mine into a state of care and maintenance in 2009. Mine asset impairment analyses were also performed on all of the Company's remaining properties and investments using a combination of historic and forecast prices as well as considering qualitative factors. Except for the Quiruvilca mining assets discussed above, the Company determined that no other write-down in the carrying values of mining properties and investments was required in 2008, 2007 and 2006.

San Vicente, Bolivia

In 2007, Pan American completed the acquisition of an additional 40 percent interest in Pan American Silver Bolivia S. A., the operator of the San Vicente Mine, from Empresa Minera Unificada S.A. (EMUSA). The transaction gave the Company an indirect 95 percent interest in San Vicente. The purchase price was $9.0 million, plus acquisition costs, plus a 1.6% Net Smelter Royalty ("NSR"), and is 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.

The acquisition of the additional 40 percent interest was accounted for by the purchase method of accounting.

The purchase cost was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The Company estimated fair values based on discounted cash flows and estimates made by management. The purchase consideration for the mining assets of San Vicente exceeded the book value of the underlying assets by $ 0.8 million. In addition, the Company considered the prior ownership basis in calculating the tax impact of the acquisition. These amounts have been applied to increase the carrying value of the mineral properties for accounting purposes. However, this did not increase the carrying value of the underlying assets for tax purposes and resulted in a temporary difference between accounting and tax values. The resulting estimated future income tax liability associated with this temporary difference of $0.4 million was also applied to increase the carrying value of the mineral properties.

We have included the value added tax (VAT) paid in Bolivia and related to the San Vicente expansion project as part of the Construction in progress balance. The amount at December 31, 2008 included in mineral property is approximately $7.7 million (2007 - $2.4 million).

During 2008 the Company continued construction of the mill and mine expansion at San Vicente. Construction costs during the year ended December 31, 2008 amounted to $58.8 million and the total project commitments, including amounts spent are $73.3 million.

Manantial Espejo, Argentina

In April, 2006, Pan American completed the acquisition of the remaining 50 percent interest in the Manantial Espejo project from Silver Standard Resources Inc. The transaction gave the Company a 100 percent interest in Manantial Espejo. The purchase price was 1.95 million common shares of Pan American valued at approximately $47.5 million. The measurement of the purchase consideration was based on a Pan American common share price of $24.30, representing the average closing price on the NASDAQ Stock Exchange for the period from two days prior to the day of to two days after the public announcement of the purchase.

The acquisition was accounted for by the purchase method of accounting and the accounts of Minera Triton S.A. have been consolidated from April 1, 2006, which was the date the Company acquired effective control and ownership of the assets and liabilities of the said company.

The Company acquired its original 50 percent interest in the Manantial Espejo property from Silver Standard Resources in March 2002. The purchase price for the original 50% interest consisted of 231,511 common shares of the Company valued at $1.3 million and cash of $0.8 million.

As with San Vicente, the Company has recorded the value added tax (VAT) paid in Argentina and related to the Manantial Espejo property as part of Construction in progress. The amount at December 31, 2008 included in mineral property is approximately $31.2 million (2007 - $13.0 million).

During 2008 the Company continued the construction of the Manantial Espejo Mine with construction costs (including VAT) of $143.8 million for the year ended December 31, 2008. Although still in the commissioning stage at year-end, the project spending is substantially complete with total project construction costs of $228.4 million to date.

Dukat, Russia

On November 8, 2004 the Company completed the sale of its 20 per cent interest in the Dukat silver mine in Russia and received $20.5 million in cash and $22.5 million in contingent future payments for a total of $43.0 million.

During 2007, 2006 and 2005 the Company recognized gains of $12.3 million, $8.0 million and $2.0 million respectively, relating to the contingent payments based on average silver price. During 2008, the Company received from the purchaser of the Dukat property the final amount of $2.3 million of contingent future payments owing to the Company that was recorded as a receivable from the prior year. This was the final amount due under the terms of the sale.

8. Other Assets

Other assets consist of:

	2008	2007
Long-term receivable (Note 7)	$ -	$ 13,006
Reclamation bonds	**125**	291
Investments	**715**	3,025
Non-current direct smelting ore	**1,119**	1,379
	$ 1,959	$ 17,701

As at December 31, 2008, the Company has classified all VAT incurred in the building of the San Vicente and Manantial Espejo projects as part of Construction in progress, as described in Note 7.

9. Accounts Payable and Accrued Liabilities

Account payable and accrued liabilities consist of:

	2008	2007
Trade accounts payable	**$ 21,619**	$ 29,144
Payroll and related benefits including severance accruals	**9,095**	10,487
Royalties	**28**	96
Capital leases	**1,897**	1,505
Provisions and other liabilities	**16,569**	12,504
	$ 49,208	$ 53,736

10. Provision for Asset Retirement Obligation and Reclamation

The total undiscounted amount of estimated cash flows required to settle the Company's asset retirement obligations is $63.7 million (2007 - $57.9 million) which has been discounted using discount rates of between 6% and 9%. Reclamation obligations at the La Colorada and Quiruvilca mines of $5.5 million and $19.9 million, respectively, are expected to be paid starting in two to five years while the remainder of the obligations is expected to be paid through 2023. Revisions made to the reclamation obligations in 2008 were primarily a result of increased site disturbance and development at the Manantial Espejo and San Vicente projects and from the ordinary course of operations at the Alamo Dorado mine. Reclamation obligations will be funded from operating cash flows, reclamation deposits and cash on hand.

A summary of the Company's provision for asset retirement obligation and reclamation is presented below:

	2008	2007	2006
Balance at January 1	**$ 50,370**	$ 44,309	$ 39,378
Reclamation expenditures	**(167)**	(767)	(1,172)
Accretion expense	**2,687**	2,860	2,457
Revisions in estimated cash flows	**4,433**	3,968	3,646
Balance at December 31	**$ 57,323**	$ 50,370	$ 44,309

11. Accumulated other comprehensive loss

For the year ended December 31, 2007 – beginning balance	$ -
Cumulative impact of accounting changes relating to financial instruments	153
Adjusted balance beginning	153
Change in unrealized loss on available for sale securities	(8,803)
Balance at December 31, 2007	$ (8,650)
Change in unrealized gain / loss on available for sale securities	9,913
Reclassification adjustment for (gains) and losses included in net income	(1,495)
Balance at December 31, 2008	**$ (232)**

Accumulated other comprehensive loss comprises unrealized gains and losses on short-term investments and other investments designated as "available for sale".

12. Share and Stock Compensation Plan

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 five year options which vest in three installments, one third on the first anniversary of the grant date and one third on each of the second and third anniversary dates of the award. 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 Canadian dollars ("Cdn$"):

	Incentive Stock Option Plan		Share Purchase Warrants		
	Shares	Price Cdn$	Shares	Price Cdn$	Total Shares
As at December 31, 2005	1,050,641	$ 11.78	4,064,183	$ 12.32	5,114,824
Granted	191,332	$ 22.04	-	$ -	191,332
Exercised	(275,358)	$ 14.00	(23,970)	$ 12.00	(299,328)
Cancelled	(47,200)	$ 24.05	-	-	(47,200)
As at December 31, 2006	919,415	$ 13.69	4,040,213	$ 12.32	4,959,628
Granted	158,983	$ 28.41	-	$ -	158,983
Exercised	(403,297)	$ 13.14	(30,105)	$ 12.00	(433,402)
Expired	(32,833)	$ 9.41			(32,833)
Cancelled	(21,709)	$ 22.86	-	$ -	(21,709)
As at December 31, 2007	620,559	$ 18.52	4,010,108	$ 12.33	4,630,667
Granted	147,057	$ 36.66	-	$ -	147,057
Exercised	(129,371)	$ 20.73	(3,969,016)	$ 12.31	(4,098,387)
Expired	-	$ -	(41,092)	$ 12.00	(41,092)
Cancelled	(23,605)	$ 31.82	-	$ -	(23,605)
As at December 31, 2008	**614,640**	**$ 21.88**	**-**	**$ -**	**614,640**

Long Term Incentive Plan

On January 10, 2008 the Company awarded 15,343 shares of common stock with a two year holding period and granted 147,057 options under this plan. The Company used as its assumptions for calculating fair value a discount rate of 3.5 per cent, weighted average volatility of 42.0 per cent, expected lives ranging from 1.5 to 3 years based on historical experience, and an exercise price of Cdn $36.66 per share. The weighted average fair value of each option was determined to be Cdn $11.30.

During the year ended December 31, 2008, 129,371 common shares were issued for proceeds of $2.6 million in connection with the exercise of options under the plan.

Share Option Plan

The following table summarizes information concerning stock options outstanding and options exercisable as at December 31, 2008. The underlying options agreements are in Canadian dollar amounts:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Cdn$	Number Outstanding as at December 31, 2008	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price Cdn$	Number Exercisable as at December 31, 2008	Weighted Average Exercise Price Cdn$
$ 5.00	165,000	22.45	$ 5.00	165,000	$ 5.00
$ 18.80 - $22.04	169,547	16.94	$ 20.67	120,983	$ 20.16
$ 26.77 - $28.41	130,749	39.42	$ 28.30	37,317	$ 28.04
$ 33.00 - $36.66	149,344	43.66	$ 36.29	15,000	$ 33.00
	614,640	**29.69**	$ **21.88**	**338,300**	$ **14.21**

On May 22, 2008 the Company awarded 9,726 shares of common stock to its Directors as compensation. These shares have no holding or vesting period and the fair value of the shares granted was $0.3 million. For the year ended December 31, 2008, the total employee and Director stock-based compensation expense recognized in the statement of operations was $2.2 million (2007 – $2.1 million, 2006 – $2.9 million).

Share purchase warrants

In the first quarter of 2008, holders of share purchase warrants issued in connection with the purchase of Corner Bay Silver in 2003 exercised 3,713,235 warrants for net proceeds to the Company of approximately $43.9 million. In the same quarter, 255,781 share purchase warrants issued to International Finance Corporation in 2005 were also exercised for net proceeds of $4.3 million.

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 three 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 three 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. The minimum aggregate value that will be paid in cash or issued in shares over the 3 year period of the Plan is $10.9 million Canadian dollars as described in Note 4. No Shares will be issued from the treasury pursuant to the Contribution Plan without the prior approval of the shareholders of the Company and any applicable securities regulation authorities.

13. Earnings Per Share (Basic and Diluted)

For the year ended	**2008**			2007			2006		
December 31	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income	$ 24,602			$ 88,860			58,206		
Basic EPS	24,602	80,236	$ 0.31	88,860	76,453	$ 1.16	58,206	73,628	$ 0.79
Effect of Dilutive Securities:									
Convertible Debentures	-	-		-	-		8	23	
Stock Options	-	223		-	418		-	525	
Warrants	-	314		-	2,303		-	1,976	
Diluted EPS	$ 24,602	80,773	$ 0.30	$ 88,860	79,174	$ 1.12	$ 58,214	76,152	$ 0.76

There were no potentially dilutive securities excluded in the Diluted EPS calculation for the years ended December 31, 2008, 2007 or 2006 other than out-of-money options (2008 – 391,453, 2007 – 202,559, 2006 – 394,415).

14. Changes in Non-Cash Operating Working Capital Items

The following table summarizes the changes in operating working capital items:

	Year Ended December 31,		
Changes in non-cash working capital items	**2008**	2007	2006
Accounts receivable and other current assets	**$ 9,047**	$ 82	$ (38,629)
Inventories	**(21,175)**	(26,939)	(3,864)
Prepaid expenses	**(700)**	(270)	(1,171)
Accounts payable and accrued liabilities	**(62)**	9,117	16,067
Taxes payable	**8,121**	(21,416)	22,740
Other current liabilities	**(2,178)**	848	1,976
	$ (6,947)	$ (38,578)	$ (2,881)

15. Supplemental Cash Flow Information

	Year Ended December 31,		
	2008	2007	2006
Common shares issued on the conversion of convertible debentures	**$ -**	$ -	$ 881
Common shares issued as compensation expense to employees and directors	**$ 877**	$ 895	$ 559
Common shares issued to acquire mineral interests	**$**	$ -	$ 47,381

16. Other expenses

Other expenses of $4.7 million incurred in the year ended 2008 included severance costs of $1.0 million associated with the reduction in the Company's labour force at several of the mines in response to the lower metal price environment. These severance costs had been substantially settled as at December 31, 2008. As well, a severance provision of $2.3 million was accrued in payroll related liabilities (Note 9) and classified as other expense according to the plan for the Quiruvilca mine moving to care and maintenance in 2009 as discussed in Note 7. This amount represents the Company's estimate for severances that will be paid upon the transition from operations to care and maintenance. The balance of this provision was $ NIL at December 31, 2007. The Company also expensed $0.8 million in community development spending as part of the construction project at the San Vicente mine in Bolivia (2007 - $ NIL).

17. 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, Zinc, Lead and Copper produced from mines located in Mexico, Peru and Bolivia. Segments have been aggregated where operations in specific regions have similar products, production processes, type of customers and economic environment.

	For twelve months ended December 31, 2008									
	Peru				Mexico		Argentina	Bolivia		
	Huaron	Morococha	Quiruvilca	Peru Office	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Other	Total
Sales to external customers	$ 67,795	$ 65,882	$ 34,126	$ -	$ 105,137	$ 57,729	$ (11)	$ 7,942	$ -	$ 338,600
Depreciation and amortization	$ (3,361)	$ (4,749)	$ (1,398)	$ (138)	$ (27,894)	$ (7,205)	$ -	$ (1,510)	$ (94)	$ (46,349)
Exploration and project development expense	$ -	$ -	$ -	$ (440)	$ (1,973)	$ (1,847)	$ (305)	$ 86	$ (1,015)	$ (5,494)
Accretion of asset retirement and reclamation	$ (574)	$ (361)	$ (1,044)	$ -	$ (382)	$ (326)	$ -	$ -	$ -	$ (2,687)
Interest and financing expense	$ (216)	$ (209)	$ (169)	$ -	$ (55)	$ -	$ -	$ (15)	$ (287)	$ (951)
Gain (loss) on sale of assets	$ -	$ (25)	$ (2)	$ -	$ (121)	$ -	$ -	$ 53	$ 1,093	$ 998
Investment and other income and expenses	$ (1,163)	$ 1,132	$ (3,536)	$ 52	$ (7,804)	$ (1,107)	$ 88	$ (197)	$ 10,565	$ (1,970)
Foreign exchange gains (losses)	$ (495)	$ (860)	$ (626)	$ 16	$ 12,604	$ (1,426)	$ 840	$ 258	$ (16,458)	(6,147)
Gain (loss) on commodity and foreign currency contracts	$ (1,127)	$ (2,657)	$ (338)	$ -	$ -	$ -	$ -	$ -	$ 2,503	$ (1,619)
Writedown on a Mining Asset	-	-	(15,117)	-	-	-	-	-	-	(15,117)
Income (loss) before income taxes	$ 12,223	$ 11,132	$ (15,607)	$ 375	$ 41,324	$ 12,279	$ 612	$ 817	$ (14,123)	$ 49,032
Net income for the period	$ 8,225	$ 6,335	$ (12,227)	$ 375	$ 30,189	$ 5,863	$ (471)	$ 436	$ (14,123)	$ 24,602
Capital expenditures	$ 13,472	$ 18,809	$ 5,295	$ 1,207	$ 1,835	$ 11,929	$ 134,826	$ 56,196	$ 231	$ 243,800
Segment assets	$ 66,161	$ 107,085	$ 27,386	$ 1,480	$ 179,621	$ 49,629	$ 316,929	$ 98,443	$ 26,649	$ 873,383
Long-lived assets	$ 55,552	$ 89,665	$ -	$ 536	$ 136,034	$ 30,123	$ 296,319	$ 86,885	$ 1,947	$ 697,061

	For twelve months ended December 31, 2007									
	Peru				Mexico		Argentina	Bolivia		
	Huaron	Morococha	Quiruvilca	Peru Office	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Other	Total
Sales to external customers	$ 69,930	$ 82,366	$ 37,374	$ -	$ 43,579	$ 57,239	$ -	$ 10,576	$ -	$ 301,064
Depreciation and amortization	$ (2,902)	$ (4,314)	$ (821)	$ (96)	$ (12,447)	$ (7,422)	$ -	$ (911)	$ (79)	$ (28,992)
Exploration and project development expense	$ -	$ (445)	$ 434	$ (397)	$ (678)	$ (1,344)	$ (194)	$ 6	$ (744)	$ (3,362)
Accretion of asset retirement and reclamation	$ (550)	$ (483)	$ (1,143)	$ -	$ (370)	$ (314)	$ -	$ -	$ -	$ (2,860)
Interest and financing expense	$ (171)	$ (216)	$ (170)	$ -	$ -	$ -	$ -	$ -	$ (103)	$ (660)
Gain (loss) on sale of assets	$ -	$ (86)	$ -	$ (4)	$ 18	$ (3)	$ -	$ -	$ 12,500	$ 12,425
Investment and other income and expenses	$ 11	$ 2,220	$ (458)	$ 151	$ 481	$ (57)	$ 87	$ 148	$ 2,418	$ 5,001
Foreign exchange gains (losses)	$ 151	$ (438)	$ -	$ 78	$ (17)	$ (80)	$ (286)	$ 60	$ 1,460	$ 928
Gain on commodity and foreign currency contracts	$ 134	$ 208	$ 65	$ -	$ -	$ -	$ -	$ -	$ 4,938	$ 5,345
Income (loss) before income taxes	$ 27,832	$ 29,021	$ 12,116	$ 518	$ 1,998	$ 12,880	$ (393)	$ 1,988	$ 22,505	$ 108,465
Net income for the period	$ 19,836	$ 19,078	$ 8,797	$ 482	$ 2,298	$ 10,723	$ 2,520	$ 3,364	$ 21,762	$ 88,860
Capital expenditures	$ 9,896	$ 13,636	$ 4,438	$ 631	$ 10,978	$ 8,948	$ 55,233	$ 11,550	$ 8,105	$ 123,415
Segment assets	$ 11,076	$ 102,819	$ 88,073	$ 1,567	$ 204,437	$ 49,001	$ 185,849	$ 40,752	$ 79,329	$ 762,903
Long-lived assets	$ 8,572	$ 74,786	$ 47,706	$ 404	$ 163,447	$ 25,633	$ 150,739	$ 27,516	$ 1,481	$ 500,284

	For twelve months ended December 31, 2006									
	Peru				Mexico		Argentina	Bolivia		
	Huaron	Morococha	Quiruvilca	Peru Office	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Other	Total
Sales to external customers	$ 73,862	$ 84,256	$ 49,407	$ -	$ -	$ 40,926	$ -	$ 6,996	$ -	$255,447
Depreciation and amortization	$ (4,687)	$ (4,591)	$ (1,366)	$ (47)	$ -	$ (6,466)	$ -	$ (286)	$ (77)	$ (17,520)
Exploration and project development expense	$ (457)	$ (1,477)	$ (434)	$ (106)	$ (474)	$ (2,266)	$ (201)	$ (1,610)	$ (1,015)	(8,040)
Accretion of asset retirement and reclamation	$ (587)	$ (521)	$ (1,012)	$ -	$ -	$ (337)	$ -	$ -	$ -	$ (2,457)
Interest and financing expense	$ (127)	$ (107)	$ (164)	$ -	$ -	$ -	$ -	$ -	$ (175)	$ (573)
Gain (loss) on sale of assets	$ -	$ -	$ (449)	$ (4)	$ -	$ -	$ -	$ (23)	$ 7,959	$ 7,483
Investment and other income and expenses	$ (433)	$ 974	$ 159	$ 136	$ 86	$ 33	$ 35	$ 26	$ 5,018	$ 6,034
Foreign exchange gains (losses)	$ (215)	$ (338)	$ (191)	$ 6	$ (236)	$ (15)	$ 37	$ 6	$ 147	$ (799)
Loss on commodity and foreign currency contracts	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (18,328)	$ (18,328)
Income (loss) before income taxes	$ 23,043	$ 38,226	$ 28,724	$ 1,319	$ (6,383)	$ 4,852	$ (127)	$ 710	$ (6,674)	$ 83,690
Net income (loss) for the period	$ 15,466	$ 24,144	$ 18,581	$ 645	$ (5,085)	$ 10,546	$ (127)	$ 710	$ (6,674)	$ 58,206
Capital expenditures	$ 5,267	$ 10,512	$ 1,848	$ -	$ 46,240	$ 7,860	$ 24,859	$ -	$ 581	$ 97,167
Segment assets	$ 78,856	$ 115,449	$ 35,624	$ 13,902	$ 184,948	$ 42,764	$ 57,540	$ 13,742	$ 137,170	$679,995
Long-lived assets	$ 40,745	$ 64,960	$ 4,906	$ 12,121	$ 174,173	$ 23,822	$ 49,764	$ 9,455	$ 25,191	$405,137

	December 31		
Product Revenue	**2008**	2007	2006
Silver / doré	**$ 131,160**	$ 79,038	$ 37,747
Zinc concentrate	**40,335**	60,365	84,374
Lead concentrate	**81,234**	73,825	43,393
Copper concentrate	**88,341**	92,423	91,507
Silver pyrites	**2,435**	3,264	4,167
Royalties	**(4,905)**	(7,851)	(5,741)
Total	**$ 338,600**	$ 301,064	$ 255,447

The Company has 15 customers that account for 100% of the concentrate and doré sales revenue. The Company has 2 customers that accounted for 22% and 16% of total sales in 2008, and 2 customers that accounted for 26% and 21% of total sales in 2007. 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. The Company has not experienced significant bad debt and accounts receivable is presented with $ NIL provision for doubtful accounts (2007 - $ NIL).

18. Commitments and Contingencies

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 but which will only be resolved when one or more future events occur or fail to occur.

Purchase Commitments

As at December 31, 2008, the Company had commitments outstanding in the amount of $3.1 million for construction activities related to buildings and infrastructure at the Company's San Vicente project. These goods and services are anticipated to be delivered and/or completed by the end of 2009.

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 and lien of Pan American's equity interests in its material subsidiaries, has a term of four years. The interest margin on drawings under the Facility ranges from 1.25% to 2.00% over LIBOR, based on the Company's net debt to Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA") ratio. Pan American has agreed to pay a commitment fee of between 0.55% and 0.375% on undrawn amounts under the Facility, depending on the level of drawings and the Company's net debt to EBITDA ratio. Pan American has the ability to increase the Facility amount to $100 million by receiving additional commitments from one or more banks acceptable to the Lenders. The Company has made no drawings under this Facility.

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 principally on legal and regulatory requirements. As of December 31, 2008 and December 31, 2007, $57.3 million and $50.4 million, respectively, were accrued for reclamation costs relating to mineral properties in accordance with Section 3110, "*Asset Retirement Obligations*". See Note 10.

Royalty Agreements and Participation Agreements

The Company has royalty agreements on certain mineral properties entitling the owners of the property to net smelter return royalties ranging from 1% to 3%. Under a participation agreement with COMIBOL, the Bolivian state mining company, the Company is obligated to pay a participation fee of 37.5% of the operating cash flow from the San Vicente mine after recovery of its capital investment. Under the agreement entered into in 2002 with Volcan and described in Note 6, the Company is required to pay one- third of operating cash flows net of operating costs, deemed taxes and interest on the acquisition cost from stockpile sales at the Pyrite Stockpiles operation to Volcan.

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.

Capital Leases

The following is a schedule of future minimum lease payments classified as capital leases at December 31, 2008 together with the balance of the obligation under the capital lease as identified in Note 9:

Year ending December 31	Capital Leases
2009	1,473
2010	529
2011	-
Total future minimum payments	2,002
Less amount representing interest	(105)
Present value of leases	$ 1,897

Other Legal Matters

Pan American Silver Corp. and one of its subsidiaries have been named in two separate lawsuits filed in the State of California.

The first action arose from an incident that occurred on or about April 7, 2006, when a person without authorization purportedly entered onto property indirectly owned by the Company and allegedly fell into an adit resulting in a fatality. The Company has referred this matter to its insurer and defense counsel has been appointed. The probability of loss and the amount of loss, if any, are not determinable at this time.

The second action is in connection with a similar incident on or about April 14, 2006, which allegedly occurred on the same property and resulted in a claim based on serious injury to the Plaintiff. The Company has referred this matter to its insurer and defense counsel has been appointed. The probability of loss and the amount of loss, if any, are not determinable at this time.

The Company intends to vigorously defend these claims. Punitive damages are currently claimed in one of these actions and no amounts have been accrued for any potential loss under these claims. The Company's insurance does not cover punitive damages if awarded.

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.

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.

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.

19. Income Taxes

Income taxes:

	December 31		
	2008	2007	2006
Current income taxes	**$ 21,220**	$ 21,053	$ 28,827
Future income taxes	**3,210**	(1,448)	(3,343)
Provision for income taxes	**$ 24,430**	$ 19,605	$ 25,484

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes, non-controlling interest and workers participation in Peru. These differences result from the following items:

	December 31		
	2008	2007	2006
Statutory tax rate	**31.0%**	34.12%	34.12%
Expected tax expense based on above rates	**$ 15,943**	$ 40,042	$ 32,721
Increase (decrease) due to:			
Non-deductible expenses	**687**	1,005	1,004
Realization of future tax asset not previously recognized	**-**	(5,202)	(8,778)
Tax benefit (provision) not recognized when arose	**4,261**	(4,498)	4,029
Foreign tax rate differences	**(1,146)**	(3,494)	(2,209)
Effect of minimum tax	**1,963**	-	-
Workers participation in Peru	**(1,633)**	(5,772)	(8,404)
Foreign inflation and indexing	**987**	-	-
Other	**3,368**	(2,476)	2,703
	$ 24,430	$ 19,605	$ 25,484

The tax effect of each type of item that gives rise to the Company's future income tax assets and liabilities have been determined and are set out in the table below: The Company has recorded a valuation allowance against the value of certain potential tax assets for which the likelihood of realization is not more likely than not.

	2008	2007
Excess of tax value of capital assets over book value	**$ 5,818**	$ 2,701
Deductible temporary differences and other	**24,365**	17,172
Canadian resource pools	**2,497**	2,222
Non-capital loss carry forward	**22,173**	33,688
Capital losses and other	**2,665**	3,992
Total future income tax asset	**57,518**	59,775
Less: valuation allowance	**(19,936)**	(26,529)
Net future income tax asset	**37,582**	33,246
Excess of book value of capital assets over tax value	**(77,372)**	(73,556)
Net future income tax liability	**$ (39,790)**	$ (40,310)

Presentation of the future income taxes on the Consolidated Balance Sheets is as follows:

	2008	2007
Current future income tax assets	**$ 5,602**	$ 8,388
Long-term future income tax liabilities	**(45,392)**	(48,698)
	$ (39,790)	$ (40,310)

At December 31, 2008 the Company has non-capital losses available for tax purposes:

	Amount	Expiry
Canada	$ 60,834	2009-2026
Argentina	$ 4,872	2009-2011
Bolivia	$ 17,458	Indefinite
Mexico	$ 2,203	2009-2015

20. Fair Value of Financial Instruments

Commodity Derivatives

From time to time, the Company 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, 2008, the Company had sold forward 3,000 tonnes of zinc at a weighted average price of $3,770 per tonne which are expected to settle each month until December 2009. Prior to December 31, 2008 Pan American closed all its open lead positions, which had the effect of establishing a gain of $3.2 million, which is due to settle monthly during 2009. The total mark to market gain on the base metal program at December 31, 2008 is $10.8 million.

Approximately one-third of the Company's operating and capital expenditures are denominated in local currencies other than the US dollar. These expenditures are exposed to fluctuations in US dollar 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 US dollars. In anticipation of operating expenditures in Peruvian Nuevo sol ("PEN") and Mexican pesos ("MXN"), at December 31, 2008 the Company has entered into foreign currency contracts with an aggregated nominal value of $51 million for PEN and $37 million for MXN settling between January and December 2009 at an average PEN/US$ exchange rate of 2.82 and an average MXN/US$ exchange rate of 10.99. In addition, Pan American was holding cash balances equivalent to $0.7 million in PEN and $2.5 million in MXN as at December 31, 2008. At December 31, 2008, the mark-to-market value of the Company's local currencies positions was an unrealized loss of $14.2 million.

21. Related Party Transactions

During the year ended December 31, 2008, a private company controlled by a director of the Company was paid approximately $0.2 million (2007-$0.1 million, 2006-$0.1 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.

22. Differences between Canadian and United States Generally Accepted Accounting Principles

These financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ in certain material respects from accounting principles generally accepted in the United States ("US GAAP"). Material differences between Canadian and US GAAP and their effect on the Company's consolidated financial statements are summarized in the following tables.

	December 31, 2008			
Consolidated Balance Sheets	**Total assets**	**Total liabilities**	**Non-Controlling Interest**	**Shareholder's Equity**
Reported under Canadian GAAP	**$ 873,383**	**$ 181,996**	**$ 5,746**	**$ 682,971**
Amortization of non-producing property (a)	**(1,271)**	**(356)**	**-**	**(916)**
Increase in depletion expense (b)	**(16,251)**	**(5,713)**	**-**	**(10,538)**
Startup revenues and expenses (c)	**681**	**197**	**-**	**484**
Reported under US GAAP	**$ 856,542**	**$ 176,124**	**$ 5,746**	**$ 672,001**

	December 31, 2007			
Consolidated Balance Sheets	**Total assets**	**Total liabilities**	**Non-Controlling Interest**	**Shareholder's Equity**
Reported under Canadian GAAP	$ 762,903	$ 157,800	$ 5,486	$ 599,617
Amortization of non-producing property (a)	(1,534)	(429)	-	(1,105)
Increase in depletion expense (b)	(12,892)	(4,487)	-	(8,405)
Startup revenues and expenses (c)	681	197	-	484
Reported under US GAAP	$ 749,158	$ 153,081	$ 5,486	$ 590,591

	December 31, 2008				
Consolidated Statement of Shareholder's Equity	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Reported under Canadian GAAP	$ 655,517	$ 26,234	$ 4,122	$ (232)	$ 685,641
Amortization of mineral property (a)	-	-	(916)	-	(916)
Debt issue costs (d)	-	3,273	(3,273)		-
Increase depletion expense (b)	-	-	(10,538)	-	(10,538)
Startup revenues and expenses (c)	-	-	484		484
Reported under US GAAP	$ 655,517	$ 7,395	$ 11,991	$ (232)	$ 674,671

	December 31, 2007				
Consolidated Statement of Shareholder's Equity	Share Capital	Contributed Surplus	Retained Earnings/ (Deficit)	Accumulated Other Comprehensive Income (loss)	Total
Reported under Canadian GAAP	$ 592,402	$ 14,233	$ 1,632	$ (8,650)	$ 599,617
Amortization of mineral property (a)	-	-	(1,105)	-	(1,105)
Debt issue costs (d)	-	3,273	(3,273)		-
Increase depletion expense (b)	-	-	(8,405)	-	(8,405)
Startup revenues and expenses (c)	-	-	484	-	484
Reported under US GAAP	$ 592,402	$ 17,506	$ (10,667)	$ (8,650)	$ 590,591

	December 31, 2006				
Consolidated Statement of Shareholder's Equity	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (loss)	Total
Reported under Canadian GAAP	$ 584,769	$ 14,485	$ (87,228)	$ -	$ 512,026
Amortization of mineral property (a)	-	-	(1,105)	-	(1,105)
Debt issue costs (d)	-	3,273	(3,273)	-	-
Increase depletion expense (b)	-	-	(7,484)	-	(7,484)
Available for sale securities (f)	-		(153)	153	-
Reported under US GAAP	$ 584,769	$ 17,758	$ (99,243)	$ 153	$ 503,437

Consolidated statement of operations	December 31 **2008**	2007	2006
Net income (Loss) reported under Canadian GAAP	**$ 24,602**	$ 88,860	$ 58,206
Amortization of mineral property (a)	**189**	(1)	-
Increase in depletion expense (b)	**(2,133)**	(921)	(1,933)
Unrealized (loss) gain on marketable securities (f)	**-**	-	(58)
Startup costs and revenue recognition (c)	**-**	484	-
Net income (loss) reported under US GAAP	**$ 22,658**	$ 88,422	$ 56,215

Consolidated Statements of Operations	**2008**	2007	2006
(Under US GAAP)			
Revenue	**$ 338,600**	$ 302,702	$ 255,447
Expenses			
Operating	**199,032**	168,413	124,608
General and Administrative	**10,435**	9,522	9,172
Depreciation, depletion, and amortization (a), (b)	**49,445**	30,617	20,564
Asset retirement and reclamation	**2,687**	2,860	2,457
Exploration and project development	**5,494**	3,362	8,040
Other expense	**4,674**	-	-
(Gain) on sale of assets	**(998)**	(12,425)	(7,483)
Write-down of assets	**15,117**	-	-
	285,886	202,349	157,358
Income before the under noted	**52,714**	100,353	98,089
Investment and other income (f)	**2,704**	5,929	5,177
Interest and financing expense	**(951)**	(660)	(573)
Gain (loss) on commodity and foreign currency contracts	**(1,619)**	5,345	(18,328)
Foreign exchange loss	**(6,147)**	-	-
Income (loss) before income taxes & non-controlling interest	**46,701**	110,967	84,345
Income tax provision (e)	**(23,278)**	(19,440)	(24,373)
Non-controlling interest	**(765)**	(3,105)	(3,777)
Net income (loss) for the year	**$ 22,658**	$ 88,422	$ 56,215
Earnings per share			
Basic	**$ 0.28**	$ 1.16	$ 0.76
Diluted	**$ 0.28**	$ 1.12	$ 0.74
Weighted average number of common shares outstanding			
Basic	**80,236**	76,453	73,628
Diluted	**80,773**	79,174	76,152

Consolidated summarized statement of cash flows – US GAAP	December 31 **2008**	2007	2006
Cash flow provided by operating activities	**$ 92,985**	$ 67,361	$ 65,899
Cash flow used in investing activities	**(168,822)**	(99,489)	(160,737)
Cash flow provided by (used in) financing activities	**50,711**	3,696	145,894
Increase (decrease) in cash flow under GAAP	**$ (25,126)**	$ (28,432)	$ 51,056

a) Mineral Property Expenditures

Under Canadian GAAP capitalized costs related to non-producing mineral properties are only amortized after the commencement of operations. Prior to 2004, under US GAAP, the Company accounted for mineral rights as intangible assets, and accordingly mineral rights were amortized on a straight-line basis over the life of the mineral rights. This resulted in the Company recording amortization of $1.7 million during 2003 with respect to mining rights acquired in 2003. The Emerging Issues Task Force (EITF) reached a consensus, Issue No 04- 02, *"Whether Mineral Rights are Tangible or Non-Tangible Assets"* . The conclusion is that mineral rights are tangible assets and should be amortized over the productive life of the asset. The Company has adopted this new guidance with effect from 2004 on a prospective basis. The change has the affect of reducing amortization expense in the year ended December 31, 2004 by $1.7 million ($1.1 million net of income taxes). This change has the effect of conforming Canadian GAAP to US GAAP. The reduction in amortization expense for 2008 and 2007, respectively, is $0.2 million and $0.0 million.

b) Depreciation and Depletion

Under Canadian GAAP, depletion expense is calculated in reference to proven and probable reserves and a portion of resources, whereas under US GAAP, depletion is calculated based on proven and probable reserves only. For 2008, the Company calculated an increase of depletion of $2.1 million, (2007 – $0.9 million), with a corresponding increase to accumulated depletion. In addition, future income tax liability would decrease by $0.8 million (2007 – $0.3 million), with a corresponding decrease to income tax expense.

c) Startup Revenues and Expenses

Under Canadian GAAP, revenues and expenditures during the pre-operating period are treated as part of the cost of capital asset. Under US GAAP, all revenues and expense after the completion of construction and during pre-operating will be recorded in the statement of operations. The Company would have recorded the following under US GAAP:

		2007
Sales	$	1,638
Cost of sales		(616)
Depletion and amortization		(341)
Taxes		(197)
	$	484

d) Convertible Debentures

In May 2003, FASB Statement No. 150 ("SFAS 150"), *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"* was issued. This Statement requires that three types of financial instruments be reported as liabilities by their issuers. Those types of instruments include: mandatory redeemable instruments, forward purchase contracts, written put options and other financial instruments not in the form of shares that either obligate the issuer to repurchase its equity shares and settle its obligation for cash or by transferring other assets; and certain financial instruments that include an obligation that may be settled in a variable number of equity shares, has a fixed or benchmark tied value at inception that varies inversely with the fair value of the equity shares. SFAS 150 is effective for instruments entered into or modified after May 31, 2003. Under Canadian GAAP the convertible debentures have been accounted for in accordance with CICA Handbook Section 3860. Application of this section results in the principal component of the debenture being treated as equity. Under US GAAP, liabilities at December 31, 2008 would increase by $Nil million (December 31, 2007 - $Nil million) and shareholders' equity would decrease by a corresponding amount. Debt issue expenses of $3.3 million

would be reclassified from shareholders' equity to assets and would initially be amortized over a three-year period based on the outstanding balance of the debentures. During 2008 debt issue costs were $Nil, during 2007 debt issue costs were $Nil. The Company converted the remaining convertible debentures in 2007.

e) Income Taxes

Under Canadian GAAP, future income taxes are calculated based on enacted or substantively enacted tax rates applicable to future years. Under US GAAP, only enacted rates are used in the calculation of future income taxes. This GAAP difference resulted in no difference in the financial position, results of operations or cash flows of the Company for the years presented.

As of January 1, 2007, the Company adopted, for U.S. GAAP purposes, FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109". This interpretation clarifies financial statement recognition and disclosure requirements for uncertain tax positions taken or expected to be taken in a tax return. Guidance is also provided on the derecognition of previously recognized tax benefits and the classification of tax liabilities on the balance sheet. The adoption of this interpretation did not have a material impact on the Company's Consolidated Financial Statements. There have been no significant changes to the Company's unrecognized tax benefits in the year ending December 31, 2008.

f) Other Comprehensive Income

The Financial Accounting Standards Board ("FASB") issued SFAS No. 130, *"Reporting Comprehensive Income"*, which was required to be adopted beginning on January 1, 1998. SFAS 130 establishes standards for the reporting and display of comprehensive income ("OCI") and its components. Additionally, under SFAS 115, portfolio investments classified as available-for-sale securities are recorded at market value. The resulting gain and loss are included in determination of OCI. The Company adopted Section 1530 on January 1, 2007, which aligns treatment of OCI the same in both US GAAP and Canadian GAAP. The impacts of available-for-sale securities for the year ended December 31, 2008 and 2007, and 2006 are included in the following table:

	2008	2007	2006
Net income under US GAAP	**$ 22,658**	$ 88,422	$ 56,215
Unrealized gain (loss) on available securities	**8,418**	(8,803)	153
Comprehensive net income under US GAAP	**$ 31,076**	$ 79,619	$ 56,368

g) Stock Based Compensation

Share-based benefits have been valued at fair value using the Black-Scholes option pricing model for option grants and the grant date fair market value for stock awards. Compensation amounts have been expensed over the applicable vesting period. Under Statement of Financial Accounting Standard (SFAS) No. 1 23R "*Share Based Payment*" certain of these stock-based awards granted are considered liability instruments under U.S. GAAP and would be measured at fair value at each reporting date. The amount considered under this different treatment was deemed immaterial.

h) Recently Adopted Accounting Pronouncements

Fair Value Accounting

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial

instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS 159 are effective for the Company's fiscal year beginning January 1, 2008. The adoption of SFAS 159 did not have a material impact on the Company's consolidated financial results.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the Company's fiscal year beginning January 1, 2008. The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial results.

In October 2008, the FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which clarifies the application of FASB Statement No. 157, "Fair Value Measurements" ("FAS 157") in an inactive market. The intent of this FSP is to provide guidance on how the fair value of a financial asset is to be determined when the market for that financial asset is inactive. FSP FAS 157-3 states that determining fair value in an inactive market depends on the facts and circumstances, requires the use of significant judgment and in some cases, observable inputs may require significant adjustments based on unobservable data. Regardless of the valuation technique used, and entity must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when determining fair value of an asset in an inactive market. FSP FAS 157-3 was effective upon issuance. The Company has incorporated the principles of FSP FAS 157-3 in determining the fair value of financial assets.

FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

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;

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 market activity).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at December 31, 2008			
(in thousands of US dollars)	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments	3,350	3,350	-	-
Investments	715	715	-	-
Unrealized gain on commodity and foreign currency contracts	10,829	-	10,829	-
Trade receivable from provisional concentrate sales, net	11,785	-	11,785	-
	$ 26,679	$ 4,065	$ 22,614	$ -
Liabilities:				
Unrealized loss on commodity and foreign currency contracts	$ 14,267	$ -	$ 14,267	$ -
	$ 14,267	$ -	$ 14,267	$ -

The Company's cash instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash instruments that are valued based on quoted market prices in active markets are primarily money market securities and U.S. Treasury securities.

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. The fair value of the investment securities is calculated as the quoted market price of the investment equity security multiplied by the quantity of shares held by the Company.

The Company's trade receivable from provisional concentrate sales is valued using quoted market prices based on the forward London Metal Exchange ("LME") (copper) (zinc) and (lead) and the London Bullion Market Association P.M. fix ("London P.M. fix") (gold) (silver) and as such is classified within Level 1 of the fair value hierarchy.

The Company's unrealized gains and losses on commodity and foreign currency contracts are valued using quoted market prices in active markets and as such are classified as level 1 of the fair market value hierarchy.

The total amount of unrealized losses on Available for Sale Securities for the period was included in *Accumulated other comprehensive income* as a result of changes in market values and foreign exchange rates from December 31, 2008.

i) Recent Accounting Pronouncements

Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("FAS 162") which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. FAS 162 is effective 60 days following the Security and Exchange Commission's ("SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly* in Conformity with GAAP." The Company does not expect the adoption of FAS 162 to have and impact on the Company's consolidated financial position, results of operations or cash flows.

Accounting for the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3") which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). The intent of this FSP is to improve consistency between the useful life of a recognize intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141, "Business Combinations" ("FAS 141"). FSP1 42-3 is effective for the Company's fiscal year beginning January 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. The Company does not expect the adoption of FSP 142-3 to have an impact on the Company's consolidated financial position, results of operations or cash flows.

Derivative Instruments

In March 2008, the FASB issued FASB Statement No. 161, "Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("FAS 161") which provides revised guidance for enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and the related hedged items are accounted for under FAS 133, and how derivative instruments and the related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the potential impact of adopting this statement on the Company's derivative instrument disclosures.

Business Combinations

In December 2007, the Financial Accountings Standard Board ("FASB") issued FASB Statement No. 141(R), "Business Combinations", which amends SFAS No. 141, and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and is to be applied prospectively.

Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued FASB Statement No. 160, "Non-controlling Interests in Consolidated Financial Statements- an amendment of ARB No. 51" which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest, and the valuation of any retained non-controlling equity investment when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the potential impact of adopting this statement on the Company's consolidated position, results of operations or cash flows.

23. Subsequent Events

On February 12, 2009, Pan American closed a public offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued 6,371,000 common shares at a price of $16.25 per share, for aggregate gross proceeds of $103.5 million and total proceeds, net of underwriting fees and expenses, of $98.6 million, including the exercise in full of the underwriters' over-allotment option. The Company expects to use the net proceeds from the Offering to fund acquisitions, development programs on acquired mineral properties, working capital requirements and for other general corporate purposes.

Pan American
SILVER CORP.

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Exhibit 5.1

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statement No. 333-156707 on Form F-10 and Registration Statement No. 333-149580 on Form S-8 and to the use of our reports dated March 4, 2009 relating to the consolidated financial statements of Pan American Silver Corp. (which report expresses an unqualified opinion and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences) and the effectiveness of Pan American Silver Corp.'s internal control over financial reporting appearing in this Annual Report on Form 40-F of Pan American Silver Corp. for the year ended December 31, 2008.

/S/ DELOITTE & TOUCHE LLP

Vancouver, British Columbia, Canada
March 30, 2009

Exhibit 5.2

CONSENT OF MARTIN WAFFORN, P. ENG.

The undersigned does hereby consent to the incorporation by reference in this Annual Report on Form 40-F of Pan American Silver Corp., which is being filed with the United States Securities and Exchange Commission, of references to and summaries of:

1. a technical report entitled "Technical Report for the Quiruvilca Property, La Libertad, Peru" dated effective July 31, 2007 relating to the Quiruvilca property;
2. a technical report entitled "43-101 Technical Report – Huaron Property, Cerro de Pasco, Peru" dated effective December 31, 2006 relating to the Huaron property;
3. a technical report entitled "Technical Report for the La Colorada Property, Zacatecas, Mexico" dated effective September 30, 2007 relating to the La Colorada property;
4. a technical report entitled "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. a technical report entitled "Technical Report for the San Vincente Mine Expansion Project, Potosi Bolivia" dated effective June 6, 2007 relating to the San Vincente property; and
6. a technical report entitled "Morococha Property Technical Report, Yauli Province, Peru" dated effective December 30, 2007 relating to the Morococha property;

(collectively, the "**Incorporated Information**")

included in the Annual Information Form of Pan American Silver Corp. for the year ended December 31, 2008 (the "**AIF**").

The undersigned does hereby confirm that he has read the AIF and the AIF fairly and accurately represents the Incorporated Information, and the AIF does not materially misrepresent, by omission or otherwise, any of the Incorporated Information.

The undersigned does also hereby consent to the incorporation by reference in the Registration Statements on Form F-10 (No. 333-156707) and on Form S-8 (No. 333-149580) of Pan American Silver Corp. of the Incorporated Information.

Dated this 30th day of March, 2009.

/s/ Martin Wafforn
Martin Wafforn, P. Eng.

Exhibit 5.3

CONSENT OF MICHAEL STEINMANN

The undersigned does hereby consent to the incorporation by reference in this Annual Report on Form 40-F of Pan American Silver Corp., which is being filed with the United States Securities and Exchange Commission, of references to and summaries of:

1. a technical report entitled "Technical Report for the Quiruvilca Property, La Libertad, Peru" dated effective July 31, 2007 relating to the Quiruvilca property;
2. a technical report entitled "43-101 Technical Report – Huaron Property, Cerro de Pasco, Peru" dated effective December 31, 2006 relating to the Huaron property;
3. a technical report entitled "Technical Report for the La Colorada Property, Zacatecas, Mexico" dated effective September 30, 2007 relating to the La Colorada property;
4. A technical report entitled "Manatial-Espejo Project Canadian Standard NI 43-101, Santa Cruz Province, Argentia" dated March 2006 relating to the Manantial Espejo property;
5. a technical report entitled "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. a technical report entitled "Technical Report for the San Vincente Mine Expansion Project, Potosi Bolivia" dated effective June 6, 2007 relating to the San Vincente property; and
7. a technical report entitled "Morococha Property Technical Report, Yauli Province, Peru" dated effective December 30, 2007 relating to the Morococha property;

(collectively, the "**Incorporated Information**")

included in the Annual Information Form of Pan American Silver Corp. for the year ended December 31, 2008 (the "**AIF**").

The undersigned does hereby confirm that he has read the AIF and the AIF fairly and accurately represents the Incorporated Information, and the AIF does not materially misrepresent, by omission or otherwise, any of the Incorporated Information.

The undersigned does also hereby consent to the incorporation by reference in the Registration Statements on Form F-10 (No. 333-156707) and on Form S-8 (No. 333-149580) of Pan American Silver Corp. of the Incorporated Information.

Dated this 30th day of March, 2009.

/s/ Michael Steinmann
Michael Steinmann, P. Geo.

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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant'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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual 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 registrant'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 registrant'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 registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 30, 2009

/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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant'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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual 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 registrant'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 registrant'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 registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 30, 2009

/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") on Form 40-F for the year ended December 31, 2008, 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 30, 2009

/s/ A. Robert Doyle
By: A. Robert Doyle
Title: Chief Financial Officer
March 30, 2009

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.