

August 13, 2007

**PAN AMERICAN SILVER REPORTS
RECORD QUARTERLY SILVER PRODUCTION, \$18.5 MILLION NET INCOME
AND \$31.5 MILLION OPERATING CASH FLOW IN Q2 2007**

(All amounts in US Dollars unless otherwise stated)

SECOND QUARTER 2007 HIGHLIGHTS

- Record quarterly silver production of 4.2 million ounces, up 27% over Q2 2006.
- Net income of \$18.5 million (\$0.24/share), up from \$15.0 million (\$0.21/share) in Q2 2006.
- Record quarterly cash flow of \$31.5 million, before changes in non-cash working capital.
- Sales up 26% over Q2 2006 to \$79.2 million.
- Alamo Dorado in commercial production as of April 1, 2007.
- Operating improvements at La Colorada resulted in a 7% production increase.
- San Vicente ownership increased to 95% and mine expansion project initiated.
- Construction at Manantial Espejo mine over 33% complete.

* Financial information in this news release is based on Canadian GAAP.

FINANCIAL RESULTS

Pan American Silver Corp. (NASDAQ: PAAS; TSX: PAA) today reports that consolidated net income for the second quarter 2007 was \$18.5 million, or \$0.24 per share, as compared to \$15.0 million, or \$0.21 per share, in the year earlier period. The Company also experienced record quarterly cash flow from operations of \$31.5 million, before changes in non-cash working capital items. Higher realized metal prices, increased production at La Colorada and San Vicente, and revenues from the newly commissioned Alamo Dorado mine all contributed to this increase in net income and cash flow.

Second quarter sales increased by 26%, as compared to the year earlier period, to \$79.2 million, even though concentrate sales did not keep pace with concentrate production from the Company's Peruvian operations. During the first 6 months of 2007, the Company shipped only 83% of the concentrate it produced. As a consequence, concentrate inventories grew by approximately 10,000 tonnes in that same period. The Company anticipates shipment of this inventory over the remainder of 2007, which will positively impact both net income and cash flow.

Commenting on the second quarter, Geoff Burns, President and CEO, said: "I am pleased that Pan American has notched its fifth consecutive quarter of production growth and delivered strong financial results. Commencement of commercial production at Alamo Dorado is an important milestone for the growth of our company and was reflected in this quarter's record silver production. We enjoyed record cash flows from operations and our second highest quarterly revenues. I am pleased with this past quarter's performance, and am equally optimistic that our revenues will continue to improve over the remainder of the year as production continues to grow. We should also benefit from the shipment and sale of the concentrate that is currently sitting in inventory."

Cost of sales for the quarter were \$40.8 million, up \$13.2 million from the second quarter 2006, largely as a result of costs associated with new production from Alamo Dorado, higher volumes mined and processed at the La Colorada and San Vicente mines, and general increases in operating costs at all of the Company's producing properties.

Working capital at June 30, 2007 was \$201.0 million, a decrease of \$6.3 million from March 31, 2007. Capital expenditures in the quarter were \$39.9 million, of which \$20.8 million was spent on construction of the Manantial Espejo mine in Argentina.

PRODUCTION AND OPERATIONS

Silver production for the quarter totaled 4.2 million ounces, up 27% from 3.3 million ounces recorded in the second quarter 2006, and up 26% over the first quarter of this year. Factors contributing to this increase were completion of commissioning at the Alamo Dorado mine and continued production growth at La Colorada, which produced 13% more ounces of silver compared to the year earlier period. Offsetting these production gains were anticipated declines in production from the Company's Peruvian operations as a result of mining lower silver grade ore.

Consolidated cash costs for the quarter were \$2.61 per ounce compared to \$1.17 per ounce in the year-earlier period. Byproduct base metal credits continued to have a positive effect on the Company's cash cost per ounce of silver produced, particularly at Morococha, where cash costs for the quarter were negative \$5.23 per ounce.

PERU

Silver production from the **Morococha** mine in the second quarter was on target at 674,379 ounces. Higher mill throughput offset the lower silver grade ore being mined as part of the 2007 mine plan. Cash costs declined for the fifth consecutive quarter to negative \$5.23 per ounce, as byproduct credits continued to be greater than operating costs. Progress continued on a two year underground development project to facilitate access to higher grade ore zones, with 460 metres advanced on the Manto Italia ramp by the end of the second quarter, out of a total 1,100 metre program.

The **Huaron** mine delivered excellent performance in the second quarter, producing 949,477 ounces of silver, 6% higher than in the year earlier period. The mill set a new throughput record in the second quarter, processing 66,000 tonnes in one month. Cash costs remained steady at \$1.90 per ounce, as compared to \$1.71 per ounce recorded in the year earlier period.

Second quarter silver production at the **Quiruvilca** mine was 407,000 ounces, at a cash cost per ounce of \$1.30. Production was below plan for the quarter as a result of an approximately 4 month delay in completing a mine deepening program, which required the Company to mine lower grade material throughout the second quarter in order to supply the mill with sufficient tonnage. The mine deepening program is now scheduled to be complete in September 2007, and it is expected to facilitate access to higher grade zones late in the fourth quarter of 2007, with full year silver production still estimated to be 1.9 million ounces.

The **Silver Stockpile** operation produced 121,280 ounces of silver in the second quarter at a cash cost of \$3.19 per ounce.

MEXICO

Commercial production at the **Alamo Dorado** mine commenced on April 1, 2007. The mine steadily increased production throughout the quarter and was near design capacity by quarter end. Silver production for the quarter was 858,006 ounces, of which 350,000 ounces were produced in the month of June. Cash costs were \$4.01 per ounce and are expected to decline as production ramps up over the balance of 2007. Plant operations continued to improve as difficulties encountered during commissioning with respect to the filtration system and the refining circuit were solved. Mining activities in the open pit were as expected, with a

total of 579,692 tonnes of ore and waste rock mined throughout the quarter, with ore grades according to plan.

The **La Colorada** mine was the Company's top producer in the second quarter, with silver production from the mine reaching a record 1,035,974 ounces, or 13% more than in the year-earlier period. The mine established a fourth consecutive monthly tonnage record in June by processing over 27,744 tonnes of ore. Production from the sulphide plant exceeded expectations, and reached a consistent processing rate of over 400 tonnes per day. Cash costs were \$7.02 per ounce of silver in the quarter, which included a one-time distribution of profit sharing of approximately \$500,000, and reflected greater production and administrative costs associated with increased mining and milling activity in the sulphide plant.

ARGENTINA

Mining and construction activities at the **Manantial Espejo** project progressed well in the second quarter, and overall site earthworks are now substantially complete. Efforts throughout the quarter continued to focus on civil concrete works in the plant, leach tank and warehouse areas, as well as construction of the site area power distribution system.

By June 30 a total of 686 metres had been advanced on the Maria and Melissa underground ramps, out of a total of 4,000 metres of development programmed for completion prior to plant commissioning. Mine development in the Karina Union open pit progressed as anticipated, bringing total ore and waste rock removed since beginning of pre-stripping to 639,949 tonnes.

At the end of the quarter, project expenditures totaled \$55.8 million and project commitments totaled \$74.5 million. Construction is on budget and on schedule for mechanical completion in May of 2008, with commissioning to start immediately thereafter. Manantial Espejo is expected to produce an average of 4.1 million ounces of silver and 60,000 ounces of gold annually.

BOLIVIA

In the second quarter, the Company successfully completed the acquisition of an additional 40% interest in the high grade silver-zinc **San Vicente** mine, increasing its ownership interest to 95%. In connection with the acquisition, plans were initiated to expand production at the mine from 250 to 750 tonnes per day. The expansion project has received the requisite approval and support from Comibol, the state mining authority, and the EPCM contractor for plant construction has been selected. The project should take 18 months to complete at a cost of \$40.5 million. San Vicente should produce an average of 2.8 million ounces annually, on a 100% basis, for the first five years of full production.

San Vicente posted silver production of 173,634 ounces of silver in the second quarter, at a cash cost of \$3.74 per ounce. The higher than anticipated silver production was primarily due to higher processed tonnes through the mill, offset slightly by lower grades.

Pan American Silver's mission is to be the largest and lowest cost primary silver mining company globally, and to achieve this by constantly increasing its low cost silver production and its silver reserves. Pan American has delivered 12 consecutive years of production growth and expects to continue this trend in 2007 as silver production is forecast to increase by 31% to 17 million ounces.

Selected Financial and Operating Highlights for the second quarter 2007 are attached to this news release. These should be read in conjunction with the Company's MD&A,

Financial Statements and Notes to Financial Statements for the corresponding period, which are available on the Company's website at www.panamericansilver.com, and have been posted on Sedar at www.sedar.com.

Pan American will host a conference call to discuss its financial and operating results on Tuesday, August 14, 2007 at 8:00 am PST (11:00 am EST). North American participants please dial toll-free 1-888-694-4728 and international participants please dial 1-973-582-2745. The call will also be broadcast live on the internet at <http://www.vcall.com/IC/CEPage.asp?ID=119605>. The call will be available for replay for one week after the call by dialing 1-877-519-4471 (for North American callers) and 1-973-341-3080 (for international callers) and using the replay pin number 9061763.

For more information, please contact: Alexis Stewart, Director Corporate & Investor Relations (604) 684.1175 astewart@panamericansilver.com

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

THIS NEWS RELEASE 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 NEWS RELEASE, 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 ACTIVITIES AT MANANTIAL ESPEJO, THE EXPECTED RESULTS FROM EXPLORATION ACTIVITIES, 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 COSTS, THE REQUIREMENTS FOR ADDITIONAL CAPITAL, 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 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, FUTURE PRICES OF SILVER, GOLD AND BASE METALS, 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, FLUCTUATIONS IN THE PRICE FOR NATURAL GAS, FUEL OIL AND OTHER KEY SUPPLIES, 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. 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.

Financial & Operating Highlights

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Consolidated Financial Highlights (in thousands of US dollars)				
(Unaudited)				
Net income for the period	\$ 18,472	\$ 14,964	\$ 38,907	\$ 12,203
Earnings per share	\$ 0.24	\$ 0.21	\$ 0.51	\$ 0.17
Mine operating earnings	\$ 31,417	\$ 31,060	\$ 46,291	\$ 49,036
Cash flow from operations (excluding changes in operating assets and liabilities)	\$ 31,537	\$ 16,625	\$ 45,264	\$ 25,536
Capital spending	\$ 39,866	\$ 36,985	\$ 59,138	\$ 53,246
Exploration and project development	\$ 720	\$ 637	\$ 1,269	\$ 1,871
Cash and short-term investments			\$ 143,730	\$ 185,335
Net working capital			\$ 201,024	\$ 188,948
Consolidated Production				
Silver metal – ounces	4,219,751	3,317,369	7,563,835	6,644,896
Zinc metal – tonnes	9,931	9,493	19,485	20,193
Lead metal – tonnes	4,015	3,914	7,749	7,868
Copper metal – tonnes	1,280	1,165	2,583	2,207
Gold metal – ounces	6,938	1,744	10,258	3,362
Consolidated Cost per Ounce of Silver (net of by-product credits)				
Total cash cost per ounce ⁽¹⁾	\$ 2.61	\$ 1.17	\$ 2.73	\$ 1.81
Total production cost per ounce ⁽¹⁾	\$ 4.82	\$ 2.63	\$ 4.75	\$ 3.26
Payable ounces of silver	3,916,550	3,048,131	6,986,103	6,079,589
Average Metal Prices				
Silver – London Fixing per ounce	\$ 13.33	\$ 12.25	\$ 13.31	\$ 10.96
Zinc – LME Cash Settlement per tonne	\$ 3,667	\$ 3,301	\$ 3,561	\$ 2,762
Lead – LME Cash Settlement per tonne	\$ 2,182	\$ 1,095	\$ 1,979	\$ 1,169
Copper – LME Cash Settlement per tonne	\$ 7,637	\$ 7,251	\$ 6,766	\$ 6,070
Gold – London Fixing per ounce	\$ 667	\$ 627	\$ 658	\$ 590

Mine Operations Highlights

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Huaron Mine				
Tonnes milled	185,536	165,427	366,361	327,945
Average silver grade – grams per tonne	198	203	197	209
Average zinc grade – percent	2.68%	2.50%	2.74%	2.64%
Silver – ounces	949,477	897,544	1,876,571	1,832,024
Zinc – tonnes	3,148	2,831	6,442	5,723
Lead – tonnes	1,816	1,802	3,583	3,621
Copper – tonnes	323	443	667	846
Gold – ounces	952	324	1,878	657
Total cash cost per ounce ⁽¹⁾	\$ 1.90	\$ 1.71	\$ 1.94	\$ 2.64
Total production cost per ounce ⁽¹⁾	\$ 3.09	\$ 2.98	\$ 3.14	\$ 3.88
Payable ounces of silver	851,798	818,588	1,684,958	1,665,878
Quiruvilca Mine				
Tonnes milled	88,043	94,112	177,244	189,632
Average silver grade – grams per tonne	172	224	171	225
Average zinc grade – percent	2.27%	2.88%	2.35%	2.93%
Silver – ounces	407,000	582,570	810,919	1,191,207
Zinc – tonnes	1,635	2,320	3,414	4,759
Lead – tonnes	597	652	1,192	1,318
Copper – tonnes	422	342	803	696
Gold – ounces	312	262	625	560
Total cash cost per ounce ⁽¹⁾	\$ 1.30	\$ (1.07)	\$ 1.81	\$ (0.05)
Total production cost per ounce ⁽¹⁾	\$ 2.76	\$ 0.10	\$ 3.29	\$ 1.10
Payable ounces of silver	376,844	540,683	750,274	1,107,175
Morococha Mine*				
Tonnes milled	143,966	140,487	290,098	273,260
Average silver grade – grams per tonne	172	199	167	200
Average zinc grade – percent	3.69%	3.71%	3.51%	4.08%
Silver – ounces	674,379	771,718	1,313,284	1,507,144
Zinc – tonnes	4,453	4,342	8,519	9,427
Lead – tonnes	1,440	1,453	2,674	2,923
Copper – tonnes	507	380	1,056	650
Gold – ounces	90	272	205	505
Total cash cost per ounce ⁽¹⁾	\$ (5.23)	\$ (3.81)	\$ (4.73)	\$ (2.86)
Total production cost per ounce ⁽¹⁾	\$ (3.50)	\$ (2.20)	\$ (2.93)	\$ (1.25)
Payable ounces of silver	604,339	692,960	1,180,297	1,348,072

* Production and cost figures are for Pan American's share only. Pan American ownership was 88.5% during the quarter.

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
La Colorada Mine				
Tonnes milled	79,257	57,254	147,726	113,794
Average silver grade – grams per tonne	479	580	470	546
Silver – ounces	1,035,974	914,398	1,890,720	1,711,644
Zinc – tonnes	256	-	304	-
Lead – tonnes	162	7	300	7
Gold - ounces	1,092	887	1,949	1,639
Total cash cost per ounce ⁽¹⁾	\$ 7.02	\$ 5.56	\$ 6.91	\$ 5.70
Total production cost per ounce ⁽¹⁾	\$ 8.67	\$ 7.37	\$ 8.59	\$ 7.64
Payable ounces of silver	1,005,365	911,623	1,843,099	1,706,091
Alamo Dorado Mine*				
Tonnes milled	255,861	-	392,902	-
Average silver grade – grams per tonne	132	-	127	-
Silver – ounces	858,006	-	1,125,030	-
Gold - ounces	4,492	-	5,601	-
Total cash cost per ounce ⁽¹⁾	4.01	-	5.25	-
Total production cost per ounce ⁽¹⁾	8.64	-	9.94	-
Payable ounces of silver	855,861	-	1,121,965	-
* Commencement of commercial production started on April 1, 2007.				
San Vicente Mine*				
Tonnes milled	23,526	-	39,446	8,987
Average silver grade – grams per tonne	290	-	300	321
Average zinc grade – percent	2.57%	-	2.76%	3.99%
Silver – ounces	173,634	-	310,107	78,550
Zinc – tonnes	439	-	806	284
Copper – tonnes	29	-	57	15
Total cash cost per ounce ⁽¹⁾	\$ 3.74	\$ -	\$ 3.48	\$ 2.85
Total production cost per ounce ⁽¹⁾	\$ 6.45	\$ -	\$ 5.30	\$ 3.14
Payable ounces of silver	156,211	-	278,387	70,086
* The production statistics represent Pan American's interest in the mine. Pan American's ownership was approximately 55% through May and increased to 95% for June.				
Pyrite Stock Piles				
Tonnes sold	13,024	14,322	27,754	31,412
Average silver grade – grams per tonne	290	328	266	353
Silver – ounces	121,280	151,139	237,205	356,030
Total cash cost per ounce ⁽¹⁾	\$ 3.19	\$ 3.76	\$ 3.50	\$ 1.78
Total production cost per ounce ⁽¹⁾	\$ 3.19	\$ 3.76	\$ 3.50	\$ 1.78
Payable ounces of silver	66,133	84,277	127,123	182,288

(1) The Company reports the non-GAAP cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company's mines. The measure is widely used in the silver mining industry as a benchmark for performance, but does not have standardized meaning. To facilitate a better understanding of this measure as calculated by the Company, we have provided a detailed reconciliation of this measure to our cost of sales, as shown in our unaudited Consolidated Statement of Operations for the period, which can be found on page 6 of the MD&A.

PAN AMERICAN SILVER CORP.
Consolidated Balance Sheets
(Unaudited In thousands of US dollars, except for amounts of shares)

	June 30, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	\$ 75,853	\$ 80,347
Short-term investments	67,877	91,601
Accounts receivable	58,215	65,971
Inventories and stockpiled ore (note 4)	38,570	22,216
Unrealized gain on commodity and foreign currency contracts	563	186
Future income taxes	4,811	6,670
Prepaid expenses and other	4,895	3,106
Total Current Assets	250,784	270,097
Mineral property, plant and equipment, net (note 6)	298,086	112,993
Construction in progress (note 7)	50,743	104,037
Investment in non-producing properties (note 7)	94,903	188,107
Direct smelting ore (note 4)	1,612	1,831
Future income taxes	524	500
Other assets	8,530	2,430
Total Assets	\$ 705,182	\$ 679,995
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 37,216	\$ 40,095
Income taxes payable	6,260	23,187
Advance on metal shipments	4,049	-
Other current liabilities	2,235	2,199
Total Current Liabilities	49,760	65,481
Asset retirement obligations and reclamation (note 9)	45,282	44,309
Future income taxes	49,172	48,499
Non-controlling interest	4,099	9,680
Total Liabilities	148,313	167,969
Shareholders' Equity		
Share capital		
Authorized:		
200,000,000 common shares of no par value		
Issued:		
December 31, 2006 – 76,195,426 common shares	589,660	584,769
June 30, 2007 – 76,480,051 common shares		
Additional paid in capital	14,141	14,485
Accumulated other comprehensive income (note 3)	1,389	-
Deficit	(48,321)	(87,228)
Total Shareholders' Equity	556,869	512,026
Total Liabilities and Shareholders' Equity	\$ 705,182	\$ 679,995

See accompanying notes to the consolidated financial statement.

Pan American Silver Corp.

Consolidated Statements of Operations

(Unaudited – in thousands of US Dollars, except for share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Sales	\$ 79,211	\$ 62,848	\$ 127,268	\$ 108,592
Cost of sales	(40,800)	(27,613)	(69,761)	(51,910)
Depreciation and amortization	(6,994)	(4,175)	(11,216)	(7,646)
Mine operating earnings	31,417	31,060	46,291	49,036
General and administrative	2,684	2,416	4,542	4,349
Exploration and project development	720	637	1,269	1,871
Asset retirement and reclamation	760	614	1,396	1,228
Operating income	27,253	27,393	39,084	41,588
Interest and financing expenses	(116)	(203)	(274)	(349)
Investment and other income	1,889	1,384	3,727	1,723
Foreign exchange gain (loss)	84	(301)	24	(383)
Net gain (loss) on commodity and currency contract	887	(4,780)	727	(16,610)
Gain on sale of assets	-	-	10,268	-
Income (loss) before taxes and non-controlling interest	29,997	23,493	53,556	25,969
Income tax provision	(10,160)	(7,577)	(12,760)	(11,590)
Non-controlling interest	(1,365)	(952)	(1,889)	(2,176)
Net income for the period	\$ 18,472	\$ 14,964	\$ 38,907	\$ 12,203

Attributable to common shareholders:

Net income for the period	\$ 18,472	\$ 14,964	\$ 38,907	\$ 12,203
Accretion of convertible debentures	-	(13)	-	(26)
Adjusted net income for the period attributable to common shareholders	\$ 18,472	\$ 14,951	\$ 38,907	\$ 12,177

Basic income per share	\$ 0.24	\$ 0.21	\$ 0.51	\$ 0.17
Diluted income per share	\$ 0.23	\$ 0.20	\$ 0.49	\$ 0.16

Weighted average number of shares outstanding
(in thousands)

Basic	76,401	71,174	76,365	71,138
Diluted	79,302	75,869	79,311	75,833

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income (Unaudited – in thousands of US Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Comprehensive income				
Net income for the period	\$ 18,472	\$ 14,964	\$ 38,907	\$ 12,203
Unrealized gain on available for sale securities	953	-	1,236	-
Comprehensive income	\$ 19,425	\$ 14,964	\$ 40,143	\$ 12,203

See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.
Consolidated Statement of Cash Flows
(Unaudited – in thousands of US dollars)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Operating activities				
Net income for the period	\$ 18,472	\$ 14,964	\$ 38,907	\$ 12,203
Reclamation expenditures	(190)	(113)	(470)	(395)
Items not involving cash:				
Depreciation and amortization	6,994	4,175	11,216	7,646
Asset retirement and reclamation	760	614	1,396	1,228
Gain on sale of assets	-	(184)	(10,268)	(184)
Future income taxes	3,921	(974)	2,080	(1,583)
Non-controlling interest	1,365	952	1,889	2,176
Unrealized (loss) gain on commodity and foreign currency contracts	(331)	(3,560)	(377)	3,223
Stock-based compensation	546	751	891	1,222
Changes in non-cash operating working capital	(13,369)	12,602	(24,834)	11,208
Cash generated by operating activities	18,168	29,227	20,430	36,744
Investing activities				
Mineral property, plant and equipment expenditures	(33,621)	(36,985)	(52,893)	(53,246)
Purchase of additional 40 percent interest in San Vicente (net of cash of \$1.9 million)	(6,245)	-	(6,245)	-
Maturity (purchase) of short-term investments	11,287	(116,305)	23,893	(96,385)
Proceeds from sale of assets	-	-	10,268	-
Purchase of other assets	(2,475)	(167)	(4,947)	(167)
Cash used in investing activities	(31,054)	(153,457)	(29,924)	(149,798)
Financing activities				
Proceeds from issuance of common shares	1,559	150,260	3,257	152,344
Dividends paid by subsidiaries to non controlling interests	-	-	(2,306)	-
Share issue costs	-	(7,845)	-	(7,845)
Proceeds from short term loans	4,049	2,202	4,049	2,202
Other	-	-	-	(19)
Cash generated by financing activities	5,608	144,617	5,000	146,682
Increase in cash and cash equivalents during the period	(7,278)	20,387	(4,494)	33,628
Cash and cash equivalents, beginning of period	83,131	42,532	80,347	29,291
Cash and cash equivalents, end of period	\$ 75,853	\$ 62,919	\$ 75,853	\$ 62,919
Supplemental Disclosures				
Interest paid	\$ -	\$ -	\$ -	\$ 19
Taxes paid	\$ 12,141	\$ 2,317	\$ 28,260	\$ 3,749

See accompanying notes to the consolidated financial statements.

PAN AMERICAN SILVER CORP.

Consolidated Statements of Shareholders' Equity
for the six months ended June 30, 2007 and 2006
(Unaudited - in thousands of US dollars, except for amounts of shares)

	Common Shares		Convertible	Additional	Deficit	Total
	Shares	Amount	Debentures	Paid in Capital		
Balance, December 31, 2005	67,564,903	\$ 388,830	\$ 762	\$ 13,117	\$ (145,387)	\$ 257,322
Issued on the exercise of stock options	159,308	2,858	-	(697)	-	2,161
Issued on the exercise of share purchase warrants	11,535	151	-	(27)	-	124
Issued on the conversion of debentures	6,789	86	(76)	-	-	10
Issued as compensation	26,231	559	-	70	-	629
Shares issued to acquire mineral interests	1,950,000	47,381	-	-	-	47,381
Stock issued for cash	6,281,407	142,155	-	-	-	142,155
Accretion of convertible debentures	-	-	26	-	(26)	-
Stock-based compensation on options granted	-	-	-	924	-	924
Net income for the period	-	-	-	-	12,203	12,203
Balance, June 30, 2006	76,000,173	\$ 582,020	\$ 712	\$ 13,387	\$ (133,210)	\$ 462,909

	Common Shares		Additional	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount	Paid in Capital			
Balance, December 31, 2006	76,195,426	\$ 584,769	\$ 14,485	\$ -	\$ (87,228)	\$ 512,026
Issued on the exercise of stock options	245,168	4,056	(972)	-	-	3,084
Issued on the exercise of share purchase warrants	15,634	202	(36)	-	-	166
Issued as compensation	23,823	633	-	-	-	633
Stock-based compensation on options granted	-	-	664	-	-	664
Cumulative impact of change in accounting policy (note 3)	-	-	-	153	-	153
Other comprehensive income	-	-	-	1,236	-	1,236
Net income for the period	-	-	-	-	38,907	38,907
Balance June 30, 2007	76,480,051	\$ 589,660	\$ 14,141	\$ 1,389	\$ (48,321)	\$ 556,869

See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

1. Nature of Operations

Pan American Silver Corp, subsidiary companies and joint ventures (collectively, the "Company" or "Pan American") are engaged in silver mining and related activities, including exploration, extraction, processing, refining and reclamation. The Company's operations consist of production of its primary product (silver) in Peru, Mexico and Bolivia, along with development activities in Argentina, Mexico and Bolivia, and exploration activities in South America.

2. Summary of Significant Accounting Policies

a) Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada for interim financial information and follow the same accounting policies and methods as our most recent annual financial statements. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in Canada for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in Canada for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Pan American Silver Corp. (the "Company") Annual Report for the year ended December 31, 2006.

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
Pan American Silver S.A. Mina Quiruvilca	Peru	99.9%	Consolidated	Quiruvilca and Huaron Mines
Compañía Minera Argentum S.A.	Peru	88.5%	Consolidated	Morococha Mine
Plata Panamericana S.A. de C.V.	Mexico	100%	Consolidated	La Colorada Mine
Minera Corner Bay S.A.	Mexico	100%	Consolidated	Alamo Dorado Project
Pan American Silver (Bolivia) S.A.	Bolivia	95%	Consolidated	San Vicente Project
Compañía Minera Triton S.A.	Argentina	100%	Consolidated	Manantial Espejo Project

Inter-company balances and transactions have been eliminated upon consolidation. Investments where the Company has an ownership of less than 50% and funds its proportionate share of expenditures are accounted for under the equity method. The Company has no investments in entities in which its ownership interest is accounted for using the cost method.

c) Reclassifications: Certain reclassifications of prior year balances have been made to conform to current year presentation.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

3. Changes in Accounting Policy

On January 1, 2007, the Company retroactively adopted, without restatement of prior periods, the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentation", and Section 3251, "Equity".

Section 1530, "Comprehensive Income", requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders. Section 3251, "Equity", establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855, "Financial Instruments – Recognition and Measurement", and Section 3861, "Financial Instruments – Disclosure and Presentation", establish standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The company has made the following classification:

- Short-term investments are classified as "Available for sale securities". They are initially recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements for bonds included in available for sale are recorded at amortized cost using the effective interest method. Interest income and amortized premium or discount is charged to net income. Changes in the market value of the securities are recorded as changes to other comprehensive income.
- Accounts receivable are classified as "Loans and Receivables". They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as "Other financial liabilities". They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

Section 3865, "Hedges", sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, "Financial Instruments – Recognition and Measurement", to qualifying transactions that they elect to designate as hedges for accounting purposes.

The Company enters into forward exchange contracts in the normal course of its operations. For these derivatives, the Company elected not to use hedge accounting. As a result, based on Section 3855, "Financial Instruments – Recognition and Measurement", these derivatives are measured at fair value at the end of each period and the gains or losses resulting from remeasurement are recognized in net income as gains or losses in commodity or foreign currency contracts.

The adoption of these new standards translated into the following changes as at January 1, 2007: a \$153,000 increase in accumulated other comprehensive income and a \$153,000 increase in short-

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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term investments reported under assets. The adoption of these new standards had no impact on the Company's cash flow.

For the three-month and six-month periods ended June 30, 2007, the Company has recorded an unrealized gain of \$1.0 million and \$1.4 million, respectively, net of related income taxes, representing the portion of the non realized gains on short-term investments recorded under other comprehensive income during the period.

4. Inventories

Inventories consist of the following:

	June 30, 2007	December 31 2006
Concentrate inventory	\$ 12,533	\$ 3,558
Stockpile ore	4,382	3,760
Direct smelting ore	2,063	2,278
Dorè and finished inventory	7,392	3,352
Materials and supplies	13,812	11,099
	40,182	24,047
Less: non-current direct smelting ore	(1,612)	(1,831)
	\$ 38,570	\$ 22,216

5. Commodity and foreign currency contracts

The Company has purchased Mexican Pesos ("MXN") with an aggregated nominal value of MXN 3.0 million settling between July and September 2007 at an average MXN/USD exchange rate of 11.05. At June 30, 2007, the mark to market value of the Company's position was a gain of \$0.1 million.

At June 30, 2007 the Company had fixed the price of 600,000 ounces of its second quarter's silver production contained in concentrates, which are due to be priced in July and August of 2007 under the Company's concentrate contracts. The price fixed for these ounces averaged \$13.38 per ounce while the spot price of silver was \$12.54 per ounce on June 30, 2007, resulting in a mark to market recorded unrealized gain of \$0.5 million.

6. Mineral property, plant and equipment

Mineral property, plant and equipment consist of:

	June 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Morococha mine, Perú	\$ 57,452	\$ (12,104)	\$ 45,348	\$ 46,631	\$ (9,778)	\$ 36,853
La Colorada mine, México	34,849	(9,956)	24,893	34,618	(10,982)	23,636
Quiruvilca/Huaron mines, Perú	84,551	(37,624)	46,927	80,127	(34,475)	45,652
Alamo Dorado, México (1)	178,232	(4,879)	173,353	1,356	(133)	1,223
Manantial Espejo, Argentina	4,689	(2,361)	2,328	2,953	(1,284)	1,669
San Vicente mine, Bolivia	5,307	(619)	4,688	3,717	(328)	3,389
Other	1,239	(690)	549	1,179	(608)	571
TOTAL	\$ 366,319	\$ (68,233)	\$ 298,086	\$ 170,581	\$ (57,588)	\$ 112,993

(1) Prior year balances for non-producing properties and construction in progress have been reclassified to current year presentation under mineral property, plant and equipment.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

7. Construction in progress and investment in non-producing properties

The carrying values of Construction in progress are as follows:

	June 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Alamo Dorado, México	\$ -	\$ 80,546
Manantial Espejo, Argentina	\$ 50,743	\$ 23,491
TOTAL	\$ 50,743	\$ 104,037

At June 30, 2007 there is approximately \$18.7 million of additional purchase commitments related to the construction of Manantial Espejo project.

Acquisition costs of investment in non-producing properties together with costs directly related to mine development expenditures are deferred. Exploration expenditures on investment in non-producing properties are charged to operations in the period they are incurred.

The carrying values of these properties are as follows:

	June 30, 2007	December 31, 2006
Morococha, Perú	\$ 23,125	\$ 28,107
Álamo Dorado, México	-	91,404
Manantial Espejo, Argentina	59,447	61,110
San Vicente, Bolivia	10,783	6,077
Other	1,548	1,409
	\$ 94,903	\$ 188,107

8. Acquisitions of Mining Assets

San Vicente (Pan American Silver (Bolivia) S.A.)

On May 23, 2007, Pan American completed the acquisition of an additional 40 percent interest in the San Vicente Mine from Empresa Minera Unificada S.A. (EMUSA). The transaction, gave the Company a 95 percent interest in San Vicente. The purchase price was \$9.0 million, plus acquisition costs, plus a 2% NSR, factored by 80 per cent, 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 preliminary allocation of the fair value of assets and liabilities acquired and the consideration paid are summarized as follows:

Current assets, including cash of \$1.9 million	\$ 4,855
Mineral property, plant and equipment, net	5,376
	10,231
Less:	
Accounts payable and accrued liabilities	652
Future income tax liability	429
Total purchase price	\$ 9,150
Consideration paid is as follows:	
Cash paid at closing	\$ 8,000
Payable due in one year	1,000
Acquisition costs (estimated)	150
	\$ 9,150

Pan American Silver Corp.

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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.

For purposes of presenting a summary of assets and liabilities acquired, the balance of Pan American Silver (Bolivia) S.A. at May 31, 2007 has been used as a proxy for the balance sheet on May 23, 2007. The Company does not expect that the final allocation of the consideration among the assets and liabilities of the San Vicente project will materially vary from those shown above.

9. Asset retirement obligations and reclamation

Reclamation and remediation costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The estimated undiscounted cash flows generated by our assets and the estimated liabilities for reclamation and remediation are determined using the Company's assumptions about future costs, mineral prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Company's current mining plan and the best available information for making such estimates. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

The following is a description of the changes to the Company's asset retirement obligations from December 31, 2006 to June 30, 2007:

Balance at December 31, 2006	\$	44,309
Reclamation expenditures		(470)
Accretion expense		1,396
Revisions in estimated cash flows		47
Balance at June 30, 2007	\$	45,282

10. Accumulated other comprehensive income

	Three month ended June 30, 2007	Six month ended June 30, 2007
Balance beginning	\$ 436	-
Cumulative impact of accounting changes relating to financial instruments (Note 3)	-	153
Adjusted balance beginning	436	153
Unrealized gain on available for sale securities	953	1,236
Balance at June 30, 2007	\$ 1,389	1,389

Accumulated other comprehensive income includes unrealized gains on marketable securities designated as "available for sale".

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

11. Dukat sale

On November 8, 2004 the Company completed the sale of its 20 percent interest in the Dukat silver mine in Russia for up to \$43.0 million. The Company received \$20.5 million in cash in 2004 and may receive up to \$22.5 million in contingent future payments. The future payments are to be made annually based on the yearly average of silver price as follows:

Average Price of Silver	Amount of annual payment
\$5.50 - \$6.00	\$500,000
\$6.00 - \$7.00	\$1,000,000
\$7.00 - \$8.00	\$2,000,000
\$8.00 - \$9.00	\$5,000,000
\$9.00 - \$10.00	\$6,000,000
\$10.00 - and above	\$8,000,000

During 2006 and 2005 the Company recognized gains of \$8.0 million and \$2.0 million, respectively, relating to the future payments based on the fact that the average silver price for the year was \$11.55 for 2006 and \$7.31 for 2005. The agreement also includes provisions for early payment of remaining future payments on the occurrence of certain events. One such event occurred in March 2007 when the purchaser of the Dukat property went out to raise money on an initial public offer ("IPO") for the property. According to the provisions in the sale agreement, this event triggers an early payment whereby the Company is to receive 50 percent of the outstanding future payments owed at the time of the IPO, which amounted to \$10.25 million. The Company received \$10.25 million in cash in March, 2007 and has recognized this receipt as a gain in net income for the current period. The Company has received from the purchaser \$14.25 million to date. The Company expects to receive the \$8.0 million recorded as a receivable due on or before December 28, 2007 and remaining balance of \$2.25 million due in future payments.

12. Share capital

a) Stock Options and Share Purchase Warrants

Transactions concerning stock options and share purchase warrants are summarized as follows:

	Incentive Stock Option Plan		Share Purchase Warrants		Total
	Shares	Price	Shares	Price	Shares
As at December 31, 2005	1,050,641	10.88	4,064,183	10.71	5,114,824
Granted	191,332	19.23	-	-	191,332
Exercised	(275,358)	12.19	(23,970)	10.63	(299,328)
Cancelled	(47,200)	20.64	-	-	(47,200)
As at December 31, 2006	919,415	\$ 12.11	4,040,213	\$ 10.84	4,959,628
Granted	158,983	24.28	-	-	158,983
Exercised	(245,168)	12.58	(15,634)	10.53	(260,802)
Cancelled	(52,531)	13.39	-	-	(52,531)
As at June 30, 2007	780,699	16.00	4,024,579	10.92	4,805,278

In the three month period ending June 30, 2007, 112,612 common shares and 8,293 common shares were issued for proceeds of \$1.5 million and \$0.1 million in connection with the exercise of outstanding options and warrants, respectively.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

In the three month period ending June 30, 2006, 10,000 common shares and 10,291 common shares were issued for proceeds of \$0.1 million and \$0.1 million in connection with the exercise of outstanding options and warrants, respectively

In the six month period ending June 30, 2007, 245,168 common shares and 15,634 common shares were issued for proceeds of \$3.1 million and \$0.2 million in connection with the exercise of outstanding options and warrants, respectively.

In the six month period ending June 30, 2006, 159,308 common shares and 11,535 common shares were issued for proceeds of \$2.2 million and \$0.1 million in connection with the exercise of outstanding options and warrants, respectively.

b) Share Option Plan

The Company has a comprehensive stock option plan for its employees, directors and officers. The plan provides for the issuance of incentive stock options to acquire up to a total of 10% of the issued and outstanding common shares of the Company on a non-diluted basis. The exercise price of each option shall be the weighted average trading price of the Company's stock on 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 Board of Directors. The Company used as its assumptions for calculating the value of the stock options granted a discount rate between 3.96% and 3.99%, volatility between 37.8 and 42.4 percent, expected lives between 1.5 and 3.0 years, and an exercise price of Cdn \$28.41 per share.

The following table summarizes information concerning stock options outstanding as at June 30, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Weighted average exercise price	Number Outstanding as at June 30, 2007	Weighted Average Remaining Contractual Life (months)	Weighted average exercise price	Number outstanding and exercisable as at June 30, 2007
\$ 4.70	\$ 4.70	175,000	40.54	\$ 4.70	175,000
\$ 8.37 - \$ 9.61	\$ 9.15	136,000	8.59	\$ 9.15	136,000
\$15.52 - \$19.78	\$ 17.92	152,665	25.76	\$ 18.19	99,668
\$20.73 - \$25.17	\$ 20.98	147,904	45.83	\$ 21.56	44,949
\$26.72 - \$31.03	\$ 27.10	169,130	51.08	\$ 31.03	15,000
	\$ 16.00	780,699	35.37	\$ 11.29	470,617

During the three months ended June 30, 2007 and 2006, the Company recognized \$0.3 million and \$0.5 million, respectively of stock-based compensation expense related to stock option grants.

During the six months ended June 30, 2007 and 2006, the Company recognized \$0.7 million and \$0.9 million, respectively of stock-based compensation expense related to stock option grants.

c) Earnings Per Share (Basic and Diluted)

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

For the three months ended June 30	2007			2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income Available to Common Shareholders	\$ 18,472			\$ 14,951		
Basic EPS	\$ 18,472	76,400,850	\$ 0.24	\$ 14,951	71,173,764	\$ 0.21
Effect of Dilutive Securities:						
Stock Options	-	464,455		-	562,333	
Warrants	-	2,436,334		-	4,064,278	
Convertible debentures	-	-		3	68,130	
Diluted EPS	\$ 18,472	79,301,639	\$ 0.23	\$ 14,954	75,868,505	\$ 0.20

For the six months ended June 30	2007			2006		
	Income (Numerator)	Shares (Denominator)	EPS	Income (Numerator)	Shares (Denominator)	EPS
Net Income Available to Common Shareholders	\$ 38,907			\$ 12,177		
Basic EPS	\$ 38,907	76,365,480	\$ 0.51	\$ 12,177	71,138,233	\$ 0.17
Effect of Dilutive Securities:						
Stock Options		477,646			562,333	
Warrants		2,467,695			4,064,278	
Convertible debentures		-			68,130	
Diluted EPS	\$ 38,907	79,310,821	\$ 0.49	\$ 12,177	75,832,974	\$ 0.16

Potentially dilutive securities totaling nil for the three months and six months ended June 30, 2007 and nil shares for the quarter ended June, 2006 (arising from convertible debentures, stock options, and warrants) were not included as their effect would be anti-dilutive.

13. Changes in non-cash working capital Items

The following table summarizes the changes in non-cash working capital items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Accounts receivable	\$ (13,942)	\$ (6,838)	\$ 6,340	\$ (8,544)
Inventories	(4,719)	(838)	(13,616)	(2,851)
Prepaid expenses	(1,585)	553	(1,789)	237
Accounts payable and accrued liabilities	6,877	18,867	(15,740)	22,306
Other	-	858	(29)	60
	\$ (13,369)	\$ 12,602	\$ (24,834)	\$ 11,208

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

14. Supplemental cash flow information

The following table summarizes the supplemental cash flow information:

	Three Months Ended June 30		Six Month Ended June 30	
	2007	2006	2007	2006
Common shares issued on the conversion of convertible debentures	\$ -	\$ -	\$ -	\$ 86
Common shares issued as compensation expense	\$ 422	\$ 287	\$ 633	\$ 559
Common shares issued for purchase of Minera Triton S.A.	\$ -	\$ 47,381	\$ -	\$ 47,381

15. Segmented information

Substantially all of the Company's operations are within the mining sector, conducted through operations in six countries. Due to differences between mining and exploration activities, 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.

Segmented disclosures and enterprise-wide information are as follows:

	Revenue June 30		Net capital assets ⁽¹⁾		
	2007	2006	June 30, 2007	December 31, 2006	June 30, 2006
Peru	\$ 85,159	\$ 88,049	\$ 115,400	\$ 110,993	\$ 107,013
Canada	-	-	904	222	210
Mexico	36,213	17,559	198,246	196,994	174,349
United States	-	-	1,193	1,191	1,191
Argentina	-	-	112,518	86,271	72,459
Bolivia	5,895	2,984	15,471	9,466	7,405
Total	\$ 127,267	\$ 108,592	\$ 443,732	\$ 405,137	\$ 362,627

(1) Net capital assets are comprised of Mineral property, Plant and equipment, construction in progress and non-production property.

For the three months ended June 30, 2007

	Mining Operations		Development and exploration	Corporate	Total
	Mexico	Peru			
Revenue from external customers	\$ 23,093	\$ 52,384	\$ 3,734	\$ -	\$ 79,211
Depreciation and amortization	\$ (3,650)	\$ (2,671)	\$ (655)	\$ (18)	\$ (6,994)
Asset retirement and reclamation	\$ (202)	\$ (558)	\$ -	\$ -	\$ (760)
Interest and financing expense	\$ -	\$ (108)	\$ -	\$ (8)	\$ (116)
Investment and other income	\$ 167	\$ 470	\$ 39	\$ 1,213	\$ 1,889
Foreign exchange gain (loss)	\$ 61	\$ (130)	\$ 19	\$ 134	\$ 84
Net gain on commodity and currency contracts	\$ -	\$ -	\$ -	\$ 887	\$ 887
Exploration and project development	\$ 130	\$ 29	\$ 150	\$ 411	\$ 720
Income (loss) before income taxes	\$ 6,128	\$ 22,138	\$ 653	\$ (286)	\$ 28,632
Net income for the period	\$ 4,042	\$ 14,330	\$ 386	\$ (286)	\$ 18,472
Mineral property, plant and equipment expenditures	\$ 9,242	\$ 4,347	\$ 18,215	\$ 8,062	\$ 39,866
Segment assets	\$ 245,277	\$ 210,523	\$ 158,224	\$ 91,158	\$ 705,182

Pan American Silver Corp.

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As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

	For the three months ended June 30, 2006				
	Mining & Development		Investment and exploration	Corporate	Total
	Mexico	Peru			
Revenue from external customers	\$ 11,172	\$ 51,493	\$ 183	\$ -	\$ 62,848
Depreciation and amortization	\$ (1,617)	\$ (2,461)	\$ (68)	\$ (29)	\$ (4,175)
Asset retirement and reclamation	\$ (84)	\$ (530)	\$ -	\$ -	\$ (614)
Interest and financing expense	\$ -	\$ (147)	\$ -	\$ (56)	\$ (203)
Investment and other income	\$ (17)	\$ 841	\$ 35	\$ 525	\$ 1,384
Foreign exchange gain (loss)	\$ 19	\$ (326)	\$ (13)	\$ 19	\$ (301)
Net loss on commodity and currency contracts	\$ -	\$ -	\$ -	\$ (4,780)	\$ (4,780)
Exploration and project development	\$ (313)	\$ (107)	\$ (203)	\$ (14)	\$ (637)
Income (loss) before taxes	\$ 4,047	\$ 24,242	\$ (170)	\$ (5,578)	\$ 22,541
Net income (loss) for the period	\$ 4,047	\$ 16,799	\$ (220)	\$ (5,662)	\$ 14,964
Mineral property, plant and equipment capital expenditures	\$ 1,716	\$ 4,581	\$ 30,508	\$ 180	\$ 36,985
Segment assets	\$ 33,139	\$ 175,323	\$ 219,563	\$ 184,052	\$ 612,077

	For the six months ended June 30, 2007				
	Mining & Development		Investment and exploration	Corporate	Total
	Mexico	Peru			
Revenue from external customers	\$ 36,213	\$ 85,159	\$ 5,895	\$ -	\$ 127,267
Depreciation and amortization	\$ (5,864)	\$ (4,513)	\$ (803)	\$ (36)	\$ (11,216)
Asset retirement and reclamation	\$ (280)	\$ (1,116)	\$ -	\$ -	\$ (1,396)
Interest and financing expense	\$ -	\$ (266)	\$ -	\$ (8)	\$ (274)
Gain on disposition of assets	\$ 18	\$ -	\$ -	\$ 10,250	\$ 10,268
Investment and other income	\$ 305	\$ 1,300	\$ 67	\$ 2,055	\$ 3,727
Foreign exchange gain (loss)	\$ 102	\$ (147)	\$ (54)	\$ 123	\$ 24
Loss on commodity and currency contracts	\$ -	\$ -	\$ -	\$ 727	\$ 727
Exploration expense	\$ 425	\$ (88)	\$ 156	\$ 776	\$ 1,269
Income (loss) before income taxes	\$ 8,390	\$ 33,411	\$ 872	\$ 8,994	\$ 51,667
Net income (loss) for the period	\$ 5,649	\$ 24,138	\$ 645	\$ 8,475	\$ 38,907
Mineral property, plant and equipment Capital expenditures	\$ 14,288	\$ 9,227	\$ 27,443	\$ 8,180	\$ 59,138
Segment assets	\$ 245,277	\$ 210,523	\$ 158,224	\$ 91,158	\$ 705,182

	For the six months ended June 30, 2006				
	Mining & Development		Investment and exploration	Corporate	Total
	Mexico	Peru			
Revenue from external customers	\$ 17,559	\$ 88,049	\$ 2,984	\$ -	\$ 108,592
Depreciation and amortization	\$ (3,061)	\$ (4,431)	\$ (93)	\$ (61)	\$ (7,646)
Asset retirement and reclamation	\$ (168)	\$ (1,060)	\$ -	\$ -	\$ (1,228)
Interest and financing expenses	\$ -	\$ (213)	\$ -	\$ (136)	\$ (349)
Investment and other income	\$ (28)	\$ 867	\$ 38	\$ 846	\$ 1,723
Foreign exchange gain (loss)	\$ 42	\$ (428)	\$ (16)	\$ 19	\$ (383)
Loss on commodity and currency contracts	\$ -	\$ -	\$ -	\$ (16,610)	\$ (16,610)
Exploration expense	\$ (475)	\$ (551)	\$ (831)	\$ (14)	\$ (1,871)
Income (loss) before taxes	\$ 3,760	\$ 38,505	\$ 49	\$ (18,521)	\$ 23,793
Net income (loss) for the period	\$ 3,760	\$ 27,133	\$ (1)	\$ (18,689)	\$ 12,203
Mineral property, plant and equipment capital expenditures	\$ 2,676	\$ 7,013	\$ 43,356	\$ 201	\$ 53,246
Segment assets	\$ 33,139	\$ 175,323	\$ 219,563	\$ 184,052	\$ 612,077

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at June 30, 2007 and 2006 and for the three month periods then ended

(Tabular amounts are in thousands of US dollars, except for numbers of shares, price per share and per share amounts)

Product Revenue	Three month end June 30,		Six month end June 30,	
	2007	2006	2007	2006
Silver	\$ 17,514	\$ 11,172	\$ 26,914	\$ 17,559
Zinc concentrate	16,361	19,616	28,387	34,631
Lead concentrate	16,775	9,722	26,446	16,274
Copper Concentrate	29,270	21,824	46,758	39,481
Pyrite	782	1,370	1,744	2,450
Royalties	(1,491)	(856)	(2,982)	(1,803)
Total Revenue	\$ 79,211	\$ 62,848	\$ 127,267	\$ 108,592

16. Other legal matters

Pan American Silver Corp., has been named in two separate law suits filed in the Superior Court of the State of California. The claims arise from two separate incidents which occurred on or about April 7, 2006 and April 14, 2006. Claims arise from individuals trespassing on property allegedly owned by the company. The individuals entered into an inactive mine and failed to notice an open shaft and fell. The April 7, 2006 incident resulted in a fatality with Plaintiffs' seeking damages for wrongful death, personal injury, special damages, funeral and burial expenses. The incident which occurred on April 14, 2006 resulted in injuries to the individual that fell down the shaft; however the extent of the claimed injuries is currently unknown. Plaintiff seeks general, special and punitive damages as a result of the incident. Legal proceedings have recently commenced in the aforementioned matters and the extent and amount of loss is undetermined at this time.

The company intends to vigorously defend these complaints. No amounts have been accrued for any potential loss under these complaints.

Second Quarter 2007 Management's Discussion and Analysis

August 13th 2007

The Management's Discussion and Analysis (MD&A) focuses on significant factors that 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 for the second quarter ending June 30, 2007, and 2006, should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 2007 and 2006 and the related notes contained therein, which have been prepared in conformity with Canadian GAAP. In addition, the following should be read in conjunction with the Consolidated Financial Statements of the Company for the year ended December 31, 2006, the related MD&A, and Pan American's Annual Information Form (available on SEDAR at www.sedar.com) and Form 40F. All figures are in United States dollars unless otherwise noted.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary note contained herein.

Significant Events during the Second Quarter

Commercial Production at Alamo Dorado

Management determined that the Alamo Dorado mine in Mexico achieved commercial production, as of April 1, 2007. As a consequence, sales, operating costs and depreciation and amortization charges for Alamo Dorado have been accounted for in the Consolidated Statement of Operations with effect from April 1, 2007. The mine produced over 233,000 ounces of silver in April and continued to improve throughout the second quarter, with June's production of nearly 350,000 ounces of silver, which was within 8 per cent of budgeted production and clearly sufficient to declare commercial production.

Expansion at San Vicente

In June 2007, Pan American announced plans to proceed with a project to expand production at the San Vicente silver-zinc mine located in the department of Potosi, Bolivia. The expansion plans include the construction of a new 750 tonnes per day processing facility, together with the related underground mine development necessary to achieve sustained production at this rate. In connection with expanding production at San Vicente, Pan American purchased an additional 40 per cent interest in Pan American Silver (Bolivia) S.A. ("PASB"), the operating entity of San Vicente, for \$9.0 million plus a 2 per cent NSR royalty, factored by 80 per cent, payable only after Pan American has recovered its capital investment in San Vicente and only when the average price of silver in a given financial quarter is \$9.00 per ounce or greater. As a result of this purchase, Pan American has increased its ownership interest in PASB to 95 per cent.

The Company's technical report for the San Vicente expansion project, filed on SEDAR on July 20, 2007, indicates that Pan American's 95 per cent interest in the San Vicente mine will provide an undiscounted after-tax cash flow of \$50.9 million over a 12-year life, generate an internal rate of return of 22 per cent and have a capital payback of 2.9 years (using metal price assumptions of \$9.00 per ounce silver and \$2,100 per tonne zinc, other than for 2007 wherein \$10.00 per ounce silver and \$3,000 per tonne zinc were assumed). Pan American estimates that, once the expansion of San Vicente is complete and the mine is operating at capacity, San Vicente should produce approximately 2.8 million ounces of silver annually, on a 100 per cent basis, at an average cost of less than \$2.52 per ounce, net of zinc byproduct credits, for the first five years of the operation. The expansion should take approximately 18 months to complete, at an estimated capital cost of approximately \$40.5 million, which includes a 10 per cent allowance for unforeseen escalation in construction costs, in addition to a 15 per cent contingency.

Results of Operations

The table below sets out selected quarterly results for the past fourteen quarters, which are stated in thousands of US dollars, except for the per share amounts.

Year	Quarter (unaudited)	Sales	Mine operating earnings ⁽¹⁾	Net income/(loss) for the period	Basic earnings (loss) per share
2007	June 30	\$ 79,211	\$ 31,417	\$ 18,472	\$ 0.24
	March 31	\$ 48,057	\$ 14,874	\$ 20,435	\$ 0.27
2006	Dec.31	\$ 82,588	\$ 35,063	\$ 29,648	\$ 0.39
	Sept. 30	\$ 64,268	\$ 29,221	\$ 16,355	\$ 0.22
	June 30	\$ 62,848	\$ 31,060	\$ 14,964	\$ 0.21
	March 31	\$ 45,744	\$ 17,976	\$ (2,761)	\$ (0.04)
2005	Dec.31	\$ 37,871	\$ 8,683	\$ (29,514)	\$ (0.44)
	Sept. 30	\$ 30,086	\$ 4,961	\$ 172	\$ 0.00
	June 30	\$ 25,358	\$ 4,526	\$ 4,971	\$ 0.07
	March 31	\$ 29,086	\$ 3,488	\$ (4,223)	\$ (0.06)
2004	Dec. 31	\$ 30,022	\$ 3,402	\$ 13,527	\$ 0.21
	Sept. 30	\$ 27,916	\$ 6,357	\$ 358	\$ 0.01
	June 30	\$ 21,179	\$ 2,640	\$ 3,352	\$ (0.09) ⁽²⁾
	March 31	\$ 15,708	\$ 2,395	\$ (2,023)	\$ (0.08) ⁽²⁾

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

(2) Includes charges associated with early conversion and accretion of the Debentures

For the three months ended June 30, 2007, the Company generated net income of \$18.5 million (basic earnings per share of \$0.24) compared to net income of \$15 million (basic earnings per share of \$0.21) for the corresponding period in 2006. The improved financial results for the quarter were primarily due to higher metal prices and the fact that earnings for the second quarter of 2006 included a \$4.8 million loss from forward sale contracts compared to a gain of \$0.9 million in the second quarter of 2007.

For the six-month period ended June 30, 2007 the Company's net income was \$ 38.9 million (basic earnings per share of \$0.51), compared to net income of \$12.2 million (basic earnings per share of \$0.17) for the corresponding period in 2006. Included in the net income for the six-month period ended June 30, 2007 was a gain on the sale of the

Company's interest in the Dukat mine in Russia of \$10.25 million. The net income for the six-month period ended June 30, 2006 included a loss of \$16.6 million relating to commodity and currency contracts.

Sales for the second quarter of 2007 were \$79.2 million, a 26 per cent increase from sales in the corresponding period in 2006. Sales in the second quarter of 2007 benefited from production from Alamo Dorado and San Vicente, increased production from the La Colorada mine and higher realized metal prices. Sales in the second quarter of 2007 were negatively impacted by the fact that the Company's Peruvian operations shipped less concentrate in the second quarter of 2007 versus the year-earlier period (shipments of concentrate are an essential criterion for revenue recognition). As was the case in the first quarter of 2007, the Company shipped less concentrate than it produced during the second quarter of 2007. At June 30, 2007 the Company had approximately 13,600 tonnes of concentrate inventory on hand as compared to approximately 3,700 tonnes at December 31, 2007. This concentrate inventory should be shipped and the Company should recognize the related revenues in the third and fourth quarters of 2007.

Sales for the six-month period ended June 30, 2007 were 17 per cent higher than the sales for the comparable period in 2006, due primarily to higher realized metal prices, production from Alamo Dorado, and increased production from the La Colorada and San Vicente mines, which was partially offset by lower concentrate quantities shipped from the Peruvian operations in the first six-months of 2007.

Cost of sales for the three months ended June 30, 2007 was \$40.8 million, a 48 per cent increase from the \$27.6 million recorded in the same period of 2006. Cost of sales for the second quarter of 2007 were higher due to production from Alamo Dorado and San Vicente and increased mining and milling rates at La Colorada, Huaron and Morococha relative to a year ago. In addition, and consistent with industry-wide experience, mining and milling costs on a per tonne basis have escalated at all of the Companies operations by, on average, 16 per cent over the last year.

Cost of sales for the six-month period ended June 30, 2007, increased by 34 per cent over the comparable period of 2006. The factors described above were the primary reasons for the increase from the comparable period in 2006.

Depreciation and amortization charges for the second quarter of 2007 increased to \$7.0 million from \$4.2 million recorded for the corresponding period in 2006. For the six-month period ended June 30, 2007, these charges increased to \$11.2 million from \$7.6 million a year ago. Commercial production at Alamo Dorado and higher milling rates at La Colorada and San Vicente were the main reasons for the increase in both the three-month and six-month periods ended June 30, 2007 compared to the depreciation and amortization charges recorded in the respective periods of 2006.

Mine operating earnings in the second quarter of 2007 were \$31.4 million were the second highest in the Company's history, and slightly higher than the mine operating earnings generated in the second quarter 2006 of \$31.1 million, and more than double the mine operating earnings generated in the first quarter of 2007. Higher metal prices, increased silver production and the shipment of larger quantities of concentrates resulted in the improving trend in mine operating earnings over the first quarter of 2007.

During the six-month period ended June 30, 2007, the Company generated *mine operating earnings* of \$46.3 million compared to *mine operating earnings* of \$49.0 million in the same period of 2006. Higher sales were more than offset by higher *cost of sales* and *depreciation and amortization* charges relative to the comparable period of 2006.

General and administration costs for the three-month period ended June 30, 2007, including stock-based compensation, were \$2.7 million. These costs, which were \$2.4 million for the comparable quarter in 2006, were negatively impacted by the continued strength in the Canadian dollar as compared to the US dollar. *General and administration* costs of \$4.5 million for the six-month period ended June 30, 2007 (compared to \$4.3 million in the same period in 2006), increased primarily for the same reason.

Exploration and project development expenses for the second quarter of 2007 were \$0.7 million (second quarter 2006, \$0.6 million) and mostly reflect exploration activities at La Colorada and Morococha. The Company expects to continue a similar level of exploration activity for the remainder of the year. *Exploration* expenses for the first six-months of 2007 were \$1.3 million (first six-months of 2006, \$1.9 million). Exploration costs in the six-month comparable period of 2006 were incurred primarily to complete the feasibility study for the Manantial Espejo project, which is now under construction.

Asset retirement and reclamation expense of \$0.8 million in the second quarter of 2007 (second quarter 2006, \$0.6 million) related to the accretion of the Company's mines closure liabilities. The accretion for the six-month period ended June 30, 2007 was \$1.4 million compared to \$1.2 million for the same period of 2006. The slight increase in the accretion charge relative to last year is directly due to the Company increasing its estimate for the future consolidated mine closure liability at the end of 2006.

Interest and financing expense in the second quarter of 2007 of \$0.1 million remained similar to the \$0.2 million of interest expenses and transactional bank fees incurred during the same period in 2006. The expense for the six-month period ended June 30, 2007 was \$0.3 million, which was also similar to the expense for the comparable period.

Investment and other income of \$1.9 million (second quarter 2006, \$1.4 million) represented interest income received from cash balances the Company maintained during the quarter. *Investment and other income* for the six-month period ended June 30, 2007 was \$3.7 million (six-month period ended June 30, 2006, \$1.7 million). The higher interest rate environment prevailing in 2007, combined with higher average cash balances resulted in the increase over the comparable periods.

Income tax provision of \$10.2 million for the second quarter was a significant increase from the \$7.6 million in the comparable period of 2006 due to taxable income generated by San Vicente and an increase in the future income tax provision associated with the Company's Mexican operations. *Income tax provision* for the six-month period ended June 30, 2007 increased to \$12.8 million from the \$11.6 million recorded in the same period of 2006, primarily for the same reasons.

Metal Production

Pan American produced a record 4.2 million ounces of silver in the second quarter of 2007, a 27 per cent increase from the corresponding period in 2006, primarily as a result of silver production from the Alamo Dorado and San Vicente mines. Increased silver production was achieved at La Colorada and Huaron by increasing milling rates, however lower grades resulted in offsetting decreases in silver production at Quiruvilca, Morococha and the Pyrite Stockpile.

Consolidated base metal and gold production also increased over production levels from a year ago, with higher mill tonnage outweighing the impact of generally lower ore grades. Gold production increased sharply as a result of production from Alamo Dorado. Please refer to the "Financial & Operating Highlights" section of this second quarter report for a detailed breakdown of each mine's production data.

Total Cash and Production Costs per Ounce for Payable Silver

Consolidated total cash costs for the three-month period ended June 30, 2007 were \$2.61 per ounce compared to \$1.17 per ounce for the corresponding period of 2006 and \$2.98 per ounce in the first quarter of 2007. The increase in cash costs relative to a year ago was primarily a result of including production from Alamo Dorado and San Vicente, which recorded cash costs per ounce of \$4.01 and \$3.74 per ounce, respectively. The second quarter of 2007 was Alamo Dorado's first quarter of commercial production and the cash cost per ounce is expected to decline during the remainder of the year to approximately \$3.27 per ounce. In addition, ore grades at the Quiruvilca mine, relative to a year ago, resulted in lower silver production, decreased by-product credits and consequently cash costs of \$1.30 per ounce compared to negative \$1.07 per ounce recorded in the second quarter of 2006. At Morococha, the by-product credits continued to be greater than the operating costs, resulting in cash costs per ounce of negative \$5.23 (compared to negative \$3.81 in the comparable period of 2006). The cash costs per ounce remained relatively similar at Huaron, the Pyrite Stockpile and at La Colorada, as compared to those recorded in the first quarter of 2007 and in the comparable period in 2006.

The Company reports the cash cost per ounce of payable silver. This non-GAAP measure is used by the Company to manage and evaluate operating performance at each of the Company's mines and is widely reported in the silver mining industry as benchmarks for performance measurement, but does not have standardized meaning and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. To facilitate a better understanding of this measure as calculated by the Company, we have provided a detailed reconciliation of this measure to our operating costs, as shown in our unaudited Consolidated Statement of Operations for the three and six-month periods.

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Cost of sales	\$ 40,800	\$ 27,613	\$ 69,761	\$ 51,910
Add/(Subtract)				
Smelting, refining, and transportation charges	22,583	16,594	42,343	30,679
By-product credits	(55,351)	(41,265)	(100,889)	(73,593)
Mining royalties	1,454	838	2,945	1,685
Workers participation	(2,265)	(2,478)	(3,410)	(3,818)
Change in inventories	2,620	1,332	5,512	2,413
Other	148	539	(124)	1,375
Minority interest adjustment	239	389	238	343
Alamo Dorado Commissioning Costs	-	-	2,719	-
Cash Operating Costs	A \$ 10,229	\$ 3,562	\$ 19,095	\$ 10,994
Add/(Subtract)				
Depreciation and amortization	6,994	4,175	11,216	7,646
Asset retirement and reclamation	760	614	1,396	1,228
Change in inventories	1,322	(29)	851	337
Other	(42)	(173)	(83)	(65)
Minority interest adjustment	(369)	(145)	(574)	(302)
Alamo Dorado Commissioning Costs	-	-	1,304	-
Production Costs	B \$ 18,894	\$ 8,004	\$ 33,205	\$ 19,838
Payable Ounces of Silver (in '000 ounces)	C 3,917	3,048	6,986	6,080
Total Cash Cost per Ounce	A/C \$ 2.61	\$ 1.17	\$ 2.73	\$ 1.81
Total Production Costs per Ounce	B/C \$ 4.82	\$ 2.63	\$ 4.75	\$ 3.26

Liquidity and Capital Resources

At June 30, 2007, cash plus short-term investments were \$143.7 million, an \$18.6 million decrease from March 31, 2007. This decrease in cash plus short-term investments, together with cash generated by operations of \$18.2 million and cash provided by financing activities of \$5.6 million was used to fund investments of \$41.9 million in mineral property plant and equipment during the second quarter. Investments in mineral property plant and equipment occurred primarily at the Company's two construction projects, Manantial Espejo and San Vicente, where \$20.8 million and \$12.6 million (including the acquisition of an additional 40% interest in San Vicente) were expended respectively. Significant investments also occurred at Morococha and La Colorada, where \$2.9 million was invested in mine development at each mine.

Working capital at June 30, 2007 was \$201.2 million, a decrease of \$6.2 million from March 31, 2007. The decrease in working capital resulted from an \$18.6 million decrease in cash and short-term investments plus a \$5.7 million increase in current liabilities, partially offset by an \$18.1 million increase in other current assets, mostly reflected in higher accounts receivable and inventories balances. Accounts receivable balances have increased due to timing of shipments while higher inventory balances were primarily a consequence of production ramping up at Alamo Dorado. The main reason for the increase in current liabilities was the receipt of advances on concentrate shipments of \$4.0 million.

Shareholders' equity at June 30, 2007 amounted to \$556.9 million, an increase of \$21.7 million from shareholders' equity at March 31, 2007. This increase resulted primarily from the net income generated during the second quarter of \$18.5 million and from proceeds received on the exercise of stock options of \$1.5 million. At June 30, 2007, the Company had 76.5 million common shares issued and outstanding.

The Company's financial position at June 30, 2007 and the operating cash flows that are expected over the next twelve months leads management to believe that the Company's liquid assets are sufficient to fund planned capital expenditures, including the construction of Manantial Espejo and expansion of San Vicente, and to discharge liabilities as they come due.

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 is 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 June 30, 2007:

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	\$ 589	\$ 589	\$		
Purchase Obligations ⁽¹⁾	18,741	18,741			
Total contractual obligations	\$ 19,330	\$ 19,330	\$		

⁽¹⁾ Contract commitments for construction materials for the Manantial Espejo and San Vicente projects existing at June 30, 2007, which will be incurred during 2007 and 2008.

Financial Instruments

At the end of the second quarter of 2007, the Company had fixed the price of 600,000 ounces of silver produced during the second quarter and contained in concentrates, which are due to be priced in July and August of 2007 under the Company's concentrate contracts. The price fixed for these ounces averaged \$13.38 per ounce while the spot price of silver was \$12.54 on June 30, 2007, resulting in a mark to market gain of \$0.5 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 Mexican pesos ("MXN"), at June 30, 2007 the Company has entered into foreign currency contracts with an aggregated nominal value of \$3 million settling between July and September of 2007 at an average MXN/US\$ exchange rate of 11.05, in addition to holding cash balances equivalent to \$4.4 million in MXN. In anticipation of operating expenditures in Peruvian soles ("PEN"), at June 30, 2007 the Company was holding cash balances equivalent to \$13.5 million in PEN. At June 30, 2007, the mark to market value of the Company's local currencies positions

was a gain of \$0.1 million, based on spot MXN/US\$ exchange rates of 10.79 and spot PEN/US\$ exchange rates of 3.17.

Change in Accounting Policies and Initial Adoption

The significant accounting policies outlined within the Consolidated Financial Statements of the Company for the year ended December 31, 2006 have been applied consistently for the three and six months ended June 30, 2007, with the exception of several changes in accounting policy; which were retrospectively adopted on January 1, 2007, without restatement of prior periods. The Company adopted the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges", Section 3861, "Financial Instruments – Disclosure and Presentation", and Section 3251, "Equity". The adoption of these new standards translated into the following changes as at January 1, 2007: a \$153,000 increase in accumulated other comprehensive income and a \$153,000 increase in short-term investments reported under assets. The adoption of these new standards has no impact on the Company's cash flow. For more details relating to the changes in accounting policy, please refer to Note 3 of the unaudited consolidated financial statements for the three and six months ended June 30, 2007 and 2006.

Internal Controls over Financial Reporting

No changes were made to the Company's internal controls over financial reporting during the second quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Exploration and Development Activities

Construction of the **Manantial Espejo** project in Argentina, which commenced in April 2006, is progressing well. Expenditures at the project during the second quarter of 2007 were \$20.8 million, primarily on equipment purchases, engineering, underground and surface mine developments, tailings facility construction, infrastructure construction both at the mine and in the nearby community, and administration. Over the remainder of the year, the Company anticipates spending an additional \$50 million on the construction of Manantial Espejo, which will be funded out of the Company's existing treasury.

Development of two underground ramps have now advanced nearly 700 meters despite intercepting slightly more groundwater and cross-cutting worse than expected ground conditions, requiring some modifications to increase the dewatering pumping capacity and enhanced ground control measures. Simultaneously, more than 600,000 tonnes were pre-stripped from one of the pit areas by the end of the second quarter, inclusive of nearly 15,000 tonnes of low-grade ore which has been placed in stockpile according to plan. Over 350,000 tonnes of the pre-stripped tonnage was used for the tailings dam construction.

Site earthworks were substantially complete by the end of the second quarter, with the placement of approximately 25 per cent of the total required concrete. Tailings embankment construction has advanced well with completion achieved in late July, 2007. The erection of the site administration facility is advancing ahead of schedule and the erection of the laboratory facility has also been initiated.

Management estimates that detailed engineering and procurement were approximately 55 per cent and 18 per cent complete, respectively, by the end of the second quarter. Overall, management estimates the advance of the plant and infrastructure project to be approximately 11 per cent complete and remains on-budget and on-schedule for mechanical completion in May, 2008.

The expansion project at **San Vicente** announced by the Company in June, 2007 is already advancing well. Expenditures at the project during the second quarter of 2007 were \$4.5 million, primarily for deposits on equipment orders. Over the remainder of the year, the Company anticipates spending an additional \$15 million on the expansion of San Vicente, which will be funded out of the Company's existing treasury.

Lyntek Inc., based in Denver, Colorado, has been involved in the preparation of the detailed engineering designs and was selected by the Company as the EPCM contractor for the plant construction. Orders have been placed for most of the major plant equipment and a contract has been awarded to TDE of Bolivia for the installation of a new 30 kilometer power-line to the site. Dynatec of Canada has been refurbishing a used hoist and designing a new head-frame for upgrading the existing shaft conveyance systems. AMEC's Peruvian office was awarded the detailed design works for the tailings disposal facility including construction quality control services.

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 ACTIVITIES AT MANANTIAL ESPEJO AND THE COMPANY'S OTHER DEVELOPMENT PROJECTS, THE SUFFICIENCY OF PAN AMERICAN'S CURRENT CAPITAL AND ANTICIPATED CASH FLOW. THE EXPECTED RESULTS FROM EXPLORATION ACTIVITIES, 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 COSTS, THE REQUIREMENTS FOR ADDITIONAL CAPITAL, 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 GOVERNMENT LEGISLATION, TAXATION OR THE POLITICAL OR ECONOMIC ENVIRONMENT, EXPOSURE TO FLUCTUATIONS IN THE LOCAL CURRENCIES OF THOSE COUNTRIES IN WHICH PAN AMERICAN CARRIES ON BUSINESS, THE ACTUAL RESULTS OF CURRENT EXPLORATION ACTIVITIES, CONCLUSIONS OF ECONOMIC EVALUATIONS, CHANGES IN PROJECT PARAMETERS TO DEAL WITH UNANTICIPATED ECONOMIC FACTORS, FUTURE PRICES OF SILVER, GOLD AND BASE METALS, 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, FLUCTUATIONS IN THE PRICE FOR NATURAL GAS, FUEL, OIL AND OTHER KEY SUPPLIES, AS WELL AS THOSE FACTORS DESCRIBED IN THE SECTION "RISKS 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. 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.