



Pan American
S I L V E R C O R P .

2007 THIRD QUARTER REPORT TO SHAREHOLDERS
For the period ending SEPTEMBER 30, 2007

NASDAQ Stock Exchange PAAS

Toronto Stock Exchange PAA

November 9, 2007

PRODUCTION GROWTH AND PRICES DRIVE EARNINGS AND CASH FLOW RECORDS FOR PAN AMERICAN

(All amounts in US Dollars unless otherwise stated)

THIRD QUARTER 2007 HIGHLIGHTS

- Record quarterly silver production of 4.5 million ounces, up 38% over Q3 2006.
- Net income of \$23.9 million (\$0.31/share), up 46% from \$16.4 million (\$0.22/share) in Q3 2006.
- Record quarterly cash flow from operating activities of \$33.3 million, before changes in non-cash operating working capital.
- Record quarterly sales of \$87.9 million, up 37% over Q3 2006.
- Alamo Dorado silver production increased to almost 1.0 million ounces. September production was 460,000 ounces, 8% higher than feasibility projections.
- Construction at Manantial Espejo mine in Argentina 45% complete and progressing well.
- On target to produce nearly 17 million ounces of silver in 2007 and 25 million ounces in 2009.

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

FINANCIAL RESULTS

Pan American Silver Corp. (NASDAQ: PAAS; TSX: PAA) today reported that consolidated net income for the third quarter of 2007 increased 46% to \$23.9 million, or \$0.31 per share, as compared to \$16.4 million, or \$0.22 per share, in the year earlier period. The Company also generated record quarterly cash flow from operations of \$33.3 million, before changes in non-cash operating working capital items. The improved financial results for the quarter were primarily due to the positive contribution to earnings and cash flow from the Company's new Alamo Dorado mine, increased silver and base metal production and increased silver and lead prices. Net income in the third quarter of 2007 also benefited from the recognition of a further \$2.25 million from the gain on the sale of the Company's interest in the Dukat mine in Russia.

Third quarter sales increased by 37% as compared to the year earlier period, to \$87.9 million, primarily due to increased silver and base metal production and higher prices. During the third quarter the Company was able to ship all of the concentrate it produced. However for the year, concentrate shipments and therefore revenue recognition still lags production. At September 30, 2007 the Company had approximately 12,300 tonnes of concentrate inventory on hand as compared to approximately 3,700 tonnes at December 31, 2006. The Company expects to ship and record sales on all the concentrates produced in 2007 by the end of the year.

Cost of sales during the third quarter were \$49.2 million, a significant increase from the \$30.8 million recorded in the same period in 2006. Higher cost of sales directly reflected the inclusion of Alamo Dorado production costs, as well as the effects of industry-wide escalation in labour costs, consumable and reagent costs and stronger local currencies.

Commenting on the third quarter, Geoff Burns, President and CEO, said: "As expected, we delivered production growth, earnings growth and cash flow growth. Our construction initiatives at our two newest projects Manantial Espejo and San Vicente are progressing extremely well. By all measures Pan American had an excellent quarter, however with silver prices continuing to rally and our silver production continuing to grow strongly, I firmly believe that the best still lies ahead."

Working capital at September 30, 2007 was \$207.4 million, an increase of \$6.3 million from June 30, 2007. Capital expenditures in the quarter were \$29.7 million, of which \$16.4 million was spent on construction of the Manantial Espejo mine in Argentina and \$1.8 million on the expansion project at the San Vicente mine in Bolivia.

PRODUCTION AND OPERATIONS

The Company produced 4.5 million ounces of silver in the third quarter, 6% more than in the second quarter of this year and 38% more than in the comparable period of 2006. This is the sixth consecutive quarter that Pan American has delivered silver production growth. In addition, consolidated zinc, lead and copper production increased across the board in the third quarter. All of the Company's mines demonstrated solid operating performance in the third quarter; most notable were Alamo Dorado and San Vicente where production increased 16% and 36%, respectively, as compared to the second quarter 2007.

Cash costs in the third quarter increased to \$3.32 per ounce of silver, from \$1.57 per ounce recorded in the comparable period in 2006. Cash costs increased as a result of increased production from Alamo Dorado, where by-product credits are limited, and general cost escalation at all of the Company's operations. Year over year, cash costs on a per tonne mined and milled basis have increased by approximately 16%, on average.

PERU

Silver production at **Morococha** in the third quarter of 2007 totaled 750,603 ounces, or 8% more than in the year earlier period. Despite increased mining costs associated with higher milling rates and the purchase of a small quantity of high grade ore, cash costs were negative \$2.92, as byproduct credits continued to be greater than operating costs. Development of the Manto Italia ramp, which is designed to provide long term access to

several untapped mining zones at Morococha continued to move forward during the quarter. This two year ramp and infrastructure project is a key component of our long term plans for Morococha.

The **Huaron** mine had a solid third quarter, producing 950,797 ounces of silver. Cash costs were \$2.93 per ounce for the quarter, higher than the \$2.32 per ounce recorded in the year earlier period primarily as a result of general cost escalation that has been previously described. Earlier this year, a mine deepening project was initiated at Huaron, an investment in the long term future of the operation. A significant portion of the highest grade reserves and resources at Huaron are located below the 250 level and this project, which includes driving a ramp below the 250 level and the deepening of a pre-existing shaft will open up a new mining area and provide access to higher grade ore for years to come.

Third quarter silver production at the **Quiruvilca** mine was 408,888 ounces and cash costs remained steady at \$1.33 per ounce. However, production for the quarter was modestly below expectations as the operation mined lower grade ore in order to supply the mill with sufficient tonnage, while work to access deeper and higher grade ore veins in the southern area of the mine continued. The ramp is now scheduled to be completed by the end of the year.

The **Silver Stockpile** operation produced 117,252 ounces of silver in the third quarter at a cash cost of \$2.49 per ounce.

MEXICO

Silver production at the Company's new **Alamo Dorado** mine steadily improved during the third quarter and the operation is now exceeding original feasibility estimates. In September the mine produced 460,000 ounces of silver, at a cash cost of \$3.88, surpassing our original plans by 8%.

During the third quarter, Alamo Dorado produced 994,325 ounces of silver at a cash cost of \$5.02 per ounce. Cash costs were somewhat higher than expected, primarily due to failure of one of two boilers used to preheat refinery solutions, which negatively impacted gold recoveries and associated byproduct credits. The boiler has been repaired, gold recoveries have risen and as demonstrated in September, the Company expects that costs should decline over the balance of the year.

The **La Colorada** mine had another excellent quarter producing 995,453 ounces of silver, 8% more than in the third quarter of 2006. It was the Company's top silver producer for the second consecutive quarter. Cash costs at La Colorada were \$6.73 per ounce. Cash costs have declined compared to earlier this year, as increased production has helped offset the effects of escalation. With the operation running smoothly, attention at La Colorada has shifted to exploration, with three diamond drill rigs working at the property for most of 2007. The Company looks forward to providing a formal update on the positive results that have been achieved from this program when it publishes a new reserve and resource statement in early 2008.

ARGENTINA

Mining and construction activities continued to ramp up at the **Manantial Espejo** project in Argentina. On the mining side, the Melissa and Maria underground ramps have advanced a total of 1,129 meters and we have intersected both veins as modeled. Pre-stripping of the Karina Union and Maria pits is ahead of schedule with more than 1.6 million tonnes moved to the end of September.

Construction activities have been accelerating rapidly with over 500 Pan American and contractor employees now on site. The tailings dam has been completed, concrete placement is 56% complete, the administration and laboratory buildings have been completed and should be occupied by the end of November and steel erection for the main leaching and thickening tanks is in progress. At the end of the third quarter, project expenditures totaled \$72.8 million with total project commitments at \$93.9 million. To date, construction is on budget with mechanical completion scheduled for May of 2008; however, possible delays in equipment deliveries and contractor timing is putting this schedule under pressure. Manantial Espejo is expected to produce an average of 4.1 million ounces of silver and 60,000 ounces of gold annually.

BOLIVIA

Mining and mine expansion activities continued throughout the third quarter at the high grade silver-zinc **San Vicente** mine. The mine produced 236,412 ounces of silver at a cash cost of \$5.21 per ounce.

Mine development is moving ahead as planned with the advance of the Litoral ramp approaching 400 meters. Plant construction and related infrastructure expansion has been initiated. Civil work, consisting of site clearing for the plant and associated facilities and the building of roads was approximately 75% complete at the end of the quarter. The construction camp is being finished and should be ready for occupancy shortly, detailed engineering is nearing completion and all the major long lead time equipment has been ordered. The San Vicente expansion project is still in its early stages, but is off to a reasonable start.

The expansion project should be completed at the end of 2008 at a total cost of approximately \$40.5 million and when completed San Vicente should produce an average of 2.8 million ounces of silver per year for at least the first five years of full production.

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 on track to increase by 31% to 17 million ounces in 2007, then increase to over 25 million ounces by 2009.

Selected Financial and Operating Highlights for the third 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.

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.

Technical information contained in this press release has been reviewed by Michael Steinmann, P.Geol., Senior Vice President Geology & Exploration, who is the Company's Qualified Person for the purposes of NI 43-101.

Pan American will host a conference call to discuss its financial and operating results on Monday, November 12, 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=122299>. 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 9368810.

For more information, please contact: Rob Doyle, Chief Financial Officer at (604) 684-1175 or e-mail Pan American at info@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 AND SAN VICENTE, 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 COMPANY'S INVESTMENTS AND 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, UNEXPECTED WORK STOPPAGES OR LABOUR DISPUTES, 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		Nine months ended	
	September 30		September 30	
	2007	2006	2007	2006
Consolidated Financial Highlights (in thousands of US dollars)				
(Unaudited)				
Net income for the period	\$ 23,891	\$ 16,355	\$ 62,798	\$ 28,558
Basic income per share	\$ 0.31	\$ 0.22	\$ 0.82	\$ 0.39
Mine operating earnings	\$ 29,125	\$ 29,221	\$ 75,416	\$ 78,256
Cash flow from operations (excluding changes in non-cash operating working capital)	\$ 33,340	\$ 21,090	\$ 78,622	\$ 46,654
Mineral property, plant and equipment expenditures	\$ 29,732	\$ 18,026	\$ 82,625	\$ 71,272
Cash and short-term investments	\$ 153,047	\$ 181,136	\$ 153,047	\$ 181,136
Net working capital	\$ 207,350	\$ 196,006	\$ 207,350	\$ 196,006
Consolidated Production				
Silver – ounces	4,453,729	3,226,775	12,017,564	9,871,671
Zinc – tonnes	10,221	9,922	29,706	30,115
Lead – tonnes	4,159	4,060	11,909	11,927
Copper – tonnes	1,544	1,126	4,127	3,333
Gold – ounces	5,497	1,964	15,756	5,326
Consolidated Cost per Ounce of Silver (net of by-product credits)				
Total cash cost per ounce ⁽¹⁾	\$ 3.32	\$ 1.57	\$ 2.95	\$ 1.75
Total production cost per ounce ⁽¹⁾	\$ 5.65	\$ 3.28	\$ 5.09	\$ 3.34
Payable ounces of silver	4,136,221	2,963,597	11,122,324	9,043,186
Average Metal Prices				
Silver – London Fixing per ounce	\$ 12.70	\$ 11.70	\$ 13.11	\$ 11.21
Zinc – LME Cash Settlement per tonne	\$ 3,238	\$ 3,363	\$ 3,452	\$ 2,966
Lead – LME Cash Settlement per tonne	\$ 3,141	\$ 1,189	\$ 2,373	\$ 1,176
Copper – LME Cash Settlement per tonne	\$ 7,713	\$ 7,670	\$ 7,087	\$ 6,612
Gold – London Fixing per ounce	\$ 680	\$ 622	\$ 666	\$ 601

Mine Operations Highlights

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Huaron Mine				
Tonnes milled	192,571	185,290	558,932	513,235
Average silver grade – grams per tonne	192	193	195	203
Average zinc grade	2.37%	2.48%	2.62%	2.58%
Silver – ounces	950,797	941,569	2,827,367	2,773,593
Zinc – tonnes	2,837	3,095	9,279	8,818
Lead – tonnes	1,564	1,750	5,147	5,371
Copper – tonnes	512	426	1,179	1,272
Gold – ounces	798	480	2,677	1,137
Total cash cost per ounce ⁽¹⁾	\$ 2.93	\$ 2.32	\$ 2.28	\$ 2.53
Total production cost per ounce ⁽¹⁾	\$ 4.15	\$ 3.67	\$ 3.48	\$ 3.81
Payable ounces of silver	860,230	856,108	2,545,188	2,521,986
Quiruvilca Mine				
Tonnes milled	91,834	92,468	269,078	282,100
Average silver grade – grams per tonne	167	199	169	217
Average zinc grade	2.79%	2.70%	2.50%	2.86%
Silver – ounces	408,888	489,972	1,219,807	1,681,179
Zinc – tonnes	2,069	2,090	5,484	6,849
Lead – tonnes	728	650	1,920	1,968
Copper – tonnes	459	308	1,262	1,004
Gold – ounces	568	276	1,192	836
Total cash cost per ounce ⁽¹⁾	\$ 1.33	\$ (0.39)	\$ 1.65	\$ (0.15)
Total production cost per ounce ⁽¹⁾	\$ 2.83	\$ 0.99	\$ 3.13	\$ 1.07
Payable ounces of silver	374,214	454,284	1,124,488	1,561,459
Morococha Mine*				
Tonnes milled	154,157	150,191	444,256	423,451
Average silver grade – grams per tonne	175	176	170	191
Average zinc grade	3.44%	3.61%	3.49%	3.91%
Silver – ounces	750,603	694,984	2,063,886	2,202,128
Zinc – tonnes	4,472	4,567	12,991	13,994
Lead – tonnes	1,690	1,591	4,364	4,514
Copper – tonnes	533	381	1,588	1,031
Gold – ounces	451	231	656	737
Total cash cost per ounce ⁽¹⁾	\$ (2.92)	\$ (5.14)	\$ (4.07)	\$ (3.58)
Total production cost per ounce ⁽¹⁾	\$ (1.27)	\$ (3.23)	\$ (2.33)	\$ (1.87)
Payable ounces of silver	675,527	622,402	1,855,824	1,970,474

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
La Colorado Mine				
Tonnes milled	87,563	60,463	235,289	174,257
Average silver grade – grams per tonne	416	547	450	546
Silver – ounces	995,453	923,553	2,886,173	2,635,197
Zinc – tonnes	268	-	572	-
Lead – tonnes	177	68	477	74
Gold - ounces	978		2,927	
Total cash cost per ounce ⁽¹⁾	\$ 6.73	\$ 5.92	\$ 6.85	\$ 5.83
Total production cost per ounce ⁽¹⁾	\$ 8.63	\$ 7.55	\$ 8.61	\$ 7.66
Payable ounces of silver	959,516	915,811	2,802,615	2,621,902
Alamo Dorado Mine*				
Tonnes milled	326,661	-	719,563	-
Average silver grade – grams per tonne	132	-	129	-
Silver – ounces	994,325	-	2,119,355	-
Gold - ounces	2,702	-	8,303	-
Total cash cost per ounce ⁽¹⁾	5.02	-	5.14	-
Total production cost per ounce ⁽¹⁾	9.74	-	9.85	-
Payable ounces of silver	991,839	-	2,113,804	-
* Commercial production commenced on April 1, 2007.				
San Vicente Mine*				
Tonnes milled	30,610	6,725	70,057	15,712
Average silver grade – grams per tonne	288	317	296	319
Average zinc grade	2.48%	3.32%	2.66%	3.70%
Silver – ounces	236,412	55,370	546,519	133,920
Zinc – tonnes	575	169	1,381	453
Copper – tonnes	41	11	98	26
Total cash cost per ounce ⁽¹⁾	\$ 5.21	\$ 8.09	\$ 4.23	\$ 5.48
Total production cost per ounce ⁽¹⁾	\$ 7.15	\$ 8.40	\$ 6.10	\$ 5.78
Payable ounces of silver	211,148	49,298	489,535	119,384
* The production statistics represent Pan American's interest in the mine. Pan American's ownership was approximately 55% through May 22, 2007 and increased to 95% subsequently.				
Pyrite Stock Piles				
Tonnes sold	12,787	13,506	40,541	42,763
Average silver grade – grams per tonne	285	279	272	324
Silver – ounces	117,252	121,327	354,457	445,655
Total cash cost per ounce ⁽¹⁾	\$ 2.49	\$ 3.30	\$ 3.16	\$ 3.21
Total production cost per ounce ⁽¹⁾	\$ 2.49	\$ 3.30	\$ 3.16	\$ 3.21
Payable ounces of silver	63,746	65,694	190,870	247,982

(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
S I L V E R C O R P .

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND NOTES FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2007**

PAN AMERICAN SILVER CORP.
Consolidated Balance Sheets
(Unaudited In thousands of US dollars)

	September 30, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	\$ 65,840	\$ 80,347
Short-term investments (note 4)	87,207	91,601
Accounts receivable	69,343	65,971
Inventories and stockpiled ore (note 5)	38,980	22,216
Unrealized gain on commodity and foreign currency contracts (note 6)	1,121	186
Future income taxes	3,582	6,670
Prepaid expenses and other	4,450	3,106
Total Current Assets	270,523	270,097
Mineral property, plant and equipment, net (note 7)	300,538	112,993
Construction in progress (note 8)	69,800	104,037
Investment in non-producing properties (note 8)	96,027	188,107
Direct smelting ore (note 5)	1,483	1,831
Future income taxes	777	500
Other assets	15,060	2,430
Total Assets	\$ 754,208	\$ 679,995
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 53,511	\$ 40,095
Taxes payable	2,834	23,187
Advance on metal shipments	3,173	-
Unrealized loss on commodity contracts (note 6)	509	-
Other current liabilities	3,146	2,199
Total Current Liabilities	63,173	65,481
Asset retirement obligations and reclamation	45,782	44,309
Future income taxes	50,048	48,499
Total Liabilities	159,003	158,289
Non-controlling interest	4,826	9,680
Share capital		
Common Shares	590,047	584,769
Additional paid in capital	14,453	14,485
Accumulated other comprehensive income (note 10)	10,309	-
Deficit	(24,430)	(87,228)
Total Shareholders' Equity	590,379	512,026
Total Liabilities, Non-controlling interest and Shareholders' Equity	\$ 754,208	\$ 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		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Sales	\$ 87,907	\$ 64,268	\$ 215,175	\$ 172,859
Cost of sales	49,233	30,813	118,994	82,723
Depreciation and amortization	9,549	4,234	20,765	11,880
Mine operating earnings	29,125	29,221	75,416	78,256
General and administrative	1,860	2,739	6,402	7,088
Exploration and project development	101	2,267	1,370	4,138
Asset retirement and reclamation	790	615	2,186	1,843
Operating income	26,374	23,600	65,458	65,187
Interest and financing expenses	(140)	(87)	(414)	(436)
Investment and other income	1,495	1,728	5,240	3,451
Foreign exchange gain (loss)	273	228	297	(155)
Net gain (loss) on commodity and foreign currency contracts	613	(676)	1,340	(17,286)
Gain on sale of assets (note 11)	2,250	-	12,500	-
Income before taxes and non-controlling interest	30,865	24,793	84,421	50,761
Income tax provision	(6,246)	(8,398)	(19,006)	(19,988)
Non-controlling interest	(728)	(40)	(2,617)	(2,215)
Net income for the period	\$ 23,891	\$ 16,355	\$ 62,798	\$ 28,558
Attributable to common shareholders:				
Net income for the period	\$ 23,891	\$ 16,355	\$ 62,798	\$ 28,558
Accretion of convertible debentures	-	(5)	-	(31)
Adjusted net income for the period attributable to common shareholders	\$ 23,891	\$ 16,350	\$ 62,798	\$ 28,527
Basic income per share	\$ 0.31	\$ 0.22	\$ 0.82	\$ 0.39
Diluted income per share	\$ 0.30	\$ 0.20	\$ 0.79	\$ 0.37
Weighted average number of shares outstanding (in thousands)				
Basic	76,482	76,007	76,406	72,790
Diluted	79,093	80,687	79,257	77,469

See accompanying notes to the consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Comprehensive income				
Net income for the period	\$ 23,891	\$ 16,355	\$ 62,798	\$ 28,558
Unrealized gain on available for sale securities	9,406	-	10,997	-
Reclassification adjustment for (gains) and (losses) included in net income	(486)	-	(841)	-
Comprehensive income	\$ 32,811	\$ 16,355	\$ 72,954	\$ 28,558

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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Operating activities				
Net income for the period	\$ 23,891	\$ 16,355	\$ 62,798	\$ 28,558
Reclamation expenditures	(243)	(301)	(713)	(668)
Items not involving cash:	-	-	-	-
Depreciation and amortization	9,549	4,234	20,765	11,880
Asset retirement and reclamation	790	615	2,186	1,843
Loss (gain) on sale of assets	(2,250)	944	(12,500)	760
Future income taxes	466	2,043	2,546	460
Non-controlling interest	728	39	2,617	2,215
Unrealized (gain) loss on commodity and foreign currency contracts	(50)	(3,217)	(427)	6
Stock-based compensation	459	378	1,350	1,600
Changes in non-cash operating working capital (note 13)	(13,117)	(5,325)	(37,969)	5,855
Cash generated by operating activities	20,223	15,765	40,653	52,509
Investing activities				
Mineral property, plant and equipment expenditures (net of accruals)	(29,732)	(18,026)	(82,625)	(71,272)
Purchase of additional 40 percent interest in San Vicente (net of cash acquired of \$1.9 million)	-	-	(6,245)	-
Maturity (purchase) of short-term investments	3,069	13,714	26,962	(82,671)
Proceeds from sale of assets	-	-	10,250	-
Purchase of other assets	(2,753)	(585)	(7,682)	(752)
Cash used in investing activities	(29,416)	(4,897)	(59,340)	(154,695)
Financing activities				
Proceeds from issuance of common shares	97	689	3,354	153,033
Dividends paid by subsidiaries to non controlling interests	(41)	-	(2,347)	-
Share issue costs	-	181	-	(7,664)
Convertible Debentures interest payments	-	(22)	-	(41)
(Repayment) proceeds from advance on metal shipments	(876)	(2,202)	3,173	-
Cash (used in) generated by financing activities	(820)	(1,354)	4,180	145,328
(Decrease) increase in cash and cash equivalents during the period	(10,013)	9,514	(14,507)	43,142
Cash and cash equivalents, beginning of period	75,853	62,919	80,347	29,291
Cash and cash equivalents, end of period	\$ 65,840	\$ 72,433	\$ 65,840	\$ 72,433
Supplemental Disclosures (note 14)				
Interest paid	\$ -	\$ 16	\$ -	\$ 35
Taxes paid	\$ 7,787	\$ 1,505	\$ 36,047	\$ 5,254

See accompanying notes to the consolidated financial statements.

PAN AMERICAN SILVER CORP.

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

	Common Shares		Additional Paid in Capital	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
Balance, December 31, 2006	76,195,426	\$ 584,769	\$ 14,485	\$ -	\$ (87,228)	\$ 512,026
Issued on the exercise of stock options	247,631	4,118	(981)	-	-	3,137
Issued on the exercise of share purchase warrants	20,291	265	(47)	-	-	218
Issued as compensation	33,823	895	-	-	-	895
Stock-based compensation on options granted	-	-	996	-	-	996
Cumulative impact of change in accounting policy (note 3)	-	-	-	153	-	153
Other comprehensive income	-	-	-	10,156	-	10,156
Net income for the period	-	-	-	-	62,798	62,798
Balance September 30, 2007	76,497,171	\$ 590,047	\$ 14,453	\$ 10,309	\$ (24,430)	\$ 590,379

	Common Shares		Convertible Debentures	Additional Paid in Capital	Deficit	Total
	Shares	Amount				
Balance, December 31, 2005	67,564,903	\$ 388,830	\$ 762	\$ 13,117	\$ (145,387)	\$ 257,322
Issued on the exercise of stock options	224,308	3,733	-	(934)	-	2,799
Issued on the exercise of share purchase warrants	12,372	163	-	(29)	-	134
Issued on the conversion of debentures	7,311	93	(83)	-	-	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	142,332	-	-	-	142,332
Accretion of convertible debentures	-	-	31	-	(31)	-
Stock-based compensation on options granted	-	-	-	1,342	-	1,342
Net income for the period	-	-	-	-	28,558	28,558
Balance September 30, 2006	76,066,532	\$ 583,091	\$ 710	\$ 13,566	\$ (116,860)	\$ 480,507

See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at September 30, 2007 and 2006 and for the three and nine 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 Canadian generally accepted accounting principles for interim financial information and follow the same accounting policies and methods as our most recent annual financial statements, except for the change as discussed in note 3. 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 nine-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s 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 Mine
Pan American Silver (Bolivia) S.A.	Bolivia	95%	Consolidated	San Vicente Mine
Compañía Minera Triton S.A.	Argentina	100%	Consolidated	Manantial Espejo Project

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

c) 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 S & P rating of A- to AAA with an overall average of single A high. These debt and equity securities 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 securities 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.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

As at September 30, 2007 and 2006 and for the three and nine 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 including debt and equity securities are classified as "Available for sale securities". 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. 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 on 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-term investments reported under assets. The adoption of these new standards had no impact on the Company's cash flow.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

4. Short term investments and other investments

Available for Sale	Mark-to-Market gain in OCI September 30, 2007			December 31, 2006		
	Fair Value	Three Months Ended	Nine Months Ended	Fair Value	Book Value	Transitional Adjustment
Short term investments	\$ 87,207	\$ 9,366	\$ 9,757	\$ 91,659	\$ 91,601	\$ 58
Investments	3,125	1,425	2,625	500	405	95
	90,332	10,791	12,382	92,159	92,006	153
Future tax expense in OCI		(1,385)	(1,385)	-	-	-
	90,332	9,406	10,997	92,159	92,006	153
Reclassification adjustment for gains and losses included in net income net of tax - \$	-	(486)	(841)	-	-	-
	<u>\$ 90,332</u>	<u>\$ 8,920</u>	<u>\$ 10,156</u>	<u>\$ 92,159</u>	<u>\$ 92,006</u>	<u>\$ 153</u>

The Company has recognized a future income tax liability of \$1.4 million related to the cumulative mark-to-market gains on the available-for-sale securities and investments held by the Company. The tax estimate is based on the assumption that if the securities were sold at their September 30, 2007 fair market value the capital gains would be taxed at the appropriate substantively enacted tax rates within each jurisdiction.

5. Inventories

Inventories consist of the following:

	September 30, 2007	December 31, 2006
Concentrate inventory	\$ 13,616	\$ 3,558
Stockpile ore	4,373	3,760
Direct smelting ore	1,934	2,278
Dorè and finished inventory	6,907	3,352
Materials and supplies	13,633	11,099
	40,463	24,047
Less: non-current direct smelting ore	(1,483)	(1,831)
	<u>\$ 38,980</u>	<u>\$ 22,216</u>

6. Commodity and foreign currency contracts

At September 30, 2007, the Company had fixed the price of 600,000 ounces of silver produced during the third quarter and contained in concentrates, which are due to be priced in October and November of 2007 under the Company's concentrate contracts. The price fixed for these ounces averaged \$12.80 per ounce while the spot price of silver was \$13.65 on September 30, 2007, resulting in an unrealized loss of \$0.5 million.

At September 30, 2007, the Company had sold forward 6,545 tonnes of zinc at a weighted average price of \$3,344 per tonne and committed an additional 2,650 tonnes to option contracts, which have the effect of ensuring zinc prices of between \$2,500 and \$2,871 for that quantity. The forward sales and option commitments for zinc represent approximately 30 per cent of the Company's forecast payable zinc production during 2008. At September 30, 2007, the cash offered price for zinc was \$3,059 per tonne and the mark-to-market value was an unrealized gain of \$1.1 million.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

At September 30, 2007 the Company had entered into foreign currency contracts with an aggregated nominal value of \$7 million settling between October 2007 and January 2008 at an average MXN/US\$ exchange rate of 10.99, in addition to holding cash balances equivalent to \$6.9 million in MXN. At September 30, 2007, the mark-to-market value of the Company's local currencies positions was an unrealized gain of \$0.01 million.

7. Mineral property, plant and equipment

Mineral property, plant and equipment consist of:

	September 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Morococha mine, Perú	\$ 60,879	\$ (13,113)	\$ 47,766	\$ 46,631	\$ (9,778)	\$ 36,853
La Colorada mine, México	37,672	(11,655)	26,017	34,618	(10,982)	23,636
Quiruvilca/Huaron mines, Perú	89,443	(39,246)	50,197	80,127	(34,475)	45,652
Alamo Dorado mine, México (1)	178,376	(9,552)	168,824	1,356	(133)	1,223
Manantial Espejo, Argentina	6,308	(1,563)	4,745	2,953	(1,284)	1,669
San Vicente mine, Bolivia	5,547	(3,086)	2,461	3,717	(328)	3,389
Other	1,283	(755)	528	1,179	(608)	571
TOTAL	\$ 379,508	\$ (78,970)	\$ 300,538	\$ 170,581	\$ (57,588)	\$ 112,993

(1) Prior year non-producing properties and construction in progress have been transferred in the current year to mineral property, plant and equipment.

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

The carrying values of construction in progress are as follows:

	September 30, 2007	December 31, 2006
	Net Book Value	Net Book Value
Alamo Dorado, México	\$ -	\$ 80,546
Manantial Espejo, Argentina	64,384	23,491
San Vicente, Bolivia	5,416	-
TOTAL	\$ 69,800	\$ 104,037

At September 30, 2007 there was approximately \$21.2 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.

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)

The carrying values of these properties are as follows:

	September 30, 2007	December 31, 2006
Morococha, Perú	\$ 23,125	\$ 28,107
Álamo Dorado, México	-	91,404
Manantial Espejo, Argentina	60,637	61,110
San Vicente, Bolivia	10,783	6,077
Other	1,482	1,409
	<u>\$ 96,027</u>	<u>\$ 188,107</u>

9. 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 PAS Bolivia, 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 2% Net Smelter Royalty ("NSR"). The NSR is factored by 80 per cent 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 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
<u>Total purchase price</u>	<u>\$ 9,150</u>
Consideration paid is as follows:	
Cash paid at closing	\$ 8,000
Payable due in one year	1,000
Acquisition costs (estimated)	150
	<u>\$ 9,150</u>

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 sheet of Pan American Silver (Bolivia) S.A. at May 31, 2007 has been used as a proxy for the balance sheet on

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

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.

10. Accumulated other comprehensive income

	Three month ended September 30, 2007	Nine month ended September 30, 2007
Balance beginning	\$ 1,389	\$ -
Cumulative impact of accounting changes relating to financial instruments (Note 3)	-	153
Adjusted balance beginning	1,389	153
Unrealized gain on available for sale securities	8,920	10,156
Balance at September 30, 2007	\$ 10,309	\$ 10,309

Accumulated other comprehensive income includes unrealized gains on short-term investments and other investments designated as "available for sale".

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 - \$5.99	\$500,000
\$6.00 - \$6.99	\$1,000,000
\$7.00 - \$7.99	\$2,000,000
\$8.00 - \$8.99	\$5,000,000
\$9.00 - \$9.99	\$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 \$10.25 million; \$8.0 million recorded as a current receivable due on or before December 28, 2007 and the remaining balance of \$2.25 million recorded as a long term receivable due on or before December 28, 2008.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

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	(247,631)	\$ 12.67	(20,291)	\$ (10.73)	(267,922)
Cancelled	(52,531)	\$ 13.39	-	-	(52,531)
As at September 30, 2007	778,236	\$ 17.06	4,019,922	\$ 10.84	4,798,158

In the three month period ending September 30, 2007, 2,463 common shares and 4,657 common shares were issued for proceeds of \$0.04 million and \$0.06 million in connection with the exercise of outstanding options and warrants, respectively.

In the three month period ending September 30, 2006, 65,000 common shares and 837 common shares were issued for proceeds of \$0.6 million and \$0.09 million in connection with the exercise of outstanding options and warrants, respectively.

In the nine month period ending September 30, 2007, 247,631 common shares and 20,291 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 nine month period ending September 30, 2006, 224,308 common shares and 12,372 common shares were issued for proceeds of \$2.8 million and \$0.2 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. For options granted in the nine months ended September 30, 2007 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.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Weighted average exercise price	Number Outstanding as at September 30, 2007	Weighted Average Remaining Contractual Life (months)	Weighted average exercise price	Number outstanding and exercisable as at September 30, 2007
\$ 5.02	\$ 5.02	175,000	37.51	\$ 5.02	175,000
\$ 8.93 - \$10.26	\$ 9.76	136,000	5.56	\$ 9.76	136,000
\$16.56 - \$21.11	\$ 19.12	152,665	22.73	\$ 19.16	132,001
\$22.12 - \$26.87	\$ 22.40	145,441	42.87	\$ 22.98	46,486
\$28.52 - \$33.12	\$ 28.92	169,130	48.06	\$ 33.12	15,000
	\$ 17.06	778,236	32.32	\$ 12.49	504,487

During the three months ended September 30, 2007 and 2006, the Company recognized \$0.3 million and \$0.4 million, respectively of stock-based compensation expense related to stock option grants.

During the nine months ended September 30, 2007 and 2006, the Company recognized \$1.0 million and \$0.9 million, respectively of stock-based compensation expense related to stock option grants.

c) Earnings Per Share (Basic and Diluted)(in thousands, except for per share amounts)

For the three months ended September 30	2007			2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net Income Available to Common Shareholders	\$ 23,891			\$ 16,350		
Basic EPS	\$ 23,891	76,482	\$ 0.31	\$ 16,350	76,007	\$ 0.22
Effect of Dilutive Securities:						
Stock Options	-	346		-	548	
Warrants	-	2,265		-	4,064	
Convertible debentures	-	-		4	68	
Diluted EPS	\$ 23,891	79,093	\$ 0.30	\$ 16,354	80,687	\$ 0.20

For the nine months ended September 30	2007			2006		
	Income (Numerator)	Shares (Denominator)	EPS	Income (Numerator)	Shares (Denominator)	EPS
Net Income Available to Common Shareholders	\$ 62,798			\$ 28,527		
Basic EPS	\$ 62,798	76,406	\$ 0.82	\$ 28,527	72,790	\$ 0.39
Effect of Dilutive Securities:						
Stock Options		444		-	547	
Warrants		2,407		-	4,064	
Convertible debentures		-		12	68	
Diluted EPS	\$ 62,798	79,257	\$ 0.79	\$ 28,539	77,469	\$ 0.37

Potentially dilutive securities totaling nil for the three months and nine months ended September 30, 2007 and nil shares for the quarter and nine months ended September, 2006 (arising from

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)

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		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Accounts receivable	\$ (9,962)	\$ (6,660)	\$ (2,622)	\$ (15,204)
Inventories	(232)	(3,519)	(13,848)	(6,370)
Prepaid expenses and other	416	(1,295)	(1,373)	(1,058)
Accounts payable and accrued liabilities	(4,339)	5,439	(20,097)	27,745
Other	-	710	(29)	742
	\$ (13,117)	\$ (5,325)	\$ (37,969)	\$ 5,855

14. Supplemental cash flow information

The following table summarizes the supplemental cash flow information:

	Three Months Ended		Nine Month Ended	
	September 30		September 30	
	2007	2006	2007	2006
Common shares issued on the conversion of convertible debentures	\$ -	\$ 7	\$ -	\$ 93
Common shares issued as compensation expense	\$ 262	\$ -	\$ 895	\$ 559
Common shares issued for purchase of Minera Triton S.A.	\$ -	\$ -	\$ -	\$ 47,381

15. Segmented information

Substantially all of the Company's operations are within the mining sector, conducted through operations and mineral interests 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 September 30		Net capital assets ⁽¹⁾		
	2007	2006	September 30, 2007	December 31, 2006	September 30, 2006
Peru	\$ 144,285	\$ 141,196	\$ 121,420	\$ 110,993	\$ 107,902
Canada	-	-	300	222	190
Mexico	63,121	28,239	195,027	196,994	187,010
United States	-	-	1,193	1,191	1,191
Argentina	-	-	127,481	86,271	71,924
Bolivia	7,769	3,424	20,944	9,466	7,035
Total	\$ 215,175	\$ 172,859	\$ 466,365	\$ 405,137	\$ 375,252

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

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

As at and for the three months ended September 30, 2007

	Mining Operations		Development and exploration	Corporate	Total
	Mexico	Peru			
Sales	\$ 26,908	\$ 59,125	\$ 1,874	\$ -	\$ 87,907
Depreciation and amortization	\$ (6,195)	\$ (2,903)	\$ (431)	\$ (20)	\$ (9,549)
Asset retirement and reclamation	\$ (233)	\$ (557)	\$ -	\$ -	\$ (790)
Exploration and project development	\$ (61)	\$ (113)	\$ (17)	\$ 90	\$ (101)
Interest and financing expenses	\$ -	\$ (123)	\$ -	\$ (17)	\$ (140)
Investment and other income	\$ 41	\$ 785	\$ 193	\$ 476	\$ 1,495
Foreign exchange gain (loss)	\$ (64)	\$ (304)	\$ (217)	\$ 858	\$ 273
Net gain on commodity and foreign currency contracts	\$ -	\$ -	\$ -	\$ 613	\$ 613
Income (loss) before income taxes	\$ 5,270	\$ 22,512	\$ (633)	\$ 2,988	\$ 30,137
Net income for the period	\$ 4,372	\$ 14,750	\$ 621	\$ 4,148	\$ 23,891
Mineral property, plant and equipment expenditures	\$ 2,967	\$ 8,659	\$ 18,106	\$ -	\$ 29,732
Segment assets	\$ 181,770	\$ 167,819	\$ 134,050	\$ 270,569	\$ 754,208

As at and for the three months ended September 30, 2006

	Mining Operations		Development and exploration	Corporate	Total
	Mexico	Peru			
Sales	\$ 10,680	\$ 53,147	\$ 441	\$ -	\$ 64,268
Depreciation and amortization	\$ (1,388)	\$ (2,738)	\$ (78)	\$ (30)	\$ (4,234)
Asset retirement and reclamation	\$ (84)	\$ (531)	\$ -	\$ -	\$ (615)
Exploration and project development	\$ (243)	\$ (831)	\$ (1,153)	\$ (40)	\$ (2,267)
Interest and financing expense	\$ -	\$ (87)	\$ -	\$ -	\$ (87)
Gain on disposition of assets	\$ -	\$ -	\$ -	\$ 2,250	\$ 2,250
Investment and other income	\$ 35	\$ (137)	\$ (252)	\$ 2,082	\$ 1,728
Foreign exchange gain (loss)	\$ (34)	\$ 115	\$ 41	\$ 106	\$ 228
Net loss on commodity and foreign currency contracts	\$ -	\$ -	\$ -	\$ (676)	\$ (676)
Income (loss) before taxes	\$ 3,325	\$ 23,141	\$ (1,595)	\$ (118)	\$ 24,753
Net income (loss) for the period	\$ 3,325	\$ 14,974	\$ (1,319)	\$ (625)	\$ 16,355
Property, plant and equipment capital expenditures	\$ 1,987	\$ 4,700	\$ 11,204	\$ 135	\$ 18,026
Segment assets	\$ 36,341	\$ 196,373	\$ 229,574	\$ 168,479	\$ 630,767

As at and for the nine months ended September 30, 2007

	Mining Operations		Development and exploration	Corporate	Total
	Mexico	Peru			
Sales	\$ 63,121	\$ 144,285	\$ 7,769	\$ -	\$ 215,175
Depreciation and amortization	\$ (12,059)	\$ (7,414)	\$ (1,235)	\$ (57)	\$ (20,765)
Asset retirement and reclamation	\$ (513)	\$ (1,673)	\$ -	\$ -	\$ (2,186)
Exploration and project development	\$ (486)	\$ (25)	\$ (173)	\$ (686)	\$ (1,370)
Interest and financing expense	\$ -	\$ (389)	\$ -	\$ (25)	\$ (414)
Gain on disposition of assets	\$ -	\$ -	\$ -	\$ 12,500	\$ 12,500
Investment and other income	\$ 345	\$ 2,086	\$ 270	\$ 2,529	\$ 5,230
Foreign exchange gain (loss)	\$ 37	\$ (450)	\$ (272)	\$ 982	\$ 297
Net gain on commodity and foreign currency contracts	\$ -	\$ -	\$ -	\$ 1,340	\$ 1,340
Income (loss) before income taxes	\$ 13,660	\$ 55,922	\$ 248	\$ 11,974	\$ 81,804
Net income (loss) for the period	\$ 10,021	\$ 38,889	\$ 1,265	\$ 12,623	\$ 62,798
Mineral property, plant and equipment expenditures	\$ 17,255	\$ 17,886	\$ 45,646	\$ 1,838	\$ 82,625
Segment assets	\$ 181,770	\$ 167,819	\$ 134,050	\$ 270,569	\$ 754,208

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

As at and for the nine months ended September 30, 2006					
	Mining Operations		Development and exploration	Corporate	Total
	Mexico	Peru			
Sales	\$ 28,239	\$ 141,196	\$ 3,424	\$ -	\$ 172,859
Depreciation and amortization	\$ (4,449)	\$ (7,169)	\$ (171)	\$ (91)	\$ (11,880)
Asset retirement and reclamation	\$ (252)	\$ (1,591)	\$ -	\$ -	\$ (1,843)
Exploration and project development	\$ (718)	\$ (1,382)	\$ (1,984)	\$ (47)	\$ (4,131)
Interest and financing expenses	\$ -	\$ (300)	\$ -	\$ (136)	\$ (436)
Investment and other income	\$ (18)	\$ (76)	\$ (180)	\$ 3,725	\$ 3,451
Foreign exchange gain (loss)	\$ 8	\$ (313)	\$ 25	\$ 125	\$ (155)
Net loss on commodity and foreign currency contracts	\$ -	\$ -	\$ -	\$ (17,286)	\$ (17,286)
Income (loss) before taxes	\$ 7,085	\$ 61,646	\$ (1,545)	\$ (18,640)	\$ 48,546
Net income (loss) for the period	\$ 7,085	\$ 42,106	\$ (1,320)	\$ (19,313)	\$ 28,558
Mineral property, plant and equipment expenditures	\$ 4,663	\$ 11,713	\$ 54,560	\$ 336	\$ 71,272
Segment assets	\$ 36,341	\$ 196,373	\$ 229,574	\$ 168,479	\$ 630,767

Product Sales	Three month end September 30,		Nine month end September 30,	
	2007	2006	2007	2006
Silver/Doré	\$ 21,511	\$ 10,680	\$ 48,425	\$ 28,239
Zinc concentrate	19,068	19,273	47,455	25,904
Lead concentrate	27,634	10,782	54,081	55,056
Copper concentrate	21,166	24,215	67,923	63,696
Pyrite	725	817	2,470	3,267
Royalties	(2,197)	(1,499)	(5,179)	(3,303)
Total Sales	\$ 87,907	\$ 64,268	\$ 215,175	\$ 172,859

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.

17. Subsequent events

Bank credit facilities

On October 18, 2007 the Company secured a \$50 million revolving credit facility for general corporate purposes. The credit facility is secured by certain of the Company's short term investments. Any amounts drawn under the credit facility will incur interest at Canadian dollar Prime Rate for Canadian dollar drawings or Alternative Base Rate for US dollar drawings. The credit facility does not have a maturity date but may be terminated by lender upon 30 day notice. The Company had not made any drawings under the facility.

Pan American Silver Corp.

Notes to Unaudited Interim Consolidated Financial Statements

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

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

Mexican flat tax enacted, October 1, 2007

On October 1, 2007 the Mexican taxing authority enacted a new business flat tax ("IETU") that becomes effective for years starting in 2008. The IETU is defined as a minimum tax in respect to income tax (IT), but with a wider taxable base as many of the tax deductions authorized for IT purposes are not permissible for the 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. The Company is currently assessing the impact this new tax will have on its future operations and cash requirements in Mexico.



THIRD QUARTER 2007 MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter 2007 Management's Discussion and Analysis

November 9th, 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's" or the "Company's") performance and such factors that may affect its future performance. The MD&A for the third quarter ending September 30, 2007, and 2006, should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 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.

Results of Operations

For the three months ended September 30, 2007, the Company generated net income of \$23.9 million (basic earnings per share of \$0.31) compared to net income of \$16.4 million (basic earnings per share of \$0.22) for the corresponding period in 2006. The improved financial results for the quarter were primarily due to positive contribution to earnings from Alamo Dorado, which achieved commercial production on April 1, 2007 and generated net income of \$3.0 million in the third quarter of 2007. Net income in the third quarter of 2007 also benefited from the recognition of a further \$2.25 million from the gain on the sale of the Company's interest in the Dukat mine in Russia. This amount is payable in December 2008 based on the average price of silver that has prevailed over the first nine months of 2007.

For the nine-month period ended Sept. 30, 2007 the Company's net income was \$ 62.8 million (basic earnings per share of \$0.82), compared to net income of \$28.6 million (basic earnings per share of \$0.39) for the corresponding period in 2006. Included in the net income for the nine-month period ended September 30, 2007 was a gain on the sale of the Company's interest in the Dukat mine of \$12.5 million. The net income for the nine-month period ended September 30, 2006 included a loss of \$17.3 million relating to commodity and currency contracts.

The table below sets out selected quarterly results for the past eleven 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	Sept. 30	\$ 87,907	\$ 29,125	\$ 23,891	\$ 0.31
	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)

(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

Sales for the third quarter of 2007 were a record \$87.9 million, a 37 per cent increase from *sales* in the corresponding period in 2006. *Sales* in the third quarter of 2007 benefited from production from Alamo Dorado, increased production from La Colorada and San Vicente, higher realized metal prices, and slightly greater concentrate shipments from the Company's Peruvian operations versus the year-earlier period (shipments of concentrate are an essential criterion for revenue recognition). Although the Company shipped slightly more concentrate than it produced during the third quarter of 2007, the Company still had approximately 12,300 tonnes of concentrate inventory on hand at September 30, 2007. This concentrate inventory should be shipped and the Company should recognize the related revenues in the fourth quarter of 2007.

Sales for the nine-month period ended September 30, 2007 of \$215.2 million were 24 per cent higher than the *sales* for the comparable period in 2006, due primarily to production from Alamo Dorado, higher realized metal prices, 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 nine-months of 2007.

Cost of sales for the three months ended September 30, 2007 was \$49.2 million, a 60 per cent increase from the \$30.8 million recorded in the same period of 2006. *Cost of sales* for the third quarter of 2007 were higher due to production from Alamo Dorado and increased mining and milling rates at La Colorada, Huaron, Morococha, and San Vicente 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 Company's operations by, on average, 16 per cent over the last year. In particular, higher consumables and reagents costs, increased labour and energy costs and stronger local currencies, relative to the US dollar have had the largest impact on the Company's operating costs.

Cost of sales for the nine-month period ended September 30, 2007 were \$119.0 million, an increase of 44 per cent over the comparable period of 2006. The factors described for the three-month period above were the primary reasons for the increase from the comparable nine-month period in 2006.

Depreciation and amortization charges for the third quarter of 2007 increased to \$9.5 million from \$4.2 million recorded for the corresponding period in 2006. For the nine-month period ended September 30, 2007, these charges increased to \$20.8 million from \$11.9 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 nine-month periods ended September 30, 2007 compared to the *depreciation and amortization* charges recorded in the respective periods of 2006.

Mine operating earnings in the third quarter of 2007 were \$29.1 million, similar to the mine operating earnings generated in the third quarter of 2006 of \$29.2 million. Increases in *sales* as a result of higher production and stronger metal prices were equally offset by increases in *cost of sales* and *depreciation and amortization* charges.

During the nine-month period ended September 30, 2007, the Company generated *mine operating earnings* of \$75.4 million compared to *mine operating earnings* of \$78.3 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 September 30, 2007, including stock-based compensation, were \$1.9 million, a 32 per cent reduction from the charge for the comparable quarter in 2006 of \$2.7 million. Lower stock-based compensation charges and reduced costs associated with Sarbanes-Oxley compliance were the primary reasons for the reduction. *General and administration* costs of \$6.4 million for the nine-month period ended September 30, 2007 (compared to \$7.1 million in the same period in 2006), decreased primarily for the same reasons.

Exploration and project development expense for the third quarter of 2007 was \$0.1 million, sharply down from \$2.3 million in the third quarter of 2006. Exploration activities were focused primarily at La Colorada and Morococha during the quarter. The charge for the comparable period relates primarily to project development and maintenance costs at San Vicente that were expensed. *Exploration* expenses for the first nine-months of 2007 were \$1.4 million (first nine-months of 2006, \$4.1 million). Exploration costs in the nine-month comparable period of 2006 were incurred primarily to complete the feasibility study for the Manantial Espejo project, which is now under construction and the aforementioned costs at San Vicente.

Asset retirement and reclamation expense of \$0.8 million in the third quarter of 2007 (third quarter 2006, \$0.6 million) related to the accretion of the Company's mines closure liabilities. The accretion for the nine-month period ended September 30, 2007 was \$2.2 million compared to \$1.8 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 third quarter of 2007 of \$0.1 million remained similar to the \$0.1 million of interest expenses and transactional bank fees incurred during the same period in 2006. The expense for the nine-month period ended September 30, 2007 was \$0.4 million, which was also similar to the expense for the comparable period.

Investment and other income of \$1.5 million (third quarter 2006, \$1.7 million) represented interest income received from cash balances the Company maintained during the quarter. The decline in *investment and other income* was a result of average cash balances being lower during the third quarter of 2007 than in the comparable period of 2006. *Investment and other income* for

the nine-month period ended September 30, 2007 was \$5.2 million (nine-month period ended September 30, 2006, \$3.5 million). The higher interest rate environment prevailing in 2007, combined with higher average cash balances resulted in the increase over the comparable period.

Income tax provision of \$6.2 million for the third quarter was a significant decrease from the \$8.4 million in the comparable period of 2006 due primarily to the recognition of a future income tax asset associated with the Company's investment portfolio and San Vicente operation. *Income tax provision* for the nine-month period ended September 30, 2007 of \$19.0 million remained similar to the \$20.0 million recorded in the same period of 2006.

On October 1, 2007 the Mexican taxing authority enacted a new business flat tax ("IETU") that becomes effective for years starting in 2008. The IETU is defined as a minimum tax in respect to income tax (IT), but with a wider taxable base as many of the tax deductions authorized for IT purposes are not permissible for the 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. The Company is currently assessing the impact this new tax will have on its future operations and cash requirements in Mexico.

Metal Production

Pan American produced a record 4.5 million ounces of silver in the third quarter of 2007, a 38 per cent increase from the corresponding period in 2006, primarily as a result of silver production from Alamo Dorado. In addition, increased milling rates resulted in higher silver production at San Vicente, La Colorada, Morococho, and Huaron as compared against the comparable quarter of 2006. Lower grades resulted in offsetting decreases in silver production at Quiruvilca 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 third quarter press release for a detailed breakdown of each mine's production data.

Total Cash and Production Costs per Ounce for Payable Silver

Consolidated cash costs for the three-month period ended September 30, 2007 were \$3.32 per ounce compared to \$1.57 per ounce for the corresponding period of 2006 and \$2.61 per ounce in the second quarter of 2007. The increase in consolidated cash costs relative to a year ago was primarily a result of including production from Alamo Dorado, which recorded cash costs per ounce of \$5.02 in the third quarter of 2007. Cash costs for the quarter at Alamo Dorado were higher than expected as a result of several mechanical start-up issues persisting into the first part of the quarter, including a boiler failure which negatively impacted gold recoveries. However, the mine has demonstrated consistent performance at or above design capacity for the latter part of the quarter and into the fourth quarter and management is confident that the cash costs at Alamo Dorado will decline for the remainder of the year.

Relative to the comparable period in 2006, higher cash costs were recorded at all operations, other than San Vicente and the Pyrite Stockpiles, in the third quarter of 2007, primarily

reflecting general cost escalations within the industry. At the Quiruvilca mine lower ore grades, relative to a year ago, resulted in lower silver production and consequently cash costs of \$1.33 per ounce compared to negative \$0.39 per ounce recorded in the third quarter of 2006. Similarly at La Colorada, although tonnage throughput rates increased by 45 per cent, lower silver grades were the primary reason for cash costs per ounce increasing to \$6.73 from \$5.92 in the comparable period of 2006. At Morococha, by-product credits continued to be greater than the operating costs, resulting in cash costs per ounce of negative \$2.92 (compared to negative \$5.14 in the comparable period of 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 nine-month periods.

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Cost of sales	\$ 49,233	\$ 30,813	\$ 118,994	\$ 82,723
Add/(Subtract)				
Smelting, refining, and transportation charges	23,588	17,795	65,931	48,474
By-product credits	(57,205)	(44,424)	(158,094)	(118,016)
Mining royalties	1,798	1,127	4,743	2,812
Workers participation	(2,159)	(1,842)	(5,569)	(5,660)
Change in inventories	(1,552)	225	3,960	2,638
Other	(160)	913	(286)	2,479
Minority interest adjustment	199	44	437	386
Alamo Dorado Commissioning Costs	-	-	2,719	-
Cash Operating Costs	A \$ 13,742	\$ 4,650	\$ 32,835	\$ 15,836
Add/(Subtract)				
Depreciation and amortization	9,549	4,234	20,765	11,880
Asset retirement and reclamation	790	615	2,186	1,843
Change in inventories	(489)	(185)	362	152
Other	(45)	(22)	(128)	(91)
Minority interest adjustment	(167)	(166)	(741)	(468)
Alamo Dorado Commissioning Costs	-	-	1,304	-
Production Costs	B \$ 23,380	\$ 9,126	\$ 56,583	\$ 29,151
Payable Ounces of Silver (in '000 ounces)	C 4,136,221	2,963,597	11,122,324	9,043,186
Total Cash Cost per Ounce	A/C \$ 3.32	\$ 1.57	\$ 2.95	\$ 1.75
Total Production Costs per Ounce	B/C \$ 5.65	\$ 3.08	\$ 5.09	\$ 3.22

Liquidity and Capital Resources

The Company generated \$20.2 million of cash flow from operating activities during the quarter. Before adjusting for non-cash working capital movements, which absorbed \$13.2 million, operating cash flow was \$33.3 million for the quarter. Investing activities used \$29.4 million during the quarter, predominantly for investments in mineral property, plant and equipment (including VAT) of \$32.5 million partially funded by the sale of \$3.1 million of short-term investments. Financing activities during the quarter used \$0.8 million, primarily to repay

advances on concentrate shipments. Investments in mineral property, plant and equipment occurred primarily at the Company's two construction projects, Manantial Espejo and San Vicente, where \$16.4 million and \$1.8 million were expended, respectively. Significant investments also occurred at Morococha and Huaron, where \$3.9 million and \$3.7 million were invested in mine development at each mine, respectively.

At September 30, 2007, cash plus short-term investments were \$153.0 million, a \$9.3 million increase from June 30, 2007. Working capital at September 30, 2007 was \$207.4 million, an increase of \$6.3 million from June 30, 2007. The increase in working capital during the quarter resulted primarily from an \$11.1 million increase in accounts receivable, a \$9.2 million increase in cash and short-term investments, and a \$3.4 million decrease in taxes payable, partially offset by a \$16.3 million increase in accounts payable. Accounts receivable balances have increased due to timing of shipments while higher accounts payable balances are a result of unsettled investment trades executed at quarter end.

Shareholders' equity at September 30, 2007 amounted to \$590.4 million, an increase of \$33.5 million from shareholders' equity at June 30, 2007. This increase resulted primarily from the net income generated during the third quarter of \$23.9 million and from other comprehensive income of \$8.9 million, which relates to unrealized gains on investments held by the Company at quarter end. At September 30, 2007, the Company had 76.5 million common shares issued and outstanding.

On October 18, 2007 the Company secured a \$50 million revolving credit facility for general corporate purposes. The credit facility is secured by certain of the Company's short term investments. Any amounts drawn under the credit facility will incur interest at Canadian dollar Prime Rate for Canadian dollar drawings or Alternate Base Rate for US dollar drawings. The credit facility does not have a maturity date but may be terminated by lender upon 30-days notice. As of the date of this MD&A, the Company had not made any drawings under the facility.

The Company's financial position at September 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, the 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 September 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	\$ 1,012	\$ 653	\$ 359		
Purchase Obligations ⁽¹⁾	28,707	28,707			
Total contractual obligations	\$ 29,719	\$ 29,360	\$ 359		

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

Financial Instruments

At the end of the third quarter of 2007, the Company had fixed the price of 600,000 ounces of silver produced during the third quarter and contained in concentrates, which are due to be priced in October and November of 2007 under the Company's concentrate contracts. The price fixed for these ounces averaged \$12.80 per ounce while the spot price of silver was \$13.65 on September 30, 2007, resulting in an unrealized mark-to-market loss of \$0.5 million.

Pan American mitigates the price risk associated with its zinc production by committing some of its forecasted zinc production under forward sales or option contracts. At September 30, 2007, the Company had sold forward 6,545 tonnes of zinc at a weighted average price of \$3,344 per tonne and committed an additional 2,650 tonnes to option contracts, which have the effect of ensuring zinc prices of between \$2,500 and \$2,871 for that quantity. The forward sales and option commitments for zinc represent approximately 30 per cent of the Company's forecast payable zinc production during 2008. At September 30, 2007, the cash offered price for zinc was \$3,059 per tonne and the mark-to-market value was an unrealized gain of \$1.1 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 September 30, 2007 the Company had entered into foreign currency contracts with an aggregated nominal value of \$7 million settling between October 2007 and January 2008 at an average MXN/US\$ exchange rate of 10.99, in addition to holding cash balances equivalent to \$6.9 million in MXN. At September 30, 2007, the mark-to-market value of the Company's local currencies positions was not material.

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 nine months ended September 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 nine months ended September 30, 2007 and 2006.

Internal Controls over Financial Reporting

No changes were made to the Company's internal controls over financial reporting during the third 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, advanced as planned during the quarter. At quarter end, the cumulative project construction was estimated to be approximately 45 per cent complete. Expenditures at the project during the third quarter of 2007 were \$16.4 million, primarily on equipment purchases, engineering, underground and surface mine developments, 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 \$14.3 million on the construction of Manantial Espejo, which will be funded out of the Company's existing treasury.

The development of the underground mine progressed well during the quarter with over 1,630 meters of total advance achieved by the end of the quarter. As and where expected, the Maria and Melissa veins were cross-cut by underground development during the quarter. Open pit pre-stripping also continued on schedule during the quarter with a total of 1.6 million tonnes mined by the end of the quarter, inclusive of 54,000 tonnes of ore that was selectively mined and stockpiled. The construction of the tailings facility embankment was completed on schedule in July.

Concrete placement continued throughout the quarter bringing the total plant concrete placed to date to approximately 3,200 m³ (56 per cent of the 5,700 m³ total estimate). The construction of the administration building advanced well and occupation will take place in early November. The laboratory sample preparation component was commissioned during the quarter and delivery of the fire assay/wet lab components was completed.

The expansion project at **San Vicente**, announced by the Company in June, 2007, is advancing well. Expenditures at the project during the third quarter of 2007 totaled \$1.8 million, primarily for deposits on equipment orders. Over the remainder of the year, the Company anticipates spending an additional \$10 million on the expansion of San Vicente, which will be funded out of the Company's existing treasury.

A new underground access decline ramp was initiated in the quarter and progressed 180 meters. Site clearing efforts continued during the quarter and were approximately 75 per cent complete by the end of the quarter. Erection of the site construction office commenced and was 25 per cent complete by the end of the quarter. Detail engineering for the plant continued at the Company's EPCM contractor for the plant construction, Lyntek Inc.'s offices in Denver. AMEC (Peru) continued with the detail engineering of the tailings dam facility progressing to 70 per cent complete. Fabrication of the flotation cells and conditioning tanks continued in Peru, progressing to approximately 25 per cent complete. The SAG and ball mills fabrication continued on schedule. Refurbishment of the shaft replacement hoist continued with ordering of the base plate and movement of all mechanical parts to the facility where final assembly will occur.

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 SAN VICENTE, 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 COMPANY'S INVESTMENTS AND 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 INCLUDING ENVIRONMENTAL RISKS, 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.



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