

Pan American Silver Corporation
Third Quarter 2007 Earnings
November 12, 2007

Operator: Good morning, my name is Jennifer and I will be your conference operator today. At this time, I would like to welcome everyone to the Pan American Silver Corporation third quarter 2007 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to pose a question during this time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. It is now my pleasure to turn the floor over to your host, Mr. Geoff Burns, President and CEO. Sir, you may begin your conference.

Geoff Burns: Thank you, operator. Good morning, ladies and gentlemen and welcome to Pan American's third quarter 2007 earnings release conference call. Joining me today here in Vancouver are Steve Busby, Senior Vice President, Project Development; Andrew Pooler, Senior Vice President, Operations; Michael Steinmann, Senior Vice President, Exploration and Mine Geology; and Rob Doyle, our Chief Financial Officer.

The third quarter of 2007 was, by all measures, the best in the company's history. We posted a new record for silver production at 4.45 million ounces. We recorded our highest-ever quarterly cash flow from operating activities at \$33.3 million before non-cash working capital adjustments; that is \$0.435 per share. Our revenues reached an all-time quarterly high at \$87.9 million, up 37% from the same period in 2006.

Our cash costs, although slightly higher than expected, were a very respectable \$3.32 per ounce. Finally, we recorded net earnings of \$23.9 million, or \$0.31 per share, a 46% increase as compared to the third quarter of 2006. Record silver production, record cash flow, record revenue and our second-highest quarterly earnings ever; I think it is fair to say we had an excellent third quarter.

Before taking a quick tour around our mining operations and development projects, I would like to make a few comments on the silver market. As I am sure you are all aware, even considering today's decline, the price of silver is up almost 13% from the start of the year. It is currently trading just under \$15 per ounce.

Perhaps more significant is the 27% rise in the price since August 21, when the entire market shuddered in response to the credit and liquidity crisis in the United States and silver closed at \$11.60 per ounce. Notwithstanding today, there is no doubt in my mind that during this last period

silver has been trading like the precious metal that it is and like gold, is responding to concerns about the long-term value of the U.S. dollar.

But what about the fundamentals of supply and demand? I was in New York last week to receive GFMS' Mid-Year Global Silver Survey update. Let me share with you a couple of the highlights of that update.

On the demand side, GFMS estimates that industrial demand has risen sharply in 2007, more than offsetting the decline in photographic offtake, and now accounts for over 50% of world silver usage. The Indians, who left the silver market last year in response to the price, have been active again in 2007 and GFMS estimates that overall flatware and jewelry demand will be stable year over year.

The ETF now stands over 140 million ounces, with investment demand remaining extremely strong. Net-net, silver demand is likely to grow about 2% in 2007 in spite of the increase in the price. World silver supply is likely to fall slightly in 2007, as an estimated 4% growth in new mine supply is offset by lower silver scrap and recycling and considerably lower government sales. The Chinese and the Indian governments have not been active sellers in 2007 and producer hedging -- which brings silver back to the market -- has been minimal.

In conclusion, we are looking at about a 2% growth in demand, with supply basically flat in 2007; a balanced market with perhaps a small deficit; a market where the fundamentals are clearly supportive of the current price. While I remain bullish on the silver price, despite the fact that silver is off some today, I'm even more bullish on Pan American's prospects going into the fourth quarter and on into 2008.

Let's take a look at how our mines performed in the third quarter, starting with our newest mine, Alamo Dorado in Mexico. You probably recall from earlier this year that Alamo Dorado was a little slow out of the gate, but during the second quarter we demonstrated clear signs that production was steadily increasing and I was confident that we would reach designed capacity in the third quarter.

During the third quarter, Alamo Dorado produced 994,000 ounces of silver, up 16% from the second quarter. In September alone, the mine produced 460,000 ounces of silver at a cash cost of \$3.88 per ounce, 8% above feasibility estimates. This trend has continued in October, where production topped 490,000 ounces.

Cash costs were higher than expected in the third quarter, primarily due to the failure of one of the two boilers that preheat metal bearing solutions prior to their entry into our refinery. That had a negative impact

on our gold recoveries and reduced our byproduct credits. The boiler has been fixed, gold recoveries have risen and as demonstrated in September, we expect cash costs to decline over the balance of 2007.

We still believe Alamo Dorado will produce 3.6 million ounces of silver in 2007, with cash costs having crept up to the \$4.25 per ounce level. Alamo Dorado is now clearly living up to its pre-billing and is set to become our largest silver-producing asset going into the fourth quarter and beyond.

Moving on to our other Mexican operation, the La Colorada mine had another outstanding production quarter in the third quarter. It produced 995,000 ounces of silver, up 8% from the same period in 2006. For the second consecutive quarter, La Colorada was our largest silver producer. Cash costs were \$6.73 per ounce, which are down from earlier this year as increased production has helped offset the effects of cost escalation.

Both the oxide and sulfide recovery circuits continue to run well and underground operations have kept pace with the expanded processing capacity of over 1,000 tons a day. We are right on target to produce 3.8 million ounces of silver at La Colorada in 2007.

With the operation running smoothly, our attention has shifted to exploration. There are currently three diamond drill rigs working at La Colorada and I look forward to providing a formal update on the positive results that we have achieved from this program when we publish our new reserve and resource statement early in 2008. The exploration potential of La Colorada has always been excellent, and we are starting to tap that potential.

Moving to Peru, at Morococha silver production for the third quarter was 750,000 ounces, up 8% from the year earlier period, and cash costs were the lowest in the company at negative \$2.92 per ounce. Cash costs continue to benefit from high byproduct zinc production and excellent zinc prices. Morococha has delivered a fine quarter and is on track to produce 2.7 million ounces in 2007.

The Huaron mine maintained its solid performance throughout the third quarter and is one of our most consistent producing mines. Silver production at Huaron increased as compared to the third quarter of last year to 951,000 ounces. Cash costs in the third quarter also increased somewhat to \$2.93 per ounce of silver produced, as the mine continues to focus on throughput to offset a planned decline in silver head grades. Huaron should meet our 2007 production forecast of 3.8 million ounces.

We initiated the mine deepening program at Huaron earlier this year, which is an investment in the long-term future of this operation. A significant portion of the highest grade reserves and resources are located

below what is currently the lowest level in the mine, the 250 level. We have started to ramp below the 250 level and are also planning to deepen a pre-existing shaft to open up a new mining area. This project will take at least another full year to complete, but will provide access to higher grade ore for years to come.

At Quiruvilca, silver production for the quarter was 409,000 ounces at a cost of \$1.33 per ounce. Production was down approximately 16% from a year ago, but was almost identical to the production and cost numbers that we recorded in the first and second quarters of this year.

We had expected to access higher grade ore from below the 400 level as early as the third quarter of this year, with the completion of the 400 level ramp development project. However this project is running behind schedule as a result of low availability of contractor equipment. We are likely to maintain similar production levels as we have seen all year into the fourth quarter, but are looking to increase silver grades and production levels as we move into 2008.

To round out our operations, San Vicente in Bolivia produced 236,400 ounces of silver in the third quarter, as we continue to mine at extremely modest paces, processing about 250 tons per day. Cash costs for the third quarter were \$5.21 per ounce. In order to extract the real value of this high grade, long-life ore body, we have started our expansion project, which includes construction of a new 750 ton per day processing plant and expansion of underground mine workings.

The expansion is scheduled for completion at the end of 2008. The economic returns for this project are extremely attractive. For a relatively modest capital investment of \$40.5 million, we will add almost 2 million ounces of silver production per year at a cash cost just over \$2.00 per ounce. At current prices, the payback period is estimated to be just over one year. It is very early stages, but we are off to a very good start, reasonable start on our program at San Vicente. Mine development is moving ahead as planned with the advance of our new production ramp approaching 400 meters. Civil work for the new plant site is 75% complete, the construction camp is being finished and should be ready for occupancy shortly; detailed engineering is nearing completion and all major long-lead-time equipment has been ordered.

Continuing with our growth plans, construction and development of our biggest project to date, Manantial Espejo in Argentina, is progressing extremely well. I was fortunate enough to be in Argentina a couple of weeks back and saw firsthand the results of our mine-building efforts. I am very happy to tell you that I was extremely pleased with what I saw.

Our construction and mine development activities are nearing peak levels, with nearly 500 Pan American employees and construction contractors now on site. The tailings dam has been completed. Concrete placement is close to 60% done. The admin building and laboratory building have been completed and should be occupied shortly and steel erection for the main leaching and thickening tank is underway. The site is literally alive with activity.

On the mining side, the Melissa and Maria underground ramps have advanced a total of 1,129 meters and we have intersected both ore bodies underground as we have modeled. In addition, we have moved more than 1.6 million tons of waste material from the Karina Union and Maria open pits and have begun to stockpile ore.

To the end of September, we have committed almost \$94 million of this \$170 million project, which when completed, will produce 4.1 million ounces of silver and 60,000 ounces of gold annually.

I am a bit concerned with Manantial Espejo's schedule. We had planned to mechanically complete the construction by the end of April of next year. However, possible delays in equipment deliveries and some issues with contractor performance are clearly putting this schedule under pressure. It is a very remote location and we are fighting to keep our original schedule, but it is not going to be easy.

I hope I have given you the impression that we are extremely active executing our growth plans, because we are. With Manantial Espejo scheduled to come on stream in the middle of next year and San Vicente by the end of December, we are clearly poised to see continued production growth at Pan American. I am projecting production in excess of 25 million ounces annually by 2009.

Let me take a moment to summarize the third quarter before we open up the call to questions. We have produced 4.45 million ounces of silver in the third quarter at a cost of \$3.32 per ounce. Alamo Dorado has achieved and actually exceeded our feasibly estimates and our La Colorada, Huaron, and Morococha mines are running extremely well. We posted record cash flow, record revenues and the second-highest earnings in the company's history.

We finished September with over \$207 million in working capital and no debt, clearly capable of meeting the capital requirements of our expansion projects. There is no question that we had the best quarter in the company's history. We are set to produce nearly 17 million ounces of silver in 2007 and with silver prices remaining strong, although volatile, and plans for another increase in production, I fully expect to be posting even more records by the end of this year.

Thank you, and I would ask the operator to open the lines for questions.

Operator: At this time, I would like to remind everyone, if you would like to pose a question, press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from John Bridges of JP Morgan.

John Bridges: Good morning, everybody. Just wondering, you've got this stockpile that is hanging on from the previous period; roughly what should we look at as a normal inventory for you, to get a sense as to how much additional sales we can put in for this final quarter? And this is the first question.

Geoff Burns: Thanks, John. We ended the quarter with, if I recall, about 13,000 tons of concentrate inventory, which I assume is what you are referring to. At the end of December, we had just a little over 3,000 tons. On an ongoing basis, a normal level would be around 5,000 tons. That is probably our normal inventory level, although as we have seen, they do fluctuate up and down.

My expectation is we should achieve this level again by the end of December. I thought we would see a little bit of decline or pull down in that inventory during the third quarter, but, again, simply as a function of how our shipping process works, we didn't see that decline, but I am looking for it in the fourth quarter.

John Bridges: How much confidence can you have of that, because as I understand it the shipping market is somewhat difficult to manage?

Geoff Burns: Well, I am not sure we actually manage the final shipping market. John, I guess it really comes down to experience. I mean over the course of the last three years, we have tended to ship all the concentrates that we have produced in any given year and while we don't control when the boats leave the Port of Callao in Peru, that has been our experience. As I said, I do expect us to see that happen again.

John Bridges: I would imagine there is going to be on awful lot of people in the same position as yourselves looking for space on boats at the end of this year.

Geoff Burns: No question.

John Bridges: Secondly, what sort of tax rate should we put into our numbers for the year?

Geoff Burns: I am going to throw that over to Rob Doyle, our Chief Financial Officer.

Rob Doyle: It should stabilize around about 30%. The tax rate, effective tax rate in Peru, taking into account the workers' participation is a steady 5.6% and in Mexico where we are starting to become tax paying in our various entities, it is 28%. So somewhere in the low 30% is really where we should be stabilizing.

John Bridges: So was there any particular driver of this low tax rate this quarter?

Rob Doyle: You know, the other thing, of course, that goes into our provision is our future income tax calculation which is a fairly complicated calculation. There was a tax asset that we recognized in Bolivia actually that has brought us down by about \$1.4 million in the quarter. So that was the main reason why that the effective tax rate moved a little lower this quarter. But over the longer term, I would say that 30% is as good a number as any.

John Bridges: So would 30% be good for this year or would it be a bit below that because of the tax asset?

Rob Doyle: Perhaps this year it would be a little lower, but on an ongoing basis, say 30%.

John Bridges: Okay, that's great. Thanks, I'll get out of the way now. Thank you.

Geoff Burns: Thanks, John.

Operator : Once again, I would like to remind everyone, if you would like to pose a question, press star, then the number one on your telephone keypad. Your next question comes from Michael Dudas of Bear Stearns.

Michael Dudas: Good morning, Geoff.

Geoff Burns: Good morning, Michael.

Michael Dudas: First, regarding Argentina, maybe a little bit more colour on the difficulty and the slippage from April. Is it more a function of getting contractors to where they need to be, given there are a lot of things going on in the marketplace or is there a lot of slippage in equipment? If I could get a little bit more detail on that. Should we be concerned about a slip from April to May or April to September?

Geoff Burns: Well to start, I haven't given up on the end of April in terms of meeting our schedule, but there are a couple of things that really have to line up for us on the equipment delivery side to make that schedule, not the least of which is the delivery of our SAG mill, which at the moment looks to be sort of six to eight weeks behind where we would like it. I don't have a concern that we are going to see end of April to the end of September. That is not in my horizon, but I wouldn't be surprised at the end of the day if we were six to eight weeks behind where we would like to be. I haven't given it up yet, but that would not surprise me.

In terms of the contractor side of things, it is more, I am going to say not so much in terms of an industry situation, it is more specifically an Argentine situation. Argentina is not a renowned mining country and so we are using some contractors that are very experienced; an example is steel erection, but it is not perhaps one of their mainstay activities, so there is a little bit of learning curve that we are dealing with in getting those contractors mobilized and identified. That always plays into the schedule a little bit.

I think the very last thing which I didn't really mention in my comments, Manantial Espejo is by far the windiest site that I have ever been on. As you know, it is in the Patagonian and as a consequence of the jet stream flows at different points in time can have long periods of winds in excess of 70 to 80 kilometers an hour and that is not the easiest conditions to be pouring concrete frames and erecting steel. So it is not unlike just about every mine that I have ever been involved in building, it has a couple of its own unique challenges.

Michael Dudas: Sounds like a little bit too strong for a wind farm?

Geoff Burns: It actually is. We did look at that in the past and most of those units kind of max out at about 30 to 40 kilometers an hour, and there is a lot of energy down there if someone could figure out how to tap it in wind.

Michael Dudas: Secondly Geoff, looking out to '08 level of cost inflation ex volume-related issues relative to what you have seen in '07? In general, nothing too specific.

Geoff Burns: In general. Thanks, Michael, for letting me off. I think our costs in the third quarter at \$3.32 are higher than where we are going to end up being largely because of the Alamo Dorado, which is now starting to have a much higher multiplier or weighted average effect into our structure and as I said, because of the lack of some gold production, was about \$1 higher, maybe even a little bit more than \$1 higher than what I would expect long term. My expectation is to see costs for us under the \$3.00 number going forward and also into 2008, given two other events and that is given zinc prices, gold price, lead price relative stability.

Michael Dudas: Third question, on that topic, you did mention about you have zinc forward in the little quarter. A little bit more on what your thoughts on pricing and strategy there, and what is the board thinking about relative to \$800-plus gold?

Geoff Burns: Starting with the zinc, I think on the zinc side, I mean, there is a lot of discussion in the market about production surplus or production excess going into 2008. We decided to move back into the forward market, hedging about close to 50% of our 2008 production. If I recall, the minimum average price is just a little over \$3,000 so I'm pretty comfortable with that.

I do think there could be some continued downward pressure on zinc in the short term and that seems to be a consensus among a lot of people who are following the industry. So going forward, I can see us moving back into the market again on some price spikes and I do expect to see price spikes in the zinc market, that is normal, and to try and maintain a 50% hedge level is probably a pretty good watermark for us.

On the gold side, I have to say, plus \$800 gold, knowing that we have a considerable amount of gold production, particularly coming from Manantial Espejo, is pretty tempting also considering that for us gold is really a byproduct. I don't think many people buy Pan American for our gold exposure.

Having said that, I think there are still legs in the gold market, Michael, I mean today may not be the best day to be prognosticating on strength, but I really don't see anything that is going to strengthen the U.S. dollar in the short to medium term. I just don't. I think you have one or two-day trading changes, but overall, I don't see anything breaking that trend, personally.

I think gold will continue to trade conversely to that weakness. I have heard people talk about \$1,000 gold. I don't know that is in my mind, but I do see some more legs and I would be reluctant at this stage to jump into that market until I was a little more comfortable that we might have actually come to a top.

Michael Dudas: Geoff, thanks for your thoughts.

Geoff Burns: Thanks, Michael.

Operator : Your next question comes from Haytham Hodaly of Salman Partners.

Haytham Hodaly: Good morning, Geoff. How are you?

Geoff Burns: Good Haytham. Yourself?

Haytham Hodaly: Good. Just a couple of quick questions. I missed the very beginning of the call, so you may have addressed this. Do you have anything in asset-backed commercial paper right now?

Geoff Burns: We do not.

Haytham Hodaly: Okay, good. A couple of housekeeping questions and then I will ask you a hard one. Your full year G&A for this year is roughly, I guess your last quarter was a little lower. What do you expect your full year to be?

Geoff Burns: I don't have it right in front of me, Haytham, but if I recall, we ran just under \$2 million in G&A for the quarter.

Haytham Hodaly: Great. \$1.8 million I think it was, yes.

Geoff Burns: You know what, I would expect us to be \$2.5 million, give or take, in the fourth quarter, so full year right around \$9 million.

Haytham Hodaly: Is that a reasonable number to use going forward?

Geoff Burns: I think it is, yes.

Haytham Hodaly: And I'll just write that down here.... And then last question, actually second last question; Exploration and project development was a little low. Can you give us an idea of what you are looking at in terms of full-year expense numbers? Let me tell you what it was at. It was at 100,000...

Geoff Burns: Okay, I got you. I'm sorry, Haytham. Yeah, exploration and development, we had some reallocation of some previous costs which in reality kept this month's expenditures relatively low. I would expect us to see at least a couple of million dollars over or during the fourth quarter on exploration. We are drilling on a couple of Greenfield prospects that we weren't doing earlier this year and we are still very active at all our sites. Some of that gets captured in our capital, but there will be some of that expense, so full year, I would see us somewhere around \$3.5 million, \$3.6 million.

Haytham Hodaly: Your plans for next year in terms of exploration, is there anything in the works, anything you have budgeted or you can see yourself drilling that you would be expensing rather than capitalizing?

Geoff Burns: It is a little early to make some of the comments on next year's plans. We are actually just going into our budget cycle right now. Having said that, we are going to be significantly more active on the Greenfield side of things both in Mexico and in Peru, so I would expect our exploration budget to increase fairly significantly going into 2008. I don't have a number that I can give you today.

Haytham Hodaly: Okay. Your forecast for 17 million ounces in 2007, that is contained metal, is that correct?

Geoff Burns: That is correct. Not payable, that's contained.

Haytham Hodaly: Can you just break down roughly where you are seeing that just to confirm, to see what's changed?

Geoff Burns: I think – Haytham, would you mind, I mean we certainly have forecasts for each one of our operations versus going through them individually on the phone with you. Can I get Rob to give you a call after the...?

Haytham Hodaly: That would be great, or better yet, have they changed from the last time we talked?

Geoff Burns: They have not.

Haytham Hodaly: Well that is fine, then. Perfect. Thank you, Geoff.

Geoff Burns: Thanks, Haytham.

Operator: Once again, if you would like to pose a question, please press star, then the number one on your telephone keypad. Your next question comes from Howard Flinker of Flinker & Co.

Howard Flinker: Did you guys issue a complete income statement, balance sheet and cash flow statement with your earnings release? I didn't notice that on your release or EDGAR?

Geoff Burns: It is posted in its full glory on our website and referred to in our earnings release at that location.

Howard Flinker: It is? I checked the link and I didn't see it, that's why I am asking.

Geoff Burns: It is also posted on SEDAR, which is the Canadian filing equivalent to EDGAR.

Howard Flinker: Is that under a 10-Q or a 6-K under SEDAR?

Geoff Burns: I don't recall, that's the -- pardon me, Howard, that is the, I think, U.S. filing equivalent numbers. I couldn't give you the offhand what the Canadian equivalent to that is.

Howard Flinker: But you're sure it is on SEDAR?

Geoff Burns: I am absolutely positive.

Rob Doyle: On EDGAR on Tuesday.

Howard Flinker: EDGAR tomorrow? No wonder. Maybe it would be easier if you issued it at the same time as your shortened earning release.

Geoff Burns: Thanks, Howard.

Operator: Your next question is a follow-up question from John Bridges of JP Morgan.

John Bridges: I was just interested by your high-quality problem of the non-stop gale in Argentina. I would think that would be beneficial. Where is your power coming from? What are you paying for that?

Geoff Burns: Steve, do you want to handle that?

Steve Busby: Sure. John, we are looking at bringing in the power line with a government-sponsored program where we are contributing about a third of the capital price to bring that in from the town site of San Julian. The idea is that we would be generating power with the government in San Julian using gas turbines. We anticipate that to be slightly off the schedule of when we need it, so we are considering bringing in some temporary diesel-generated power to get started and then once that power line is completed between six months to one year, we would convert over to the power line.

John Bridges: Interesting. What is the elevation like? Could you have a wind turbine and pump storage to give you stability of power supply?

Steve Busby: The winters are – it's is windy during the summer, actually very windy right now which is moving into the middle of the summer season. The winters, actually, we have less wind typically in the wintertime, colder temperatures, occasionally we get a little bit of snow, not a lot. The site is very, very dry. We only have an average of a little over 100 millimeters of rainfall every year.

John Bridges: Okay, interesting. Okay, well best of luck with that. Thanks again.

Steve Busby: You're welcome.

Operator: Your next question comes from Alexander Emery of Bloomberg.

Alexander Emery: Yes, Good morning, Mr. Burns. I had a question about your Bolivian operation seeing the situation there, just to see what your take is on there and whether the project is possibly being delayed there because of the problems we see with Glencore and the Jindalian core project and still continued grumblings about the higher taxes on mining in Bolivia.

But also, you seem to be pressing ahead more aggressively in Argentina and Mexico and even a largely depleted project like Morococho. I was just interested to see, are things moving ahead more slowly in Bolivia because of the situation there?

Geoff Burns: Thanks for the question, Alexander. First, Morococho is not largely depleted. My belief is we have ten years of proven reserves and probably another ten years of resources at Morococho, so far from being depleted.

In terms of Bolivia, I think we are off to a pretty good start and we are not seeing our project delayed at this stage by, as I say, any of the political issues that possibly Glencore has faced over the last little while. I won't kid you, Bolivia is a difficult place to do business, but it does have a considerable mining history whereas in Argentina, at different points in time, it is hard to locate skilled miners and equipment, Bolivia is quite the opposite. It is actually very easy to locate skilled people in the mining industry.

So far, I'm going to say some of the overall country politics that have affected others have not affected us. We have a very strong support of our local union, who are very vocal with keeping our project on track and frankly, keeping them employed. So I don't think we are seeing any particular slowdown at this stage.

As for the long term taxes, it has been over a year since the government introduced draft proposals to increase the tax rate, so I can tell you when we made our decision to go ahead, we fully incorporated those higher tax rates in our economic evaluations. To date, that legislation has not passed through into law and as it stands right now, we are still under the same tax regime we were over a year ago.

That is probably in and of itself an example of I'm going to say some of the difficulty in working in a country like Bolivia, where it takes more than a year to pass a simple tax legislation.

Alexander Emery: Thank you.

Geoff Burns: Thanks, Alexander.

Operator: There appear to be no further questions at this time. I will now turn the floor back over to management for any closing remarks.

Geoff Burns: Thank you, operator. Howard, if you are still on the line I just want to assure you once again that the complete financials and MD&A for our current quarter are available on SEDAR and are also on our website.

Thanks, everyone for joining us here today for our third quarter conference call and as I said, I look forward to setting even more records as we move into the fourth quarter of this year. Good day.

Operator: Thank you. This does conclude today's Pan American Silver Corporation conference call. You may now disconnect.