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Pan American Silver Second Quarter Fiscal 2008 Earnings August 13, 2008

Operator: Good morning ladies and gentlemen. Thank you for standing by. Welcome to the Pan American Silver Second Quarter 2008 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you have a question, please press the star followed by the one on your touchtone phone. Please press star, zero for operator assistance at any time. For participants using speaker equipment, it may be necessary to pick up your handset before making your selection. This conference is being recorded today, Wednesday, August 13th of 2008.

At this time I'd like to turn the conference over to Mr. Geoff Burns, President and CEO. Please go ahead, sir.

Geoff Burns: Thank you, Operator.

Good morning ladies and gentlemen, and welcome to Pan American Silver's Second Quarter Earnings Release Conference Call. Joining me today here in Vancouver are Steve Busby, our Chief Operating Officer, Michael Steinmann, our Senior Vice President of Exploration and Mine Geology, Rob Doyle, our Chief Financial Officer and Kettina Cordero our Coordinator of Investor Relations.

I'm going to start today's call by making some remarks about our overall performance, and then I'm going to ask Steve, Michael and Rob to update you on our mining operations, our development projects, our exploration programs and our financial condition.

By all measures, the second quarter of 2008 was a very solid quarter for Pan American Silver. We again increased our silver production. We posted a new quarterly record for cash flow from operations, and for the ninth consecutive quarter we posted substantial bottom line net income. Led by our largest and newest silver mine, Alamo Dorado, which produced 1.51 million ounces in the second quarter and our Huaron mine in Peru, which produced just under a million ounces, the company produced 4.7 million ounces of silver in Q2, an increase of 11%, as compared to the second quarter of last year.

Our cash cost to produce silver increased to \$5.28 per ounce. This was up sharply from the second quarter of last year when our cost of production was under \$2.60 per ounce. Our costs are still being pushed by rapidly escalating energy prices, particularly electricity in Peru, increased labour costs, decreasing by-product credits from our zinc production, and strengthening local currencies relative to the U.S. dollar. Even with the increased costs, our mine operating earnings climbed 25% as compared to a year ago to \$39.3 million, reflecting higher margins. And at the same time we delivered a new company record for cash flow from operations, which was \$45.7 million for the quarter, equal to \$0.57 per share.

Our net income also climbed 16% to \$21.4 million or \$0.26 per share for the second quarter. It is worth mentioning at this point that similar to a couple of other gold companies like Gold Corp. and Yamana, that recently released their second quarter results, we were also hit with a non-cash foreign exchange loss to our future income tax liability account. It is also worth noting that this \$3.9 million loss we had to recognize has no bearing on our current cash taxes or for that matter, on any future cash taxes. I'm sure Rob will make some additional comments on this adjustment shortly. But excluding this item, our adjusted net income for the second quarter was \$25 million or \$0.31 per share.

While our mines operated pretty much as planned during the second quarter, our growth projects, Manantial Espejo in Argentina and San Vicente in Bolivia, also progressed extremely well. Manantial Espejo was approximately 90% complete at the end of June and should be producing silver and gold in the fourth quarter of this year and San Vicente remains on schedule to be completed by the end of this year with commissioning to commence in early 2009.

With that I'm going to turn things over to Steve, who is going to provide some additional colour to our mining operations as well as an update on Manantial and San Vicente. Steve

Steve Busby: Thank you Geoff and good morning ladies and gentlemen.

Overall it was a very good quarter from a mining operations perspective, although we continue to face some distinct cost and labor issues which are beyond our control, particularly in Peru. On the project development side, construction at Manantial Espejo and San Vicente is advancing satisfactorily in spite of some irritating equipment delivery interruptions.

I'm pleased to report that our operations produced 4.7 million ounces of silver for the quarter as planned, although our operating costs have increased, about what we planned to \$5.28 per ounce. This strong production was led by another solid quarter at Alamo Dorado, which is enjoying an outstanding first full year of production producing 1.5 million ounces, well ahead of our projections.

Our unit cash operating costs at Alamo Dorado finished the quarter at \$3.77 per ounce, as better than expected gold production and prices helped offset some significant material supply and energy cost increases. We expect this momentum of production and costs will carry through the remainder of this year, as we are now mining right in the heart of the high grade zone of our phase one open pit.

La Colorada had another solid quarter, producing 970,000 ounces of silver as planned with well managed mining and milling operations. The unit cash operating costs for the quarter at La Colorada increased to \$8.63 per ounce, driven upwards by a strong Mexican peso and increasing supply costs. We are anticipating continued stable performance at La Colorada for the remainder of this year and are focusing our efforts towards exploring nearby prospects that may extend the life of this silver mine.

Our Peruvian operations delivered just over 2 million ounces of silver at a cash operating cost of \$4.35 per ounce. Costs in Peru have climbed significantly from last year, due to escalating supply costs, increased labour costs and significant energy cost increases. Today Peru is facing a nationwide power crisis where demand has outpaced supply, resulting in some rolling blackouts in the nation's capital. It is expected that power supply short falls will continue through to December when the rainy season will replenish the dams and hydroelectric supplies. It is our understanding that there are efforts underway to relieve a constrained natural gas supply line, which will resolve these serious short falls in the long run. So far we have not experienced any power disruption at our mines, but our costs for power at Huaron during June have increased four-fold, and we're expecting some increases at Quiruvilca and Morococha during the remainder of the year as the government develops their mitigation plans.

Our Peruvian production was led by the Huaron mine, which produced 956,000 ounces of silver as planned while continuing to advance the long term mine deepening project. We continue to be bullish on the long term prospects of our deepening project and the potential contributions this project will provide to the continued future growth of the company. The Morococha mine produced 645,000 ounces of silver during the quarter, which was slightly below plan following a series of short lived labor strikes that lingered into early July. All of our employees and contractors are now working normally, and we are not aware of any pending issues that will impact our operations over the remainder of the year. Meanwhile, our mine expansion project continues on plan, and I am confident that this program will solidify a long and prosperous future at Morococha.

Our Quiruvilca mine produced 335,000 ounces of silver, which was 14% below our plan due to mining lower grade ore blocks while we catch up on some underground mine development. Assuming we are not hit with any further nationally-driven labour movements, we are expecting to improve our Peruvian production about 5% during the second half of the year, although it is clear that costs are likely going to remain higher than we had originally forecasted.

In Bolivia, our San Vicente mine, mill and infrastructure expansion project is advancing on schedule and on budget while we continue to produce and toll treat ores at a nearby mill. The toll milling program produced nearly 220,000 ounces of silver during the second quarter at a cash cost of \$9.51 per ounce, above the \$7.43 per ounce anticipated. Lower grade ores caused by mine development priorities, cost escalations, unfavourable currency exchange rates and high Bolivian inflation pushed costs higher than we anticipated. We are expecting increased production rates with higher silver grades for the remainder of this year.

The new access ramp for the trackless mine development continues to advance ahead of our schedule, and our plant construction is accelerating. Total project expenditures to the end of the quarter were \$36 million, and total commitments were \$55 million with the project 58% complete.

At our Manantial Espejo in Argentina, we suffered from an unfortunate theft of some key imported electrical components when it arrived in Argentina, and this is largely responsible for the short delay in the start of plant commissioning. We have located replacement gear and are targeting to begin putting the first ore to the mill in the latter part of October after we get the plant energized in mid to late September and complete the dry testing of all the components. As such, we had previously announced in July a revised 2008 production forecast for Manantial Espejo at 400,000 ounces of silver and 8,000 ounces of gold at a cash operating cost of \$2 per ounce. Despite this disruption

and delay, I am pleased with the continued construction advance where we have now surpassed over 2 million safe work hours without a lost time accident. This is a particularly gratifying achievement, given the very harsh cold and extreme wind conditions that exist on site during the winter months. We are nearing the warmer spring weather, which will help reduce the potential impact of freezing during our critical start-up period. We are essentially fully staffed for the start-up and have our commissioning team largely in place. This is an exciting time for the project, and we've seen some outstanding silver and gold grades encountered in our mining operations, which are perfectly positioned to deliver high quality ore to the mill for start-up and early production.

I'd like to take this special opportunity to inform you that our La Colorada mine in Mexico has won the prestigious 2007 Silver Helmet Award for being the safest underground mine in all of Mexico that has over 500 employees. I'd like to personally congratulate our employees at La Colorada, who have definitely earned this award with their outstanding dedication to safety.

In summary, we continue to deliver solid production. Our forecast for 2008 is to produce 18.8 million ounces of silver at a cash operating cost of \$5.10 per ounce. Our projects are advancing, which will ensure continued production growth well into the future. We are not without our challenges and are battling to deal with the significant cost of inflation that has impacted our industry so heavily. Pan American has a seasoned management team in place that is capable of addressing these challenges properly and competently.

This concludes my brief overview of our mine operations and project advances. I'll now turn it over to Michael Steinmann for the exploration update.

Michael Steinmann: Thank you Steve, and good morning.

As you heard from Steve, we delivered another record production in Q2 of 4.7 million ounces of silver and are forecasting a 2008 production of 18.8 million ounces. In order to maintain reserves at our existing operations and to continue with our strong growth as a silver producer, successful brown and Greenfield exploration programs are of crucial importance. I believe we had extraordinary results for our exploration efforts during the first six months of 2008, and I would like to share with you some of the highlights.

Between our Brownfield and Greenfield exploration programs, we executed a total of 54,700 meters of diamond burning during the first six months of the year, right on track for our plus 100,000 meter program for 2008. The underground exploration program at Huaron returned excellent results in the first six months. We discovered several extensions of main veins to the east of the actual mine, as well as one new vein to the north. Many drill holes returned multi meter wide intersects. We not only have silver but also substantial

lead and zinc grades. As you know, we publish annually in February new reserves and resource statements, and I'm not able to report single drill hole intersects during this conference call.

Reserves depend on many economic factors such as metal prices, metallurgical recoveries, costs and sales conditions, but I'm confident that we have already replaced our forecasted annual production at Huaron in the first six months of this year. This is another example of the immense potential of the Huaron deposit.

Even more exciting are the results from Morococha. I mentioned in our Q1 conference call that we discovered the Morro del Solar structure to the northwest of the processing plant. Detailed mapping and surface drilling revealed at least six additional parallel veins. Up to now, we explored only 400 meter strike length of a total of 2.2 kilometer recognized at surface. Drilling takes place from surface down to 400 level only exploring the first 200 to 250 meter down deep extension of the veins. The main access to the northwest area will be through the new Manto Italia ramp currently under development. Once finalized, we will have access to an additional 400 vertical meters of vein extension for exploration and development.

The most important structure, Morro Del Solar, has an average width of 2.6 meters, but some holes we turned up to 9 meters. Average silver grades are just below 300 grams per ton, but many intersects have 500 to 1,000 grams per ton and some returned up to 2.7 kilogram of silver per ton. Zinc grades averaged just over 5% with maximum results of 30%, and lead averaged 1.6% with a maximum at 11%.

We finalized over 30 holes in this area and will publish a press release with detailed drill hole results in early September. This is an exciting new area for Morococha with a large potential for many years of future production. I'm extremely confident that once again we will more than replace the mined reserves in 2008 with our exploration programs at Morococha.

Now some results from our exploration in Mexico. I introduced you during the last conference call to the new high grade gold silver ore body discovered at La Colorada. The small ore body of 91,000 tons contains over 1.8 million ounces of silver and 24,000 ounces of gold and will be part of the mine plan in 2009 and 2010. Drilling at the deep extension of the main veins at La Colorada continue to return high silver grades as well as zinc and lead, as the mineralogy is changing to sulfides at deeper levels. With new discoveries and vertical extensions of known structures, La Colorada will most likely more than replace the reserves mined in 2008.

Besides our mines, we are drilling during 2008 two Greenfield projects in Peru and are exploring on our large land package of over

77,500 hectares. In Mexico, we are drilling in 2008 three Greenfield projects and are working on the surface geology at several early stage projects. I will keep you informed as soon as more detailed results are available.

I'll pass now on to Rob for his financial review.

Rob Doyle:

Thanks Michael and good day to our listeners.

Our improved financial results in Q2 2008 relative to Q2 2007 were driven by higher silver prices coupled with the successful ramp up of Alamo Dorado, which achieved commercial production in Q2 of 2007. As Geoff mentioned, our headline financial highlights for the second quarter included sales of \$104.1 million, up 31% from the comparable period; mine operating earnings of \$39.3 million, up 25%; net income of \$21.4 million, up 16%; and cash flow from operations before changes in working capital of \$45.4 million, up 45%.

As pleasing as these financial results are, we have been impacted by declining zinc prices which have dropped 42% from a year ago. We've also been impacted by stronger local currencies and by continued escalation in the cost of energy and labour, especially in Peru. While Steve talked about many factors that have impacted cash costs, the decline in zinc prices is the single biggest factor behind the increase in our cash costs per ounce of silver. As many of you know, we utilize our base metal production as a by-product credit against the cost of producing silver and as these by-product credits declined by 2...I'm sorry, \$2.24 per ounce in Q2 on account of lower zinc prices alone.

While all of our operations contributed in a meaningful way to our profitability this quarter, this is the first quarter that our Mexican operations generated the majority of our operating earnings, about 56%, with our Peruvian operations contributing 39% and San Vicente in Bolivia the remaining 5%. The strong operating performance at Alamo Dorado and the fact that the Mexican mines are purer silver mines and therefore less exposed to lower zinc prices, are the main reasons for them overtaking our Peruvian operations.

I'll just make a few comments about some specific line items in our consolidated statement of operations. Sales, cost of sales and depreciation were all significantly higher than in Q2 2007, primarily reflecting the impact of much higher production rates at Alamo Dorado. In addition to producing more dore in Mexico, we also reduced our dore inventory during the quarter by selling approximately 200,000 ounces more than was produced, leaving us with about 820,000 ounces in inventory at quarter end. Offsetting higher sales from our Mexican operations was the fact that our Peruvian operations were only able to ship 92% of the concentrate that was produced in the quarter. And that was less than what was shipped in Q2 of 2007. We shipped about 33,000 tons of concentrate in Q2 2008, which was about 3,000

tons less than we produced, thereby increasing our concentrate inventory balance from about 10,000 tons to 13,000 tons during the quarter and leaving some additional Q2 earnings locked up in inventory.

When you look at our statement of operations, you'll notice that we incurred a loss on commodity and foreign exchange contracts of \$1.1 million during the period. Making up this number is a realized gain of \$4 million on settlements of our zinc and FX hedge books and silver fixing activities, which were more than offset by a \$5.1 million mark-to-market unrealized loss on the valuation of our open positions at quarter end. The negative mark-to-market related mostly to our Peruvian sol hedge book, which has reversed subsequent to June 30th as the sol has resumed its strengthening trend. We also incurred a foreign exchange loss of \$29,000 in Q2. Again, there are two large numbers that offset each other here. We generated an unrealized gain on our cash and working capital balances held in currencies other than U.S. dollars of \$3.9 million and incurred an unrealized non-cash loss of about the same amount as a result of revaluing our future income tax liabilities for the impact of stronger local currencies. As Geoff mentioned, this entry has no impact on our cash taxes now or in the future, which is why we have excluded this amount, this non-cash revaluation loss, from our adjusted net earnings, which were \$25 million for the quarter or \$0.31 per share.

Our income tax for the quarter was \$12.5 million, which was an effective tax rate of 37%. This effective tax rate was slightly above our expectation, given the tax rates that prevail in the jurisdictions in which we operate. However, the revaluation of our future income tax balance is clear to the permanent difference between our books and tax values, which experienced a higher effective rate.

Moving briefly onto the balance sheet, our working capital decreased by \$18.9 million during the quarter as we invested heavily in our two development projects, Manantial Espejo and San Vicente. We spent \$40.7 million at Manantial Espejo, inclusive of \$7.3 million of refundable VAT, and \$13.5 million at San Vicente. In addition, we spent \$14.9 million on capital projects at our existing operations. These capital expenditures were largely funded from cash flow generated from operations of \$50.8 million and the balance from our working capital. We finished the quarter with a working capital position of \$214.6 million and are well funded to complete our construction projects and the other capital projects at our existing operations.

With those comments, I'll hand it back to you, Geoff.

Geoff Burns:

Thanks Rob.

Before making a couple of closing remarks I would like to make at least a few short comments on the silver market, the silver price

and the equity markets in general. There is no question that the silver and precious metals prices have been extremely volatile of late and under significant downward pressure. The related equities, Pan American included, have also been hit hard during this short period, disproportionately so, in my opinion. I personally do not believe that the fundamentals that took silver to over \$20 per ounce in March of this year and helped the silver price average close to \$17.50 for the first six months of 2008 have significantly changed. The supply and demand balance remains favorable for silver. But perhaps more importantly, while showing some recent signs of strength, in my view the U.S. dollar will continue to be subject of significant downward pressure. The credit crisis is not over. The U.S. economy is in recession, and inflationary pressure that has been created by flooding market with liquidity to help stabilize the banking sector is going to accelerate. We're seeing it in our costs. We're seeing it every time we fill up with gas or diesel, and we're seeing it every time we go to the grocery store. Given this backdrop, it seems to me that silver and gold look like pretty good investments relative to holding assets valued in U.S. dollars. Investors in the silver ETF seem to agree. And while silver prices have dropped almost \$3 in the last two weeks, there has been almost no liquidation of holdings in the silver ETF, which now stands at close to 200 million ounces. I believe we are witnessing some short term trading volatility, and I remain very optimistic that we will see silver and gold trend much higher over the balance of this year and into 2009.

You've heard from Steve, Michael and Rob. From operations to project development, to exploration to financial performance, we had a very solid second quarter and have had an excellent first half for 2008. We delivered record cash flow from operating activities, our ninth consecutive quarter of substantial bottom line net income, growth in revenues and growth in mine operating earnings and our newest mine, Alamo Dorado, is running better than we had hoped for when we completed construction a little over 18 months ago. Yes, as Steve mentioned we are facing some challenges. Energy in Peru is a growing concern. Strengthening local currencies are adding to our costs. We've experienced some short lived labor disruptions in Morococha related to a national labor issue that had nothing to do with how we are running our mine and we had some critical gear stolen on its way to Manantial Espejo, which has caused us a short, and I repeat short delay in starting what is going to be a long term, low cost cornerstone stellar asset for Pan American. But most importantly we are managing through these issues and posted some very acceptable results. This is a testament to the quality, experience and strength of the operating and financial team we have here at Pan American. I've said this before, and I'm steadfast in my conviction. We have the greatest depth of operating experience and expertise of any company in the silver sector. We just do. We have to. We're the only company that's running seven mines and building an eighth. We're forecasting 18.8 million ounces of silver for 2008, 25 million ounces of silver for 2009, and if my view of the silver and gold price is correct, we are perfectly poised to continue to deliver even better financial results.

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

Operator: Thank you, sir.

We'll now begin the question and answer session. As a reminder if you do have a question, please press the star followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star followed by the two. If you're using speaker equipment, you will need to lift the handset before pressing the numbers.

Our first question's from the line of Daniel Earl with TD Newcrest. Please go ahead.

Daniel Earl: Hey guys, just a quick question with respect to your 2009 guidance, is the increase there, is that due to just Manantial and San Vicente or are you building in some increases at La Colorada?

Geoff Burns: Hey Daniel, no, it really relates directly to Manantial Espejo start-up as well as commissioning of San Vicente which, as you know, is going to take four to five months in the first part of 2009. That is really what's driving the increase to 25 million next year.

Daniel Earl: Okay. So I guess the higher grade ore body that Mike was talking about, that's not included in your mine schedule at this time, is it?

Michael Steinmann: Daniel, hi. It's included in the mine program for 2009 and 2010, just included in the normal production profile.

Daniel Earl: Can you give us the grades then on that, on that ore body?

Michael Steinmann: The grades? Yeah, I've just talked about the grades in the call just, we are looking at around 8 grams of gold, it's about 91,000 tons and about I believe 630 grams of silver.

Daniel Earl: Okay great. And then just finally with respect to your cost guidance, is that with the same by-product metal prices as you released before?

Geoff Burns: Yeah, cost guidance is based on our budgeted price which is \$2,100 per ton for zinc.

Daniel Earl: Okay great. Thanks a lot.

Geoff Burns: Thanks Daniel.

Operator: Thank you. Once again ladies and gentlemen if there are any additional questions at this time, please press the star followed by the one. As a reminder if you are using speaker equipment, you will need to lift the handset before pressing the numbers.

And our next question comes from the line of Haytham Hodaly with Salman Partners. Please go ahead.

Haytham Hodaly: Morning Geoff; gentleman, how are you?

Geoff Burns: Good Haytham, yourself?

Haytham Hodaly: Good. Just a couple of quick questions, Geoff. Maybe I'll do the housekeeping; get the housekeeping questions out of the way first. G&A guidance, full year this year and next year; is the second quarter number excluding obviously, unusually items, is that a good indication of what we should expect to see for the third and fourth quarters?

Geoff Burns: I think our second quarter, between our first and second quarter you can balance the two together. I think we are a little bit light in our first quarter just the way the accounting came out and a little bit heavy in our second quarter. I would take our six month number and double it and you're going to be pretty close to what our annual forecast is for G&A. And I would put in for next year, look at maybe a 4% to 5% escalation to that number for 2009.

Haytham Hodaly: Okay. And then for expense exploration, where do you think you'll end up throughout the end of the year?

Geoff Burns: Our budget for this year, I believe is for expense exploration, is about \$6 million and I think we'll be pretty much bang on that target by the end of the year. Some of our programs, our drilling in some of our programs, is a little behind on our expense exploration but I think Michael fully expects to be making that up over the next four to five months.

Haytham Hodaly: Okay, one last question. I guess probably a little bit tougher in terms of cost control initiatives, obviously the escalation of standing energy, power, etcetera, etcetera, what can you do to try and control those costs at this point?

Steve Busby: Hi Haytham, this is Steve Busby. What we plan on doing, we're jumping on right away energy conservation initiatives. We're developing teams to go out and examine and look at our operations, particularly starting with Huaron where we're seeing the significant cost increase in energy, and make sure we're using every ounce of energy we can as efficiently as

possible. That's what we're going to focus on first. We continue to work on the labour front, trying to mechanize more some of our mines, I'll say. We have been putting investments into a lot of our underground mines that hopefully will start to enjoy some of the benefits that that brings us in the long term. But those are, those are really the highlights of what we're focusing on right away.

Haytham Hodaly: Okay, maybe one last question. Just with regards to DD&A from what I'm looking at just roughly I see that some of the DD&A levels have fluctuated. Would this quarter's DD&A on a per ounce basis be a good indication of what we should expect in the latter part of the year?

Rob Doyle: Haytham, Rob Doyle here. You know the biggest contributor to DD&A is Alamo Dorado as we amortize the purchase and construction costs there. Yeah, we had a particularly strong sales quarter from Alamo Dorado in Q2 but I suggest that, you know, that's what we're going to be aiming for along the way. So, if you take Q2 as representative, I think that would be a fair assumption.

Haytham Hodaly: Perfect. Thank you gentlemen, I appreciate it.

Rob Doyle: Okay, Haytham.

Operator: Thank you. Our next question comes from the line of Barry Cooper with CIBC. Please go ahead.

Barry Cooper: Good day everyone. Just wondering if you could run down what your realized prices were in the quarter for all of your commodities.

Geoff Burns: Just give us one second, Barry.

Rob Doyle: Barry, I got it right here.

Barry Cooper: And then maybe Geoff if you don't mind, give us the zinc for your budget number. But what would be copper and lead as well.

Geoff Burns: Sorry, do that... Sorry, pardon me Barry, can you say that again?

Barry Cooper: You gave us 2100 for your budget for lead...or pardon me for zinc. What would it be for lead and copper?

Geoff Burns: For copper it was \$6,000 per ton and for lead it was \$1,800 per ton.

Barry Cooper: Great. Okay, thanks.

Rob Doyle: Barry, I've got those realized prices for you here. I saw the six month program actually allowed us to realize silver prices of \$17.58 for the quarter, which is about the \$17.17 average. Price for our hedge zinc program, which allowed us to realize \$2,547 on average, the market average was \$2,115. Lead prices realized were \$2409 versus \$2316. Copper came in right at average, which was \$8,447 and gold was a little above average at \$902 realized versus \$896.

Barry Cooper: And what do you do with respect to kind of the provisional pricing you have to take in terms of the delayed payments that you get from smelters and what not? How do you treat that from an accounting standpoint? Because I would have thought it might have been difficult to get the zinc and the lead prices as high as what they were relative to what I would have expected in terms of a downward pricing pressure for both those commodities.

Rob Doyle: Yes, the provision in sales that have been provisionally priced by accounting convention are essentially mark-to-market so we use closing prices at the end of the period to value those sales. And as the actuals come in, then with true those sales up. So, given the downward action in the price of the base metals and so then we could expect some negative price adjustments coming through in Q3.

Barry Cooper: Right, okay. Good enough then, thanks a lot.

Geoff Burns: Thanks Barry.

Operator: Thank you. Our next question's from the line of Craig West with GMP Securities. Please go ahead.

Craig West: Thanks Geoff, most of my questions have been answered but maybe, maybe you just want to comment on hedging strategy going forward with respect to both the metals and, you know, opportunities to hedge energy costs.

Geoff Burns: Thanks Craig. I guess first and foremost I've got to start by saying we're not going to be hedging our silver production and we're not planning on hedging our gold production, either. We have added some positions to our zinc book that are in and around \$1,900 to \$2,000 a ton. On average our zinc books are still somewhat higher than that because of some positions we put in place. At the moment, I don't see us jumping much more into either zinc or lead. I think we're seeing personally some extreme downward pressure that has a lot to do with seasonality right now and I do expect to see some rebound in the prices of both those commodities in the fall. We'll look at what happens during that period of time and if we do see some opportunities in and around the \$2,000 a ton level, we probably will add to our positions.

Craig West: So, I guess instead of having sort of a fixed strategy, if you will, of hedging X%, 20% if you will for total zinc production, it's more opportunistic would you say then?

Geoff Burns: Absolutely, yeah. We try to apply I guess two aspects and balance them. One, there is certainly a discipline. The discipline part of our program has some limits on how much zinc we will hedge and how we actually will do it through either counter parties or actually purchasers of our product, smelting or trading purchases of our product. So that's the discipline part. But we do try and actively monitor the market and trade where we think there are some opportunities.

Craig West: Okay great. That's all for me, thank you.

Geoff Burns: Thanks Craig.

Operator: Thank you. Our next question comes from the line of Chris Marvin with Oak Tree Asset Management. Please go ahead.

Chris Marvin: Question mostly for Geoff. Geoff, just curious how things may have changed since I first asked you after a presentation the end of March regarding possible acquisition toward the end of this year, next year. You were more recently quoted on Reuters at the end of July sort of confirms what you said. Now since so many, since the shares of so many silver companies have come down so much, even just since July 25th, has that changed how you might approach what you might be looking for? In other words, might you sacrifice a little upside in terms of tonnage and silver if you were tempted to look at a company which has been in production for a couple of years, or would you still prefer to try to get the best possible property even if it's a few years from production?

Geoff Burns: There's a few pieces to your question, Chris. We'll try and take them in the order I think I heard them. The first one is, and you're quite correct, there has been quite a revaluation in the sector, particularly over the last couple of months. And that has, you know, those valuations have changed I guess our view of some properties that at points in time seemed extremely expensive and now are seeming to be much more reasonably, much more reasonably priced. So that's the first thing.

In terms of the ideal asset for Pan American, I believe the ideal asset is one that provides a continuing growth profile where we can bring into play the expertise and the operating and development that we have within the company. I think that's where the best valuation, best valuation increment still exists. So that's two parts.

The third part is would that preclude us from looking at, you know, a transaction with an operating mine? Absolutely not. But, that

transaction would still have to bring value to Pan American shareholders. It has to, you know, there would have to be something that we're seeing within the ore body, within the growth potential, something within that asset where I can talk to our shareholders and say this is what you're getting for making that acquisition.

My comments that were recently published in Reuters, I mean, they're correct. I think there are many more opportunities there today than there really were back in March, Chris; there just are. And we're very aware of the companies and assets in our sector and we're going to be working very hard to continue to bring growth and value to Pan American.

Chris Marvin: Thanks very much.

Geoff Burns: Thanks Chris.

Operator: Thank you. Once again ladies and gentlemen we'd like to offer you a final opportunity to ask any questions. If you do have a question, please press the star followed by the one at this time.

And our next question is from the line of Edmund Handwerger with Ryeco Investors. Please go ahead.

Edmund Handwerger: Hello, I have several questions, please. Many forecasters are predicting a worldwide deflation. In such a case, what would the impact be on our company? Two, is there any... Hello? Two, is there any dividend policy established by the company or foreseen by the company? Three, institutional activity...has institutional informed activity... Has there been any decline or addition to institutional informed holdings? Four, insider buying or selling—has there been any activity on that front? Five, merger or takeover possibilities here, and six, the cash position of the company. Thank you.

Geoff Burns: Well that's quite a list of questions, Edmund. The cash position, I think Rob mentioned before. We have almost \$217, \$218 million dollars in working capital, more than \$100 million of that is in cash and short term investments. We are well cashed; we're generating good cash flow and fully funded to execute our growth and complete our growth programs at both Manantial Espejo and San Vicente.

In terms of insider buying, we file all our insider reports for any insider buying on SEDAR. I would suggest you have a look on SEDAR. It has a complete listing of anything that has been going on with respect to senior officers or directors and buying and selling.

I'm not aware of any significant changes to our institutional holdings. We get that information through a public source about three months in arrears when the institutions publish what stocks they are

holding during different periods of time. There has been some changes in terms of which the institutions are, but in general we're still seeing about 45% of our common shares held by institutions.

In terms of dividends, we have no formal dividend policy at this time. It has been a question that has come up on several occasions. My response to that question is as follows. When we have Manantial Espejo up and running and when San Vicente is also up and running, we will be generating significant cash flow on a quarterly basis, and we will look first to reinvest that cash in growth opportunities. If those growth opportunities do not exist, then at a board level we will discuss returning money to shareholders in the form of dividends. I can see that happening probably in 2009, but I'm going to leave that decision with our complete board.

Your last question is a much more difficult question to answer, in terms of worldwide deflation. I think it would be safe to say under those conditions that we would see drops in prices of oil and commodities in general. I'm not sure silver or gold would be immune to that, although their precious metal status I think would make them still a very favorable investment relative to currencies. Having said that, that is not my view of what we're going to see unfold over the next little while. I think my own view is that the emerging part of the world economy, particularly China and India, are going to continue to grow, perhaps at slightly lower rates than we've seen over the last few years. And that that growth to a large extent is going to offset what we're seeing in the United States right now. And overall I see the world economy continuing to grow. So under that scenario as I mentioned earlier in my comments, I'm very optimistic about gold and silver prices.

Edmund Handwerger: Would you clarify, rather than refer us to an Internet site, as to the actual insider holdings in the company?

Geoff Burns: Edmund, I'm not going to do that. I don't have the numbers in front of me. It's all clearly published in our filings and it's on the SEDAR website, and I'm not going to try and do something off the top of my head.

Edmund Handwerger: Is there any intention to purchase more shares on the open market at this attractive price?

Geoff Burns: Personally, I see this as a very attractive price. At the moment we are in a blackout period because of our insider knowledge relative to, relative to the earnings that we're just publishing and putting out to everybody right now. I can't comment for the rest of senior management or board of directors. I think it is a very attractive price.

Edmund Handwerger: All right thank you. And finally, is there any merger or takeover contemplation here?

Geoff Burns: Edmund, I can't comment specifically on that question. That would be outside of what I would be able to say. I will repeat we are very actively looking at opportunities within our sector to add value and growth to Pan American. And I think there are more opportunities available and priced in the right category than there have been for quite a period of time.

Edmund Handwerger: Finally, if deflation does occur, does the large amount of dollars that you're holding decline in that aspect and lose value as well?

Geoff Burns: I think our currency holdings, actually Edmund, are somewhat diversified in so far as, and I don't have the percentages in front of me, but we do hold currency in Mexican pesos, we hold currencies in Peruvian sol, we hold Canadian dollars as well as U.S. dollars. So my expectation would be that we might see one currency devalue at the same time as another one may increase in value such that the overall impact would be negligible.

Edmund Handwerger: Okay, thank you.

Geoff Burns: Thank you.

Operator: Thank you very much. And at this time Mr. Burns, there are no further questions. I'd like to turn it back to you for any closing remarks.

Geoff Burns: Thank you, Operator. Well, thanks ladies and gentlemen for joining us today for our Second Quarter Conference Call. I look forward to updating you again in about three months time and hopefully at that time we'll be able to tell you about the first ore that we're putting through at Manantial Espejo.

Thank you and good day.

Operator: Thank you, sir. Ladies and gentlemen, this does conclude the Pan American Silver Second Quarter 2008 Earnings Conference Call. We'd like to thank you for your participation, and you may now disconnect.