

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the Pan American Silver Fourth Quarter and Year End 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 touch-tone 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, Thursday, February 19th, 2009.

I would now like to turn the conference over to Mr. Geoff Burns, President and CEO. Please go ahead, sir.

Geoffrey Burns: Thanks, Operator. Good morning ladies and gentlemen, and welcome to Pan American Silver's Fourth Quarter and Year End 2008 Earnings Release conference call.

Joining me today here in Vancouver are Steve Busby, our Chief Operating Officer, Michael Steinmann, our Executive Vice President of Exploration and Mine Geology, Rob Doyle, our Chief Financial Officer, and Kettina Cordero, our Coordinator of Investor Relations.

Before I ask Steve, Michael and Rob to update you on our mining operations, our development projects, our exploration programs, and our financial condition, I would like to start by making some brief comments about our performance during the fourth quarter and some observations about the current environment.

When we last spoke at our Third Quarter Earnings Release call on November 13th last year, I talked about how the precipitous fall in base metal and silver prices would impact Pan American's fourth quarter. I also outlined for you a number of steps we had implemented to combat the decline in prices we were seeing.

As a reminder, here is what we did last November to ensure we were well positioned to weather these volatile times.

We immediately reduced our workforce Company-wide by over 500 employees and contracts; all of our senior executives took a 10% wage rollback; we deferred almost all of our Greenfield exploration programs and significantly reduced our Brownfield exploration; we revised our mining plans to increase mined ore grades across all operations; we cancelled discretionary capital expenditures; we reduced or eliminated the use of external consultants and contractors; and where elimination was not an option, we requested that charge-out rates be reduced; we reviewed all our major supply and service contracts and requested price adjustment.

In addition, we updated you in early January with the release describing what we were seeing. So I trust it comes as no surprise that our fourth quarter results were less than scintillating. Here are our headline metrics.

In the fourth quarter we produced 4.6 million ounces of silver at a cash cost of \$8.24 per ounce. We recorded a net loss of \$33.3 million, or \$0.41 per share, which included atypical charges of \$35.5 million, which I'm sure Rob will describe for you in a few moments. And we generated a very modest positive adjusted cash flow from operations of \$4.2 million.



Geoffrey Burns: Even with the most difficult fourth quarter, I would have to say that our full-year results were very respectable. And we accomplished a number of things, which has positioned us exceedingly well going forward.

We produced almost as forecast, a Company record 18.7 million ounces of silver at a cash cost of \$5.96 per ounce, registering our 13th consecutive year of growth. We recorded net income for the year of \$24.6 million, or \$0.31 per share. We generated a record adjusted cash flow from operating activities of \$95.6 million, or \$1.19 per share. We basically replaced all the proven and probable reserves that we mined, or were lost due to lower price assumptions. And we start 2009 with a healthy 224 million ounces of silver in proven and probable reserves.

We completed construction of our Manantial Espejo silver and gold mine in December, and are ahead of our planned commissioning timetable. And our expansion of San Vicente was 92%-complete at the end of December. We accomplished almost everything we set out to do in spite of having to ride through an exceedingly difficult period.

Yes, we got on the wrong side of a strengthening U.S. dollar, which hurt. Yes, base metal prices fell further and faster than probably anyone could have guessed. And yes, costs climbed higher and faster than we could combat propelled by energy prices and material costs. But that is history. And what counts: is how we responded, where we are right now, and what we see going forward.

I'm going to save my comments on Pan American's future outlook until after Steve, Michael and Rob have provided you with some additional detail and commentary for the recently completed quarter. Steve?

Steven Busby: Thank you, Geoff. Good morning, ladies and gentlemen. As we discussed in our third quarter conference call last November, the fourth quarter started with the realization that the collapse of the metal prices had undermined our operating plan and immediate reaction was needed.

We immediately gathered our top managers via teleconferences, site visits and meetings; conducting a detailed examination of our mine plans under the new price environment for metals; and debated each of our primary costs and productivity drivers. The results plainly demonstrated to each of us that we needed to drastically change the way we approach our business. And as such, we launched the 15-point action plan that Geoff had summarized, including: reductions in the workforce; reductions in salaries; aggressive pursuit of supplier and contractor cost reductions; implementing our hiring and wage freeze; shoring up our mine cut-off grades against the new metal prices and operating costs; reducing our mine developments to only those areas for no more than two years in advance of mining; and reducing discretionary spending to absolute minimum level.

Our fourth quarter was a time to challenge our management skills to successfully implement the 15-point cost-saving initiative we had developed. I'm pleased to be able to tell you that we are indeed succeeding in these efforts. However, before I tell you about the successes we are seeing, I must report our operating performance results during the difficult transition period of the fourth quarter.

During the fourth quarter our operations produced 4.64 million ounces of silver at a cash cost of \$8.24 per ounce; which was heavily impacted by the decline in the price of our base metal by-product credits, lingering severe cost escalations in labour, energy and materials. As well as production disruptions from a few unexpected mechanical failures, an impact from the extreme climatic events, which have all now been rectified.



Steven Busby: Our fourth quarter production was again led by Alamo Dorado's 1.4 million ounces of silver in Mexico at a cash cost of \$6.18 per ounce. Alamo Dorado's production was slowed in mid-October, after Hurricane Norbet hit the mine and the surrounding areas. The surrounding communities and access roads incurred heavy damage. But fortunately, the Alamo Dorado mine had minimal impact and our environmental protection systems held up well.

Alamo Dorado has produced over 518,000 ounces of silver at a cash cost of less than \$5.50 per ounce in January of 2009. We anticipate this style of result to continue and deliver us a solid first quarter 2009 performance.

The La Colorada mine in Mexico produced 962,000 ounces of silver at a cash cost of \$8.50 per ounce in the fourth quarter of 2008. We have significantly reconfigured the La Colorada operation during the fourth quarter and into January of 2009, reducing the overall mining rate 27%; from 31,250 tonnes of ore per month in the fourth quarter to 22,800 tons per month planned for 2009, while increasing the grade of ore mined. We will be targeting grades of 436 grams of silver per tonne and 1.57 grams of gold per tonne during 2009. This compares to 362 grams per tonne of silver, and 0.43 grams per tonne of gold achieved in the fourth quarter of 2008.

This reconfiguration allows us to knock out marginal ores, reducing the operating cost from \$8.50 per ounce achieved in the fourth quarter, to an estimated cost of \$8.00 per ounce in 2009. The mine has been successfully reconfigured and we have just completed three critical ventilation raises, setting us up well for achieving our 2009 forecast.

Our Peruvian operations required the most retooling efforts, with their heavy reliance on base metal by-product credits. During the fourth quarter of 2008, our Peruvian operations produced 1.8 million ounces of silver at a cash cost of \$10.33 per ounce; heavily burdened by falling base metal prices and the lingering cost escalations. As well as production disruptions caused by a pinion gear failure on the primary ball mill at Huaron and a loss of a drive motor on the main underground access shaft at Morococha, which have both been rectified going into 2009.

During the fourth quarter and into 2009 our Peruvian operations reduced their overall workforce by 724 individuals. They have minimized all discretionary spending. They have limited mine developments to no more than two years out and reconfigured their mine plans targeting a higher-grade ore.

Pan American Silver has also announced in early January 2009, it was beginning preparations to suspend operations at Quiruvilca, as a consequence of the lower prices.

These changes are all starting to show benefits, as our operating results, improved during January 2009, show 686,000 ounces of silver produced at a cash cost of \$6.53 per ounce. We're at 37% improvement over the fourth quarter of 2008, including achieving a positive cash flow from our Quiruvilca mine as it prepares for suspension. We anticipate sustaining or improving these programs through all of 2009, with the suspension of the Quiruvilca mine, dependant on when we exhaust the profitable ores, given the actual metal prices of the day.

Our San Vicente project in Bolivia actually had an excellent fourth quarter. Toll treating and producing 361,000 ounces of silver at a cash cost of \$6.10 per ounce; while advancing the planned construction project to 92% complete at year-end.

Steven Busby: We had opened our first mining level on the new high-grade Litoral vein, which has lived up to everything we had anticipated it to be, and was largely responsible for lifting the ore feed grade in the fourth quarter to 472 grams per tonne of silver, compared to the previous quarter of 324 grams per tonne of silver, along with 2.6% zinc, and 0.4% copper.

They actually were able to process some limited toll ores in January of 2009 although we hadn't planned for it. But the toll treatment program is now complete and we're getting ready to start production in our new plant. We have essentially completed construction of the new plant and associated infrastructure, and have begun commissioning. We are expecting our first ore to the plant in early March, ramping to full production through August of 2009.

Total capital expenditure through year-end was \$64.7 million, with a total estimate at completion now at \$71.3 million—within about 10% of our previous estimate. We have the commissioning and training teams on-site and have hired essentially all of the plant and maintenance personnel needed for the long-term operation. We are very excited to get this plant running; particularly with the excellent results we've tasted from the new Litoral high-grade ore developments.

I'm very pleased to report that our start-up of Manantial Espejo in Argentina is advancing extremely well following the first doré pour on December 29th, 2008. We have overcome tremendous obstacles at Manantial Espejo, relative to unprecedented demand for mine development equipment, materials and personnel, in a country that is just beginning to accept the benefits of mining, as we have endured some incredibly hostile climatic conditions in this remote location. It has not been without challenges, but the outcome is very gratifying as we watch shipments—and that's plural—shipments of doré leaving the mine.

I am very pleased to report that we have produced 207,000 ounces of silver in doré bars at Manantial Espejo in January 2009 at a cash cost of \$2.22 per ounce net of the gold by-product credit. In addition to the doré, we had another 114,000 ounces of silver contained in precipitant, waiting for melting by at the end of January. Incredibly, we've had to put double shifts on in our refinery—which is a kind of start-up problem everybody only dreams about.

The plant has processed nearly 38,000 tonnes of high-grade ore in January, which is about 61% design capacity, and ahead of our ramp-up projections. The silver and gold recoveries in January were 84 and 93.5% respectively, which is within 9% of the silver design, and 1% of the gold design. Also well ahead of our ramp-up expectations.

February is progressing very well. And barring any unforeseen disruptions, we expect to reach design capacities and recoveries by the end of March of 2009, and hope to declare commercial production in the first quarter. We have appeared to achieve positive cash flows in February, and have established the final mine development capital cost at \$224.6 million inclusive of \$29.7 million of recoverable back tax.

The underground and surface mines are well advanced and we have over 200,000 tonnes of ore stockpiled ahead of the mill. We are confident Manantial Espejo will achieve its annual average 4 million ounces of silver and 60,000 ounces of gold production for many years to come.

Steven Busby: Overall, Pan American Silver has produced 1.7 million ounces of silver in January of 2009 at a cash cost of \$5.97 per ounce, reflecting the successes of our cost-saving initiatives that were launched in the fourth quarter 2008, where we had produced 4.6 million ounces of silver at a cash cost of \$8.24 per ounce.

I am very pleased with the quick and decisive actions from our quality management team during the fourth quarter, and proud that these actions have started to show such excellent result. I'll now turn it over to Michael Steinmann for an exploration update.

Michael Steinmann: Thank you Steve, and good morning everybody. During each quarterly conference call in 2008, I updated you on the results and advances of the exploration programs in our Green- and Brownfield projects. These efforts and results are reflected in the 2008 Reserve and Resource Statement, which we finalized as of 31st of December 2008. Details for each operation have been published in our press release on February 17th, and are available on our corporate website. Although we made some important changes, especially to our Greenfield program during the last quarter, we essentially completed our 2008 planned 100,000-meter diamond drill program.

As in previous years we have been very successful with the exploration at our operations. We discovered and defined during 2008 a total of 26.9 million ounces of silver, more than replacing the 22.2 ounces mined—million ounces mined. However, lower base metal price assumptions, coupled with higher cut-off grades, downgraded 8.8 million ounces from reserve to resources, resulting in a corporate proven and probable reserve of 223.7 million ounces as of 31st of December, 2008; only 1.8% lower than the year before. While gold reserves increased by 1% to 701,000 ounces.

I am extremely pleased with this result, which confirms again the tremendous exploration potential we have in some of our assets. As mentioned before, detailed results for each of our operations and for all reserve and resource categories are available on our website. I would like to discuss here some of the highlights in further detail.

At Huaron, proven and probable reserves increased 5%, or 3.2 million ounces after subtracting ore mined during 2008, to a total of over 62 million ounces. Measured and indicated resources stand at 11 million ounces, and inferred resources contained over 30 million ounces, making Huaron one of our largest silver resource.

The most significant increase came from the Pozo D area where we added 5.7 million ounces.

Morococho's proven and probable reserves increased by 10% or 3.1 million ounces net of 2008 production, to a total of over 35 million ounces. Measured and indicated resources, add another 15.7 million ounces, while inferred resources account for additional 40.8 million ounces.

No doubt that the best exploration results have been achieved in the Morro Solar vein, where we added over 10 million ounces of resources, of which 4.5 million ounces have been upgraded into proven and probable reserves. Exploration will continue at Morro Solar and parallel veins in 2009, as only a small portion of the 2.5-kilometer long vein has been drilled up to now.

Michael Steinmann: At La Colorada we added 4.6 million ounces of silver, and at San Vicente 1.4 million ounces. Basically replacing all the reserves mined during 2008. We experienced a reserve loss of 5.9 million ounces at Alamo Dorado due to mine production during the year; and 4.1 million ounces at Quiruvilca due to mine production and the Company's intention to prepare the mine for a period of care and maintenance.

You heard from Steve the exciting news on the Manantial Espejo start-up. We are holding over 25,000 hectares of land around Manantial, which contains a very large number of outcropping quartz veins. Some of them have been partially drilled but most are completely unexplored. I am very excited that now, with the construction of the mine and processing plant complete, we can resume our exploration around Manantial Espejo, and explore this enormous potential.

The Corporate 2009 Exploration Program contains a total of 53,000 meters of diamond drilling at a cost of approximately \$4.8 million. Our exploration efforts will remain largely focused on our operations and on a limited number of select high-potential projects in Mexico and Peru, while maintaining our important land positions in both countries. Now to Rob for a financial overview.

Robert Doyle: Thank you Michael and good morning everyone. Our financial results in Q4 2008 were severely impacted by the turmoil in the metals and FX markets. Sharp decline in base metals was the primary factor behind the decision to prepare Quiruvilca for care and maintenance in 2009.

A logical consequence of that decision was to write-down the carrying value of the mine to zero and to fully accrue for all costs related to the impending cessation of mining activity. As a result, an impairment charge of \$15.1 million was recognized, along with an increase of \$3.3 million with the provision of severance payments, which was charged to Other Expenses. Also included in Other Expenses for the quarter were expenses related to reducing our workforce across the entire Company, of \$1.1 million.

Declining metal prices in Q4 also led to negative price adjustments of 8.8 million, as provisional concentrate sales recorded in Q3 were adjusted downward to reflect the lower prices. This negative adjustment to the Sales line in our Statement of Operations was one of the factors behind the mine -operating loss generated in the quarter of \$9.9 million. The first such loss since the first quarter of 2003.

The soaring U.S. dollar forced us to recognize significant losses against our forward purchases of Mexican pesos and Peruvian soles. In total, we recorded losses on these currency books of \$12.3 million in the quarter, of which \$2.8 was realized. These losses were partially offset by gains of 6.4 million, which arose from our zinc and lead forward sales positions, leaving us with a net loss on commodity and foreign currency contracts for the quarter of \$5.8 million.

In addition, the strengthening U.S. dollar caused us to revalue our non-US dollar cash, and other working capital balances lower, creating a loss of \$8.3 million in the quarter, offset by gains on non-US dollar liabilities of \$7.2 million, leaving us with a net FX loss of \$1.0 million.

Items that are mentioned and unadjusted for tax effect totaled 35.5 million. These items were distinct from our normal operating results and go a long way in explaining the net loss we incurred in the period of \$33.3 million.

Robert Doyle: Another negative impact of lower base metal prices that Steve highlighted was seen in our reported cash cost per ounce as we utilize revenues from our base metal production as a by-product credit against the cost of producing silver. These credits declined by \$4.61 per payable ounce in Q4, relative to the comparable period of 2007. And as a consequence, our cash costs climbed to \$8.24 per ounce in the fourth quarter.

Our income tax recovery for the quarter was \$8.5 million, which was an effective tax recovery rate of only 20%. That effective rate was well below our expectation, given the tax rates prevailing in the jurisdictions in which we operate. However, we had several expenses, which were not tax effective in the period and also paid approximately \$2.0 million under the new IETU flat tax regime in Mexico that was instituted in 2008, the bulk of which had the effect of reducing our tax recovery rate for the quarter.

Cash flows for the quarter was dominated by our investment to complete the construction of the Manantial Espejo and to advance the expansion of San Vicente to an estimated 92% completion. At Manantial Espejo we spent \$28.5 million, bringing our total capital cost at mechanical completion, which was reached in late December, to \$224.6 million. That's inclusive of \$29.7 million of refundable VAT as reported earlier by Steve.

On the San Vicente we spent an additional \$22.1 million during the quarter. In total we invested \$60.2 million in mineral, property, plant and equipment during the quarter, which was funded out of our cash and short-term investment balances.

As Geoff mentioned earlier, despite a very challenging fourth quarter, overall, 2008 was a successful year for Pan American. We reported record sales of \$338.6 million on the back of an outstanding year at Alamo Dorado. We generated record cash flow from operating activities of \$93.0 million, with each of our operations contributing meaningfully.

Our mine operating earnings were a healthy 93.2 million and net income for the full year 2008 was \$24.6 million or \$0.31 per share. Cash flow generated from operations during 2008 of 93.0 million, together with proceeds from the warrants exercised in the first quarter of \$50.8 million, proceeds from the sale of our interest in Dukat of \$12.2 million, and \$87.9 million of our Treasury assets were all used to fund our investment in our project development activities and operations of \$243.8 million for the year.

Turning to the balance sheet, we finished the year with a working capital position of \$93.5 million with a current ratio of 2.2 to 1. Our current liquidity position, after the receipt of proceeds of our recent common share offering of \$98.6 million, is a healthy \$125.0 million cash and short-term investments.

We have no debt; and our forecast for 2009 indicates that we would generate positive cash flow from operations at our budgeted prices from each of our eight mines, sufficient to cover our consolidated capital budget of \$29.4 million, including \$5.4 of capital remaining to be spent at San Vicente.

Our budget assumptions of metal prices were \$10 for silver, \$725 for gold, \$1150 for zinc, \$1300 for lead, and \$3500 for copper. With current precious metal prices significantly above those levels, we expect that our liquidity and working capital position will continue to strengthen over the course of 2009.

In addition to our liquidity and capital resources, we have an un-drawn \$70.0 million revolving credit facility that can be used for general corporate purposes including acquisitions. With those comments I'll hand it back to you, Geoff.

Geoffrey Burns: Thanks, Rob. Okay. You have now heard in detail where we were. Let's look at where Pan American is headed, and why I am exceedingly optimistic about our prospects for 2009 and beyond.

We are forecasting our 14th consecutive year of growth in 2009, and are planning to produce 21.5 million ounces of silver at an average cash cost of \$6.28 per ounce. We plan to more than double—actually almost triple—our gold production; and are planning on producing 85,000 ounces of gold in 2009.

With the start-up of Manantial Espejo, and the expansion of San Vicente fuelling our growth, we will also see a significant reduction in our overall exposure to base metals. We estimate that in 2009 silver will account for 58% of our revenues, while gold sales should account for another 16%. 74% of our revenues are now exposed to precious metals.

We have swallowed the bitter pill and taken the tough steps to reposition our mining operation and the results are now showing. I think it's worth repeating what Steve mentioned in his review. In January, we produced 1.7 million ounces of silver at a cash cost of \$5.97 per ounce. That's a 28% reduction in our cash cost as compared to the fourth quarter of last year.

We are preparing our highest cost operation, Quiruvilca, for a period of care and maintenance. Probably the toughest decision, given that Quiruvilca was Pan American's founding operation when it was first acquired back in 1995. But its cost of production were rising, its silver production was declining as it becomes more and more dependent on zinc. And Pan American can better expend its people resources on creating more value at our other assets. It's been a wonderful mine for us, but it's time.

With our recent financing, no debt, an untapped line of credit, and expected positive operating cash flows this year, we are exceedingly well positioned to aggressively look for new growth opportunities where we can make a positive contribution.

Lastly, our move toward increasing our exposure to both gold and silver could not be more timely in my opinion. The prices of both precious metals have significantly increased since the end of last year in response to an economic crisis of global proportions. Silver is trading near \$14.00 per ounce, although off a little bit this morning. And gold is closing in on \$1,000 per ounce. And I think there's ample reason to believe they will push higher in 2009. Pan American is, again, well positioned to reap the benefits of what I believe will be a stronger price for silver this year.

In closing, I would like to thank all our long-term shareholders who have ridden with us through a difficult second half of 2008; and would like to welcome our new shareholders who have recently come on board with our equity financing. I am hopeful you, and all of our stakeholders, will be rewarded in 2009 and beyond. Thank you.

And I would ask the Operator to open the line for questions.

Operator: Thank you, sir. We will now begin the question and answer session. As a reminder, if you have a question please press the star, followed by the one on your touch-tone phone. If you would 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 making your selection. One moment please, for our first question.

And Mr. Burns, it appears there are no questions at this time.

Geoffrey Burns: Mm-hmm. Fine. Thank you, Operator. Again, I'd like to thank everyone for joining us here this morning. And I'm very much looking forward to reporting back to you with our results for the first quarter, probably in mid-May. And to update you on our start-ups at San Vicente and how we're progressing at Manantial Espejo. Until then, thanks very much.

Operator: Thank you. Ladies and gentlemen, this concludes the Pan American Silver Fourth Quarter and Year End Earnings conference call. This conference will be available for replay after 10:00 a.m. Pacific Standard Time today through February 26th, 2009 at midnight Pacific. You may access the replay system at any time by dialing 1-800-406-7325 and entering the access code of 3984271. Thank you for your participation. You may now disconnect.