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### **Pan American Silver Corp. Second Quarter 2006 Earnings Conference Call August 3, 2006**

**Operator:** Good morning, my name is Eduardo, and I will be your conference facilitator today. At this time I would like to welcome everyone to the Pan American Silver Corp. Second Quarter 2006 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 please press the pound key. Thank you.

It is now my pleasure to turn the floor over to your host Ross Beaty, Chairman of Pan American Silver Corporation. Sir, you may begin your conference.

**Ross Beaty:** Okey doke. Thanks operator and good morning ladies and gentlemen, welcome to the Q2 Pan American Silver conference call. With me in Vancouver are Geoff Burns, Pan American's President and CEO and our -- three of our -- all three of our Senior Vice Presidents, Rob Doyle -- Rob Doyle is our Chief Financial Officer, Andy Pooler is the Head of our Operations, Steve Busby, Head of our Project Developments, and Michael Steinmann, Senior Vice President Geology and Exploration. As well we have Alexis Stewart, who is our new Director of Corporate and Investor Relations.

Well, as you can see, we had a great quarter. Record cash flow, record earnings, record working capital, we are on target for record production in 2006 and we have record growth in progress as we expect to nearly double our production again by 2008. Every one of our mining operations is running well right now and we are meeting or exceeding our budget estimates

on all our mining operations and all our development projects. We have a happy story and it's a great time to be in the silver mining business.

This morning, I would open things up, turn the call over to Geoff for the operations and development overview and then come back for an exploration update and review of silver markets, then we will open the call to questions.

Well, our Q2 numbers speak for themselves. We forecast this performance in our first quarter conference call and today I'm very pleased to forecast even stronger results in the third quarter and likely the fourth quarter even if silver and other metal prices remain static.

Our stock price has been relatively weak since our first quarter results were announced in early May. Of course we were not alone in this, most major mining companies saw similar declines. But three things were specific to Pan American that I think had some impact on weakening our share price and I'm going to discuss these briefly here.

Firstly, silver prices were weak -- weakened I should say, from around \$14 an ounce in May to a low of around \$9 in June. Since then they have recovered nicely and I think the outlook is excellent for continuing silver price strengths in the foreseeable future; and I'll talk a little bit more about this later.

Secondly, a lot of investors were spooked by the political uncertainty in Latin America during the second quarter. New presidents were being elected in Peru and Mexico and a lot of negative noise came from the recently installed president of Bolivia. Peru and Mexico of course are very important to us though Bolivia is not, it's a tiny part of our story comprising about 2% of our assets. Bolivia has been unstable for most of its 180 year history and it is certainly a tough place to work. But our mine there is back in operation after we settled some issues with the Bolivian government and we think it has good future potential.

As for Peru and Mexico, pro-business presidents have now been democratically elected in both countries and we are confident that positive wealth creating foreign investment family policies will continue to be implemented there. Both countries have been very positive for Pan American and we are certain this will continue. I want to remind all our shareholders that every country in Latin America is fundamentally different and for the most part very positive to mining companies such as ours. The fears in the second quarter should now be replaced by relief as stable pro-mining governments are in place now for at least the next four to five years.

And thirdly, our first quarter financial results were quite disappointing to some shareholders primarily due to the accounting change we had to make that required us to book very large non-cash losses for our zinc cash positions. These really obscured the income generating potential of our operations while we closed our hedges in full and late June, and thus we will not have any more impact from this matter any further.

Another financial detail on Pan American accounts also served to make our Q1 numbers worse than they really were, which I will explain now. We sell our crude production in the form of concentrate that is trucked to a crude seaport and then it sits there until a ship picks it up to deliver it to world smelters, be they in China, Europe or wherever. Our sales contracts provide that the contained silver and other metal is only priced two to five months after delivery to those smelters. So our quarterly revenue really reflects metal prices of the previous quarter as much as anything. Since the fourth quarter of 2005 prices were a lot lower than the first quarter 2006 prices, we showed lower revenue numbers than perhaps the market expected. That's why the second quarter was so much better than the first quarter and it's also why I can safely predict that all other things being equal, our third quarter numbers will beat our second quarter numbers.

So with these three issues improved, I hope our shareholders will be really pleased with our financial picture today and in the future.

And on that note, I'm going to turn the call over to Geoff Burns for a more detailed analysis.

**Geoff Burns:** Thanks Ross. Before taking a brief tour around each of our operations, I'd like to start by making a couple of general observations about our operating performance in the second quarter. As Ross mentioned, each and every one of our mines continue the positive production trends that they established in the first quarter. Tonnes of ore mined and milled increased across the board and as a result production at all our operations increased as compared to the first six months of last year; Morococha plus 12%, Quiruvilca plus 4%, Huaron plus 1% and La Colorada plus 20%.

These results are especially pleasing because to a large extent they represent the quantifiable tangible returns from the significant investments we made in our capital and exploration programs in 2004 and 2005. While I don't see these kind of increases continuing, I do full expect us to continue to produce at the levels we have seen in the second quarter over the balance of 2006.

Now for some quick highlights in each of our operations. Starting in Peru, our Morococha mine continued its trend of record

breaking performance. Morococha produced 772,000 ounces of silver in the second quarter. Cash costs were a negative \$3.81 per ounce, reflecting higher base metal byproduct credits particularly from zinc. Our silver production for the first half of the year was 1.7 million ounces well above our forecast.

As expected, both silver and zinc grades declined modestly, however, we more than made up for these decreases with increased throughput and better metal recoveries. In our last quarterly call I mentioned that we had just completed some improvements to our milling circuit which we believe would allow us to increase throughput. This has happened, and we averaged close to 47,000 tonnes per month through the mill in the second quarter. We are working our way higher and I'm happy to report that we reached almost 55,000 tonnes through the mill in July, up 20% as compared to a year ago.

We have several major projects on the go at Morococha at the moment. We have continued to extend our Sierra Nevada ramp which will become our primary ore extraction access route and the primary access to the Rosita and Freiberg ore bodies that we discovered last year. We are rehabilitating our central shaft as well as the volcano tunnel which accesses the Buena Ventura ore block, the highest grade material in the mine. All of these steps, as well as a major engineering study that we launched earlier this year, are aimed toward achieving one goal, to double production at Morococha over the next three years.

At Huaron, we produced almost 900,000 ounces of silver in the second quarter at a cash cost of \$1.71 per ounce. Production at Huaron rebounded in the first quarter of this year and the trend continued in the second quarter as it should for the balance of 2006. Similar to Morococha, we are working at quite a number of projects at Huaron, most designed to increase efficiencies or facilitate cost reductions. But by far the most important of these projects is the mine deepening program that we kicked off. The program, which will take at least another 12 months to complete, will allow us to access new higher grade and wider ore zones that we have never previously mined and should set the operation up for continued solid performance for years to come.

Quiruvilca, continued to be a reliable low-cost silver producer. Silver production for the second quarter was 583,000 ounces bringing half year production to 1.2 million. Cash costs declined significantly to negative \$1.07 per ounce which is \$1.99 less than in the first quarter and again reflects the benefits of the mine's base metal production. Throughout the quarter, and for that matter for the first six months of this year, Quiruvilca has surpassed the company's expectations in respect of tonnes mined and milled and there is no reason that this performance will not continue going forward.

In Mexico, the La Colorada mine increased its silver production again. Our purest silver mine, La Colorada was also our largest silver

producer in the second quarter at 914,000 ounces, an increase of 23% as compared to the second quarter of last year. Cash costs remained stable at \$5.50 per ounce. Our oxide plant continued to perform well bringing year-to-date production to 1.7 million ounces.

As described during our first quarter call, we recommenced mining and milling of sulfite ore in the second quarter. The sulfite plant has been restarted and while the throughput rate is slightly behind schedule, we are confident that we'll be able to ramp up to the planned 250 tonnes per day capacity for the plant by the end of this year. We should see the La Colorada mine produce 0.5 million ounces from sulfite in 2006.

With the pending start-up of Alamo Dorado, the recommencing of mining and milling at San Vicente less than a week away, we are right on track to achieve our forecasted 2006 production of 14 million ounces of silver. With continued strength in base metal prices, we should see our cash costs continue at the same levels as we had seen in the first and second quarters. It was a solid, solid operating quarter and there should be more of the same for the rest of this year.

Now let's look to our future and delivering to you the growth that has become synonymous with Pan American. We have two major production projects that we are moving forward with: Alamo Dorado and Manantial Espejo. When completed, both of these new mines will help diversify our production base and deliver fundamentally lower cost production.

I am happy to be able to tell you that Alamo Dorado mine in Mexico is in the final stages of construction. With 82% of the construction work complete the project is still on budget of 76.6 million and we still expect to start commissioning of the facilities near the start of the fourth quarter, right on schedule.

Mining activities which commenced last August are continuing and the pre-strip of the pit is almost completed. We have now stockpiled over 240,000 tonnes of low grade material and are ready to start feeding the mill as soon as it's done. Construction of the Alamo Dorado mine has progressed this far without recording one lost time accident since we started the construction and development. That's over 1 million man hours without a significant injury.

In Argentina, construction of Manantial Espejo officially commenced in the second quarter. Basic engineering is well underway, site services are being established and most importantly we have broken ground and started our underground ramp system for the exploration of the Maria vein. The project management team has been established and we are working closely with the provincial and municipal governments to move forward with the key

infrastructure projects, the establishment of electric grid power and the building of the necessary accommodations for the permanent workforce that will be arriving during the next 18 months. In January 2008, we plan to be producing at Manantial, 4.3 million ounces of silver and 60,000 ounces of gold annually. Costs should be exceedingly low particularly in view of the current gold price which will be a byproduct of the silver produced at Manantial.

Finally, a quick comment about San Vicente in Bolivia. After a very protracted negotiation with Comibol, the Bolivian State mining company, we are back in production at San Vicente or will be within days and once again we'll be generating positive cash flows from this high grade silver/zinc deposit. We're still refining our expansion plan for San Vicente and I would expect it to be at least another six months before we complete sufficient engineering to make any further investment decisions.

That concludes my comments. Back to you Ross.

**Ross Beaty:** Okay. Thanks a lot Geoff that was a good run through. I'll just give a few words about our exploration programs. As the shareholders know, we are right on schedule to continue our production growth from 12.5 million ounces in 2005 to over 25 million ounces by 2008 and that will make us by far the largest primary silver mining company in the world.

But we're now focused on organic growth in our silver reserves and resources rather than costly acquisitions in this expensive seller's market today. And we are having great success so far. We have over 24 drill rigs active at the present time, mostly at and around our existing operations. And I can report that we have already found new silver resources well in excess of what we have mined this year and we expect this success will continue. Results are especially good at our Morococha, Huaron and La Colorada operations as we discussed in our second quarter report. I could give all kinds of details on specific vein intersections at Morococha and Huaron and La Colorada as well as Quiruvilca, but I think it's not really the appropriate time to do that right now. Suffice it to say that as Geoff mentioned in his comments, the ingredients for our expansions, our continued development of those operations is well supported by our exploration discoveries so far this year.

Turning to silver markets for a moment. I was very pleased to see the positive silver fundamentals reported in the most credible independent silver survey available; the World Silver Survey published in May by Gold Seal Mineral Services and we've put up a summary of this -- of that report on our website.

Industrial silver demand rose by 11% in 2005 and vastly overshadowed the small net silver use decline in photography. I say small net decline, because as less silver is used in photography, less is supplied back to the market in the form of recycled photographic waste. And don't forget that

silver is used in nearly every single digital product including cameras, in the electronic systems and as the key ingredient in the camera body manufacturing process. And let's not forget the great new source of silver demand that began in second quarter: the new ETF quoted on the AMEX. This is coughing up a lot of above ground inventory and without a doubt has had a significant positive effect on the silver base.

To finish off, I want to remind the investment world why Pan American Silver is such a compelling story today. We are a real mining company, we own our mines and we control our destiny. We have outstanding levers to silver both in terms of our reserves and resources, which exceeds 630 million ounces of silver, and in terms of our large and rapidly growing silver production base. Our financial picture has never been healthier. Our operations have never run better. In fact, I'm really pleased to report that we had another record month in July in terms of tonnes processed at our mines. We set, as Geoff alluded to, we set new production records at both Huaron and Morococha in July again.

Our development projects are on time and I'm so proud to trumpet, as Geoff did, on budget. That speaks to the high quality of our management team and the reliability and believability of our forecasts. Metal prices continue to have a lot of wind behind them and silver is especially strong. It's a great time to be in the silver business and we are now the premium silver mining company in the business. I hope you understand why I feel so positive about our prospects. We'll be talking about Pan American in several places in September, late August and September, as well as if any of you have a chance to come and hear the stories. We'll be doing a small road show through New York and Toronto at the end of August, end of September we'll be attending the Merrill Lynch Investment Conference in early September, the silver summit in Coeur d'Alene, Idaho more for retail investors in mid September and in late September the Denver Institutional Investors' Conference.

Well I think I'll end, after all that hoopla, I think I'll end now and open the call up to questions. Eduardo?

**Operator:** Thank you. At this time I would like to remind everyone if you would like to pose a question, please press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Once again ladies and gentlemen, if you would like to pose a question, please press star then the number one on your telephone keypads at this time. Again, that's star then the number one on your telephone keypads if you would like to ask a question.

Thank you. Our first question is coming from Ian Howet of National Bank Finance. Please go ahead.

**Ian Howat:** Hey, good morning gentlemen. Yeah, with regards to the Manantial Espejo project, I was just wondering about the capital project... and you've got the update here. I apologize. Talk to you later guys.

**Ross Beaty:** Okay. That was an easy question Ian.

**Ian Howat:** Yep.

**Operator:** Thank you. Once again, if you would like to ask a question, please press star then the number one on your telephone keypads at this time.

Thank you. Our next question is coming from Neville Dastoor of Canaccord Adams. Please go ahead.

**Neville Dastoor:** Thanks. Hi guys. Just in relation to the zinc hedging, I'm just wondering how you've accounted for it. It's, I guess, netted out of revenues as opposed to cash costs?

**Ross Beaty:** That's correct. Go ahead.

**Rob Doyle:** Yeah, Neville, Rob Doyle here. Actually the hedge is accounted for in the one line item on the income statement under commodity contracts. So the loss for the quarter of 4.8 million incorporates the closing out of all of our hedge positions as -- actually not -- it's not netted to revenue as it was in our previous treatment and our (inaudible) treatment. It's netted out -- it's a one line item on income statement.

**Neville Dastoor:** Okay. And then the cash cost of \$1.17 don't reflect anything (inaudible).

**Rob Doyle:** That's right.

**Neville Dastoor:** Yeah. Thanks.

**Operator:** Thank you. Once again ladies and gentlemen, if you would like to pose a question, please press star then the number one on your telephone keypad.

Thank you. Sir, there don't appear to be any further questions at this time.

**Ross Beaty:** Okay. That's fine, we'll close the call unless you've got anybody else coming through. You might leave it another minute just to allow people to gather their thoughts. Otherwise we...

**Operator:** (Inaudible) sir. Once again ladies and gentlemen, if you would like pose a question, please press star then the number one on your telephone keypad.

Thank you. Our next question is coming from Adrian Day of Adrian Day Asset Management. Please go ahead.

**Adrian Day:** Yes, thanks, good morning. I just want to ask a quick question if I may. Which -- and this was a great quarter of course and the potential that you've given us for both is excellent. But which of your mines -- can you tell us which of your mines is most likely to close down first so we can look at the depletion?

**Ross Beaty:** Well let's look at each one of the mines Adrian. Quiruvilca has been running continuously since 1926. Huaron has been mining more or less continuously for 64 years. Morococha has been running more or less continuously for about 50 years. La Colorada has been in operations about 60 years. These are long, long life mines even though traditionally and typically they have reserve life of anywhere from two to five years and has proven and probable category ahead of them. That's just the nature of underground mines.

**Adrian Day:** Right.

**Ross Beaty:** And it's a pet peeve of mine that Pan American is valued by many analysts and investors on the basis of it's proven and probable reserves compared to say open-pit companies -- or companies with open-pit reserves that generally speaking when they're mined out that's all there is. Underground mines just go and go and go as the mine gets deeper.

**Adrian Day:** Right.

**Ross Beaty:** It's very much a function of metal prices Adrian. At today's metal prices I would say all of these underground mines have futures that are, you know, almost indefinite with the possible exception of La Colorada. Because La Colorada, which currently has reserves for another few years, three or four years only -- five years?

**Unidentified Speaker:** Yeah.

**Ross Beaty:** Yeah, five years only, at La Colorada we had a tremendous amount of difficulty with the hot water at depth and the amount of water and the balance there is really one of operating costs and metal prices.

Because if we have metal prices like we have today we can justify higher cost power or actually bringing in lower cost power with a significant capital cost. There are reserves there, there's lot of resources there, there's lots of silver beneath the lowest level that we have reserves, but we haven't got to those economic reserves because of the cost of pumping this water. So that's a function of metal prices and so forth.

**Adrian Day:** But at the current prices, is La Colorada much more than five years do you think?

**Ross Beaty:** La Colorada will be absolutely operating more than five years, I can say that without any hesitation at current prices. It will be -- in fact -- in fact just talking about La Colorada for a second, again I'll go into, you know, the actual resources of La Colorada are very, very large at much lower grade. We have, you know, we have at least 50 million ounces, possibly closer to 100 million ounces, of silver resources that if we -- if we wanted to take all the resources that were there without regard to economics, we would put 100 million ounces into our resource statement.

**Adrian Day:** Okay.

**Ross Beaty:** But the fact is, La Colorada is a relatively high-cost mine the way we're mining it. Underneath the existing reserves at La Colorada is a very, very large zone of quite good grade silver, lead, zinc that we discovered when we were first drilling the property in 1997, 1998. We had some holes of I forget exactly what they were of 100 meters, 150 meters with almost continuous silver, lead and zinc in them with quite good grade that would be, you know, certainly economic as a large open-pit mine. But once again we're finding hot water down there and lots of it and we currently haven't got the power infrastructure to be able to mine that under today's conditions. We are thinking of bringing in power that would reduce the cost of power and that would fascinate some of the economic or maybe all of the economic. Those are the kind of upsides that Pan American has, certainly in its operations, and because of today's metal price environment we're looking at those quite carefully because they represent wonderful growth opportunities for us to take our production from 30 -- you know, 20, 25 or 26 million up till now, higher yet from our existing operation with minimal capital, minimum hassle, we've got all the infrastructure in place, the workforce, you know, and those are the kind of opportunities that exist with an operating mining company that are low-cost opportunities for shareholder wealth creation.

**Adrian Day:** Okay. Well great. That was a great answer, thank you.

**Ross Beaty:** My pleasure.

**Operator:** Thank you. Our next question is coming from Craig West of UBS. Please go ahead.

**Craig West:** Good morning, gentlemen, great results this morning. Just one quick question on La Colorada and the startup of the fortified production there. Can you talk a little bit about what kind of base metal production you would expect to see there and maybe impact on costs?

**Ross Beaty:** Hey, did you want to talk about it Geoff?

**Geoff Burns:** I mean, the primary byproduct there Craig is lead and to a smaller degree zinc coming out of there. So we do expect to see some byproduct credits on the up to 250 tonnes a day we're going to be putting through that mill. So it will produce ounces with undercurrent price conditions at significantly below the \$5.50 an ounce we're seeing on the off-side side.

**Craig West:** Okay.

**Geoff Burns:** If I were to give you an estimate right now, we're probably thinking somewhere in the \$3.50 range for those ounces given that dynamic.

**Craig West:** Okay, great. Thank you. You mentioned very briefly the decline that's being driven there at Morococha to access some of the other areas. How far along has that proceeded and sort of what timeframe are you thinking to be reaching some of the newer areas?

**Geoff Burns:** That's a start-up bid, I'm going to say a project is going to be two and half to three years to totally complete. That primary access is running east/west across a portion of our property and then it's going to be heading due south across another very large track of our claims. And ultimately it's going to probably access about two thirds of our ore zones at Morococha. We're talking about -- or thinking about equipping it with a conveyor system to speed extraction so it's a very major project.

In terms of actually accessing short-term production, we're probably a few months away from really getting to the -- we're actually already mining some zones around it right now but getting to Manto Italia, which is a very large zone for us, we're probably four to five months away from accessing that next mining zone.

**Craig West:** Okay. So there has been some exploration in the areas between where the ramp is now and where it's going to end up, or is there an area in there that hasn't been yet explored?

**Geoff Burns:** Actually there's quite a large area that we're going cross that really has had minimal exploration. The zones close to the portal, and this kind of make sense I believe, we have explored and we have discovered some very significant reserves and resources thus the location for the portal itself. But, yeah, part of this is we are going to get some real good exploration kickers I believe as we continue to drive that ramp to continue east and again to the south.

**Andy Pooler:** Yeah. Excuse me; this is Andy Pooler, Senior Vice President of Operations. The ramp is a four by four meter ramp that we're going to run trucks out of. It will encounter probably seven or six ore bodies along the way while we get to our main target. So each advance of the ramp will increase the productivity of Morocochoa as it advances at the tune of anywhere from 100 to 200 meters a month.

**Craig West:** Okay.

**Ross Beaty:** Thanks Andy. And also thanks to you Craig for your recent support on Pan American, UBS put out a good report on a bunch of silver companies and I was happy to see we were ranked number one in quality. So that was -- that's a nice plug for you too.

**Craig Sturken:** Thanks, hey.

**Operator:** Thank you. Our next question is coming from Jed Richardson of Sprott Security. Please go ahead.

**Jed Richardson:** Hi there. A quick question, just looking at -- maybe two -- just looking at the balance sheet. The short-term investments seemed to have increased over the last couple of quarters and I was wondering if that was still all debt securities or if there was any equity investments in there?

**Rob Doyle:** It's all in high quality bonds, there's no equity exposure in that portfolio.

**Jed Richardson:** Okay. And you also mentioned that you weren't considering acquisitions right now because of the prices, is it -- is there a size -- but you would hope to grow organically. Is there a size that -- of production that Pan American kind of has a target for or just kind of measured growth over the next few - over the next few quarters in excess to the new mines that you're bringing on?

**Ross Beaty:** Right. We do have a target, sort of a five-year target, we'd like to see our production grow to 50 million ounces. And you don't get there easily by internal discovery, so I perhaps didn't make a complete statement there. We are certainly focused and we have been for the last 12 to 18 months

on internal growth. We have done a lot of work under or around our existing operations particularly, we've launched generative programs in Mexico, Peru and elsewhere, in all of Latin America so far. And we are -- those things take -- generally take a lot longer to sort of realize material results from when you start at earlier stages. But we do observe that prices of industry and silver opportunities in terms of acquisitions are much higher than they were a few years ago, that's obvious. And generally speaking, we are not -- we are not sort of, you know, compulsive deal-makers. We don't need to make deals to grow strongly, we don't need to make deals to have a great financial position and our team is pretty well focused on the growth we've got in our pipeline.

On the other hand, it would not be true to say we will not make new acquisitions, that we are not looking at anything, we are certainly - - we have been looking at really all opportunities because of course our intention is to be the preeminent silver producer globally and you don't necessarily get there if someone else finds a great discover that a third party might acquire. So I would say we are looking at most good silver opportunities. Much -- many of these opportunities are much different when you take a close look at them the way we might versus the promotional comments that are made to public markets that shareholders may -- or investors may focus on. And from value, there's very different realities to invest between -- to a public valuations and real valuations to say a mining company like ourselves. And that's true for any operating company looking at acquisitions.

So we've been loath to make acquisitions and haven't actually made one for over two years really since we acquired Morococha. Not to say we haven't had some false starts, we've tried a bunch they didn't conclude for one reason or other and it's not to say we don't have a few in our pipeline right now that we are looking at. So I hope that was a little fuller answer that if that -- to perhaps the question that you posed.

**Jed Richardson:** Nope that's great. Actually just to add to that, you would -- any acquisition you'd make you -- Pan American would be the operator of right? You don't want to set up a, you know, like a silver stream (inaudible)?

**Ross Beaty:** Right. Never say never, you know, there are again its value that we look at as much as anything and how it fits with everything else we're doing, how it fits with our management size. Never say never, there are sometimes opportunities, but on the whole I can certainly say our bias is towards projects that we would be operator on and we are generally biased against the silver stream kind of deals we think they are not -- well let's just say that we see disadvantages in acquiring silver streams on all sorts of fronts but I don't think I need to go any further than that.

**Jed Richardson:** All right. Great, thanks.

**Operator:** Thank you. Our next question is coming from Michael Dudas of Bears Stearns. Please go ahead.

**Michael Dudas:** Good morning, gentlemen.

**Ross Beaty:** Morning Michael.

**Michael Dudas:** My first question you handle very adroitly with the previous one on acquisition, but I have one follow-up to that. How you look at external opportunities that might be a little bit different than some of your peers?

**Ross Beaty:** Well the most significant, and Geoff chime in here, the most significant thing I think that Pan American brings to the table as a buyer of opportunities is our skilled operating team. We are a mining company, there are very few mining companies in the industry today with a track record of our group of bringing in operations on budget, having them perform as scheduled, you know, we're very proud of that. And our team is deep and it's strong and it's particularly Latin American friendly. Almost all of our senior operators speak Spanish, we have a very good network in Latin America, operations offices in Mexico of course through Bolivia, Argentina and lots and lots of contacts elsewhere in Latin America. So we bring operational horsepower to the table which is lacking generally in this market.

We bring financial horsepower as well. We know the silver business inside and out. We know open-pit operations, we know underground operations, we know how produce concentrate. Those are the things that I think are -- should be attractive to companies that bring us opportunities. Do you have anything to add to that Geoff?

**Geoff Burns:** Actually Ross I don't, I think Michael and you could go down the list of things to look for, certainly reserves and resources. And I think the one thing unique to Pan American is we certainly historically have looked at situations where applying that technical expertise can enhance the value. Obviously we've been able to do that at Huaron, we seem to have been able to repeat that scenario, or very much so, at Morococha and that's, you know, something that we really look very closely at because that's where you can create some significant value versus just paying full price for various established mature situations.

**Ross Beaty:** Or paying a, you know, a very significant price for say a silver stream where you have no operating control whatsoever, you pay for resources that may or may not be there, you know, those things to are to me they're not great ways to create wealth. But without, you know, barring a much higher silver price.

**Michael Dudas:** No, the numbers do speak for themselves and that's fine. My follow-up would be on zinc, I applaud you for taking care of the hedge in the second quarter. But review for us now how you're thinking about, you know, I guess zinc at \$0.74 is terrific but zinc at a buck 40, you know, is there a change in the focus on locking in hedging for this or other metals going forward? So could you just elaborate a little bit on that please.

**Ross Beaty:** Sure, it's a very thorny issue, it's...

**Michael Dudas:** Yeah.

**Ross Beaty:** ...and quite frankly we are split on the board. We have an interesting board, we have some real hard-ass operators like John Wright, Mining, you know, Metal Engineer, John Wilson the ex-CEO of Placer Dome, is a mining engineer and these guys, you know, they want to protect their cost structure. And how you do that is you hedge when you've got an all time record metal price, you know, you have to buy zinc because the odds are it's going to go down not up. And in doing so you protect your costs and you maximize your revenue and, you know, and that is what a hedge is all about and you protect, you know, you protect the downside basically. And there's all kinds of ways to do that in the hedging world, you can buy min-max programs or you can buy puts, but at the end of the day it's always a hedge. And if the price of metal goes up you look like a bum and that's what happened to us in the first quarter after we thought we were heroes and stepping in front of the zinc stream last year and getting \$0.72 a pound, an all time high -- almost an all time high at that time...

**Michael Dudas:** That's right.

**Ross Beaty:** ...and then watching the price double. So that's the -- you know, those may be the reasons to hedge. But we also have on our board a couple of fund managers, Michael Larson who runs Bill Gates' money and Bill Fleckenstein who's a fund manager and a very, very strongly opinionated guy and a wonderful, wonderful board member. And both of those guys make the observation that, you know, the -- its fine to hedge, you know, you do make a profit if the metal prices goes down you make a financial gain. But what we also do in the -- in hedging with zinc like we did, and with the new accounting rules that were different than what they were when we actually entered into that cash last fall, the accounting rules changed and we had to show this big non-cash accruals for the hedge losses which were non-cash items. It really obscured our earnings picture. It obscured our cash generation potential, it obscured our earnings when we had good earnings but we had to show these big non-cash losses and it really did negative -- I would say, it painted a more negative picture than it needed to and that cost us a lot. So when you weigh the benefits against the costs, it is a tough and thorny issue which we have debated, every single board meeting we have a debate on this and that's going to continue.

Now lesser issues that are still hedges but ones that are more easily explained are hedges for example on currency. We've hedged our Mexico peso risk against the dollar to mitigate significant changes in that set of currencies. We are now probably going to do the same thing in Argentina once we have our costs and we are purely defined to reduce the risk of a blow-out on either side, on the currency side, against our budget.

We have a real debate going on right now on our board whether or not to hedge gold. At current prices we can, for example Manantial Espejo only produces about 70,000 ounce a year, 60,000 ounces a year. We can get a floor of \$600 and all the upside above a \$1,000 ceiling... you know, just...you know that's something which we're, you know, which we actually had a board meeting yesterday. We had a discussion about that, we're not going to do anything right now because we think that the negatives of hedging gold currently are outweighed by the positives and that's where it came down. But it is a thorny issue.

Never say never. I will not say we will never hedge zinc again, I will not say we will never ever hedge gold, but I will say we will never hedge our silver. We will never hedge our silver because our silver gives our investors leverage. The second we hedge that we take away that leverage and why invest in Pan American compared to something else. So that is one thing that is sacrosanct, we will not hedge our silver production.

**Michael Dudas:** Also a very candid and complete answer. Thank you very much.

**Ross Beaty:** Thanks Michael.

**Operator:** Thank you. Once again, if you would like to pose a question, please press star then the number one on your telephone keypad.

Again, that's star then the number one on your telephone keypads if you'd like to ask a question.

**Ross Beaty:** Eduardo, if there's no further ones we'll wind her up.

**Operator:** Thank you sir, that is correct there are -- there appear to be no further questions at this time.

**Ross Beaty:** Okay. Let's bring the call to a close and thank everybody -- thanks very much everybody for listening and attending this morning and give us a call if you've got any further questions behind what we've done today.

**Operator:** Thank you. This concludes today's Pan American Silver Corp. conference call. You may now disconnect and have a wonderful day.