PAN AMERICAN SILVER CORP
Form 6-K
January 07, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of,	January	2013
Commission File Number	000-13727	

Pan American Silver Corp
(Translation of registrant's name into English)

1500-625 Howe Street, Vancouver BC Canada V6C 2T6
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40F:

Form 20-F	Form 40-F	X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes	No	X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_______________

DOCUMENTS INCLUDED AS PART OF THIS REPORT

Document	
1	Unaudited Condensed Interim Consolidated Financial Statements for the Three and Six Months Ended June 30, 2012.
2	Management's Discussion and Analysis for the Three and Six Months Ended June 30, 2012.

This report on Form 6-K is incorporated by reference into the Registrant's outstanding registration statements on Form F-10 (Nos. 333-164752 and 333-180304) and on Form S-8 (Nos. 333-149580, 333- 180494 and 333- 180495) that have been filed with the Securities and Exchange Commission.

Document 1

UNAUDITED CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS AND NOTES

FOR THE THREE AND SIX MONTHS ENDING JUNE 30, 2012

Pan American Silver Corp.
Condensed Interim Consolidated Statements of Financial Position
(unaudited in thousands of U.S. dollars)

	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$ 358,383	$ 262,901
Short-term investments (Note 6)	161,376	228,321
Trade and other receivables	119,509	103,433
Income taxes receivable	7,659	2,542
Inventories (Note 7)	263,657	135,696
Derivative financial asset	454	-
Prepaids and other current assets	9,247	9,343
	920,285	742,236
Non-current assets		
Mineral property, plant and equipment, net (Note 8)	2,235,850	1,189,708
Goodwill (Note 3)	211,292	-
Long-term refundable tax	11,096	10,253
Deferred tax assets	1,371	4,170
Other assets (Note 9)	5,404	5,429
Total Assets	$ 3,385,298	$ 1,951,796
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	$ 108,529	$ 78,258
Provisions (Note 11)	5,878	2,341
Current portion of finance lease (Note 12)	21,835	20,841
Current income tax liabilities	15,254	74,366
	151,496	175,806
Non-current liabilities		
Provisions (Note 11)	49,884	59,052
Share purchase warrants	8,177	23,651
Long-term portion of finance lease (Note 12)	12,917	10,824
Long-term debt (Note 13)	41,180	-
Deferred tax liabilities	335,278	54,919
Other liabilities (Note 14)	25,238	25,457
Total Liabilities	624,170	349,709
Equity		
Capital and reserves (Note 15)		
Issued capital	2,311,866	1,243,241
Share option reserve	20,779	8,631
Investment revaluation reserve	(207)	2,146
Retained earnings	420,388	339,821

Total equity attributable to equity holders of the Company		2,752,826		1,593,839
Non-controlling interests		8,302		8,248
Total Equity		2,761,128		1,602,087
Total Liabilities and Equity	$	3,385,298	$	1,951,796

See accompanying notes to the condensed interim consolidated financial statements.

APPROVED BY THE BOARD ON AUGUST 14, 2012

“signed”	Ross Beaty, Director	“signed”	Geoff A. Burns, Director

Pan American Silver Corp.
Condensed Interim Consolidated Income Statements
(unaudited in thousands of U.S. dollars, except for earnings per share)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue (Note 18)	$ 200,597	$ 231,866	$ 429,416	$ 422,347
Cost of sales				
Production costs (Note 19)	(113,959)	(86,103)	(211,446)	(157,347)
Depreciation and amortization	(24,324)	(20,446)	(44,555)	(39,764)
Royalties	(6,018)	(6,688)	(15,223)	(10,589)
	(144,301)	(113,237)	(271,224)	(207,700)
Mine operating earnings	56,296	118,629	158,192	214,647
General and administrative	(6,107)	(4,565)	(11,561)	(8,299)
Exploration and project development	(10,976)	(7,150)	(18,148)	(10,068)
Acquisition costs (Note 3)	(2,363)	-	(16,162)	-
Foreign exchange (losses) gains	(3,112)	1,508	(2,347)	2,033
Gain (loss) on commodity and foreign currency contracts	159	(93)	513	126
Gain on sale of assets (Note 3)	11,220	861	11,308	919
Other income (loss)	2,632	(565)	4,851	442
Earnings from continuing operations	47,749	108,625	126,646	199,800
Gain on derivatives (Note 15)	21,246	36,530	23,906	64,053
Investment income	807	629	1,970	987
Interest and finance expense	(1,446)	(1,185)	(3,092)	(2,568)
Earnings before income taxes	68,356	144,599	149,430	262,272
Income taxes (Note 20)	(24,315)	(31,121)	(55,144)	(56,115)
Net earnings for the period	$ 44,041	$ 113,478	$ 94,286	$ 206,157
Attributable to:				
Equity holders of the Company	$ 43,924	$ 112,623	$ 93,807	$ 204,784
Non-controlling interests	117	855	479	1,373
	$ 44,041	$ 113,478	$ 94,286	$ 206,157
Earnings per share attributable to common shareholders (Note 16)				
Basic earnings per share	$ 0.29	$ 1.04	$ 0.73	$ 1.91
Diluted earnings per share	$ 0.23	$ 1.04	$ 0.65	$ 1.91
Weighted average shares outstanding (in 000's) Basic	153,651	107,867	129,344	107,032
Weighted average shares outstanding (in 000's) Diluted	155,720	108,153	130,480	107,318

Condensed Interim Consolidated Statements of Comprehensive Income
(unaudited in thousands of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	

	2012	2011	2012	2011
Net earnings for the period	$ 44,041	$ 113,478	$ 94,286	$ 206,157
Unrealized net (losses) gains on available for sale securities (net of zero dollars tax)	(5,761)	1,425	(1,749)	1,322
Reclassification adjustment for net loss included in earnings	(35)	(402)	(604)	(615)
Total comprehensive income for the period	$ 38,245	$ 114,501	$ 91,933	$ 206,864
Total comprehensive income attributable to:				
Equity holders of the Company	$ 38,128	$ 113,646	$ 91,454	$ 205,491
Non-controlling interests	117	855	479	1,373
	$ 38,245	$ 114,501	$ 91,933	$ 206,864

See accompanying notes to the condensed interim consolidated financial statements.

Pan American Silver Corp.
Condensed Interim Consolidated Statements of Cash Flows
(unaudited in thousands of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash flow from operating activities				
Net earnings for the period	$ 44,041	$ 113,478	$ 94,286	$ 206,157
Income taxes (Note 20)	24,315	31,121	55,144	56,115
Depreciation and amortization	24,324	20,446	44,555	39,764
Accretion on closure and decommissioning provision	841	805	1,634	1,612
Unrealized loss on foreign exchange	1,804	786	9,651	1,948
Stock-based compensation expense	1,333	859	3,377	1,749
Unrealized (gain) loss on commodity contracts	(513)	93	(513)	(126)
Gain on derivatives (Note 15)	(21,246)	(36,530)	(23,906)	(64,053)
Gain on sale of assets	(11,220)	(861)	(11,308)	(919)
Changes in non-cash operating working capital (Note 17)	(40,221)	(15,396)	(30,817)	(38,478)
Operating cash flows before interest and income taxes	23,458	114,801	142,103	203,769
Interest paid	(1,046)	(143)	(1,200)	(152)
Interest received	180	227	775	372
Income taxes paid	(27,792)	(10,758)	(109,483)	(40,397)
Net cash (used in) generated from operating activities	$ (5,200)	$ 104,127	$ 32,195	$ 163,592
Cash flow (used in) generated from investing activities				
Payments for mineral property, plant and equipment	(32,809)	(39,651)	(52,825)	(56,843)
Maturity (purchases) of short term investments	(117,220)	(27,108)	63,559	(71,664)
Acquisition of Minefinders, net of cash acquired (Note 3)	-	-	86,528	-
Sale of Quiruvilca, net of cash acquired (Note 3)	(289)	-	(289)	-
Proceeds from sale of mineral property, plant and equipment	59	931	641	992
Net refundable tax and other asset expenditures	(716)	(6,949)	1,285	(11,114)
Net cash (used in) generated from investing activities	$ (150,975)	$ (72,777)	$ 98,899	$ (138,629)
Cash flow (used in) generated from financing activities				

Proceeds from issue of equity shares	7	2,161	86	3,279
Shares repurchased and cancelled	(23,482)	-	(23,482)	-
Dividends paid	(5,770)	(2,700)	(9,689)	(5,395)
Payments on construction and equipment leases	(851)	-	(2,196)	-
Net (distributions to) receipts from non-controlling interests	(421)	2,508	(425)	2,254
Net cash (used in) generated from financing activities	$ (30,517)	$ 1,969	$ (35,706)	$ 138
Effects of exchange rate changes on cash and cash equivalents	281	447	94	617
Net (decrease) increase in cash and cash equivalents	(186,411)	33,766	95,482	25,718
Cash and cash equivalents at the beginning of the period	544,794	171,873	262,901	179,921
Cash and cash equivalents at the end of the period	$ 358,383	$ 205,639	$ 358,383	$ 205,639

See accompanying notes to the condensed interim consolidated financial statements.

Pan American Silver Corp.
Condensed Interim Consolidated Statements of Changes in Equity
(unaudited in thousands of U.S. dollars, except for number of shares)

	Attributable to equity holders of the Company							
	Issued shares	Issued capital	Share option reserve	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance, December 31, 2010	107,791,368	$ 1,276,887	$ 7,022	$ 7,698	$ 49,751	$ 1,341,358	$8,651	$1,350,009
Total comprehensive income								
Net earnings for the year	-	-	-	-	352,494	352,494	1,652	354,146
Other comprehensive income	-	-	-	(5,552)	-	(5,552)	-	(5,552)
	-	-	-	(5,552)	352,494	346,942	1,652	348,594
Issued on the exercise of stock options	90,093	2,692	(503)	-	-	2,189	-	2,189
Issued as compensation	53,721	1,329	-	-	-	1,329	-	1,329
Issued on the exercise of warrants	139,761	4,675	-	-	-	4,675	-	4,675
Shares repurchased and cancelled	(3,582,200)	(42,342)	-	-	(51,692)	(94,034)	-	(94,034)
Distributions by subsidiaries to non-controlling interests	-	-	-	-	-	-	(2,055)	(2,055)
Stock-based compensation on option grants	-	-	2,112	-	-	2,112	-	2,112
Dividends paid	-	-	-	-	(10,732)	(10,732)	-	(10,732)
Balance, December 31, 2011	104,492,743	$ 1,243,241	$ 8,631	$ 2,146	$ 339,821	$ 1,593,839	$8,248	$1,602,087
Total comprehensive income								
Net earnings for the period	-	-	-	-	93,807	93,807	479	94,286
Other comprehensive loss	-	-	-	(2,353)	-	(2,353)	-	(2,353)
	-	-	-	(2,353)	93,807	91,454	479	91,933
Issued on the exercise of stock options	24,561	444	(366)	-	-	78	-	78

Issued on the exercise of warrants	229	8	-	-	-	8	-	8
Shares repurchased and cancelled	(1,309,664)	(19,931)	-	-	(3,551)	(23,482)	-	(23,482)
Issued to acquire Minefinders (Note 3)	49,397,952	1,088,104	10,739	-	-	1,098,843	-	1,098,843
Issued replacement options	-	-	699	-	-	699	-	699
Distributions by subsidiaries to non-controlling interests	-	-	-	-	-	-	(425)	(425)
Stock-based compensation on option grants	-	-	1,076	-	-	1,076	-	1,076
Dividends paid	-	-	-	-	(9,689)	(9,689)	-	(9,689)
Balance, June 30, 2012	152,605,821	$ 2,311,866	$ 20,779	$ (207)	$ 420,388	$2,752,826	$8,302	$2,761,128

	Attributable to equity holders of the Company							
	Issued shares	Issued capital	Share option reserve	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance, December 31, 2010	107,791,368	$ 1,276,887	$ 7,022	$ 7,698	$ 49,751	$ 1,341,358	$ 8,651	$1,350,009
Total comprehensive income								
Net earnings for the period	-	-	-	-	204,784	204,784	1,373	206,157
Other comprehensive loss	-	-	-	707	-	707	-	707
	-	-	-	707	204,784	205,491	1,373	206,864
Issued on the exercise of stock options	83,725	2,537	(472)	-	-	2,065	-	2,065
Issued on the exercise of warrants	33,604	1,651	-	-	-	1,651	-	1,651
Distributions by subsidiaries to non-controlling interests	-	-	859	-	-	859	-	859
Stock-based compensation on option grants	-	-	-	-	-	-	(747)	(747)
Dividends paid	-	-	-	-	(5,395)	(5,395)	-	(5,395)
Balance, June 30, 2011	107,908,697	$ 1,281,075	$ 7,409	$ 8,405	$ 249,140	$ 1,546,029	$ 9,277	$1,555,306

See accompanying notes to the condensed interim consolidated financial statements.

Pan American Silver Corp.
Notes to the Condensed Interim Consolidated Financial Statements
As at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011
(Unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

1. Nature of Operations

Pan American Silver Corp. is the ultimate parent company of its subsidiary group (collectively, the "Company", or "Pan American"). The Company is incorporated and domiciled in Canada, and its registered office is at Suite 1500 – 625 Howe Street, Vancouver, British Columbia, V6C 2T6.

The Company is engaged in the production and sale of silver, gold and base metals including copper, lead and zinc as well as other related activities, including exploration, extraction, processing, refining and reclamation. The Company's primary product (silver) is produced in Peru, Mexico, Argentina and Bolivia. Additionally, the Company has project development activities in Peru, Mexico and Argentina, and exploration activities throughout South America and Mexico.

2. Summary of Significant Accounting Policies

a. Basis of Preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2011, with the exception of certain amendments to accounting standards issued by the IASB, which are applicable from January 1, 2012 and accounting policies described in Note 2(c) that reflect new policies arising from transactions that occurred in 2012. The amendments do not have a significant impact on the Company's unaudited condensed interim consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011, as they do not include all the information and disclosures required by accounting principles generally accepted in Canada for complete financial statements.

In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for a fair presentation of these unaudited condensed interim consolidated financial statements have been included. Operating results for the three and six month periods ending June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 31, 2011. Certain comparative figures have been reclassified to comply with current period presentation. The most significant changes are in the presentation of the condensed interim consolidated statements of cash flows where the Company treats the acquisition of mineral, property, plant and equipment that is acquired through construction and equipment leases as non-cash items, and discloses interest paid and interest received as a separate line item.

b. Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the wholly-owned and partially-owned subsidiaries of the Company, the most significant of which are presented in the following table:

Subsidiary	Location	Ownership Interest	Status	Operations and Development Projects Owned
Pan American Silver Huaron S.A.	Peru	100%	Consolidated	Huaron Mine
Compañía Minera Argentum S.A.	Peru	92%	Consolidated	Morococha Mine

Minera Corner Bay S.A.	Mexico	100%	Consolidated	Alamo Dorado Mine
Plata Panamericana S.A. de C.V.	Mexico	100%	Consolidated	La Colorada Mine
Compañía Minera Dolores S.A. de C.V.	Mexico	100%	Consolidated	Dolores Mine
Compañía Minera Tritón S.A.	Argentina	100%	Consolidated	Manantial Espejo Mine
Pan American Silver (Bolivia) S.A.	Bolivia	95%	Consolidated	San Vicente Mine
Minera Argenta S.A.	Argentina	100%	Consolidated	Navidad Project

c. Significant Accounting Policies

Convertible Notes:

The Company has the right to pay all or part of the liability associated with the Company’s outstanding convertible notes in cash on the conversion date. Accordingly, the Company classifies the convertible notes as a financial liability with an embedded derivative. The financial liability and embedded derivative are recognized initially at their respective fair values. The embedded derivative is subsequently recognized at fair value with changes in fair value reflected in profit or loss and the debt liability component is recognized at amortized cost using the effective interest method. Interest gains and losses related to the debt liability component or embedded derivatives are recognized in profit or loss. On conversion, the equity instrument is measured at the carrying value of the liability component and the fair value of the derivative component on the conversion date.

Derivatives:

Derivatives, including certain conversion options and warrants with exercise prices in a currency other than the functional currency, are recognized at fair value with changes in fair value recognized in profit or loss.

Heap Leach Inventory:

The costs incurred in the construction of the heap leach pad are capitalized. Heap leach inventory represents silver and gold contained in ore that has been placed on the leach pad for cyanide irrigation. The heap leach process is a process of extracting silver and gold by placing ore on an impermeable pad and applying a diluted cyanide solution that dissolves a portion of the contained silver and gold, which are then recovered in metallurgical processes. When the ore is placed on the pad, an estimate of recoverable ounces is made based on tonnage, ore grade and estimated recoveries of the ore type placed on the pad. The estimated recoverable ounces on the pad are used to compile the inventory value.

The Company uses several integrated steps to scientifically measure the metal content of ore placed on the leach pads. As the ore body is drilled in preparation for the blasting process, samples are taken of the drill residue which is assayed to determine estimated quantities of contained metal. On a routine basis, the estimated recoverable ounces carried in the leach pad inventory are adjusted based on actual recoveries being experienced. Actual and estimated recoveries achieved are measured to the extent possible using various indicators including, but not limited to, individual cell recoveries, the use of leach curve recovery, trends in the levels of carried ounces depending on the circumstances or cumulative pad recoveries.

The Company then processes the ore through crushing facilities where the output is again weighed and sampled for assaying. A metallurgical reconciliation with the data collected from the mining operation is completed with appropriate adjustments made to previous estimates. The crushed ore is then transported to the leach pad for application of the leaching solution. As the leach solution is collected from the leach pads, it is continuously sampled for assaying. The quantity of leach solution is measured by flow meters throughout the leaching and precipitation process. After precipitation, the product is converted to doré, which is the final product produced by the mine.

The inventory is stated at lower of cost or market, with cost being determined using a weighted average cost method. The ending inventory value of ounces associated with the leach pad is equal to opening recoverable ounces plus recoverable ounces placed less ounces produced plus or minus ounce adjustments.

The estimate of both the ultimate recovery expected over time and the quantity of metal that may be extracted relative to the time the leach process occurs requires the use of estimates which rely upon laboratory test work. Test work consists of 60 day leach columns from which the Company projects metal recoveries up to five years in the future. The quantities of metal contained in the ore are based upon actual weights and assay analysis. The rate at which the leach process extracts gold and silver from the crushed ore is based upon laboratory column tests and actual experience. The assumptions used by the Company to measure metal content during each stage of the inventory conversion process includes estimated recovery rates based on laboratory testing and assaying. The Company periodically reviews its estimates compared to actual experience and revises its estimates when appropriate.

The ultimate recovery will not be known until leaching operations cease.

Borrowing Costs:

Borrowing costs incurred are capitalized for qualifying assets. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in the exploration and evaluation, development or construction stages. Qualifying assets also include significant expansion projects at our operating mines. Borrowing costs are considered an element of the historical cost of the qualifying asset. Capitalization ceases when the asset is substantially complete or if construction is interrupted for an extended period. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the period. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalized represents the borrowing costs specific to those borrowings. Where surplus funds available out of money borrowed specifically to finance a project are temporarily invested, the total borrowing cost is reduced by income generated from short-term investments of such funds.

d. Changes in Accounting Standards

Accounting standards effective in 2013 and 2015 are disclosed in the Company’s consolidated financial statements for the year ended December 31, 2011. The Company anticipates that the most significant of these standards relate to the following:

IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company does not anticipate the application of IFRS 10 to have a material impact on its consolidated financial statements.

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) useable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping assets. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety by the IASB in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at FVTPL, financial guarantees and certain other exceptions. In response to delays to the completion of the remaining phases of the project, on December 16, 2011, the IASB issued amendments to IFRS 9 which deferred the mandatory effective date of IFRS 9 from January 1, 2013 to annual periods beginning on or after January 1, 2015. The amendments also provided relief from the requirements to restate comparative financial statements for the effects of applying IFRS 9. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

3. Acquisition and Divesture

a. Acquisition of Minefinders Corporation Ltd.

On March 30, 2012, the Company acquired all of the issued and outstanding common shares of Minefinders Corporation Ltd. ("Minefinders") for total consideration amounting to $1,264.3 million, comprising $1,088.1 million in common shares of Pan American, $165.4 million in cash, and $10.7 million in replacement options. Minefinders was engaged in precious metals mining and has exploration properties in Mexico and the United States. Minefinders' primary mining property was its 100% owned Dolores gold and silver mine located in Chihuahua, Mexico. The acquisition is aligned with management's objectives of enhanced operating and development portfolio diversification and mission to be the largest low-cost primary silver mining company worldwide. The transaction was accounted for as a business combination with Pan American as the acquirer.

Under the terms of the arrangement former Minefinders shareholders who elected the full proration option received $1.84 and 0.55 of a Pan American share in respect of each of their Minefinders shares. Former Minefinders shareholders who elected the Pan American share option received 0.6235 Pan American shares and CDN$0.0001 for each of their Minefinders shares, and those who elected the cash option received CDN$2.0306 and 0.5423 of a Pan American share in respect of each of their shares.

Pan American exchanged and replaced all outstanding options at an exchange ratio of 0.6325 and at a strike price equivalent to the original strike prices divided by 0.6325.

Pan American share value utilized for valuing the consideration of shares issued was the closing price on March 30, 2012, the effective date of the transaction.

Replacement options were valued using the Black-Scholes option pricing model. Assumptions used were as follows:

Dividend yield	0.26%
Expected volatility	40.75%
Risk free interest rate	0.93%
Expected life	0.25 – 3.5 years

A preliminary purchase price allocation for the Minefinders transaction is calculated and presented as follows:

Purchase consideration		
Cash	$	165,413
Replacement options		10,739
Fair value of Pan American shares issued		1,088,104
	$	1,264,256

The purchase price allocation was calculated as follows:		
Net working capital acquired (including cash of $251.9 million)	$	333,478
Mineral property, plant and equipment		1,045,326
Goodwill		211,292
Closure and decommissioning provision		(10,880)
Long-term debt		(49,685)
Deferred tax liability		(265,275)
	$	1,264,256

Goodwill has been primarily recognized as a result of the requirement to record a deferred tax liability for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed; none of this is deductible for tax purposes.

The incremental impact to the net earnings of the Company had the acquisition occurred on January 1, 2012, for the six months ended June 30, 2012 would result in an increase in the Company's net earnings of $9.4 million. Accordingly, the Company's net earnings for the six months ended June 30, 2012 would be $103.7 million. Total transaction costs incurred relating to the acquisition and recognized in the Condensed Interim Consolidated Income Statement for the three and six months ended June 30, 2012 amounted to $2.4 million and $16.2 million, respectively. The cash flow from the acquisition of Minefinders, net of cash acquired amounted to $86.5 million.

As at the date these unaudited condensed interim consolidated financial statements were issued, the allocation of the purchase price has not been finalized. The Company is currently in the process of determining the fair values of identifiable assets acquired and liabilities assumed, measuring the associated deferred income tax assets and liabilities and determining the value of goodwill.

b. Disposition of Mineral Property

On June 26, 2012, the Company announced that it completed the sale of its Quiruvilca operation, located in the northern Andean region of Peru, to Quiruvilca Ltd., a subsidiary of Southern Peaks Mining L.P. Under the terms of the sale agreement, effective June 1, 2012, the Company sold 100% of its ownership interest in Quiruvilca for $2 million, subject to certain adjustments, and, at the Company's election, either: (i) a 2% net smelter returns royalty on all saleable metals, exercisable when the price of silver is above $15 per ounce; the price of zinc is above $1,200 per tonne; and the price of copper is above $6,061 per tonne, or (ii) the price difference between $23 per ounce of silver and the market price on 50% of Quiruvilca's future payable silver production for the applicable quarter; provided, however, that such payments will be capped at $3 million in any 12 month period until such time as Quiruvilca generates $25 million in EBITDA as calculated pursuant to the sale agreement.

Included in the gain on sale of assets for the three and six months ended June 30, 2012 is the net gain arising from the sale of Quiruvilca of approximately $11.2 million shown in the table below. No value was assigned to the future contingent payments in calculating the gain on the sale of Quiruvilca.

The gain on sale of Quiruvilca was calculated as follows:

Consideration received ($0.5 million in cash and $1.5 million in accounts receivable)	$	2,000
Derecognition of working capital (including cash of $0.8 million)		2,408
Derecognition of reclamation accrual		18,178
Derecognition of Deferred tax asset		(11,384)
	$	11,202

4. Management of Capital

The Company’s objective when managing its capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders. The Company’s capital structure consists of equity, comprised of issued capital plus share option reserve plus investment revaluation reserve plus retained earnings with a balance of $2.8 billion as at June 30, 2012 (December 31, 2011 - $1.6 billion). The Company manages its capital structure and makes adjustments based on changes to its economic environment and the risk characteristics of the Company's assets. The Company's capital requirements are effectively managed based on the Company having a thorough reporting, planning and forecasting process to help identify the funds required to ensure the Company is able to meet its operating and growth objectives. The Company has a $150 million credit facility with a syndicate of international banks which has not been drawn.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2011.

5. Financial Instruments

Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, foreign exchange rate risk, and liquidity risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company derives its revenue from the sale of silver, gold, lead, copper, and zinc. The Company's sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control. Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, the Company's policy is to not hedge the price of silver. The Company mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production from time to time under forward sales and option contracts. The Board of Directors continually assess the Company's strategy towards its base metal exposure, depending on market conditions. At June 30, 2012, the Company had 2,400 tonnes of lead under contract with a positive mark-to-market valuation of $0.5 million.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade receivables. The carrying value of financial assets represents the maximum credit exposure.

The Company has long-term concentrate contracts to sell the zinc, lead and copper concentrates produced by the Huaron, Morococha, San Vicente and La Colorada mines. Concentrate contracts are common business practice in the mining industry. The terms of the concentrate contracts may require the Company to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing the Company to credit risk of the buyers of our concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, the Company may incur losses for products already shipped and be forced to sell its concentrates on the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted. At June 30, 2012, the Company had receivable balances associated with buyers of its concentrates of $34.4 million (December 31, 2011 - $40.5 million). The vast majority of the Company's concentrate is sold to seven well known concentrate buyers.

Silver doré production from La Colorada, Alamo Dorado, Dolores and Manantial Espejo is refined under long term agreements with fixed refining terms at three separate refineries worldwide. The Company generally retains the risk and title to the precious metals throughout the process of refining and therefore is exposed to the risk that the refineries will not be able to perform in accordance with the refining contract and that the Company may not be able to fully recover precious metals in such circumstances. At June 30, 2012, the Company had approximately $59.4 million (December 31, 2011 - $35.9 million) of value contained in precious metal inventory at refineries. The Company maintains insurance coverage against the loss of precious metals at the Company's mine sites, in-transit to refineries and whilst at the refineries.

The Company maintains trading facilities with several banks and bullion dealers for the purposes of transacting the Company's trading activities. None of these facilities are subject to margin arrangements. The Company's trading activities can expose the Company to the credit risk of its counterparties to the extent that our trading positions have a positive mark-to-market value. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring.

Refined silver and gold is sold in the spot market to various bullion traders and banks. Credit risk may arise from these activities if the Company is not paid for metal at the time it is delivered, as required by spot sale contracts.

Management constantly monitors and assesses the credit risk resulting from its refining arrangements, concentrate sales and commodity contracts with its refiners, trading counterparties and customers. Furthermore, management carefully considers credit risk when allocating prospective sales and refining business to counterparties. In making allocation decisions, Management attempts to avoid unacceptable concentration of credit risk to any single counterparty.

The Company invests its cash which also has credit risk, with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

Foreign Exchange Rate Risk

The Company reports its financial statements in United States dollars ("USD"); however, the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations as reported in USD are subject to changes in the value of the USD relative to local currencies. Since the Company's sales are denominated in USD and a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse.

To mitigate this exposure, from time to time the Company has purchased Peruvian New soles ("PEN"), Mexican pesos ("MXN") and Canadian dollars ("CAD") to match anticipated spending. At June 30, 2012, the Company had no forward contracts to purchase foreign currencies. The Company's net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. At June 30, 2012 the Company's cash and short term investments includes $80.5 million in CAD, $34.5 million in MXN, and $2.7 million in PEN.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements and its expansion plans on an ongoing basis. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and short-term investments, and its committed loan facilities.

Pan American Silver Corp.
Notes to the Condensed Interim Consolidated Financial Statements
As at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011
(Unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

Commitments

The Company's commitments have contractual maturities which are summarized below

		Payments due by period				
		Total	Less than a year	1 - 3 years	3 - 5 years	After 5 years
Finance lease obligations (1)	$	35,002	21,939	13,063	-	-
Current liabilities(2)		128,619	128,619	-	-	-
Long term income taxes payable (Note 14)		2,544	-	-	2,544	-
Severance indemnity		2,454	562	-	1,892	-
Contribution plan(3)		7,401	3,799	3,602	-	-
Convertible notes(4)		36,235	-	-	36,235	-
Total contractual obligations(5)	$	212,255	154,919	16,665	40,671	-

(1) Includes lease obligations in the amount of $9.3 million (December 31, 2011 - $10.1 million) with a net present value of $9.1 million (December 31, 2011 - $9.8 million) and equipment and construction advances in the amount of $25.6 million (December 31, 2011 - $21.9 million); both discussed further in Note 12.

(2) Includes all current liabilities as per the statement of financial position less items presented separately in this table which also include amounts expected to be paid but not accrued in the books of the Company.

(3) In June 2008 the Company initiated a 4 year contractual retention plan for key officers and management which expired in June 2012. In June 2012 the Company approved a 2 year contractual retention plan for key officers and management. Both plans are further discussed in Note 15. Contract commitments for the plans, payable in CAD, represent minimum payments expected to be paid out, which are presented above in USD at the period-end rate. The total contribution plan payment of $7.4 million includes $0.2 million related to the 2008 Plan and $7.2 million related to the 2012 Plan, with $6.9 million expected to be paid but not accrued for by the Company.

(4) Represents the face value of the replacement convertible note related to the Minefinders acquisition. Refer to Note 13 for further details.

(5) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation, the deferred credit arising from the Aquiline acquisition discussed in Note 14, and deferred tax liabilities.

Fair Value of Financial Instruments

The carrying value of share purchase warrants and the conversion feature on the convertible notes are stated at fair value and the carrying value of cash, trade and other receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of these financial instruments. Share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values included in net earnings.

The methodology and assessment of inputs for determining the fair value of financial assets and liabilities as well as the levels of hierarchy for the Company’s financial assets and liabilities measured at fair value remains unchanged from that at December 31, 2011, except for the convertible notes assumed as part of the Minefinders acquisition.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

6. Short Term Investments and Other Assets

	June 30, 2012			December 31, 2011		
Available for sale	Fair Value	Cost	Accumulated unrealized holding gains	Fair Value	Cost	Accumulated unrealized holding gains
Short term investments	$ 161,376	$ 162,394	$ (1,018)	$ 228,321	$ 226,997	$ 1,324

Pan American Silver Corp.
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(Unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

7. Inventories

Inventories consist of:

	June 30, 2012	December 31, 2011
Concentrate inventory	$ 21,772	$ 21,473
Stockpile ore	46,408	31,704
Heap leach inventory	69,763	-
Doré and finished inventory	66,959	46,558
Materials and supplies	58,755	35,961
	$ 263,657	$ 135,696

8. Mineral Property, Plant and Equipment

Acquisition costs of investment and non-producing properties together with costs directly related to mine development expenditures are capitalized. Exploration expenditures on investment and non-producing properties are charged to operations in the period they are incurred.

Capitalization of evaluation expenditures commences when there is a high degree of confidence in the project's viability and hence it is very likely that future economic benefits will flow to the Company. Evaluation expenditures, other than that acquired from the purchase of another mining company, are carried forward as an asset provided that such costs are expected to be recovered in full through successful development and exploration of the area of interest or alternatively, by its sale. Evaluation expenditures include delineation drilling, metallurgical evaluations, and geotechnical evaluations amongst others.

Mineral property, plant and equipment consist of:

	June 30, 2012			December 31, 2011		
	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Huaron mine, Peru	$ 117,176	$ (46,760)	$ 70,416	$ 113,362	$ (44,935)	$ 68,427
Morococha mine, Peru	172,803	(46,473)	126,330	155,524	(41,048)	114,476
Alamo Dorado mine, Mexico	178,364	(117,687)	60,677	174,067	(110,882)	63,185
La Colorada mine, Mexico	79,445	(42,390)	37,055	71,602	(40,793)	30,809
Dolores mine, Mexico	872,530	(13,988)	858,542	-	-	-
Manantial Espejo mine, Argentina	298,880	(115,930)	182,950	296,431	(102,126)	194,305
San Vicente mine, Bolivia	117,344	(40,578)	76,766	115,848	(35,200)	80,648
Other	23,623	(3,474)	20,149	25,196	(3,107)	22,089
Total	$ 1,860,165	$ (427,280)	$ 1,432,885	$ 952,030	$ (378,091)	$ 573,939

Land and Exploration and Evaluation Properties:		
Land	$9,855	$8,999
Navidad Project, Argentina	559,171	552,265
Minefinders exploration projects, Mexico	180,000	-
Morococha, Peru	15,474	15,975
Other	38,465	38,530
Total non-producing properties	$802,965	$615,769
Total mineral property, plant and equipment	$2,235,850	$1,189,708

Navidad Project, Argentina

During the three and six months ended June 30, 2012, the Company capitalized $3.4 million and $6.9 million of evaluation costs at the Navidad Project in Argentina, respectively (2011 - $4.8 million and $9.4 million, respectively).

A change in the business climate as evidenced by the current inflationary environment in Argentina and a proposed change to the law submitted by the governor of the province of Chubut, Argentina (further discussed in Note 21), are indicators of a possible impairment of the Navidad project.

At June 30, 2012, the Company tested the recoverability of its investment in the Navidad project as required under IFRS. The Company used the most up to date internally developed technical information available, a long term silver price of $25 per ounce along with long term forecast base metal prices, a probability weighted range of possible outcomes related to the timing of the start of construction, taxation, regulatory and economic risks including a range of possible future exchange rates between the USD and Argentine peso ranging from 4.5 to 10.5 ARS/USD, and a risk adjusted project specific discount rate of 10.5%. It was determined that the estimated realizable value of the Navidad project exceeded its carrying value; therefore, recognition of an impairment loss was not warranted at June 30, 2012.

La Preciosa Project, Durango, Mexico

In April 2009, Pan American and Orko Silver Corp. (‘‘Orko’’) entered into an agreement, pursuant to which Pan American and Orko agreed to develop the La Preciosa silver project located in the State of Durango, Mexico. Under the terms of the agreement, in order for the Company to retain its 55% interest in the project: (a) the Company must, in addition to contributing its mine development expertise, spend a minimum of $5 million in the first 12 months from the date of the Letter of Agreement (the condition was achieved as of the first quarter of 2010) and conduct resource definition drilling, acquire necessary surface rights, obtain permits, and prepare a feasibility study; and (b) following a positive construction decision, the Company must contribute 100% of the funds necessary for practical completion of an operating mine. In exchange for its 45% interest in the venture, Orko agreed to contribute its exploration expertise and the La Preciosa Project and related concessions. For the three and six months ended June 30, 2012, the exploration expense recognized arising from the La Preciosa project is $0.3 million and $1.0 million, respectively (2011 - $0.5 million and $1.1 million, respectively).

In April 2012, the Company provided notice to Orko that it decided not to deliver a feasibility study before April 13, 2012 for the La Preciosa project as required under the terms of the joint venture agreement between Orko and Pan American. As a result, Pan American relinquished its right to earn a 55% interest in the La Preciosa project and Orko will retain 100% of the project. After completing almost three years of exploration, engineering and project development work, the Company concluded that continued participation in the La Preciosa project is unlikely to generate a rate of return that meets Pan American’s internal economic hurdle rate. Because the Company had no carrying value in this project, there was no loss on relinquishment of the project.

Morococha Mine, Peru

During the second quarter of 2010, the Company’s wholly owned subsidiary Compañia Minera Argentum S.A. (“Argentum”), reached an agreement with Minera Chinalco Perú (“MCP” or “Chinalco”), a subsidiary of the Aluminum Corporation of China which clearly defines each party’s long term surface rights in the area of the Morococha mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP’s Toromocho copper project. MCP requires certain lands and concessions in order to proceed with the development of Toromocho, including the surface lands within the planned open pit mining area of the Toromocho project. While Argentum does not own this land, much of the Morococha mine infrastructure and facilities are located on this ground.

Under the terms of the agreement, Argentum will relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP. In exchange, Argentum will receive a package of surface rights, easements and other rights that are sufficient to relocate the facilities and to continue uninterrupted operations. Lastly, Argentum will receive periodic cash payments from MCP totaling $40 million, of which, to June 30, 2012, the Company has received $13.8 million which has been utilized and offset against direct project related expenses or recognized as other income to the extent it represents a reimbursement of capital expenditures. The Company has also entered into a funding arrangement whereby it has received advances towards some of the project capital expenditures in the amount of $25.6 million to date. These advances are subject to an annualized interest rate of 2.2% which is paid monthly until the completion of the construction. At the conclusion of construction these advance payments will be converted into a leasing arrangement.

Dolores Mine, Mexico

On March 30, 2012, the Company acquired all of the issued and outstanding common shares of Minefinders. Minefinders' primary mining property is its 100% owned Dolores gold and silver mine located in Chihuahua, Mexico. Refer to Note 3 for further details about the acquisition.

9. Other Assets

Other assets consist of:

	June 30, 2012	December 31, 2011
Long-term prepaid deposit(1)	$ 5,205	$ 5,205
Reclamation bonds	199	224
	$ 5,404	$ 5,429

(1) Represents a prepaid deposit related to the Virtual Gas Line Project at the Manantial mine.

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	June 30, 2012	December 31, 2011
Accounts payable	$ 45,740	$ 30,879
Accrued liabilities	30,689	13,199
Payroll and related benefits	21,572	24,174
Severance accruals	562	3,032
Other taxes payable	300	152
Advances on concentrate	7,388	-
Other	2,278	6,822
	$ 108,529	$ 78,258

11. Provisions

	Closure and Decommissioning	Litigation	Total
As at December 31, 2011	$ 55,773	$ 5,620	$ 61,393
Revisions in estimates and obligations incurred			
Minefinders acquisition	11,088	3,500	14,588
Quiruvilca disposition	(18,178)	(3,130)	(21,308)
Orko disposition	(272)	-	(272)
Charged (credited) to earnings:			
-new provisions	-	680	680
-unused amounts reversed	-	-	-
-exchange gains on provisions	-	81	81

Utilized in the period	(458)	(586)	(1,044)
Accretion expense	1,644	-	1,644
As at June 30, 2012	$ 49,597	$ 6,165	$ 55,762

Maturity analysis of total provisions:	June 30, 2012	December 31, 2011
Current	$ 5,878	$ 2,341
Non-Current	49,884	59,052
	$ 55,762	$ 61,393

12. Finance Lease Obligations

	June 30, 2012	December 31, 2011
Lease obligations(1)	$ 9,112	$ 9,764
Equipment and construction advances(2)	25,640	21,901
	$ 34,752	$ 31,665

	June 30, 2012	December 31, 2011
Maturity analysis of finance leases:		
Current	$ 21,835	$ 20,841
Non-Current	12,917	10,824
	$ 34,752	$ 31,665

(1) Represents equipment lease obligations at several of the Company’s subsidiaries. A reconciliation of the total future minimum lease payments at the end of June 30, 2012 to their present value is presented in the table below.

(2) Represents a funding arrangement the Company entered into whereby it receives advances toward some of the project capital expenditures at the Morococha mine. These advances are subject to an annualized interest rate of 2.2% and are paid monthly until the completion of the construction at which point these advance payments will be converted into a leasing arrangement.

	June 30, 2012	December 31, 2011
Less than a year	4,000	$ 5,737
2 years	4,160	3,787
3 years	1,203	558
	9,363	10,082
Less future finance charges	(251)	(318)
Present value of minimum lease payments	$ 9,112	$ 9,764

13. Long Term Debt

	June 30, 2012	December 31, 2011
Convertible notes	30,764	-
Conversion feature on the convertible notes	10,416	-
Total long-term debt	$ 41,180	$ -

As part of the Minefinders acquisition and pursuant to the First Supplemental Indenture Agreement, the Company issued replacement unsecured convertible senior notes with an aggregate principal amount of $36.2 million (the “Notes”). Until such time as the earlier of December 15, 2015 and the date the Notes are converted, each Note shall bear interest at 4.5% payable semi-annually on June 15 and December 15 of each year. The principal outstanding on the Notes is due on December 15, 2015, if any Notes are still outstanding at that time. The Notes are convertible into a combination of cash and Pan American shares.

On April 19, 2012, the Company entered into a Second Supplemental Indenture Agreement (the "Agreement") as part of the Minefinders acquisition. The terms of the Agreement stipulate the following:

If a Noteholder elects to convert all or part of its principal amounts of Notes on or prior to November 4, 2015, for each $1,000 principal amount of converted Notes, such Notes shall be converted at the discretion of Pan American, into:

a) 96.670 Preferred Shares (the "Conversion Rate") upon conversion by a holder of Notes, the Company may issue Class A voting, participating, 6.5% cumulative convertible preferred shares in the capital of Minefinders (the "Preferred Shares");
b) an amount of cash equal to the Conversion Rate multiplied by CAD$1.84 plus the market value of 0.55 of a Pan American common share (the "Market Value of the Consideration") at the time of such conversion; or

c) a combination of Preferred Shares and cash having a combined value equal to the Cash Equivalent Conversion Consideration which is the amount of cash equal to the Conversion Rate multiplied by the Market Value of the Consideration at the time of such conversion.

On November 4, 2015 each holder of Preferred Shares shall receive in exchange for each Preferred Share at the discretion of Pan American:

a) CAD$1.84 and 0.55 of Pan American common shares;
b) an amount of cash equal to the Market Value of the Consideration; or
c) a combination of Pan American Shares and cash having a combined value equal to the Market Value of the Consideration at November 4, 2015.

If the Noteholder elects to convert all or part of the principal amount of Notes held by such Noteholder after November 4, 2015, for each $1,000 principal amount of converted Notes, the Notes shall be converted, at the option of Pan American into:

a) the number of Preferred Shares equal to the Conversion Rate;
b) an amount of cash equal to the Cash Equivalent Conversion Consideration that is 1.84 plus 0.55 Pan American shares multiplied by the average of the Daily VWAP of Pan American shares for the 10 consecutive Pan American trading days commencing on the first Pan American trading day after the date of the Company's notice of election to deliver the conversion consideration in cash or a combination of Preferred shares and cash if the Noteholder has not given a notice of redemption pursuant to the terms of the Agreement; or
c) such combination of Preferred Shares and cash having a combined value equal to the Cash Equivalent Conversion Consideration. For purposes of this clause each Preferred Share shall be deemed to have a value equal to the Market Value of the Consideration at the time of conversion, and immediately there upon, each preferred share so issued, shall be automatically exchanged for a Consideration Unit of CAD$1.84 plus the market value of 0.55 of a Pan American common share.

The interest and principal amounts of the Notes are classified as debt liabilities and the conversion option is classified as a derivative liability. The debt liability is measured at amortized cost. As a result, the carrying value of the debt liability is lower than the aggregate face value of the Notes. The unwinding of the discount is accreted as interest expense over the terms of the notes using an effective interest rate. For the three and six months ended June 30, 2012, $0.8 million was capitalized to mineral property, plant and equipment (June 30, 2011 – nil). The Company has the right to pay all or part of the liability associated with the Company's outstanding convertible notes in cash on the conversion date. Accordingly, the conversion feature on the convertible notes is considered an embedded derivative and re-measured at fair value each reporting period. The fair value of the conversion feature of the convertible notes is determined using a model that includes the volatility and price of the Company's common shares and a credit spread structure with reference to the corresponding fair value of the debt component of the convertible notes. Assumptions used in the fair value calculation of the embedded derivative component at June 30, 2012 were expected stock price volatility of 51%, expected life of 3.4 years, and expected dividend yield of 0.7%.

During the three and six months ended June 30, 2012, the Company recorded a gain on the revaluation of embedded derivative on the convertible notes of $8.4 million (2011 – nil).

14. Other Long Term Liabilities

Other long term liabilities consist of:

	June 30, 2012	December 31, 2011
Deferred credit(1)	$ 20,788	$ 20,788
Long term income tax payable (Note 21)	2,544	2,274
Severance accruals	1,906	2,395
	$ 25,238	$ 25,457

(1) As part of the 2009 Aquiline transaction the Company issued a replacement convertible debenture that allowed the holder to convert the debenture into either 363,854 Pan American shares or a Silver Stream contract related to certain production from the Navidad project. Regarding the replacement convertible debenture, it was concluded that the deferred credit presentation was the most appropriate and best representation of the economics underlying the contract as of the date the Company assumed the obligation as part of the Aquiline acquisition. Subsequent to the acquisition,

the counterparty to the replacement debenture has indicated its intention to elect the silver stream alternative. The final contract for the alternative is being discussed and pending the final resolution to this alternative, the Company continues to classify the fair value calculated at the acquisition of this alternative, as a deferred credit.

15. Share Capital and Employee Compensation Plans

The Company has a comprehensive stock compensation plan for its employees, directors and officers. The plan provides for the issuance of common shares and stock options, as incentives. The maximum number of Shares which may be issued pursuant to options granted or bonus Shares issued under the 2008 Plan may be equal to, but will not exceed 6,461,470 Shares. The exercise price of each option shall be the weighted average trading price of the Company's stock for the five days prior to the award date. The options can be granted for a maximum term of 10 years with vesting provisions determined by the Company's Board of Directors. Any modifications to the stock Compensation Plan require shareholders' approval.

The Board has developed long term incentive plan ("LTIP") guidelines, which provides annual compensation to the senior managers of the Company based on the long term performance of both the Company and the individuals that participate in the plan. The LTIP consists of an annual grant of options to senior management to buy shares of the Company and a grant of the Company's common shares with a two year no trading legend. The options are combination of five year options which vest evenly in three annual instalments and seven year options which vest evenly in two annual instalments. Options and common shares granted under the LTIP plan are based on employee salary levels, individual performance and their future potential. The Compensation Committee oversees the LTIP on behalf of the Board of Directors. The LTIP plan guidelines can be modified or suspended, at the discretion of the Compensation Committee and the Board of Directors. Additionally, from time to time, the Company issues replacement options and warrants related to acquisitions.

As part of the Minefinders acquisition each Minefinder option holder was provided a replacement option that is exercisable to purchase Pan American shares. The number of Pan American shares the replacement option holder is entitled to purchase equals 0.6235 multiplied by the number of Minefinders shares subject to the Minefinders Option (rounded down to the nearest whole number of Pan American shares). The exercise price per Pan American share equals the exercise price per Minefinders share otherwise purchasable pursuant to the current Minefinders Option, divided by 0.6235 (rounded up to the nearest whole cent).

On March 30, 2012, the Company issued 1,760,705 replacement options with a fair value of $10.7 million. Replacement options were valued using the Black-Scholes option pricing model. Assumptions used were a dividend yield of 0.26%, expected volatility of 40.75%, risk free interest rate of 0.93% and expected life of 0.25 to 3.5 years.

Transactions concerning stock options and share purchase warrants are summarized as follows in CAD:

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	Stock Options		Share Purchase Warrants		
	Shares	Weighted Average Exercise Price CAD$	Warrants	Weighted Average Exercise Price CAD$	Total
As at December 31, 2010	1,448,396	$ 32.95	7,954,745	$ 34.67	9,403,141
Granted	373,853	$ 24.90	-	$ -	373,853
Exercised	(90,093)	$ 23.61	(139,761)	$ 16.05	(229,854)
Expired	(449,097)	$ 48.10	-	$ -	(449,097)
Forfeited	(39,747)	$ 27.15	-	$ -	(39,747)
As at December 31, 2011	1,243,312	$ 25.92	7,814,984	$ 35.00	9,058,296
Granted(1)	1,760,705	$ 19.50	-	$ -	1,760,705
Exercised	(24,561)	$ 15.97	(229)	$ 35.00	(24,790)
Expired	(90,836)	$ 28.41	-	$ -	(90,836)
Forfeited	(188,713)	$ 17.88	-	$ -	(188,713)
As at June 30, 2012	2,699,907	$ 22.30	7,814,755	$ 35.00	10,514,662

(1) Represents replacement options on the acquisition of Minefinders.

Long Term Incentive Plan

During the three months ended June 30, 2012, nil common shares were issued in connection with the exercise of options under the plan (June 30, 2011 – 57,355 common shares for proceeds of $1.5 million).

During the six months ended June 30, 2012, 4,424 common shares were issued for proceeds of $0.08 million in connection with the exercise of options under the plan (June 30, 2011 – 83,725 common shares and proceeds of $2.1 million).

Replacement Options

During the three and six months ended June 30, 2012, 20,137 common shares were issued by way of a cashless option exercise (June 30, 2011 – nil).

Share Option Plan

The following table summarizes information concerning stock options outstanding and options exercisable as at June 30, 2012. The underlying option agreements are specified in Canadian dollar amounts.

Options Outstanding Options Exercisable

Range of Exercise Prices CAD$	Number Outstanding as at June 30, 2012	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price CAD$	Number Exercisable as at June 30, 2012	Weighted Average Exercise Price CAD$
$15.27 - $17.73	1,055,181	15.08	$ 16.15	1,055,181	$ 16.15
$17.74 - $22.23	133,081	31.90	$ 22.23	133,081	$ 22.23
$22.24 - $25.19	1,315,467	55.20	$ 24.83	879,590	$ 24.77
$25.20 - $36.66	97,102	6.37	$ 36.66	97,102	$ 36.66
$36.67 - $40.22	99,076	66.35	$ 40.22	49,547	$ 40.22
	2,699,907	36.99	$ 22.30	2,214,501	$ 21.38

For the three and six months ended June 30, 2012, the total employee stock-based compensation expense recognized in the income statement was $1.3 million and $3.4 million, respectively (2011 - $0.9 million and $1.7 million, respectively).

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Share Purchase Warrants

As part of the acquisition of Aquiline Resources Inc. in 2009 the Company issued share purchase warrants. The following table summarizes information concerning the warrants outstanding and warrants exercisable as at June 30, 2012. The underlying option agreements are specified in Canadian dollar amounts.

	Warrants Outstanding			Warrants Exercisable	
Exercise Price CAD$	Number Outstanding as at June 30, 2012	Average Remaining Contractual Life (months)	Average Exercise Price CAD$	Number Exercisable as at June 30, 2012	Average Exercise Price CAD$
$35.00	7,814,755	29.24	$ 35.00	7,814,755	$ 35.00

The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. During the three and six months ended June 30, 2012, there was a derivative gain related to the warrants of $12.8 million and $15.5 million, respectively (2011 – gains of $36.5 million and $64.1 million, respectively).

The conversion feature on the convertible notes, further discussed in Note 13, is also considered an embedded derivative and re-measured at fair value each reporting period. Total net gains on derivatives, for both the share purchase warrants and the embedded derivative on the convertible notes for the three and six months ended June 30, 2012 were $21.2 and $23.9 million, respectively (2011- gains of $36.5 million and $64.1 million, respectively).

The Company uses the Black Scholes pricing model to determine the fair value of the Canadian dollar denominated warrants. Assumptions used are as follows:

	June 30, 2012	December 31, 2011
Warrant strike price	$35.00	$35.00
Exchange rate (1CAD = USD)	0.9813	0.9771
Risk-free interest rate	1.0%	1.0%
Expected dividend yield	0.9%	0.5%
Expected stock price volatility	41.6%	41.5%
Expected warrant life in years	2.4	2.9
Quoted market price at period end	$17.23	$22.28

Key Employee Long Term Contribution Plan

An additional element of the Company's compensation structure is a retention program known as the Key Employee Long Term Contribution Plan (the "2008 Contribution Plan"). The 2008 Contribution Plan was approved by the directors of the Company on June 2, 2008 in response to a heated labour market situation in the mining sector, and is intended to reward certain key employees of the Company over a fixed time period for remaining with the Company. On May 15, 2012, the directors of the Company approved the extension of the Key Employee Long Term Contribution Plan (the "2012 Contribution Plan"), to be effective on June 1, 2012.

The 2008 Contribution Plan is a four year plan with a percentage of the retention bonus payable at the end of each year of the program. The 2008 Contribution Plan design consists of three bonus levels that are commensurate with various levels of responsibility, and provides for a specified annual payment for four years starting in June 2009. Each year, the annual contribution award was paid in the form of either cash or shares of the Company. The minimum aggregate value that was to be paid in cash or issued in shares over the 4 year period of the plan was $10.9 million. As of June 30, 2012, $0.2 million remains to be paid as described in Note 5. No shares will be issued from the treasury pursuant to the Contribution Plan without the prior approval of the plan by the shareholders of the Company and any applicable securities regulatory authorities.

The 2012 Contribution Plan is a two year plan with a percentage of the retention bonus payable at the end of each year of the program. The 2012 Contribution Plan design consists of three bonus levels that are commensurate with various levels of responsibility, and provides for a specified annual payment for two years starting in June 2012. Each year, the annual contribution award will be paid in the form of either cash or shares of the Company. The minimum aggregate value that will be paid in cash or issued in shares over the 2 year period of the plan is $7.2 million. As of June 30, 2012, $7.2 million remains to be paid as described in Note 5. No shares will be issued from the treasury pursuant to the Contribution Plan without the prior approval of the plan by the shareholders of the Company and any applicable securities regulatory authorities.

Normal Course Issuer Bid

On August 26, 2011, the Company received regulatory approval for a normal course issuer bid to purchase up to 5,395,540 of its common shares, during the one year period from September 1, 2011 to August 31, 2012.

During the three and six months ended June 30, 2012 the Company purchased and cancelled 1,309,664 shares (2011 – nil) for a total consideration of $23.5 million allocated between retained earnings ($3.6 million) and share capital ($19.9 million).

Dividends

On February 22, 2012, the Company declared a dividend of $0.0375 per common share paid to holders of record of its common share as of the close of business on March 5, 2012.

On May 15, 2012, the Company declared a quarterly dividend of $0.0375 per common share paid to holders of record of its common shares as of the close of business on May 28, 2012.

On August 14, 2012, the Company declared a quarterly dividend of $0.05 per common share to be paid to holders of record of its common shares as of the close of business on August 27, 2012. These dividends were not recognized in these condensed interim consolidated financial statements for the period ended June 30, 2012.

16. Earnings per Share (Basic and Diluted)

For the three months ended June 30,		2012			2011	
	Earnings (Numerator)	Shares (Denominator) (in 000's)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator) (in 000's)	Per-Share Amount
Net Earnings(1)	$ 43,924			$ 112,623		
Basic EPS	$ 43,924	153,651	$ 0.29	$ 112,623	107,867	$ 1.04
Effect of Dilutive Securities:						
Stock Options	-	142		-	213	
Warrants	-	-		-	73	
Convertible Notes	(8,433)	1,927		-	-	
Diluted EPS	$ 35,491	155,720	$ 0.23	$ 112,623	108,153	$ 1.04

(1) Net earnings attributable to equity holders of the Company.

For the six months ended June 30,	2012			2011		
	Earnings (Numerator)	Shares (Denominator) (in 000's)	Per-Share Amount	Earnings (Numerator)	Shares (Denominator) (in 000's)	Per-Share Amount
Net Earnings(1)	$ 93,807			$ 204,784		
Basic EPS	$ 93,807	129,344	$0.73	$ 204,784	107,032	$ 1.91
Effect of Dilutive Securities:						
Stock Options	-	152		-	211	
Warrants	-	-		-	75	
Convertible Notes	(8,433)	984		-	-	
Diluted EPS	$ 85,374	130,480	$ 0.65	$ 204,784	107,318	$ 1.91

(1) Net earnings attributable to equity holders of the Company.

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Potentially dilutive securities excluded in the diluted earnings per share calculation for the three and six months ended June 30, 2012 were 9,459,481 out-of-money options and warrants (2011 – 8,022,544).

17. Supplemental Cash Flow Information

The following tables summarize the changes in operating working capital items and significant non-cash items:

Changes in non-cash operating working capital items:	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Trade and other receivables	$ (5,766)	$ (10,488)	$ (10,550)	$ (18,326)
Inventories	(25,607)	(11,473)	(29,807)	(25,339)
Prepaid expenditures	271	(2,224)	1,482	(2,625)
Accounts payable and accrued liabilities	(9,499)	9,625	7,874	9,217
Provisions	380	(836)	184	(1,405)
	$ (40,221)	$ (15,396)	$ (30,817)	$ (38,478)

Significant Non-Cash Items:	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Fair value adjustment of warrants exercised	$ 242	$ -	$ 337	$ -
Fair value of Pan American shares issued (Note 3)	$ -	$ -	$ 1,088,104	$ -
Replacement options (Note 3)	$ -	$ -	$ 10,739	$ -
Post-acquisition cost associated with the replacement options	$ -	$ -	$ 699	$ -
Advances received for construction and equipment leases	$ 1,249	$ 5,479	$ 5,422	$ 8,333

18. Segmented Information

All of the Company’s operations are within the mining sector, conducted through operations in six countries. Due to geographic and political diversity, the Company’s mining operations are decentralized whereby Mine General Managers are responsible for achieving specified business results within a framework of global policies and standards. Country corporate offices provide support infrastructure to the mines in addressing local and country issues including financial, human resources, and exploration support. The Company has a separate budgeting process and measures the results of operations and exploration activities independently. The Corporate office provides support to the mining and exploration activities with respect to financial, human resources and technical support. Major products are silver, gold, zinc, lead and copper produced from mines located in Mexico, Peru, Argentina and Bolivia. Segments have been aggregated where operations in specific regions have similar products, production processes, type of customers and economic environment.

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Three months ended June 30, 2012

	Peru				Mexico		Argentina	Bolivia		
	Huaron	Morococha	Quiruvilca	Minefinders Group	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Aquiline Group.	Othe
Revenue from external customers	$19,212	$18,226	$6,056	$35,047	$42,807	$27,709	$32,559	$18,981	$-	$-
Depreciation and amortization	$(1,342)	$(2,873)	$(151)	$(7,001)	$(3,346)	$(1,190)	$(5,844)	$(2,375)	$(64)	$(138
Exploration and project development	$(202)	$(684)	$-	$(4,001)	$(1,007)	$(213)	$(59)	$-	$(4,011)	$(799
Acquisition costs	$-	$-	$-	$(2,363)	$-	$-	$-	$-	$-	$-
Interest and financing expenses	$(125)	$(188)	$(145)	$(48)	$(47)	$(60)	$(270)	$(74)	$(20)	$(469
Gain (loss) on disposition of assets	$-	$86	$-	$-	$(3)	$(75)	$16	$-	$-	$11,19
Gain on derivatives	$-	$-	$-	$8,433	$-	$-	$-	$-	$-	$12,81
Foreign exchange gain (loss)	$70	$(21)	$76	$(2,059)	$338	$(254)	$(1,479)	$113	$595	$(491
Gain on commodity and foreign currency contracts	$-	$-	$-	$-	$-	$-	$-	$-	$-	$159
Earnings (loss) before income taxes	$1,188	$(2,251)	$(1,479)	$3,235	$25,206	$14,862	$3,391	$6,319	$(4,855)	$22,74
Income taxes	$(621)	$453	$451	$(5,794)	$(8,976)	$(4,811)	$(2,535)	$(2,435)	$125	$(172
Net earnings (loss) for the period	$567	$(1,798)	$(1,028)	$(2,559)	$16,230	$10,051	$856	$3,883	$(4,731)	$22,57
Capital expenditures	$2,710	$6,443	$164	$10,336	$2,373	$4,344	$2,403	$1,129	$3,913	$294
Total assets	$146,134	$171,686	$-	$1,480,988	$172,705	$114,767	$325,359	$108,448	$597,056	$268,1
	$38,307	$74,856	$-	$347,694	$12,816	$14,628	$59,903	$29,935	$24,093	$21,93

Total liabilities										

	Three months ended June 30, 2012									
	Peru				Mexico		Argentina	Bolivia		
	Huaron	Morococha	Quiruvilca	Minefinders Group	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Aquiline Group	Other
Revenue from external customers	$53,446	$36,461	$13,954	$35,047	$104,584	$67,466	$76,302	$42,156	$-	$-
Depreciation and amortization	$(3,516)	$(5,241)	$(340)	$(7,001)	$(8,672)	$(2,454)	$(11,957)	$(4,936)	$(164)	$(274
Exploration and project development	$(294)	$(1,166)	$-	$(4,001)	$(1,334)	$(692)	$(92)	$-	$(8,289)	$(2,28
Acquisition costs	$-	$-	$-	$(2,363)	$-	$-	$-	$-	$-	$(13,7
Interest and financing expenses	$(356)	$(334)	$(313)	$(48)	$(93)	$(119)	$(443)	$(157)	$(39)	$(1,19
Gain (loss) on disposition of assets	$2	$158	$-	$-	$11	$(75)	$16	$-	$-	$11,19
Gain on derivatives	$-	$-	$-	$8,433	$-	$-	$-	$-	$-	$15,4
Foreign exchange (loss) gain	$(12)	$(28)	$(42)	$(2,059)	$(126)	$(1,493)	$(2,362)	$198	$636	$2,94
Loss on commodity and foreign currency contracts	$-	$-	$-	$-	$-	$-	$-	$-	$-	$513
Earnings (loss) before income taxes	$14,849	$611	$(1,536)	$3,235	$63,522	$38,150	$15,911	$13,261	$(10,242)	$11,6
Income taxes	$(4,589)	$(3,678)	$318	$(5,794)	$(23,667)	$(4,720)	$(8,389)	$(4,643)	$583	$(565
Net earnings (loss) for the period	$10,260	$(3,067)	$(1,218)	$(2,559)	$39,855	$33,430	$7,522	$8,617	$(9,660)	$11,1
Capital expenditures	$4,764	$14,711	$353	$10,336	$4,445	$8,785	$4,781	$1,496	$8,031	$595
Total assets	$146,134	$171,686	$-	$1,480,988	$172,705	$114,767	$325,359	$108,448	$597,056	$268,
Total liabilities	$38,307	$74,856	$-	$347,694	$12,816	$14,628	$59,903	$29,935	$24,093	$21,9

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	Three months ended June 30, 2011									
	Peru			Mexico		Argentina	Bolivia			
	Huaron	Morococha	Quiruvilca	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Other	Aquiline Group	Total
Revenue from external customers	$27,849	$23,519	$10,036	$45,897	$40,014	$50,750	$30,438	$3,363	$-	$231,86
Depreciation and amortization	$(1,628)	$(2,507)	$(255)	$(3,934)	$(1,116)	$(7,901)	$(2,964)	$(73)	$(68)	$(20,44
Exploration expense	$-	$(654)	$-	$(6)	$(155)	$(1,157)	$-	$(1,008)	$(4,170)	$(7,150
Interest and financing expenses	$(90)	$(105)	$(162)	$(90)	$(78)	$(301)	$(87)	$(239)	$(33)	$(1,185
Gain on disposition of assets	$(65)	$926	$-	$-	$-	$-	$-	$-	$-	$861
Gain on derivatives	$-	$-	$-	$-	$-	$-	$-	$36,530	$-	$36,530
Foreign exchange income (loss)	$(187)	$(99)	$(82)	$19	$146	$213	$(28)	$1,101	$425	$1,508
Loss on commodity and foreign currency contracts	$-	$-	$-	$-	$-	$-	$-	$(93)	$-	$(93
Income (loss) before income taxes	$9,704	$5,880	$2,361	$31,921	$28,422	$15,684	$16,253	$38,508	$(4,134)	$144,59
Income taxes	$(2,826)	$(938)	$(744)	$(9,403)	$(8,608)	$(3,096)	$(5,569)	$(814)	$877	$(31,121
Net income (loss) for the period	$6,878	$4,942	$1,617	$22,518	$19,814	$12,588	$10,684	$37,694	$(3,257)	$113,47
Capital expenditures	$2,978	$7,942	$255	$1,376	$2,217	$5,015	$542	$19,964	$4,841	$45,130
Total assets	$56,312	$158,117	$104,552	$133,743	$76,495	$341,673	$120,430	$341,050	$587,219	$1,919,5
Total liabilities	$21,393	$57,097	$61,268	$27,255	$18,982	$268,287	$79,793	$(235,717)	$65,927	$364,28

Six Months ended June 30, 2011

	Peru			Mexico		Argentina	Bolivia			
	Huaron/Pyrite	Morococha	Quiruvilca	Alamo Dorado	La Colorada	Manantial Espejo	San Vicente	Other	Aquiline Group	Tota
Revenue from external customers	$53,088	$46,561	$20,940	$91,542	$75,697	$87,546	$41,611	$5,362	$-	$422,34
Depreciation and amortization	$(3,171)	$(4,745)	$(739)	$(9,278)	$(2,222)	$(14,952)	$(4,376)	$(144)	$(137)	$(39,76
Exploration expenses	$-	$(655)	$-	$(68)	$(295)	$(1,157)	$-	$(2,019)	$(5,874)	$(10,06
Interest and financing expenses	$(179)	$(255)	$(325)	$(181)	$(157)	$(502)	$(196)	$(721)	$(52)	$(2,568
Gain (loss) on disposition of assets	$(65)	$977	$-	$-	$5	$-	$2	$-	$-	$919
Gain on derivatives	$-	$-	$-	$-	$-	$-	$-	$64,053	$-	$64,05
Foreign exchange income (loss)	$(235)	$(184)	$(78)	$(310)	$237	$(801)	$69	$3,531	$(196)	$2,033
Loss on commodity and foreign currency contracts	$-	$-	$-	$-	$-	$-	$-	$126	$-	$126
Income (loss) before income taxes	$20,124	$14,436	$6,910	$61,821	$52,936	$23,744	$20,480	$68,552	$(6,731)	$262,27
Income taxes	$(6,648)	$(4,816)	$(1,792)	$(17,237)	$(12,198)	$(6,215)	$(8,162)	$(916)	$1,869	$(56,11
Net income (loss) for the period	$13,476	$9,620	$5,118	$44,584	$40,738	$17,529	$12,318	$67,636	$(4,862)	$206,15
Capital expenditures	$5,323	$14,417	$739	$1,938	$3,603	$7,394	$2,326	$20,033	$9,403	$65,17
Total assets	$56,312	$158,117	$104,552	$133,743	$76,495	$341,673	$120,430	$341,050	$587,219	$1,919,
Total liabilities	$21,393	$57,097	$61,268	$27,255	$18,982	$268,287	$79,793	$(235,717)	$65,927	$364,28

	Three months ended June 30,		Six months ended June 30,	
Product Revenue	2012	2011	2012	2011
Refined silver and gold	$108,562	$113,632	$228,745	$206,548
Zinc concentrate	21,442	17,808	43,662	33,608
Lead concentrate	29,116	40,948	72,030	82,746
Copper concentrate	41,477	59,478	84,979	99,445
Total	$200,597	$231,866	$429,416	$422,347

19. Production Costs

Production costs are comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consumption of raw materials and consumables	$50,650	$32,953	$81,780	$61,332
Employee compensation and benefits expense	40,564	35,657	73,837	61,252
Contractors and outside services	22,201	32,693	42,081	48,077
Utilities	6,061	6,653	12,687	12,671
Changes in inventories	(14,360)	(26,253)	(14,404)	(38,389)
Other expenses	8,843	4,400	15,465	12,404
	$113,959	$86,103	$211,446	$157,347

20. Income Taxes

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Current income taxes	11,992	32,793	41,514	57,210
Deferred income taxes	12,323	(1,672)	13,630	(1,095)
Provision for income taxes	$24,315	$31,121	$55,144	$56,115

As of January 1, 2012, the applicable income tax rate in Canada was reduced from 26.5% to 25%. The change in tax rate has no income tax impact because of the tax losses carried forward.

Income tax expense differs from the amounts that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the items shown on the following table, which result in effective tax rates that vary considerably from the comparable periods. The main factors which have affected the effective tax rates for the three and six months ended June 30, 2012 and the comparable period of 2011 were the unrealized gains and losses on the Company's warrants position, foreign income tax rate differentials, foreign exchange and non-recognition of certain deferred tax assets. The Company expects that these and other factors will continue to cause volatility in effective tax rates in the future.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Income before taxes	68,356	144,599	149,430	262,272
Statutory tax rate	25%	26.50%	25%	26.50%
Income tax expense based on above rates	$17,089	$38,319	$37,358	$69,502
Increase (decrease) due to:				
Non-deductible expenses	453	576	779	1,133

(Increase) decrease to estimated deductible expenses	507	-	3,093	(3,471)
Change in net deferred tax assets not recognized	2,913	739	7,151	916
Non-taxable unrealized gains on derivative financial instruments - warrants	(5,312)	(9,680)	(5,977)	(16,974)
Foreign tax rate differences	2,150	3,476	6,610	6,593
Effect of other taxes paid (mining and withholding)	1,459	3,093	2,504	4,367
Non- deductible foreign exchange (gain) loss	2,888	(5,647)	1,090	(5,858)
Other	2,168	245	2,536	(93)
	$24,315	$31,121	$55,144	$56,115
Effective tax rate	35.57 %	21.52 %	36.90 %	21.40 %

21. Commitments and Contingencies

a. General

The Company is subject to various investigations, claims and legal and tax proceedings covering matters that arise in the ordinary course of business activities. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company. In the opinion of management none of these matters are expected to have a material effect on the results of operations or financial conditions of the Company.

b. Purchase Commitments

The Company had no purchase commitments other than those commitments described in Note 5.

c. Credit Facility

On October 10, 2008, Pan American entered into a $70 million revolving credit facility (“the Facility”) with Scotia Capital and Standard Bank Plc (“the Lenders”). The purpose of the Facility is for general working capital purposes, including acquisitions. The Facility, which is principally secured by a pledge of Pan American’s equity interests in its material subsidiaries, had a term of four years. On December 20, 2010 the Company amended the Facility by, among other things, extending the term to December 20, 2014 and increased the amount of the Facility to $150 million by expanding the number of Lenders to include West LB, CIBC and BMO. The interest margin on the renewed Facility ranges from 3.00% to 4.00% over LIBOR, based on the Company’s net debt to EBITDA ratio. Pan American has agreed to pay a commitment fee of between 0.90% and 1.20% on undrawn amounts under the Facility, depending on the Company’s net debt to EBITDA ratio. As at June 30, 2012, the Company has made no drawings under this Facility.

d. Environmental Matters

The Company’s mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect the public health and environment and believes its operations are in compliance with applicable laws and regulations in all material respects. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Estimated future reclamation costs are based the extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company’s environmental policies. As of June 30, 2012 and December 31, 2011, $49.6 million, and $55.8 million, respectively, were accrued for reclamation costs relating to mineral properties. See also Note 11.

e. Income Taxes

The Company operates in numerous countries around the world and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company’s business conducted within the country involved. The long term portion of the Company’s current income taxes payable is classified as long term in Note 5 and Note 14.

f. Finance Leases

The present value of future minimum lease payments classified as finance leases at June 30, 2012 is $9.1 million (December 31, 2011- $9.8 million) and the schedule of timing of payments for this obligation is found in Note 12.

g. Law changes in Argentina

Government regulation in Argentina related to the economy has increased substantially over the past year. In particular, the government has intensified the use of price, foreign exchange, and import controls in response to unfavourable domestic economic trends. An example of the changing regulations which have affected the Companies activities in Argentina was the Argentinean Ministry of Economy and Public Finance resolution that reduced the time within which exporters were required to repatriate net proceeds from export sales from 180 days to 15 days after the date of export. As a result of this change, the Manantial Espejo, operation temporarily suspended dore shipments while local management reviewed how the new resolution would be applied by the government. In response to petitions from numerous exporters for relief from the new resolution, on July 17, 2012 the Ministry issued a revised resolution which extended the 15-day limit to 120 days. Manantial Espejo expects delayed shipments and sales to be made up during the second half of 2012.

The government also has tightened control over capital flows and foreign exchange, including informal restrictions on dividend, interest, and service payments abroad and limitations on the ability of individuals and businesses to convert Argentine pesos into United States dollars or other hard currencies. These measures, which are intended to curtail the outflow of hard currency and protect Argentina's international currency reserves, may adversely affect the Company's ability to convert dividends paid by current operations or revenues generated by future operations into hard currency and to distribute those revenues to offshore shareholders. Maintaining operating revenues in Argentine pesos could expose the Company to the risks of peso devaluation and high domestic inflation.

h. Political changes in Bolivia

In late 2005, a national election in Bolivia resulted in the emergence of a left-wing government. This has caused some concerns amongst foreign companies doing business in Bolivia due to the government's policy objective of nationalizing the oil and gas industries. There is no certainty the government of Bolivia will not take steps to implement such measures targeting the mining industry, and in early 2009, a new constitution was enacted that further entrenches the government's ability to amend or enact such laws, including those that may affect mining. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts and threatened expropriation of assets, all of which could have a material adverse impact on the Company's operations or profitability.

In a press release on April 19, 2011, management provided comments on media reports from Bolivia, that the Bolivian government was considering unilaterally terminating contracts and taking control of several privately-operated mines (formerly operated by the government). In a follow up release on May 3, 2011, we provided an update on this situation. On May 1, Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the mining law. However, Mr. Morales made no reference to reviewing or terminating agreements with private mining companies. On August 2, 2012, the Bolivian government issued a decree formally revoking a mining concession held by a Canadian publicly traded mining company. The publicly traded mining company is currently pursuing all possible diplomatic options in addition to reaching out to the Bolivian government with the objective of resolving the situation. Operations at San Vicente have continued to run normally under Pan American's administration and the Company expects normal operations to continue status quo, in light of recent events. The Company will take every measure available to enforce our rights under our agreement with

COMIBOL and are confident that we will ultimately be successful in protecting our investment.

i. Other Legal Matters

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities, many of them relating to ex-employees. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavorably to the Company. The Company establishes provisions for matters that are probable and can be reasonably estimated, included within current liabilities, and amounts are not considered material.

In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. In the opinion of management there are no claims expected to have a material effect on the results of operations or financial condition of the Company.

j. Title Risk

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

k. Royalty Agreements and Participation Agreements

The Company has various royalty agreements on certain mineral properties entitling the counterparties to the agreements to receive payments per terms as summarized below. Royalty liabilities incurred on acquisitions of properties are netted against mineral property while royalties that become payable upon production are expensed at the time of sale of the production.

On September 22, 2011, Peru's Parliament approved new laws that increase mining taxes to fund anti-poverty infrastructure projects in the country, effective October 1, 2011. The new law changes the scheme for royalty payments, so that mining companies that have not signed legal stability agreements with the government will have to pay royalties of 1% to 12% on operating profit; royalties under the previous rules were 1% to 3% on net sales. In addition to these royalties, such companies will be subject to a "special tax" at a rate ranging from 2% to 8.4% of operating profit. Companies that have concluded legal stability agreements (under the General Mining Law) will be required to pay a "special contribution" of between 4% and 13.12% of operating profits. The Company's calculations of the change in the royalty and the new tax indicate that no material impact is expected on the results of the Company's Peruvian operations.

In the Province of Chubut, Argentina which is the location of the Company's Navidad property, there is a provincial royalty of 3% of the "Operating Income". Operating income is defined as revenue minus production costs (not including mining costs), treatment and transportation charges. Additionally, the governor of the province of Chubut, Argentina, has submitted to the provincial legislature draft law which if passed will introduce a 5% Net Smelter Return Royalty ("NSR"), in addition to the 3% provincial royalty discussed above. Refer below to the Navidad project section for further details.

As part of the 2009 Aquiline transaction the Company issued a replacement convertible debenture that allowed the holder to convert the debenture into either 363,854 Pan American shares or a Silver Stream contract related to certain production from the Navidad project. Subsequent to the acquisition, the counterparty to the replacement debenture has indicated its intention to elect the silver stream alternative. The final contract for the alternative is being discussed and pending the final resolution to this alternative, the Company continues to classify the fair value calculated at the acquisition of this alternative, as a deferred credit as disclosed in Note 14.

Huaron, Quiruvilca and Morococha mines

In June 2004, Peru's Congress approved a bill that allows royalties to be charged on mining projects. These royalties are payable on Peruvian mine production at the following progressive rates: (i) 1.0% for companies with sales up to \$60 million; (ii) 2.0% for companies with sales between \$60 million and \$120 million; and (iii)

3.0% for companies with sales greater than $120 million. This royalty is a net smelter returns royalty, the cost of which is deductible for income tax purposes. Because the Huaron and Quiruvilca mines are one legal entity, this royalty is calculated on the cumulative production of both mines while the calculation of the royalty on Morococha's production is done on this mine alone.

Manantial Espejo mine

Production from the Manantial Espejo property is subject to royalties to be paid to Barrick Gold Corp. according to the following: (i) $0.60 per metric tonne of ore mined from the property and fed to process at a mill or leaching facility to a maximum of 1 million tonnes; and (ii) one-half of one percent (0.5%) of net smelter returns derived from the production of minerals from the property. In addition, the Company has negotiated a royalty equal to 3.0% of operating cash flow payable to the Province of Santa Cruz.

San Vicente mine

Pursuant to an option agreement entered into with COMIBOL, a Bolivian state mining company, with respect to the development of the San Vicente property, the Company is obligated to pay COMIBOL a participation fee of 37.5% (the "Participation Fee") of the operation's cash flow. Once full commercial production of San Vicente began, the Participation Fee was reduced by 75% until the Company recovered its investment in the property. The Participation Fee has now reverted back to the original percentage. For the quarter ended June 30, 2012 the royalties to COMIBOL amounted to approximately $8.7 million (2011 - $1.4 million).

A royalty is also payable to EMUSA, a former partner of the Company on the project. The royalty is a 2% net smelter royalty payable only after the Company has recovered its capital investment in the project and only when the average price of silver in a given financial quarter is $9.00 per ounce or greater. Recovery of capital investment was not achieved as of June 30, 2012. In December 2007, the Bolivian government introduced a new mining royalty that affects the San Vicente project. The royalty is applied to gross metal value of sales (before smelting and refining deductions) and the royalty percentage is a sliding scale depending on metal prices. At current metal prices, the royalty is 6% for silver metal value and 5% for zinc and copper metal value of sales. The royalty is income tax deductible.

Navidad project

In late June 2012 the governor of the province of Chubut submitted to the provincial legislature a draft law which, if passed, will regulate all future oil & gas and mining activities in the province. The draft legislation is subject to review and possible modification by a parliamentary subcommittee, after which it will be submitted to the full legislature for debate and vote. The draft legislation incorporates the expected re-zoning of the province, allowing for the development of Navidad as an open pit mine. However, the draft legislation also introduces a series of new regulations that will greatly increase provincial royalties and impose the province's direct participation in all mining projects, including Navidad.

Management will continue to monitor the status and subsequent amendments; if any to the legislation. The financial impact of the legislation is not determinable at this time as the Company awaits the approval of the final law.

22. Subsequent Events

Subsequent to June 30, 2012, the Company purchased an additional 503,676 shares at a cost of approximately $7.5 million for a total of 5,395,540 million shares bought and cancelled since the start of the share buy-back program, thereby completing the program approved by the TSX and discussed in Note 15.

Document 2

Management's Discussion and Analysis
for the three and six months ended June 30, 2012

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Management's Discussion and Analysis of Financial Condition and Results of Operations

August 14, 2012

INTRODUCTION

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Pan American Silver Corp.'s and its subsidiaries' ("Pan American" or the "Company") performance and such factors that may affect its future performance. The MD&A should be read in conjunction with the Company's Audited Consolidated Financial Statements for the year ended December 31, 2011 and the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2012 and 2011 and the related notes contained therein. All amounts in this MD&A and in the consolidated financial statements are expressed in United States dollars ("USD"), unless identified otherwise. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Pan American's significant accounting policies are set out in Note 2 of the Audited Consolidated Financial Statements for the year ended December 31, 2011. This MD&A refers to various non-Generally Accepted Accounting Principles ("GAAP") measures, such as "cash and total cost per ounce of silver", which are used by the Company to manage and evaluate operating performance at each of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, detailed descriptions and reconciliations have been provided where applicable.

Except for historical information contained in this MD&A, the following disclosures are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 or are future oriented financial information and as such are based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note regarding the risks associated with forward looking statements at the back of this MD&A and the "Risks Related to Pan American's Business" contained in the Company's most recent Form 40-F and Annual Information Form on file with the U.S. Securities and Exchange Commission and the Canadian provincial securities regulatory authorities. Additional information about Pan American and its business activities, including its Annual Information Form, is available on SEDAR at www.sedar.com.

CORE BUSINESS AND STRATEGY

Pan American engages in silver mining and related activities, including exploration, mine development, extraction, processing, refining and reclamation. The Company owns and operates silver mines located in Peru, Mexico, Argentina, and Bolivia. In addition, the Company is exploring for new silver deposits throughout South America and Mexico. The Company is listed on the Toronto Stock Exchange (Symbol: PAA) and on the NASDAQ Exchange in New York (Symbol: PAAS).

Pan American was founded in 1994 with the specific intention of providing investors with the best investment opportunity to gain real exposure to silver prices. The Company's mission is to be the largest and lowest cost primary silver mining company globally. To realize this mission, Pan American's strategy is to focus on growing its base of low cost silver production and silver mineral reserves by constantly optimizing its production methods, and developing new silver deposits through acquisition and exploration.

To execute this strategy, Pan American has assembled a sector leading team of mining professionals with a depth of exploration, construction, operating, and financing knowledge that allows the Company to confidently advance early stage projects through construction and into operation.

Pan American's operational track record and strong financial standing has positioned the Company to take full advantage of strategic opportunities in the silver market, as they arise. As such, on March 30, 2012 the Company and Minefinders Corporation Ltd. (TSX: MFL; NYSE/AMEX: MFN) ("Minefinders") announced that they had completed the previously announced plan of arrangement under the Business Corporations Act (Ontario) whereby Pan American acquired all of the issued and outstanding common shares of Minefinders after receiving shareholder approval at meetings held on March 26, 2012. This transaction creates a leading, growth-oriented, geographically-diversified silver producer with an exceptional growth profile and an enhanced, diversified portfolio. Please refer to the "Minefinders Transaction" section for more details.

HIGHLIGHTS OF Q2 2012

OPERATIONS & PROJECT DEVELOPMENT

- Silver Production

Silver production was 6.4 million ounces in Q2 2012, an increase of 14% over the production of 5.6 million ounces in Q2 2011. This increase was mainly attributable to the contribution of the recently acquired Dolores mine and production improvements at the Morococha mine, offset by decreased silver production at Alamo Dorado, Manantial Espejo and the sale of the Quiruvilca mine effective June 1, 2012.

- Dolores Integration

In the first quarter under Pan American stewardship, the Dolores mine produced 0.9 million ounces of silver and just over 15,000 ounces of gold. Silver production was at the low end of the silver production forecast for Dolores issued in the Q1 2012 MD&A while cash costs for Q2 2012 were $2.06 per ounce of silver, below the $5.00 to $6.00 per ounce forecast due to blending of lower cost ounces in opening inventory with current quarter production costs which are in line with the cash cost forecast as issued for the balance of the year. Management is focused on securing the heap leach pad #2 and constructing pad #3 in order to stabilize the current operation and allow thorough analysis of future mill and other expansion and optimization opportunities.

Capital expenditures at Dolores during Q2 2012 totalled $10.3 million primarily for leach pad construction and capitalized mine stripping.

- Navidad Project Update

At the Navidad development project in Chubut, Argentina, Pan American invested $6.6 million during the second quarter of 2012. Work focused on the advancement of the Project's Environmental Impact Assessment (EIA) and work towards completion of an updated Feasibility Study. On July 2nd, Pan American reported that the Governor of the province of Chubut, Martin Buzzi, submitted to the provincial legislature a draft bill that would regulate all oil and gas and mining activities in the province. The draft legislation incorporated the long-awaited and expected zoning of the province, which would allow for the development of Navidad as an open pit mine. However, the same draft legislation proposed to introduce a series of new regulations which would significantly increase provincial royalties and impose the province's direct participation in all mining projects, including Navidad. While the proposed bill remains subject to review and debate within sub-committees of the legislature, without meaningful modifications, the Company will be forced to temporarily suspend further project expenditures in Navidad (further discussed in the section "Exploration and Project Development").

- Sale of Quiruvilca Mine

Pan American announced on June 26, 2012 that it completed the sale of its Quiruvilca operation, located in the northern Andean region of Peru, to Quiruvilca Ltd., a subsidiary of Southern Peaks Mining L.P. Under the terms of the sale agreement, effective June 1, 2012, Pan American sold 100% of its ownership interest in Quiruvilca for $2 million, subject to certain adjustments, and, at Pan American election, either: (i) a 2% net smelter returns royalty on all saleable metals, exercisable when the price of silver is above $15 per ounce; the price of zinc is above $1,200 per tonne; and the price of copper is above $6,061 per tonne, or (ii) the price difference between $23 per ounce of silver and the market price on 50% of Quiruvilca's future payable silver production for the applicable quarter; provided, however, that such payments will be capped at $3 million in any 12 month period until such time as Quiruvilca generates $25 million in EBITDA as calculated pursuant to the sale agreement.

The sale of Quiruvilca resulted in a net gain to Pan American of approximately $11.2 million recorded in Q2 2012. No value was assigned to the future contingent payments in calculating the gain on sale.

- La Preciosa JV Terminated

In early April 2012, the Company provided notice to Orko Silver Corp. ("Orko") that it had decided not to deliver a feasibility study before April 13, 2012 for the La Preciosa project as required under the terms of the joint venture agreement between Orko and Pan American. As a result, Pan American relinquished its right to earn a 55% interest in the La Preciosa project and Orko retained 100% of the project. After completing almost three years of exploration, engineering and project development work, the Company came to the conclusion that any continued participation in the La Preciosa joint venture project is unlikely to generate a rate of return that meets Pan American's internal economic hurdle rate. Because the Company had no carrying value in this project, there is no loss on relinquishment of the project.

FINANCIAL

§ Revenue decreased by 13% to $200.6 million in Q2 2012 from sales of $231.9 million in Q2 2011, due primarily to lower realized silver and base metal prices partially offset by an increase in quantities of silver and gold sold. In addition, downward provisional sales adjustments relating to shipments from prior periods of $9.6 million and a build-up of silver and gold inventories during the quarter due to the timing of shipments negatively impacted revenues and mine operating earnings as production exceeded sales quantities by 0.7 million silver ounces and 5,800 gold ounces.

§ Mine operating earnings decreased to $56.3 million in Q2 2012, 53% lower than the mine operating earnings in the comparable period of 2011, due to lower revenues as described, higher cost of sales as a result of increased quantities of silver and gold sold and higher depreciation charges related to the Dolores mine.

§ Adjusted earnings (further discussed in the section "Alternative Performance Measures") for Q2 2012 of $17.1 million compared to $75.4 million for Q2 2011. The adjusted earnings decrease was primarily on account of decreased mine operating earnings, increased exploration and project development expense, and a higher effective tax rate.

§ Adjusted earnings per share of $0.11 compared to $0.70 for the corresponding period in 2011.

§ Cash flow from operations consumed $5.2 million, a decrease from the $104.1 million generated in the comparable quarter last year, and was negatively affected primarily by the decreased mine operating earnings, investments in working capital of $40.2 million and income taxes paid of $27.8 million.

§ Pan American paid a cash dividend of $0.0375 per common share to its shareholders of record as of the close of business on May 28, 2012 and has declared the next quarterly dividend on August 14, 2012 to be increased to $0.05 per common share. These dividends are designated to be eligible dividends for the purposes of the Income Tax Act (Canada).

§ The Company purchased and cancelled 1.3 million shares during Q2 2012, spending $23.5 million in the process. Subsequent to the quarter end, the Company completed the approved program by purchasing an additional 0.5 million share, spending $7.5 million.The Company's working capital was $768.8 million at June 30, 2012, of which $519.8 million was held in cash and short term investments. So far this year Pan American has paid $109.5 million in income taxes (predominantly related to 2011), spent $58.3 million in capital at its operations and development projects, invested $30.8 million in working capital, spent $23.5 million repurchasing shares, paid $9.7 million in dividends and still increased our cash and short term investments by $28.6 million inclusive of $86.5 million acquired through the Minefinders transaction.

Q2 OPERATING PERFORMANCE

The following tables reflect the realized prices of metals produced and consolidated metal production achieved in each period under review:

	Realized Metal Prices		Quantities of Metal Produced		Realized Metal Prices		Quantities of Metal Produced	
	Three months ended June 30,				Six months ended June 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
Silver – in ounces	$ 29.53	$ 38.21	6,399,446	5,620,038	$ 31.24	$ 34.81	11,902,405	10,964,777
Gold – in ounces	$ 1,622	$ 1,499	32,244	21,900	$ 1,658	$ 1,447	51,740	40,540
Zinc – in tonnes(1)	$ 1,924	$ 2,280	8,429	8,582	$ 1,984	$ 2,340	19,461	17,426
Lead – in tonnes(1)	$ 2,010	$ 2,544	2,775	3,081	$ 2,051	$ 2,580	6,790	6,380
Copper – in tonnes(1)	$ 8,166	$ 9,077	1,037	1,054	$ 8,064	$ 9,265	2,016	2,300

(1) Metal price stated as cash settlement per tonne.

Pan American produced 6.4 million ounces of silver in Q2 2012, an increase of 14% over the production of 5.6 million ounces in Q2 2011. This increase was mainly attributable to the contribution of the recently acquired Dolores mine and production improvements at the Morococha mine, offset by decreased silver production at Alamo Dorado, Manantial Espejo and the sale of the Quiruvilca mine effective June 1, 2012. The increased silver production in the six months of 2012 compared to the comparable period in 2011 of 9% is attributable to similar reasons, that being the additional Dolores mine production along with production improvements at Huaron, Morococha and San Vicente.

Gold production was 32,244 ounces for Q2 and 51,740 for the first half of 2012 (“H1 2012”) compared to 21,900 ounces and 40,540 ounces produced in the comparable periods of 2011. The increase in gold production was also mainly due to the 15,270 ounces contributed to production at the Dolores mine but offset by lower gold grades processed at Manantial Espejo. Consolidated zinc and lead and copper production was similar in Q2 2012 to the comparable period of 2011 due largely to improvements at the Peruvian operations being offset by the sale of Quiruvilca, while zinc and lead production were up in H1 2012 over H1 2011 due to a strong first quarter at the Peruvian operations as well as San Vicente.

Cash Costs per Ounce of Silver(1)

Consolidated cash costs for Q2 2012 and in H1 2012 were $11.85 and $11.23, respectively, compared to $9.19 and $8.53 per ounce for the corresponding period of 2011. The most significant factors behind this increase in cash costs were an increase in direct operating costs primarily due to increased labor related costs, operating supplies, and certain royalties, partially offset by an increase in by-product credits on account of higher production of all by-products except for copper, and higher realized gold price.

(1) Cash cost per ounce of silver - The Company reports the non-GAAP cash cost per ounce of payable silver in order to manage and evaluate operating performance at each of the Company’s mines. For a better understanding of these measures, please refer to the detailed reconciliation of this measure to our production costs, as shown in our unaudited Consolidated Statement of Operations for the period, which can be found in the section Alternative Performance Measures of this MD&A.

OPERATIONS REVIEW

- Huaron Mine

	Three month ended June 30,		Six months ended June 30	
	2012	2011	2012	2011
Tonnes milled	158,452	142,100	328,916	297,828

Average silver grade – grams per tonne	157	185	163	176
Average zinc grade - %	2.30	2.47	2.64	2.41
Average silver recovery - %	81.2	80.3	82.3	78.8
Silver – ounces	652,136	677,778	1,421,575	1,331,641
Gold – ounces	166	342	383	690
Zinc – tonnes	2,469	2,200	5,930	4,376
Lead – tonnes	879	1,269	2,790	2,251
Copper – tonnes	558	253	971	601
Cash costs per ounce (1)	$ 18.95	$ 14.47	$ 14.09	$ 13.06
Total costs per ounce (1)	$ 22.12	$ 15.96	$ 17.27	$ 14.64
Payable ounces of silver	560,958	611,470	1,239,320	1,202,708

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

In Q2 2012, Huaron produced 0.7 million ounces of silver, which was a small decrease from the production level achieved in Q2 2011. The lower silver production was a result of lower grades and labour unrest in April that disrupted production that has since been resolved, partially offset by improved throughput rates and recoveries in the mill.

Cash costs per ounce in Q2 2012 were $18.95, which were 31% higher than the $14.47 per ounce realized in Q2 2011. The net increase in cash costs was mainly due to lower silver produced on account of grade and higher operating costs associated with increased throughput as well as unit cost increases from the comparable period.

Capital expenditures during Q2 2012 totaled $2.7 million at the Huaron mine which included expenditures on mine development, drilling, equipment upgrades and equipment replacements.

- Morococha Mine*

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	128,365	119,347	252,357	244,221
Average silver grade – grams per tonne	156	126	145	137
Average zinc grade - %	2.59	2.40	2.90	2.45
Average silver recovery - %	81.5	85.3	84.0	86.3
Silver – ounces	525,371	411,906	988,123	926,881
Gold – ounces	594	393	1,537	850
Zinc – tonnes	2,461	2,248	5,637	4,795
Lead – tonnes	836	689	1,677	1,672
Copper – tonnes	349	382	711	785
Cash costs per ounce (1)	$24.32	$16.98	$20.89	$11.34
Total costs per ounce (1)	$30.30	$20.52	$27.06	$14.54
Payable ounces of silver	450,074	369,565	842,158	834,614

* Production and cost figures are for Pan American's 92.2% share only.

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

The Morococha mine produced 0.5 million ounces of silver during Q2 2012, an increase of 28% from the production achieved in the comparable 2011 period. The increase was attributable to higher silver grades and mill throughputs rates. The mine continues to focus on advancing development rates to access higher grade ore and allow for operational flexibility in future years.

Cash costs per ounce in Q2 were $24.32, 43% higher than the $16.98 per ounce recorded a year earlier with the increase in cash costs a result of expenses associated with strategically increasing underground development advances, higher cost of labour and associated benefits and less economic smelter terms affecting payable ounces.

Capital expenditures during Q2 2012 totaled $4.0 million at the Morococha mine. The capital spending was primarily on long term mine developments and related equipment repairs and replacements, and exploration drilling. In addition, $2.4 million was invested on the Morococha relocation project during Q2 2012, for completion activities at the recently built facilities.

- Quiruvilca Mine

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	39,397	71,630	101,865	154,203
Average silver grade – grams per tonne	97	121	102	125
Average zinc grade - %	2.90	2.99	2.99	3.00
Average silver recovery -%	82.1	81.1	82.5	81.8
Silver – ounces	101,196	227,739	275,134	506,761
Gold – ounces	156	424	428	949
Zinc – tonnes	967	1,817	2,582	3,920
Lead – tonnes	266	541	739	1,286
Copper – tonnes	101	258	286	607
Cash costs per ounce (1)	$41.91	$19.77	$36.33	$11.34
Total costs per ounce (1)	$43.13	$20.58	$37.46	$12.06
Payable ounces of silver	88,794	201,406	240,354	455,241

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

The Company culminated the process of evaluating strategic alternatives for the mine as described in the MD&A for the year ended December 31, 2011, which resulted in a divestiture effective June 1, 2012.

The sale of Quiruvilca resulted in a net gain to Pan American of approximately $11.2 million recorded in Q2 2012 as described in the Highlights section “Sale of Quiruvilca Mine”.

The Quiruvilca mine produced 0.1 million ounces of silver at a cash cost of $41.91 during the two months of Q2 2012 that it was owned by Pan American.

- Alamo Dorado Mine

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	409,874	483,956	854,008	952,326
Average silver grade – grams per tonne	109	107	110	103
Average gold grade – grams per tonne	0.42	0.35	0.39	0.34
Average silver recovery - %	82.3	84.2	83.9	82.7
Silver – ounces	1,280,960	1,393,050	2,542,171	2,689,792
Gold – ounces	4,787	4,274	9,035	8,652
Copper – tonnes	29	20	48	43
Cash costs per ounce (1)	$5.50	$4.17	$4.87	4.54

Total costs per ounce (1)	$8.49	$7.67	$7.69	8.12
Payable ounces of silver	1,275,968	1,386,689	2,533,209	2,677,954

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

Alamo Dorado continued to be the Company’s largest silver producer in Q2 2012, producing 1.3 million ounces of silver. Silver production was down slightly from Q2 2011 production levels due to lower throughput rates resulting primarily due to increased ore hardness.

Cash costs for Q2 2012 were $5.50 per ounce, up from $4.17 per ounce a year ago as increases in operating costs were compounded with lower silver produced only partially offset by increased by-product credits on account of higher gold prices.

Capital expenditures at Alamo Dorado during Q2 2012 totalled $2.4 million primarily for plant equipment upgrades and mine equipment additions.

- Dolores Mine

	Three months ended June 30, 2012
Tonnes crushed and stacked	1,413,477
Average silver grade – grams per tonne	39
Average gold grade – grams per tonne	0.46
Average silver recovery - %	48.0
Average gold recovery - %	74.4
Silver – ounces	923,927
Gold – ounces	15,270
Cash costs per ounce (1)	$2.06
Total costs per ounce (1)	$16.87
Payable ounces of silver	921,617

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

In the first quarter under Pan American stewardship, the Dolores Mine produced 0.9 million ounces of silver and just over 15,000 ounces of gold. Silver production was at the low end of the silver production forecast for Dolores issued in the Q1 2012 MD&A while cash costs for Q2 2012 were $2.06 per ounce of silver, below the $5.00 to $6.00 per ounce forecast due to the blending of lower cost ounces in opening inventory with current quarter production costs which were in line with the cash cost forecast as issued for the balance of the year. Gold production was affected by more dilution than anticipated in gold dominant zones, resulting in lower than expected grades being stacked.

Management is focused on securing the heap leach pad #2 and constructing pad #3 in order to stabilize the current operation and allow thorough analysis of future mill and other expansion and optimization opportunities. Capital expenditures at Dolores during Q2 2012 totalled $10.3 million primarily for leach pad construction as well as $4.5 million of capitalized stripping to develop access to ore that is to be mined in future periods.

- La Colorada Mine

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	104,699	99,225	208,431	197,962
Average silver grade – grams per tonne	368	369	371	379
Average silver recovery - %	89.4	89.3	89.4	89.4
Silver – ounces	1,108,320	1,052,180	2,224,175	2,154,074

Gold – ounces	998	945	2,177	2,014
Zinc – tonnes	1,366	1,123	2,757	2,184
Lead – tonnes	683	582	1,379	1,171
Cash costs per ounce (1)	$8.38	$7.16	$8.06	$6.94
Total costs per ounce (1)	$9.95	$8.11	$9.29	$7.86
Payable ounces of silver	1,053,941	1,002,611	2,112,055	2,052,796

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

Silver production at the La Colorada mine in Q2 2012 was 1.1 million ounces as the mine continued stable operations consistent with the comparable quarter last year.

In Q2 2012, cash costs increased by 17% to $8.38 as compared to the same period last year. This was mainly due to higher operating costs that were partially offset by slightly higher by-product credits as a result of increased by-product production and gold prices.

Capital expenditures at La Colorada during Q2 2012 totaled $4.3 million. The capital was spent on the infrastructure, developmental drilling and equipment replacements.

- San Vicente Mine*

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	76,301	73,129	148,447	134,175
Average silver grade – grams per tonne	417	432	415	400
Average zinc grade - %	1.98	2.25	2.21	2.20
Average silver recovery - %	90.8	88.3	90.21	89.22
Silver – ounces	927,966	897,310	1,787,472	1,536,921
Zinc – tonnes	1,166	1,193	2,555	2,151
Copper – tonnes	-	141	-	264
Lead – tonnes	111	-	204	-
Cash costs per ounce (1)	$18.21	$12.85	$18.59	$13.11
Total costs per ounce (1)	$21.12	$16.54	$21.83	$17.11
			-	
Payable ounces of silver	843,056	840,080	1,620,153	1,425,067

* Production and interest figures are for Pan American's 95.0% share only.

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

Silver production at the San Vicente mine in Q2 2012 was 0.9 million ounces, a modest increase from the comparable quarter in the prior year. The slight increase in silver production was a result of increased throughput and recovery rates partially offset by lower grades.

Cash costs at San Vicente were $18.21 per ounce, which was 42% higher than the comparable quarter last year. The higher cash costs were a result of higher royalty charges on account of the royalty rate due to COMIBOL, the Company's joint venture partner, having increased from 9.4% to 37.5% following the period of investment payback, increased concentrate treatment and refining charges, and general operating cost pressures.

Capital expenditures at San Vicente during Q2 2012 totalled $1.1 million and consisted mainly of equipment upgrades.

- Manantial Espejo Mine

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Tonnes milled	181,126	181,974	360,238	352,166

Average silver grade – grams per tonne	169	181	168	173
Average gold grade – grams per tonne	1.71	2.73	2.04	2.47
Average silver recovery - %	88.7	89.1	89.1	90.6
Average gold recovery - %	94.2	95.3	93.8	95.0
Silver – ounces	879,570	960,073	1,739,827	1,818,707
Gold – ounces	10,274	15,523	22,910	27,385
Cash costs per ounce (1)	$15.46	$6.80	$12.14	$7.63
Total costs per ounce (1)	$23.14	$14.92	$20.30	$15.63
Payable ounces of silver	877,811	958,153	1,763,348	1,815,069

(1) Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance Measures for a detailed reconciliation of these measures to our production costs.

Silver production at the Manantial Espejo mine in Q2 2012 was 0.9 million ounces, down from 1.0 million ounces in the same quarter last year due to lower silver grades. Gold production was negatively impacted by the same factor. The Company was unable to offset lower grades by increased throughput as planned due to continued import restrictions that negatively affected operations.

Cash costs per ounce increased from $6.80 in Q2 2011 to $15.46 in Q2 2012. Cash costs increased sharply with lower gold by-product credits as the gold production shortfall was only partially offset by increased gold prices. Additionally, operating costs were up 6% due to an increase in labor and other operating costs incurred to mitigate import restrictions that are affecting equipment availability.

Capital expenditures at Manantial Espejo during Q2 2012 totaled $2.4 million. This consisted mainly of plant equipment upgrades, mine development, including a major ventilation raise, and mine equipment upgrades.

OVERVIEW OF Q2 FINANCIAL RESULTS

For the three and six months ended June 30, 2012, the Company's revenues and mine operating earnings decreased relative to the comparable periods of 2011 primarily due to lower realized silver and base metal prices as well as cost pressures prevalent across the entire mining industry, despite higher quantities of silver and gold sold. Furthermore, a build-up of silver and gold inventories during the quarter negatively impacted revenues and mine operating earnings as production exceeded sales quantities by 0.7 million silver ounces and 5,800 gold ounces (further described in the section "Revenue" below).

Adjusted earnings for Q2 2012 (further discussed in the section "Alternative Performance Measures") were $17.1 million after adjusting for $21.2 million in gains on derivatives, $2.4 million of additional Minefinders acquisition related costs, foreign exchange losses of $3.1 million, and the $11.2 million gain on the sale of the Quiruvilca mine compared to $75.4 million for Q2 2011. The adjusted earnings decrease was primarily on account of decreased mine operating earnings, increased exploration and project development expense, negative provisional sales adjustments relating to shipments from prior periods of $9.6 million and a higher effective tax rate. Adjusted earnings were $77.7 million for H1 2012 compared to $140.1 million in H1 2011.

The table following sets out selected quarterly results for the past ten quarters, which are stated in thousands of U.S. dollars, except for the per share amounts.

	Quarters Ended (Unaudited)	
2012	March 31,	June 30,
RevenueRevenue	$228,819	$200,597
Mine operating earnings (1)	$101,896	$56,296
Attributable earnings for the period	$49,883	$43,924
Adjusted earnings for the period(2)	$60,619	$17,050
Basic earnings per share	$0.47	$0.29
Diluted earnings per share	$0.47	$