

PAN AMERICAN SILVER CORP
Form SUPPL
April 06, 2006

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Filed pursuant to
General Instruction II.L of
Form F-10; File No. 333-122152

Subject to Completion, dated April 5, 2006

The information contained in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus Supplement

(To prospectus dated February 9, 2005)

5,750,000 Shares
PAN AMERICAN SILVER CORP.
Common Shares
\$ per share

We are offering 5,750,000 common shares, without par value, by this prospectus supplement and the accompanying prospectus.

Our common shares are quoted on the Nasdaq National Market, or the Nasdaq, under the symbol "PAAS" and are listed on the Toronto Stock Exchange, or the TSX, under the symbol "PAA." On April 5, 2006, the last reported sale price of our common shares on the Nasdaq was US\$25.62 per share and on the TSX was Cdn\$29.75 per share.

Investing in our common shares involves risks. See "Risk Factors" beginning on page S-12 of this prospectus supplement.

| | Per Share | Total(1) |
|----------------------------------|------------------|-----------------|
| Public offering price | \$ | \$ |
| Underwriting commission | \$ | \$ |
| Proceeds, before expenses, to us | \$ | \$ |

(1) For the proceeds above, we have assumed that the underwriters do not exercise their Over-Allotment Option

We have granted the underwriters a 30-day option, the "Over-Allotment Option," to purchase up to additional shares to cover any over-allotments.

Delivery of the common shares is expected to be on or about , 2006.

This offering is made by a Canadian issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this prospectus supplement and the accompanying prospectus in accordance with the disclosure requirements of Canada. Prospective investors should be aware that such requirements are different from those of the United States. Financial statements included or incorporated herein have been prepared in accordance with Canadian generally accepted accounting principles, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies.

Prospective investors should be aware that the acquisition of the securities described herein may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein.

The enforcement by investors of civil liabilities under the federal securities laws may be affected adversely by the fact that the company is incorporated or organized under the laws of British Columbia, Canada, that some or all of its officers and directors may be residents of Canada, that some or all of the underwriters or experts named in the registration statement may be residents of Canada and that a substantial portion of the assets of the company and said persons may be located outside the United States.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

BMO Nesbitt Burns

CIBC World Markets

Merrill Lynch & Co.

Canaccord Capital Corporation (USA), Inc.

NBF Securities (USA) Corp.

The date of this prospectus supplement is _____, 2006

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering and also adds to and updates information contained in the accompanying short form base shelf prospectus dated February 9, 2005 (the "Base Shelf Prospectus") and the documents incorporated by reference. The second part is the accompanying short form base shelf prospectus, which gives more general information, some of which may not apply to the offering. This prospectus supplement is deemed to be incorporated by reference into the accompanying Base Shelf Prospectus solely for the purpose of this offering.

If the description of the Shares varies between this prospectus supplement and the Base Shelf Prospectus you should rely on the information in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the Base Shelf Prospectus, as well as information previously filed by us with the U.S. Securities and Exchange Commission (the "SEC") and with the securities regulatory authorities in each of the provinces and territories of Canada, and incorporated by reference herein, is accurate as of its respective date only. Our business, financial condition, results of operations and prospects may have changed since those dates.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| GENERAL MATTERS | S-ii |
| CAUTIONARY NOTE TO UNITED STATES INVESTORS | S-ii |
| SUMMARY | S-1 |
| RISK FACTORS | S-12 |
| CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION | S-22 |
| USE OF PROCEEDS | S-23 |
| CONSOLIDATED CAPITALIZATION | S-24 |
| DIVIDEND POLICY | S-25 |
| PRICE RANGE AND TRADING VOLUME | S-25 |
| EXCHANGE RATE INFORMATION | S-25 |
| MANAGEMENT | S-26 |
| CERTAIN INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS | S-28 |
| CERTAIN INCOME TAX CONSIDERATIONS FOR CANADIAN HOLDERS | S-31 |
| UNDERWRITING | S-33 |
| LEGAL MATTERS | S-36 |
| EXPERTS | S-36 |
| INTEREST OF EXPERTS | S-37 |
| DOCUMENTS INCORPORATED BY REFERENCE | S-37 |
| DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT | S-38 |
| ADDITIONAL AVAILABLE INFORMATION | S-39 |

GENERAL MATTERS

Unless stated otherwise or the context otherwise requires, all references to dollar amounts in this prospectus supplement are references to U.S. dollars. References to "\$" are to U.S. dollars and references to "Cdn\$" are to Canadian dollars. See "Exchange Rate Information". The Company's financial statements that are incorporated by reference into this prospectus supplement have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"), and are reconciled to generally accepted accounting principles in the United States ("U.S. GAAP"). Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the Over-Allotment Option.

Unless the context otherwise requires, references in this prospectus supplement to "we," "us" or "our" includes Pan American Silver Corp. and each of its material subsidiaries.

CAUTIONARY NOTE TO UNITED STATES INVESTORS

This prospectus supplement, including the documents incorporated by reference herein, has been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws. Without limiting the foregoing, this prospectus supplement, including the documents incorporated by reference herein, uses the terms "measured", "indicated" and "inferred" resources. United States investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, "inferred resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the "inferred resources" will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Disclosure of "contained ounces" is permitted disclosure under Canadian regulations, however, the SEC normally only permits issuers to report "resources" as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization and resources contained in this prospectus supplement or in the documents incorporated by reference, may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC.

National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all resource estimates contained in or incorporated by reference in this prospectus supplement have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum Classification System. These standards differ significantly from the requirements of the SEC, and resource information contained herein and incorporated by reference herein may not be comparable to similar information disclosed by United States companies.

SUMMARY

The following description highlights selected information about us contained in the documents incorporated by reference into this prospectus supplement. This description does not contain all of the information about us and our properties and business that you should consider before investing in the Shares. You should carefully read the entire prospectus supplement, including the section titled "Risk Factors" that immediately follows this summary, as well as the documents incorporated by reference into this prospectus supplement, before making an investment decision. This prospectus supplement contains forward-looking statements concerning our plans at our properties, production, capital cost, operating cost and cash flow estimates and other matters. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause our results to differ from those expressed or implied by the forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements."

The Company

Overview

We are one of the world's leading primary silver mining companies. We are principally engaged in the operation, development and acquisition of, and exploration for, silver mines. Although our principal product is silver, we also produce and sell a significant amount of zinc, lead and copper and we expect to produce an increasing amount of gold in the future. At present, we have six operating mines in Peru, Mexico and Bolivia and we are developing two new mines at Manantial Espejo in Argentina and at Alamo Dorado in Mexico. We also control significant undeveloped silver resources in the United States. We carry out exploration work in all of the aforementioned countries, as well as elsewhere in the world.

As at December 31, 2005, our six producing mines and our two mines in development were estimated to contain a total of approximately 195.4 million ounces of proven and probable silver reserves and a total of approximately 74.6 million ounces of measured and indicated silver resources. In addition, as at December 31, 2005, our undeveloped silver resource properties in the United States were estimated to contain a total of approximately 116.0 million ounces of measured and indicated silver resources. Our properties were also estimated to contain a total of approximately 46.3 million tonnes of inferred mineral resources having an average grade of 185 grams of silver per tonne, as at December 31, 2005. See " Mineral Reserves and Resources."

The Company is headquartered in Vancouver, British Columbia, Canada and is organized under the *Business Corporations Act* (British Columbia).

Strengths

Our principal goal is to be the best investment vehicle for equity investors wanting exposure to higher silver prices. We believe that the following core strengths have positioned us to achieve this goal:

One of the world's largest primary silver producers.

Attractive and improving cash cost profile, as we bring new low cost silver mines into production.

Increased annual silver production for 11 consecutive years and we expect continued growth in our silver production over the next three years.

One of the largest and most diverse silver resource bases in the industry.

Multiple mines in production or development which provide geographic diversification and operating flexibility.

An experienced management team with proven international operating, development and discovery skills.

No hedging of silver production, which maximizes our leverage to higher silver prices.

Production Summary

The following table details our historical growth in silver production since 2000 and our expected 2006 silver production.

Our Historic and Estimated Silver Production

(1) Compound Annual Growth Rate

Corporate Strategy

Our corporate strategy is to continuously strengthen our position as one of the world's largest and lowest cost primary silver producers by adding silver reserves and resources that have the potential to be developed economically and add meaningfully to our production profile, while lowering consolidated unit costs of production.

The key elements of our strategy are to:

Increase silver production. We have increased our annual silver production each year since 1995. Historically, this increased production has been achieved, in part, through the expansion or rehabilitation of existing mines and the development of new mines. In the short term, we expect increased silver production from the development of new mines at our Alamo Dorado and Manantial Espejo properties, continued toll-mining and expansion at our San Vicente property in Bolivia and expansion of our Morococha mine in Peru.

Make strategic acquisitions. We actively investigate and evaluate strategic opportunities to acquire additional silver production, development and exploration properties both in those jurisdictions in which we are presently active, as well as elsewhere throughout the world.

Increase our silver reserves and resources through exploration. We conduct active exploration programs both in the immediate vicinity of our existing mining operations and elsewhere. In 2005, our exploration program replaced all ounces mined in that year and increased total proven and probable reserves by 30.5 million ounces or 21%.

Maintain a significant inventory of undeveloped silver resources. We hold one of North America's largest inventories of undeveloped silver resources at our Hog Heaven and Waterloo properties in the United States as leverage to higher silver prices.

Generate sustainable profits from mining operations. We strive to achieve lower costs and increased profitability at our mining operations through the development of new lower cost mines and through investment in projects and equipment that will increase our productivity.

Maximize leverage to silver. We do not hedge our silver production thereby maximizing our leverage to higher silver prices.

Location of Principal Operations

The following map identifies the location of our principal operating and development properties and our undeveloped resources across the Americas.

Mining Operations

Our current mining operations are as follows:

Morococha. The Morococha mine is an underground silver polymetallic vein mine located approximately 250 kilometres northeast of Lima near the historic Casapalca mining district of Peru. We acquired an 81% interest in the Morococha mine effective July 2004 and have subsequently purchased an additional 6% interest in the mine. Our share of silver production from the Morococha mine in 2006 is expected to be approximately 2.9 million ounces at a cash cost of \$2.86 per ounce of silver. The Morococha mine has a projected mine life of seven years at our current production rates. Over the next three years, we will be working to increase production at Morococha by accessing and developing lower-cost mantos discovered during the exploration program that we have undertaken since purchasing this property. We will continue this exploration drilling program on the extensive portfolio of prospective exploration concessions surrounding the mine, which in 2005 added 5.8 million ounces to our proven and probable silver reserves and 2.9 million ounces to our measured and indicated silver resources at Morococha.

Huaron. The Huaron mine is an underground silver polymetallic vein mine located approximately 50 kilometres northeast of our Morococha mine in the Cerro de Pasco district, one of Peru's most important mining districts. For 2006, Huaron is expected to produce approximately 3.7 million ounces of silver at a cash cost of \$4.70 per ounce of silver, net of by-product credits. The Huaron mine has a projected mine life of at least ten years at current production rates and we believe that our ongoing exploration program will increase this mine life.

Quiruvilca. The Quiruvilca mine is an underground silver polymetallic vein mine located at an elevation of 3,800 metres in the Andes Mountains in northwest Peru, approximately 130 kilometres inland

from the coastal city of Trujillo. It has been operated by us since late 1995. In 2006, the Quiruvilca mine is expected to produce 2.0 million ounces of silver at a cash cost of \$4.30 per ounce of silver. The Quiruvilca mine has a projected mine life of four years at current production rates. In addition, the mine holds a substantial amount of measured and indicated resources, which our management believes have a high probability, at current metal prices, of being converted into proven and probable reserves, which would extend the life of the mine.

La Colorada. The La Colorada underground silver mine is located approximately midway between the cities of Zacatecas and Durango in west central Mexico. The property lies within a geologic belt known as the "Faja de Plata" (silver belt) that extends for approximately 800 kilometres along the Sierra Madre Mountains and contains many of the deposits that make Mexico the largest silver producing country in the world. The La Colorada mine commenced commercial production in January 2004, after we completed a \$20.0 million expansion. In 2006, we anticipate restarting the sulphide mill and plant at La Colorada which is expected to increase annual silver production to approximately 4.0 million ounces at a cash cost of \$5.44 per ounce of silver. La Colorada has a projected mine life of 4.5 years. We are currently conducting exploration drilling at the mine site with a view to increasing this mine life.

Stockpiles. In 2002, we acquired the right to mine and sell 600,000 tonnes of silver-rich pyrite stockpiles in the Cerro de Pasco mining district of Peru to a smelter, where the ore is used as process flux and we are paid for the contained silver. Approximately 650,000 ounces of silver at a cash cost of \$1.78 per ounce of silver is expected to be produced from our stockpile operations in 2006.

San Vicente. We hold a 55% interest in the San Vicente silver property, which is located in the Potosi department of the Bolivian Andes. In 2005, we and our Bolivian joint-venture partner, EMUSA, undertook small-scale toll-milling on the property. In 2006, we expect these operations to produce approximately 280,000 ounces of silver at a cash cost of \$3.50 per ounce of silver. During 2006, we also will be completing a feasibility study on building a new mill at San Vicente to expand our share of production to more than 2.0 million ounces of silver annually.

Mine Operating Earnings

The following graph details our consolidated mine operating earnings for our last five financial years. We calculate mine operating earnings as sales, less cost of sales, less depreciation and amortization.

Mine Operating Earnings

Development Projects

We are proceeding with the development of two new silver mines:

Manantial Espejo. The Manantial Espejo silver-gold deposit is located in the Santa Cruz province of southern Argentina, in the Patagonia region. A recently completed feasibility study estimates that the project will produce on average 4.3 million ounces of silver and 62,000 ounces of gold annually over a mine life of 8.5 years. Capital costs for the project are expected to be \$112.3 million, plus \$18.1 million in Argentine value added tax, which will be refundable once the mine is in production. Average life of mine cash costs have been estimated at \$0.02 per ounce of silver, net of gold byproduct credits. Based on metal prices as at March 22, 2006, of \$10.53 per ounce of silver and \$550.75 per ounce of gold, the undiscounted net present value of the project would be approximately \$169.0 million, the internal rate of return would be approximately 25% and the capital payback period would be approximately 2.3 years. Basic engineering for the project, which will be developed using both open pit and surface mining methods, has been initiated and construction is expected to take 18-20 months. See "Recent Developments - Decision to Proceed with Development of Manantial Espejo."

Alamo Dorado. We commenced construction of a conventional surface mine at the Alamo Dorado property, located 40 kilometres south-southeast of the town of Alamos in Sonora state in northwest Mexico, in the second quarter of 2005. Approximately 50% of construction has been completed and we are currently on budget and on time for commissioning in the fourth quarter of 2006. Capital costs for the project are estimated at \$76.6 million. The assay lab is built and in operation; installation of the leach tanks, primary crusher, stacking conveyor and water line are underway; and SAG and ball mills are on site. Mining and stockpiling of ore for startup is already underway. Starting in 2007, Alamo Dorado is expected to produce approximately 5.0 million ounces of silver and 14,000 ounces of gold annually at an average cash cost of less than \$3.25 per ounce of silver, net of gold byproduct revenues. The mine is expected to have a life of eight years.

Sources of Sales and Mineral Reserves

The following graphs reflect the respective contributions to our sales for the financial year ended December 31, 2005 from the various metals we produce and the distribution of our proven and probable silver reserves by geographic region. These graphs demonstrate the diversity of our assets both by metal and by jurisdiction:

2005 Sales by Metal

Contained Silver in Proven and Probable Reserves by Geographic Region

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Mineral Reserves and Resources

As of December 31, 2005 our mineral reserves and resources were estimated to be as follows:

Proven and Probable Reserves(1)(2)

| Property | Classification | Tonnes (000s) | Ag (g/mt) | Ag Cont. (000s ozs) | Au (g/mt) | Pb (%) | Cu (%) | Zn (%) |
|----------------------|------------------------------|------------------|--------------|------------------------|--------------|--------|--------|--------|
| Huaron | Proven | 3,999 | 207 | 26,617 | N/A | 1.76 | 0.39 | 3.18 |
| | Probable | 3,355 | 209 | 22,541 | N/A | 2.07 | 0.29 | 3.43 |
| Morococha (87%)(3) | Proven | 2,977 | 163 | 15,601 | N/A | 1.79 | 0.34 | 4.32 |
| | Probable | 769 | 198 | 4,896 | N/A | 1.57 | 0.65 | 4.50 |
| La Colorada | Proven | 425 | 635 | 8,671 | 0.18 | 0.99 | N/A | 1.28 |
| | Probable | 422 | 552 | 7,493 | 0.38 | 0.78 | N/A | 2.10 |
| Quiruvilca | Proven | 965 | 178 | 5,521 | 0.28 | 1.28 | 0.56 | 3.62 |
| | Probable | 540 | 184 | 3,196 | 0.33 | 1.60 | 0.61 | 4.50 |
| Silver Stockpiles | Probable | 381 | 294 | 3,605 | N/A | N/A | N/A | N/A |
| Alamo Dorado | Proven | 1,050 | 136 | 4,591 | 0.43 | N/A | N/A | N/A |
| | Probable | 10,602 | 116 | 39,540 | 0.32 | N/A | N/A | N/A |
| Manantial Espejo(4) | Proven | 2,743 | 176 | 15,522 | 2.47 | N/A | N/A | N/A |
| | Probable | 2,848 | 211 | 19,271 | 3.18 | N/A | N/A | N/A |
| San Vicente (55%)(3) | Proven | 803 | 357 | 9,217 | N/A | N/A | N/A | 4.47 |
| | Probable | 506 | 560 | 9,114 | N/A | N/A | N/A | 2.77 |
| TOTALS | Proven + Probable | 32,385 | 187 | 195,394 | | | | |

Measured and Indicated Resources(1)(2)

| Property | Classification | Tonnes (000s) | Ag (g/mt) | Ag Cont. (000s ozs) | Au (g/mt) | Pb (%) | Cu (%) | Zn (%) |
|----------------------|---------------------------------|------------------|--------------|------------------------|--------------|--------|--------|--------|
| Huaron | Measured | 1,589 | 173 | 8,848 | N/A | 2.25 | 0.43 | 3.96 |
| | Indicated | 1,206 | 183 | 7,081 | N/A | 1.89 | 0.60 | 3.90 |
| Morococha (87%)(3) | Measured | 1,092 | 118 | 4,143 | N/A | 1.19 | 0.32 | 3.25 |
| | Indicated | 411 | 228 | 3,009 | N/A | 1.32 | 0.48 | 2.80 |
| La Colorada | Measured | 298 | 306 | 2,993 | 0.24 | 0.48 | N/A | 0.62 |
| | Indicated | 418 | 440 | 5,910 | 0.24 | 1.50 | N/A | 1.92 |
| Quiruvilca | Measured | 3,581 | 140 | 16,117 | 0.62 | 0.99 | 1.08 | 2.65 |
| | Indicated | 663 | 186 | 3,965 | 0.62 | 1.59 | 0.84 | 4.45 |
| Alamo Dorado | Measured | 263 | 84 | 710 | 0.31 | N/A | N/A | N/A |
| | Indicated | 3,610 | 71 | 8,241 | 0.23 | N/A | N/A | N/A |
| Manantial Espejo(4) | Measured | 1,224 | 108 | 4,248 | 1.22 | N/A | N/A | N/A |
| | Indicated | 1,670 | 118 | 6,332 | 1.22 | N/A | N/A | N/A |
| San Vicente (50%)(3) | Measured | 227 | 101 | 738 | N/A | N/A | N/A | 1.80 |
| | Indicated | 239 | 305 | 2,347 | N/A | N/A | N/A | 3.77 |
| Hog Heaven | Measured + Indicated | 2,741 | 170 | 15,015 | 0.69 | N/A | N/A | N/A |
| Waterloo | Measured + Indicated | 33,758 | 93 | 100,937 | N/A | N/A | N/A | N/A |
| TOTALS | Measured + Indicated | 52,989 | 112 | 190,575 | | | | |

Inferred Resources(1)(2)

| Property | Classification | Tonnes (000s) | Ag (g/mt) | Au (g/mt) | Pb (%) | Cu (%) | Zn (%) |
|----------------------|-----------------|------------------|--------------|--------------|--------|--------|--------|
| Huaron | Inferred | 2,992 | 198 | N/A | 1.85 | 0.22 | 3.28 |
| Morococha (87%)(3) | Inferred | 9,213 | 247 | N/A | 1.87 | 0.44 | 4.12 |
| La Colorada | Inferred | 1,132 | 452 | 0.31 | 1.52 | N/A | 1.39 |
| Quiruvilca | Inferred | 2,489 | 182 | 0.36 | 1.70 | 0.54 | 4.30 |
| Alamo Dorado | Inferred | 518 | 79 | 0.30 | N/A | N/A | N/A |
| Silver Stockpiles | Inferred | 21,337 | 162 | N/A | N/A | N/A | N/A |
| Manantial Espejo(4) | Inferred | 1,042 | 133 | 1.20 | N/A | N/A | N/A |
| San Vicente (55%)(3) | Inferred | 237 | 241 | N/A | N/A | N/A | 3.22 |
| Hog Heaven | Inferred | 7,439 | 141 | N/A | N/A | N/A | N/A |
| TOTALS | Inferred | 46,399 | 185 | | | | |

Notes:

- (1) Mineral reserve and resource estimates for Huaron, Quiruvilca, La Colorada and Morococha were prepared under the supervision of, or were reviewed by, Michael Steinmann, P. Geo., Vice President Geology Operations of the Company, and Martin G. Wafforn, P. Eng., Director of Mine Engineering of the Company, as "Qualified Persons" as that term is defined in NI 43-101. Mineral reserve estimates for the Silver Stockpiles were prepared in previous years by other "Qualified Persons" and are adjusted for 2005 production. Mineral resource estimates for Hog Heaven and Waterloo are based on historical third party estimates which pre-date NI 43-101 and were not prepared by a "Qualified Person".
- (2) Metal prices used for the foregoing mineral resource and reserve estimates for Huaron, Quiruvilca, La Colorada and Morococha properties were: silver: \$6.25 per ounce; gold: \$425 per ounce; lead: \$800 per tonne; copper: \$3,000 per tonne; and zinc: \$1,150 per tonne.
- (3) Mineral reserve and resource estimates reflect our proportionate interest in these properties.
- (4) Reflects a 100% interest in Manantial Espejo, assuming the closing of our acquisition of the remaining 50% interest in Manantial Espejo that we do not currently own, which is scheduled to close on April 10, 2006. See "Recent Developments Purchase of Remaining 50% Interest in Manantial Espejo."

Recent Developments

Purchase of Remaining 50% Interest in Manantial Espejo

We entered into an agreement with Silver Standard Resources Inc., dated March 21, 2006, to acquire the remaining 50% interest in the Manantial Espejo silver project in Argentina that we do not already own in consideration for the issuance of 1.95 million common shares of the Company. All common shares issued in this transaction will be subject to a four month hold period in accordance with Canadian securities law requirements. Closing of the transaction is subject to regulatory approval and is scheduled to be on April 10, 2006.

Decision to Proceed with Development of Manantial Espejo

On March 23, 2006, we received clearance from the Province of Santa Cruz, Argentina for our Environmental Impact Assessment on the Manantial Espejo silver project and, as a result, we plan to proceed with the development and construction of mining facilities at the project. We have also signed an agreement with the Federal Government of Argentina and the Province of Santa Cruz to supply grid electrical power to the town of Gobernador Gregores with a sub-connection to the Manantial Espejo project.

We have obtained a technical report on the Manantial Espejo project authored by Dr. Michael Steinmann, P. Geo., Senior Vice-President Geology and Exploration for the Company, dated March 16, 2006. Dr. Steinmann is a qualified person for purposes of NI 43-101. A copy of the technical report is available for viewing on SEDAR, which can be accessed at www.sedar.com. The following discussion of the Manantial Espejo project is derived from this technical report.

The four zones of mineralization on the Manantial Espejo property will be developed using both open pit and underground mining methods. Silver and gold recovery will be by conventional milling and leaching at a rate of approximately 2,000 tonnes per day. The feasibility study estimates that the recovery rates for silver and gold will be 93% and 94%, respectively.

It is estimated that the Manantial Espejo project will produce on average approximately 4.3 million ounces of silver and 62,000 ounces of gold annually over a mine life of 8.5 years. Capital costs for the project are expected to be \$112.3 million, including working capital and normal construction contingencies, plus \$18.1 million in Argentine value added tax, which will be refundable once the mine is in production.

Utilizing the metal price assumptions used in the technical report and upon which we made our production decision, of \$6.25 per ounce for silver and \$425 per ounce for gold, the mine will generate an undiscounted after tax net present value of approximately \$40.5 million, an internal rate of return of approximately 7% and a capital payback of approximately 4.7 years. Average life of mine cash costs will be \$0.02 per ounce, net of gold byproduct credits. Based on metal prices as at March 22, 2006, of \$10.53 per ounce for silver and \$550.75 per ounce of gold, the undiscounted net present value of the project would be approximately \$169 million, the internal rate of return would be approximately 25% and the capital payback period would be approximately 2.3 years.

Basic engineering for the Manantial Espejo project has been initiated and construction is expected to take 18-20 months.

Mark-to-Market Valuation of Our Open Forward Contracts

From time to time, we mitigate the metal price and currency rate risk associated with our base metal production and foreign currency requirements by entering into forward sales or purchase contracts to minimize the effect of declines in metal prices or strengthening of foreign currencies relative to the U.S. dollar. In 2004, we implemented a hedge accounting policy for the accounting treatment of our base-metal forward contracts program. In February 2006, it was concluded that our accounting for our forward contracts for the sale of base metals (lead and zinc) and our forward contracts for purchasing Mexican pesos with U.S. dollars did not qualify for hedge accounting under AcG-13, Hedging

Relationships. As a result, we restated our unaudited consolidated financial statements for each quarter from March 31, 2004 to September 30, 2005 and its audited consolidated financial statements for the year ended December 31, 2004.

As a consequence of the recent change in accounting treatment for our open forward contracts, we recognize mark-to-market valuations through income at the end of each financial period, which may have a significant impact on our financial results, irrespective of the actual market price of the metal or exchange rate at settlement of the contracts.

As of December 31, 2005, our zinc forward sales position was 13,400 tonnes of zinc at a weighted average price of \$1,551 per tonne and had a negative mark-to-market value of \$4.3 million, based on cash offered price of \$1,907 per tonne. As of March 31, 2006, our zinc forward sales position had reduced to 10,500 tonnes at a weighted average of \$1,759 per tonne, while the cash offered price of zinc had increased to \$2,686 per tonne.

As of December 31, 2005, our Mexican peso ("MXN") forward purchases position was MXN 203 million at an average MXN/USD exchange rate of 11.26 and had a positive mark-to-market value of \$0.9 million, based on a spot exchange rate of 10.65. As of March 31, 2006, our MXN position had reduced to MXN 102 million at a weighted average exchange rate of 11.27 and the spot exchange rate had increased to 10.8973.

Our concentrate sales contracts include provisions for pricing the contained silver, based on average spot prices over defined 30-day periods that may differ from the month in which the concentrate was produced. Under these circumstances, we immediately fix the spot price for the silver contained in the concentrates produced. At March 31, 2006, we had fixed the price of one million ounces of our first quarter's silver production contained in concentrates. The price fixed for these ounces, which will be settled in April and May of 2006 averaged \$9.98 per ounce, while the spot price of silver was \$11.75 per ounce on March 31, 2006.

The Offering

Common Shares Offered: 5,750,000 Shares

Over-Allotment Option: Shares (% of the shares issued under the offering)

Common Shares Outstanding after the Offering: (1)

Use of Proceeds: The net proceeds of the offering will be used as follows (i) \$130 million to fund development and construction of mining facilities at our Manantial Espejo project in Argentina; and (ii) the remainder for working capital and general corporate purposes.

NASDAQ Listing Symbol: PAAS

TSX Listing Symbol: PAA

Risk Factors: Prospective purchasers of Shares should consider carefully the information set forth under "Risk Factors" and all other information included or incorporated by reference in this prospectus supplement before making an investment in the Shares.

Note:

(1) This figure does not include 1,950,000 common shares to be issued as consideration for the acquisition of the remaining 50% interest in the Manantial Espejo project that we do not already own, 1,050,641 common shares reserved for issuance pursuant to outstanding stock options, which are exercisable at a weighted average price of \$10.88 per share, 3,808,497 common shares reserved for issuance pursuant to outstanding warrants, which are exercisable at a price of \$10.25 per share, and 255,781 common shares reserved for issuance pursuant to outstanding warrants, which are exercisable at an exercise price of \$16.91 per share, as at February 28, 2006.

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Summary Consolidated Financial and Production Information

The following sets forth summary consolidated financial information derived from our audited consolidated financial statements as of and for the fiscal years ended December 31, 2003, 2004, and 2005, which are incorporated by reference into and form part of this prospectus supplement, as well as production information. Historical results do not necessarily indicate results expected for any future period. The data below is qualified in its entirety by the detailed information included or incorporated by reference into this prospectus supplement and should be read in conjunction with Management's Discussion and Analysis and the consolidated financial statements and the accompanying notes incorporated by reference into this prospectus supplement.

| | 2005 | 2004 | 2003 |
|---|---|------------|------------|
| | (in thousands, except per share and production amounts) (audited) | | |
| Income Statement Data: | | | |
| Sales | \$122,401 | \$94,825 | \$45,122 |
| Cost of sales | 87,648 | 69,162 | 39,778 |
| Depreciation and depletion | 13,095 | 10,869 | 3,325 |
| Mine operating earnings | 21,658 | 14,794 | 2,019 |
| General and administrative | (6,936) | (6,241) | (5,625) |
| Exploration | (3,697) | (3,838) | (2,543) |
| Asset retirement and reclamation | (2,329) | (1,315) | (303) |
| Write-down of mining assets | (29,666) | (2,460) | |
| Interest (income) expense net | 2,155 | 76 | (660) |
| Loss on commodity and foreign currency contracts | (8,196) | (6,617) | |
| Gain on sale of assets | 2,556 | 23,747 | 318 |
| Net income (loss) before taxes and non-controlling interest | (24,455) | 18,146 | (6,794) |
| Non-controlling interest | (854) | (179) | |
| Income taxes | (3,285) | (2,753) | |
| Net income (loss) for the period | \$(28,594) | \$15,214 | \$(6,794) |
| Earnings (loss) per share | | | |
| Basic and Diluted | \$(0.43) | \$0.06 | \$(0.20) |
| Weighted average number of shares outstanding | | | |
| Basic | 67,042 | 63,169 | 51,058 |
| Fully diluted | 67,042 | 65,268 | 51,058 |
| Balance Sheet Data (at period end): | | | |
| Cash and short-term investments | \$55,322 | \$98,136 | \$89,129 |
| Total Assets | \$362,280 | \$370,086 | \$279,883 |
| Long-term liabilities | \$77,592 | \$68,279 | \$73,137 |
| Shareholders' equity | \$257,322 | \$275,516 | \$184,098 |
| Cash Flow Data: | | | |
| Cash generated by (used in) operations | \$10,763 | \$3,133 | \$(4,518) |
| Mining property, plant and equipment expenditures | \$(59,638) | \$(17,043) | \$(18,327) |
| | 2005 | 2004 | 2003 |
| | (unaudited) | | |
| Production Data: | | | |
| Silver ounces | 12,529,417 | 11,182,030 | 8,641,914 |
| Zinc tonnes | 37,421 | 34,086 | 31,797 |

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| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|----------------------|-------------|-------------|-------------|
| Lead tonnes | 15,410 | 16,694 | 18,990 |
| Copper tonnes | 3,931 | 3,426 | 3,143 |
| Cost Data: | | | |
| Cash cost per ounce | \$4.38 | \$4.17 | \$4.21 |
| Total cost per ounce | \$5.72 | \$5.30 | \$4.73 |

S-11

RISK FACTORS

Prospective investors should carefully consider the following risks, as well as the other information contained in this prospectus supplement and the documents incorporated by reference herein before investing in the Shares. If any of the following risks actually occurs, our business could be harmed. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those of which we are currently unaware or that we deem immaterial, may also adversely affect our business.

Risks Related to our Business