PAN AMERICAN SILVER DEC QTR 08: A TOUGH FINISH TO THE YEAR

	Dec Qtr	Sept Qtr	Change
Production (000' oz)	4,604	4,858	-5%
Average Head Grade (g/t)	168.00	167.22	0%
Average Price (US$/oz)	**10.21**	**15.07**	**-32%**
Total Cash Cost (US$/oz) (net of credits)	8.24	6.61	25%
Gross Margin (US$/oz)	**1.97**	**8.46**	-77%
Gross Margin (%) per oz	24%	128%	-81%
Ongoing Capital Exp. (US$/oz)	2.76	1.73	60%
Total Cost (US$/oz)	**11.00**	**8.34**	32%
Net Cash Margin (US$/oz)	**- 0.79**	**6.73**	-112%
Investment Activities			
Exploration/Evaluation (US$/oz)	0.49	0.31	
Capital Expenditure (Construction) (US$/oz)	10.4	10.6	
Total Investment (US$/oz)	**10.9**	**10.9**	
Cash Surplus (Deficit) (US$/oz)	**- 11.69**	**- 4.16**	
Cash Balance (US$m)	30.1	90.9	-67%
Interest Bearing Loans (US$m)	-	-	0%
Hedging Liability (US$m)	- 3.4	1.4	349%
Shares Outstanding (m)	80.8	80.8	0%
Share Price (US$) (End of Qtr)	21.01	23.16	-9%

Pan American Silver (NASDAQ: PAAS; TSX: PAA) appear to have had a very disappointing quarter with production dropping marginally, the average silver price received falling 32% and cash costs rising 25% to US$8.24/oz. The rise in cash costs is largely attributable to the fall in base metal prices which saw by-product credits decline substantially. This resulted in an overall decline in gross margin of 77% for the quarter. Ongoing capital expenditure also increased 60% to US$2.76/oz, largely attributable to increased expenditure at the Huaron and Morococha mines in Peru. Overall, the Net Cash Margin has dropped to negative US$0.79/oz versus a positive margin of US$6.73/oz in the September quarter 08.

Total investment for the quarter was made up largely of construction costs associated with the Manantial Espejo project in Argentina and the San Vicente project in Bolivia. Manantial was completed during the quarter and is projected to produce 4.3 Moz of silver and over 63,000 oz of gold in 2009 at a cash cost of US$2.25/oz of silver (net of by-products). The San Vicente project was estimated to be 92% complete and Pan American is expected to produce 1.9 Moz of silver at a cash cost of US$6.98/oz in 2009 (net of by-products). The poor December quarter saw a massive drain on Pan American's working capital with cash declining a significant US$60m. While the company's balance sheet remains strong with no debt, Pan American has recently raised US$103.5m at US$16.25 a share which it intends to use for acquisition purposes as well as ongoing development and working capital requirements. The loss on commodity and currency contracts in the December quarter also saw the company's net hedge liability increase to $3.4m. The loss was primarily attributed to currency positions offset in part by the gains on open zinc and lead positions.

With the near completion of Pan American's development assets, the company is forecasting increased silver production for 2009 of 21.5 Moz of silver at an overall cash cost of US$6.28/oz. This compares favorably with the 18.7 Moz of silver produced in 2008, all be it at a marginally higher cash cost (2008: US$5.96/oz).

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