Pan American
SILVER CORP.

BUILDING
ON EXPERIENCE

ANNUAL REPORT 2015

2015 Highlights

Pan American Silver is the second-largest primary silver producer in the world and our vision is to be the world's pre-eminent silver producer, with a reputation for excellence in discovery, engineering, innovation and sustainable development.

Pan American was founded in 1994 with the aim to provide investors with a vehicle to gain exposure to rising silver prices. In 2015, we broke records for consolidated annual silver, gold, and copper production, while at the same time reducing our cash costs per payable ounce of silver, net of by-product credits ("cash costs")[(1)] by 15%, and our all-in sustaining costs per silver ounce sold ("AISCSOS")[(2)] by 17% as compared to 2014.

During the year, we started work on the expansion of our Dolores mine, which will include the construction of a pulp agglomeration plant and an underground mine. We also continued to advance the expansion of our La Colorada mine. Over the next two years, we expect to complete these organic growth projects and then see the benefits to our Company's production and costs profile.

Our balance sheet provides us with the financial strength to organically finance our growth projects. At December 31, 2015 we had over $226 million in cash and short term investments and $392 million in working capital[(4)]. These financial resources provide us with the necessary funds to complete the expansions of La Colorada and Dolores, two of the cornerstones of our high quality asset base.

In 2016, we expect to produce between 24.0 and 25.0 million ounces of silver and between 175,000 to 185,000 ounces of gold, at cash costs of between $9.45 and $10.45 per ounce of silver, net of by-product credits. Our AISCSOS for 2016 are expected to be between $13.60 and $14.90.

In 2018, by which time the La Colorada and Dolores expansions will have been completed, we expect to produce between 25.0 and 27.0 million ounces of silver and between 160,000 and 180,000 ounces of gold at cash costs of between $5.50 and $7.50 per ounce of silver, net of by-product credits and AISCSOS of between $10.00 and $12.20.

26.12
million silver ounces produced

183.7
thousand gold ounces produced

Reduced our cash costs by
15%
to $9.70 per ounce of silver

Reduced our AISCSOS by
17%
down to $14.92

Environmental stewardship is everyone's responsibility. In an effort to reduce waste and carbon footprint, we encourage readers to download a digital copy of this report or to read it online at: www.panamericansilver.com/annualreport2015

All amounts in this report are expressed in US$, unless otherwise stated.

PRODUCTION	2015	2014
Silver (million ounces)	**26.12**	26.11
Gold (thousand ounces)	**183.7**	161.5
Zinc (thousand tonnes)	**40.6**	43.5
Lead (thousand tonnes)	**14.6**	15.0
Copper (thousand tonnes)	**15.0**	9.0
Cash costs(1) per silver ounce, net of by-product credits	**$9.70**	$11.46
AISCSOS(2) net of by-product credits ($ per ounce)	**$14.92**	$17.88
Average silver price ($ per ounce, London fix)	**$15.68**	$19.08

FINANCIAL (all amounts in million $)		
Revenue	**$674.7**	$751.9
Net loss	**$(231.6)**	$(544.8)
Adjusted loss(3)	**$(58.0)**	$(20.8)
Net cash generated from operating activities	**$88.7**	$124.2
Dividends paid	**$41.7**	$75.8
Cash and short-term investments at December 31	**$226.6**	$330.4
Working capital(4) at December 31	**$392.2**	$522.7

STAKEHOLDERS		
Common shares outstanding at December 31 (million)	**151.9**	151.6
Employees and contractors at December 31	**6,494**	6,983

(1) Cash costs per payable ounce of silver, net of by-product credits ("cash costs") is not a generally accepted accounting principle (a "non-GAAP") measure. Cash costs does not have a standardized meaning prescribed by the International Financial Reporting Standards ("IFRS") as an indicator of performance. The Company's method of calculating cash costs may differ from the methods used by other entities and, accordingly, the Company's cash costs may not be comparable to similarly titled measures used by other entities. Investors are cautioned that cash costs per payable ounce of silver should not be construed as an alternative to production costs, depreciation and amortization, and royalties determined in accordance with IFRS as an indicator of performance. Readers should refer to the "Alternative Performance (non-GAAP) Measures" section on page 37 of this annual report for a more detailed discussion of this measure and its calculation.

(2) AISCSOS is a non-GAAP measure. The Company has adopted AISCSOS as a measure of its consolidated operating performance and its ability to generate cash from all operations collectively, and the Company believes it is a more comprehensive measure of the cost of operating our consolidated business than traditional cash costs per payable ounce as it includes the cost of replacing ounces through exploration, the cost of ongoing capital investments (sustaining capital), general and administrative expenses, as well as other items that affect the Company's consolidated earnings and cash flow. AISCSOS does not have a standardized meaning prescribed by GAAP, and readers should refer to the "Alternative Performance (non-GAAP) Measures" section on page 37 of this annual report for a more detailed discussion of this measure and its calculation.

(3) Adjusted (loss) is a non-GAAP measure that the Company considers to better reflect normalized earnings as it eliminates items that may be volatile from period to period relating to positions which will settle in future periods, and items that are non-recurring. Readers should refer to the "Alternative Performance (non-GAAP) Measures" on page 37 of this annual report for a more detailed discussion of this measure and its calculation.

(4) Working capital is a non-GAAP measure calculated as current assets less current liabilities. The Company and certain investors use this information to evaluate whether the Company is able to meet its current obligations using its current assets.

Chairman's Message

Record production of silver amidst very tough markets. That was the tale of 2015 for Pan American Silver. On one hand, our mines produced 26.12 million ounces of silver and 183,700 ounces of gold during 2015 – the highest levels for both metals in our 21 year history since we began as a silver company in 1994. Production records were set at five of the Company's seven operations. On the other hand, silver and gold prices dropped profoundly, hitting $13.67 per ounce of silver and $1,051 per ounce of gold in December – the lowest prices since 2009.

In the face of such low metal prices, Pan American's financial results were disappointing and our share price hit its lowest level in nearly thirteen years. We were obviously not alone in this bear market, and in fact outperformed most of our peers due, in part, to our industry-leading balance sheet strength. But we had to make difficult adjustments during the year, including laying off many good employees, cutting other costs across the board and reducing our dividend. While these measures will make us better able to realize strong results when precious metals prices improve, they are always painful to implement.

The most significant thing we did in 2015, in my view, was to put in place the building blocks that will allow Pan American to further reduce its cost structure and thrive over the long term. The main stories here are the expansions we are undertaking at our La Colorada and Dolores mines in Mexico. Even though our Alamo Dorado mine will cease production during 2016 as its reserves are mined out, the production loss there will be more than made up as La Colorada and Dolores increase their production levels, but at much lower operating costs. In 2018, after these expansions are complete at the end of 2017, our all-in sustaining cost per ounce of silver sold will decline from $14.92 in 2015 (itself a 15% reduction from 2014) to between $10.00 and $12.20, while our total production of silver is estimated to return to the record levels that we achieved in 2015. This will make Pan American a powerful earnings generator in the near future, even at current depressed silver and gold prices. And we expect to fund all these capital expenditures from our existing cash reserves and operating earnings without the need for new debt.

While we drive down our costs of production at our existing mines, our big growth story remains our giant 100% owned Navidad silver deposit in Argentina. I was gratified to see a change in Argentina's federal government at year-end 2015. The election of President Macri and his pro-investment policies give us new hope that Navidad will be approved for development in the foreseeable future. This deposit should boost Pan American's silver production profoundly, while providing enormous benefits to the local communities and provincial and federal governments in Argentina. I look forward to reporting on positive developments at Navidad during the year.

We cannot control the silver price, but we can control how we mine and how we interact with all of the stakeholders who help us at our operations and who, in turn, benefit from our success. Besides our solid operating base, strong balance sheet, deep growth pipeline and declining cost curve over the next few years, Pan American's strongest asset is its people – our operating, exploration, financial and administrative teams that work day in and day out at our operating locations to maintain our reputation for excellence. This reputation has been hard earned over many years, and I am so thankful to all of our employees and support personnel for their steadfast and continuing attention to quality, safety, environmental protection and operational integrity. It is our focus on those things that keeps us so well respected in the silver mining industry. Safety and environmental compliance remain the primary focus at all of our operations; and our community engagement meaningfully contributes to improving the lives of thousands who live around our operations. To learn more about our safety, environmental and community records, please have a look at our annual Sustainability Report, a copy of which can be seen at our website www.panamericansilver.com.

After the weakness in 2015 I am optimistic that we will continue to see improved markets during the coming year, synchronous with our efforts to drive down our operating costs. None of this is possible without the steadfast efforts of our employees. I thank each of them on behalf of all our shareholders. I want to single out one especially – Geoff Burns, our CEO for the last eleven years who retired in December. Geoff was a really exceptional leader who gained the respect and admiration of all our senior team. He will be greatly missed but he is being succeeded by Michael Steinmann, who I have had the great pleasure of watching for more than ten years as he progressed from our exploration department into other areas of the business. Michael will be a terrific CEO and I look forward to watching him pilot the Company in the years ahead.

Respectfully submitted,

Ross Beaty, *Chairman*

OPEN PIT AT THE DOLORES MINE | *CHIHUAHUA, MEXICO*

President's Message

I am honoured to be the third President and CEO in the 21-year history of Pan American Silver and would like to take this opportunity to thank our Board of Directors, our employees and our investors for their vote of confidence.

I am proud to have been a part of Pan American Silver since 2004 and I am firmly committed to leading our Company on a continued path of operational excellence and financial success for the benefit of all our stakeholders. And, I begin my tenure at the helm of our Company with two significant cost reduction projects in progress: the expansions of our La Colorada and Dolores mines.

As I started taking on more and greater responsibilities throughout 2015, I was reminded of the incredible challenges that our industry has faced in recent years and continues to face today. Precious metals prices started declining some five years ago and although they seem to have stabilized recently, they are still far from the highs of 2011. In this environment, we have worked tirelessly, harnessing our Company's collective knowledge to successfully re-engineer our business and maintain positive margins at all of our operations.

2015 was one of the strongest production years in our history. We maximized the performance of our operating mines to produce a record 26.12 million ounces of silver and 183,700 ounces of gold. In the process, we also set 37 new operational records, including record annual silver production at La Colorada, Dolores and San Vicente, record annual gold production at Dolores and Alamo Dorado, and record annual consolidated copper production of 15,000 tonnes, to name just a few.

However, I believe one of our most notable achievements in 2015 was the significant reduction of our consolidated cash costs and all-in sustaining costs. We cut our annual cash costs by 15% from 2014 to $9.70 per ounce of silver and our all-in sustaining costs by 17% to $14.92 per ounce of silver sold, net of by-product credits. Since 2013, we have diligently reduced our costs through a combination of disciplined cost-cutting initiatives across the entire Company and multi-year mine mechanization programs at our Peruvian operations.

We curtailed all discretionary spending, rationalized exploration costs and optimized our spending on sustaining capital. This was all part of our long-term strategy to transform our current assets into a portfolio of robust mines and development projects even during the most difficult periods of the bear cycle for precious metals.

Also key for our long-term strategy is the expansion of two of our best assets, La Colorada and Dolores, where we continued to make great progress. At La Colorada, in 2015, we advanced 50% of the construction of the new 617 metre-deep shaft and we expect to commission this key component of the expansion by the end of 2016. We also completed 70% of the new sulphide plant construction, which should also be completed and commissioned by year end 2016. Together with the development of new mining zones and the addition of a new power line, these projects will make La Colorada our largest and lowest-cost silver producer by 2018, when we expect to produce approximately 7.7 million ounces of silver per year at a significantly lower cash cost.

At Dolores, last year we started construction of the new underground decline and significantly advanced the engineering and procurement work necessary for the new pulp agglomeration plant. The underground ramp advanced 866 metres by the end of 2015. This year, we expect to intersect the main ore zone in the underground mine, start construction of the pulp agglomeration plant and to complete the new power line, which will connect the mine to the national power grid and help reduce energy costs further. When completed, we estimate that the Dolores expansion will increase its annual silver production to 6.3 million ounces and gold to approximately 200,000 ounces, while reducing cash costs through operational efficiencies and higher by-product gold production.

Expanding our two best mines in today's environment makes perfect sense. The additional production will not only offset the closure of our Alamo Dorado mine, which will reach the end of its life in 2016, but it will also transform our cost profile to make us a profitable silver miner at even lower silver prices. Most importantly, these two crucial projects are entirely financed from our industry leading balance sheet.

In February our Board of Directors decided to cut our quarterly dividend to $0.0125 per share to direct our financial resources towards the completion of our organic expansion projects, and also to secure our longer-term sustainability by retaining financial flexibility to look even further into the future. Our option to acquire an interest in Kootenay Silver's prospective Promontorio silver belt in Mexico is a good example. These are the kind of deals that built Pan American, from our first mine in Peru back in 1995 to today, into the second-largest primary silver producer in the world. We have an experienced and well-respected management team and we are focused on continuing to build on our success.

I would be remiss if I did not acknowledge that last year's accomplishments would not have been possible if it weren't for each of our employees and contractors, who contribute their best efforts to our Company. We count on their continued support to complete our projects and to successfully execute on our long-term strategy. Because of them, Pan American is a recognized leader in the mining industry and one of the best vehicles to gain exposure to silver, throughout all parts of the metals cycles.

On behalf of Pan American's executive management, Thank You!

Sincerely,

Michael Steinmann, *President & Chief Executive Officer*

MINERS UNDERGROUND AT THE LA COLORADA MINE | *ZACATECAS, MEXICO*

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

CERTAIN OF THE STATEMENTS AND INFORMATION IN THIS ANNUAL REPORT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND "FORWARD-LOOKING INFORMATION" WITHIN THE MEANING OF APPLICABLE CANADIAN PROVINCIAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS OR INFORMATION. FORWARD-LOOKING STATEMENTS OR INFORMATION IN THIS ANNUAL REPORT RELATE TO, AMONG OTHER THINGS: OUR ESTIMATED PRODUCTION OF SILVER, GOLD AND OTHER METALS IN 2016 AND FUTURE YEARS; OUR ESTIMATED CASH COSTS PER PAYABLE OUNCE OF SILVER AND AISCSOS IN 2016 AND FUTURE YEARS; THE ABILITY OF THE COMPANY TO SUCCESSFULLY COMPLETE ANY CAPITAL INVESTMENT PROGRAMS AND PROJECTS AND THE IMPACTS OF ANY SUCH PROGRAMS AND PROJECTS ON THE COMPANY; AND ANY ANTICIPATED LEVEL OF FINANCIAL AND OPERATIONAL SUCCESS IN 2016 AND FUTURE YEARS.

THESE STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE NECESSARILY BASED UPON A NUMBER OF ASSUMPTIONS THAT, WHILE CONSIDERED REASONABLE BY THE COMPANY, ARE INHERENTLY SUBJECT TO SIGNIFICANT OPERATIONAL, BUSINESS, ECONOMIC AND REGULATORY UNCERTAINTIES AND CONTINGENCIES. THESE ASSUMPTIONS INCLUDE: TONNAGE OF ORE TO BE MINED AND PROCESSED; ORE GRADES AND RECOVERIES; PRICES FOR SILVER, GOLD AND BASE METALS REMAINING AS ESTIMATED; CURRENCY EXCHANGE RATES REMAINING AS ESTIMATED; CAPITAL, DECOMMISSIONING AND RECLAMATION ESTIMATES; OUR MINERAL RESERVE AND RESOURCE ESTIMATES AND THE ASSUMPTIONS UPON WHICH THEY ARE BASED; PRICES FOR ENERGY INPUTS, LABOUR, MATERIALS, SUPPLIES AND SERVICES (INCLUDING TRANSPORTATION); NO LABOUR-RELATED DISRUPTIONS AT ANY OF OUR OPERATIONS: NO UNPLANNED DELAYS IN OR INTERRUPTIONS IN SCHEDULED PRODUCTION; ALL NECESSARY PERMITS, LICENCES AND REGULATORY APPROVALS FOR OUR OPERATIONS ARE RECEIVED IN A TIMELY MANNER; AND OUR ABILITY TO COMPLY WITH ENVIRONMENTAL, HEALTH AND SAFETY LAWS. THE FOREGOING LIST OF ASSUMPTIONS IS NOT EXHAUSTIVE.

THE COMPANY CAUTIONS THE READER THAT FORWARD-LOOKING STATEMENTS AND INFORMATION INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS AND DEVELOPMENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS OR INFORMATION CONTAINED IN THIS ANNUAL REPORT AND THE COMPANY HAS MADE ASSUMPTIONS AND ESTIMATES BASED ON OR RELATED TO MANY OF THESE FACTORS. SUCH FACTORS INCLUDE, WITHOUT LIMITATION: FLUCTUATIONS IN SILVER, GOLD AND BASE METALS PRICES; FLUCTUATIONS IN PRICES FOR ENERGY INPUTS, LABOUR, MATERIALS, SUPPLIES AND SERVICES (INCLUDING TRANSPORTATION); FLUCTUATIONS IN CURRENCY MARKETS (SUCH AS THE CANADIAN DOLLAR, PERUVIAN SOL, MEXICAN PESO AND BOLIVIAN BOLIVIANO VERSUS THE U.S. DOLLAR); OPERATIONAL RISKS AND HAZARDS INHERENT WITH THE BUSINESS OF MINING (INCLUDING ENVIRONMENTAL ACCIDENTS AND HAZARDS, INDUSTRIAL ACCIDENTS, EQUIPMENT BREAKDOWN, UNUSUAL OR UNEXPECTED GEOLOGICAL OR STRUCTURAL FORMATIONS, CAVE-INS, FLOODING AND SEVERE WEATHER); RISKS RELATING TO THE CREDIT WORTHINESS OR FINANCIAL CONDITION OF SUPPLIERS, REFINERS AND OTHER PARTIES WITH WHOM THE COMPANY DOES BUSINESS; INADEQUATE INSURANCE, OR INABILITY TO OBTAIN INSURANCE, TO COVER THESE RISKS AND HAZARDS; EMPLOYEE RELATIONS; RELATIONSHIPS WITH, AND CLAIMS BY, LOCAL COMMUNITIES AND INDIGENOUS POPULATIONS; OUR ABILITY TO OBTAIN ALL NECESSARY PERMITS, LICENSES AND REGULATORY APPROVALS IN A TIMELY MANNER; CHANGES IN LAWS, REGULATIONS AND GOVERNMENT PRACTICES IN THE JURISDICTIONS WHERE WE OPERATE, INCLUDING ENVIRONMENTAL, EXPORT AND IMPORT LAWS AND REGULATIONS; DIMINISHING QUANTITIES OR GRADES OF MINERAL RESERVES AS PROPERTIES ARE MINED; INCREASED COMPETITION IN THE MINING INDUSTRY FOR EQUIPMENT AND QUALIFIED PERSONNEL; AND THOSE FACTORS IDENTIFIED UNDER THE CAPTION "RISKS RELATED TO PAN AMERICAN'S BUSINESS" IN THE COMPANY'S MOST RECENT ANNUAL REPORT ON FORM 40-F AND ANNUAL INFORMATION FORM FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") AND CANADIAN SECURITIES REGULATORY AUTHORITIES. ALTHOUGH THE COMPANY HAS ATTEMPTED TO IDENTIFY IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, THERE MAY BE OTHER FACTORS THAT CAUSE RESULTS NOT TO BE AS ANTICIPATED, ESTIMATED, DESCRIBED OR INTENDED. INVESTORS ARE CAUTIONED AGAINST UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS AND INFORMATION. FORWARD-LOOKING STATEMENTS AND INFORMATION ARE DESIGNED TO HELP READERS UNDERSTAND MANAGEMENT'S CURRENT VIEWS OF OUR NEAR AND LONGER TERM PROSPECTS AND MAY NOT BE APPROPRIATE FOR OTHER PURPOSES. THE COMPANY DOES NOT INTEND, NOR DOES IT ASSUME ANY OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS AND INFORMATION, WHETHER AS A RESULT OF NEW INFORMATION, CHANGES IN ASSUMPTIONS, FUTURE EVENTS OR OTHERWISE, EXCEPT TO THE EXTENT REQUIRED BY APPLICABLE LAW.

CAUTIONARY NOTE TO U.S. INVESTORS CONCERNING ESTIMATES OF MINERAL RESERVES AND RESOURCES

THIS ANNUAL REPORT HAS BEEN PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF CANADIAN PROVINCIAL SECURITIES LAWS, WHICH DIFFER FROM THE REQUIREMENTS OF U.S. SECURITIES LAWS. UNLESS OTHERWISE INDICATED, ALL MINERAL RESERVE AND RESOURCE ESTIMATES INCLUDED IN THIS MD&A HAVE BEEN PREPARED IN ACCORDANCE WITH CANADIAN NATIONAL INSTRUMENT 43-101 – STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS (''NI 43-101'') AND THE CANADIAN INSTITUTE OF MINING, METALLURGY AND PETROLEUM CLASSIFICATION SYSTEM. NI 43-101 IS A RULE DEVELOPED BY THE CANADIAN SECURITIES ADMINISTRATORS THAT ESTABLISHES STANDARDS FOR ALL PUBLIC DISCLOSURE AN ISSUER MAKES OF SCIENTIFIC AND TECHNICAL INFORMATION CONCERNING MINERAL PROJECTS.

CANADIAN STANDARDS, INCLUDING NI 43-101, DIFFER SIGNIFICANTLY FROM THE REQUIREMENTS OF THE SEC, AND INFORMATION CONCERNING MINERALIZATION, DEPOSITS, MINERAL RESERVE AND RESOURCE INFORMATION CONTAINED OR REFERRED TO HEREIN MAY NOT BE COMPARABLE TO SIMILAR INFORMATION DISCLOSED BY U.S. COMPANIES. IN PARTICULAR, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THIS ANNUAL REPORT USES THE TERMS ''MEASURED RESOURCES'', ''INDICATED RESOURCES'' AND ''INFERRED RESOURCES''. U.S. INVESTORS ARE ADVISED THAT, WHILE SUCH TERMS ARE RECOGNIZED AND REQUIRED BY CANADIAN SECURITIES LAWS, THE SEC DOES NOT RECOGNIZE THEM. UNDER U.S. 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. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OF A "MEASURED RESOURCE" OR "INDICATED RESOURCE" WILL EVER BE CONVERTED INTO A "RESERVE". U.S. INVESTORS SHOULD ALSO UNDERSTAND THAT "INFERRED RESOURCES" HAVE A GREAT AMOUNT OF UNCERTAINTY AS TO THEIR EXISTENCE AND GREAT UNCERTAINTY AS TO THEIR ECONOMIC AND LEGAL FEASIBILITY. IT CANNOT BE ASSUMED THAT ALL OR ANY PART OF "INFERRED RESOURCES" EXIST, ARE ECONOMICALLY OR LEGALLY MINEABLE OR WILL EVER BE UPGRADED TO A HIGHER CATEGORY. UNDER CANADIAN SECURITIES LAWS, ESTIMATED "INFERRED RESOURCES" MAY NOT FORM THE BASIS OF FEASIBILITY OR PRE-FEASIBILITY STUDIES EXCEPT IN RARE CASES. DISCLOSURE OF "CONTAINED OUNCES" IN A MINERAL RESOURCE IS PERMITTED DISCLOSURE UNDER CANADIAN SECURITIES LAWS. HOWEVER, THE SEC NORMALLY ONLY PERMITS ISSUERS TO REPORT MINERALIZATION THAT DOES NOT CONSTITUTE "RESERVES" BY SEC STANDARDS AS IN PLACE TONNAGE AND GRADE, WITHOUT REFERENCE TO UNIT MEASURES. THE REQUIREMENTS OF NI 43-101 FOR IDENTIFICATION OF "RESERVES" ARE ALSO NOT THE SAME AS THOSE OF THE SEC, AND RESERVES REPORTED BY THE COMPANY IN COMPLIANCE WITH NI 43-101 MAY NOT QUALIFY AS "RESERVES" UNDER SEC STANDARDS. ACCORDINGLY, INFORMATION CONCERNING MINERAL DEPOSITS SET FORTH HEREIN MAY NOT BE COMPARABLE WITH INFORMATION MADE PUBLIC BY COMPANIES THAT REPORT IN ACCORDANCE WITH U.S. STANDARDS.

Technical information contained in this Annual Report with respect to Pan American has been reviewed by Martin Dupuis, P.Geo., Director Geology, and Martin Wafforn, P.Eng., VP Technical Services, who are Qualified Persons for the purposes of NI 43-101.

Pan American Silver Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 24, 2016

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected the performance of Pan American Silver Corp. and its subsidiaries (collectively "Pan American", "we", "us", "our" or the "Company") and such factors that may affect its future performance. This MD&A should be read in conjunction with the Company's Audited Consolidated Financial Statements for the year ended December 31, 2015 (the "2015 Financial Statements") and the related notes contained therein. All amounts in this MD&A and in the 2015 Financial Statements are expressed in United States dollars ("USD"), unless identified otherwise. The Company reports its financial position, results of operations and casflows in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Pan American's significant accounting policies are set out in Note 2 of the 2015 Financial Statements.

This MD&A refers to various non-Generally Accepted Accounting Principles ("non-GAAP") measures, such as "all-in sustaining cost per silver ounce sold", "cash costs per ounce of silver", "working capital', "general and administrative cost per silver ounce produced", "adjusted earnings" and "basic adjusted earnings per share", 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 mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these non-GAAP measures as calculated by the Company, additional information has been provided in this MD&A. Please refer to the section of this MD&A entitled "Alternative Performance (Non-GAAP) Measures" for a detailed description of "all-in sustaining cost per silver ounce sold", "cash costs per ounce of silver", "working capital", "general and administrative cost per silver ounce produced", "adjusted earnings" and "basic adjusted earnings per share", as well as details of the Company's by-product credits and a reconciliation of these measures to the 2015 Financial Statements.

Any reference to "cash costs" or "cash costs per ounce of silver" in this MD&A should be understood to mean cash costs per ounce of silver, net of by-product credits.

Except for historical information contained in this MD&A, the following disclosures are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian provincial securities laws 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 forward-looking statements and information at the back of this MD&A and the "Risks Related to Pan American's Business" contained in the Company's most recent Annual Information Form on file with the Canadian provincial securities regulatory authorities and Form 40-F on file with the U.S. Securities and Exchange Commission (the "SEC"). 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 and opportunities throughout North and South America. The Company is listed on the Toronto Stock Exchange ("TSX") (Symbol: PAA) and on the Nasdaq Global Select Market ("NASDAQ") in New York (Symbol: PAAS).

Pan American's vision is to be the world's pre-eminent silver producer, with a reputation for excellence in discovery, engineering, innovation and sustainable development.
To achieve this vision, we base our business on the following strategy:

- *Generate sustainable profits and superior returns on investments through the safe, efficient and environmentally sound development and operation of silver assets*
- *Constantly replace and grow our mineable silver reserves and resources through targeted near-mine exploration and global business development*
- *Foster positive long term relationships with our employees, our shareholders, our communities and our local governments through open and honest communication and ethical and sustainable business practices*
- *Continually search for opportunities to upgrade and improve the quality of our silver assets both internally and through acquisition*
- *Encourage our employees to be innovative, responsive and entrepreneurial throughout our entire organization*

To execute this strategy, Pan American has assembled a sector leading team of mining professionals with a depth of knowledge and experience in all aspects of our business that allows the Company to confidently advance early stage projects through construction and into operation.

Pan American is determined to conduct its business in a responsible and sustainable manner. Caring for the environment in which we operate, contributing to the long-term development of our host communities and ensuring that our employees can work in a safe and secure manner are core values at Pan American. We are committed to maintaining positive relations with our employees, the local communities and the government agencies, all of whom we view as partners in our enterprise.

2015 HIGHLIGHTS AND KEY NOTES

OPERATIONS & PROJECT DEVELOPMENT

- ***Record Silver Production of 26.12 Million Ounces***

Pan American produced a record 26.12 million ounces of silver in 2015, compared to the 26.11 million ounces of silver produced in 2014. The 2015 production was achieved through production increases at La Colorada, Dolores, Huaron, and San Vicente, which offset production declines at Alamo Dorado, Morococha and Manantial Espejo.

- ***Record Gold Production of 183.7 Thousand Ounces***

The Company set a new annual gold production record in 2015, producing 183.7 thousand ounces of gold, a 22.2 thousand or 14% increase from 2014. This was achieved through record production levels at Dolores, Alamo Dorado and Manantial Espejo.

- ***Reduced Annual Cash Costs Lower than Forecast***

Despite substantially lower by-product metal prices, the Company recorded consolidated cash costs, net of by-product credits, of $9.70 per payable ounce of silver, a 15% reduction from 2014 cash costs of $11.46 per payable ounce of silver, lower than initial 2015 forecast of $10.80 to $11.80 per ounce and lower than the November 12, 2015 revised 2015 full year forecast of $10.00 to $10.50 per payable ounce of silver. The 2015 decrease was due to higher gold production, record-breaking consolidated copper production, as well as substantially lower unit operating costs per tonne at all of the Company's mines.

- ***Progress on the La Colorada & Dolores Expansion Projects***

Substantial progress was made on the La Colorada mine expansion project during 2015 with approximately 50% of the new shaft, and 70% of the new sulphide processing plant being completed at year-end 2015. Overall, the La Colorada expansion is advancing on budget and remains on schedule to reach the planned 1,800 tonnes-per-day ore production rate by the end of 2017.

The Dolores mine expansion projects also advanced well in 2015, including: the commencement of engineering work on the new agglomeration plant, with construction expected to commence in the first half of 2016; advancing the underground ramp a total of 866 metres; and advancing the new high voltage power-line to the site to approximately 74% completion by year-end 2015.

FINANCIAL

- ***Reduced Annual All-in Sustaining Costs per Silver Ounce Sold Lower than Forecast***

Consolidated annual all-in sustaining costs per silver ounce sold net of by-product credits ("AISCSOS") of $14.92 was lower than the initial 2015 forecast of $15.50 to $16.50, lower than the revised full year 2015 guidance issued on November 12, 2015 of $15.00 to $15.50, and was 17% lower than 2014 AISCSOS. This reduction in AISCSOS was achieved through lower sustaining capital expenditures, lower net realizable value adjustments to inventories, lower direct operating costs, and higher by-product production offsetting lower by-product metal prices.

- ***Strong Liquidity and Working Capital Position, and Continued Returns to Shareholders***

The Company had cash and short-term investment balances of $226.6 million and working capital of $392.2 million as at December 31, 2015. The Company had total debt outstanding of $59.8 million at the end of 2015. The Company's $300.0 million revolving credit facility, established in the second quarter of 2015, had a $263.8 million undrawn and available balance to the Company as of December 31, 2015. The Company's strong balance sheet and positive operating cash flow facilitated the continued return of value to shareholders in the three months ended December 31, 2015 ("Q4 2015") by way of $7.6 million in dividend payments.

- ***Financial Results***

A net loss of $231.6 million was recorded in 2015, which corresponds to a basic loss per share of $1.49. The majority of the net loss was due to non-cash impairment charges on certain mineral properties, plant and equipment assets. Mine operating losses incurred in 2015 were primarily attributable to lower realized metal prices partially offset by increased sales volumes and positive variances in production costs. Cash flow from operations remained strong in 2015, generating $88.7 million.

- ***2015 Impairment Charges to Mine Assets***

As a result of further declines in metal prices in 2015, the Company reduced its long-term reserve metal price outlooks and triggered total after-tax impairment charges of $106.0 million in 2015 relating to the Company's valuation of the Morococha, Dolores, Manantial Espejo and Alamo Dorado mines.

2016 OPERATING OUTLOOK

These estimates are forward-looking statements and information that are subject to the cautionary note associated with forward-looking statements and information at the end of this MD&A.

2016 Silver Production, Cash Costs and AISCSOS Forecasts:

	Silver Production (million ounces)	Cash Costs per ounce (1)	AISCSOS(1)
La Colorada	5.60 – 5.70	$7.75 – $8.25	$9.25 – $10.30
Dolores	3.40 – 3.60	$5.00 – $6.50	$17.00– $18.90
Alamo Dorado (2)	1.00 – 1.20	$13.50 – $14.50	$13.80 – $15.30
Huaron	3.65 – 3.80	$12.25 – $13.25	$14.40 – $16.00
Morococha (92.3%) (3)	2.45 – 2.60	$12.00 – $13.75	$15.40 – $17.10
San Vicente (95.0%) (3)	4.30 – 4.35	$11.25 – $11.75	$12.00 – $13.30
Manantial Espejo	3.60 – 3.75	$9.25 – $10.75	$10.00 – $11.10
Consolidated Total	**24.00 – 25.00**	**$9.45 – $10.45**	**$13.60 – $ 14.90**

(1) Cash costs per ounce and AISCSOS are non-GAAP measurements. Please refer to section "Alternative Performance (Non-GAAP) Measures" for a detailed reconciliation of how these measures are calculated. The cash cost forecasts assume by-product credit prices of $1,800/tonne ($0.82/lb) for zinc, $1,800/tonne ($0.82/lb.) for lead, $5,000/tonne ($2.27/lb.) for copper, and $1,180/oz. for gold.

(2) Alamo Dorado production to be entirely sourced from previously mined stockpiles.

(3) Reflects Pan American's ownership in the operation.

The Company expects its seven mines to deliver between 24.00 million and 25.00 million ounces of silver in 2016, lower than 2015 consolidated production of 26.12 million ounces, with year over year production decreases at Alamo Dorado and Dolores expected to be only partially offset by anticipated increases at all other mines. The 2016 production at the Alamo Dorado mine is expected to decrease 60% to 66% from 2015 as a result of completing the last of the open pit mining during 2015 and therefore only production from the processing of available lower grade surface stockpiled ores will continue through the first half of 2016.

Dolores' 2016 silver production is expected to decrease by 15% to 20% from 2015, due to mine sequencing that will result in higher gold grades and lower silver grades during the year. It is expected that these production declines at Alamo Dorado and Dolores will only be partially offset by production increases at all other mines in 2016, with notable increases at the Morococha and La Colorada mines. Silver production at Morococha is expected to increase by 13% to 20% as the mine sequences into higher silver grade ores from the Isabel and Morro Solar zones. At La Colorada, the expected commissioning of the new mineshaft in the fourth quarter of 2016 will lead to an estimated 5% to 7% increase to annual silver production. Silver production at Manantial Espejo for 2016 is expected to be slightly higher than what was achieved in 2015, while the final open pit mining phase of the operation will come to an end during the year shifting towards underground and stockpiled ore processing thereafter.

Consolidated cash costs for 2016 are forecasted to be between $9.45 and $10.45 per payable ounce of silver, net of by-product credits, similar to 2015 cash costs of $9.70 per ounce. The Company expects cash costs to decrease at the Morococha mine because of higher silver, zinc and lead production, and at the Dolores mine due to higher gold production. These decreases are expected to partially offset anticipated cash cost increases at Manantial Espejo due to lower gold production and lower gold prices for 2016. In addition, with the closure of the Alamo Dorado mine anticipated in mid-2016, the percentage of higher cost ounces attributable to the consolidated total will be reduced.

Consolidated AISCSOS in 2016 is expected to be between $13.60 and $14.90 per ounce, lower than the 2015 annual consolidated AISCSOS of $14.92 per ounce. The expected year-over-year AISCSOS decrease is primarily driven by the following anticipated factors:

- A decrease in cost of sales due primarily to continued operating costs reductions (including those achieved via foreign currency devaluations), and to lower net realizable value adjustments expected for 2016;
- A reduction in sustaining capital expenditures; and
- A decrease in royalty payments resulting from lower metal prices.

2016 By-product Production Forecasts:

	Gold (koz)	Zinc (kt)	Lead (kt)	Copper (kt)
La Colorada	2.7 - 2.9	9.50 – 10.00	4.80 – 4.90	–
Dolores	97.0 – 102.0	–	–	–
Alamo Dorado	7.0 – 8.0	–	–	0.01
Huaron	0.7 – 0.8	13.00 – 13.50	6.70 – 6.90	5.50 – 5.70
Morococha	3.0 – 3.2	16.10 – 17.00	2.70 – 2.80	7.49 – 7.79
San Vicente	–	7.40 – 7.50	0.80 – 0.90	–
Manantial Espejo	64.6 – 68.1	–	–	–
Consolidated Total	**175.0 –185.0**	**46.00 – 48.00**	**15.00 – 15.50**	**13.00 – 13.50**

2016 gold production is expected to be between 175.0 thousand and 185.0 thousand ounces, reasonably similar to the 183.7 thousand ounces produced in 2015. The potential gold production decrease is due to anticipated production decreases at Alamo Dorado and Manantial Espejo, as open pit mining is completed at each of these mines. These decreases are expected to be largely offset by increased production at Dolores with the anticipation of improved grades as the mine develops into the higher gold grade portion of the deposit. Copper production is expected to decline between 10% to 14% as the Peruvian mines shift mine sequencing out of the copper-rich zones targeted in 2015. Primarily as a result of this mine sequencing at the Morococha mine, consolidated zinc production is expected to increase between 13% to 18% from 2015 production levels. For similar reasons, and with an expected 2016 increase in throughput at La Colorada, consolidated lead production in 2016 is expected to increase between 4% and 8% from 2015 production levels.

2016 Capital Expenditure Forecasts

In 2016, Pan American expects sustaining capital investments of between $65 and $75 million at its seven operating mines, comparable to the $73.7 million of sustaining capital invested in 2015. Sustaining capital investments during 2016 are expected to include: an estimated $12.0 million reduction in sustaining capital investments at Manantial Espejo, largely driven by the elimination of open pit pre-stripping; and an estimated $6.0 - $7.5 million reduction in sustaining capital investments at Huaron, given the large advances completed on the tailings storage expansion and powerline upgrade during 2015. These decreases are expected to be partially offset by an expected $13.8 million to $16.8 million increase in sustaining capital investments at Dolores largely related to building of the next phase of leach pads. Further details of planned sustaining capital at each operation can be found in the "2016 Mine Operations Forecasts" section of this MD&A.

Pan American also expects to invest between $135.0 million and $140.0 million to advance on long-term development expansion projects at La Colorada and Dolores which are already underway. The following table details the forecast capital investments at the Company's operations and projects in 2016:

	2016 Forecast Capital Investment ($ millions)
La Colorada	8.0 – 10.5
Dolores	39.0 – 42.0
Huaron	6.0 – 7.5
Morococha	7.0 – 8.5
San Vicente	3.0 – 4.0
Manantial Espejo	2.0 – 2.5
Sustaining Capital Sub-Total	**65.0 – 75.0**
La Colorada Expansion Project	64.0 – 66.5
Dolores Projects	71.0 – 73.5
Project Capital Total	**135.0 – 140.0**
Consolidated Total	**200.0 – 215.0**

The primary objective of the $137 million La Colorada expansion project approved in December 2013 continues to increase the mine production rate from the 2013 level of 1,250 tonnes per day ("tpd") to the targeted rate of 1,800 tpd, which is expected to be achieved by the end of 2017. Targeted La Colorada project goals for 2016 include:

- Commissioning the new sulphide plant in mid 2016;
- Completion of the new shaft during the fourth quarter of 2016, which involves slashing the top 200 metres of the shaft excavation from the 2.8 meter diameter opening to 5.1-meter and outfitting entire 617 meter deep excavated shaft. Installation of the headframe and commissioning the new hoist will occur in early 2016, with the excavations and equipping of the 558 meter below surface loading pocket level and equipment installation being completed in parallel with shaft equipping during the year;
- A temporary power line service will be commissioned in time for ramping-up production of the new sulphide plant during the last half of 2016 with the expected completion of a new 115 kV supply powerline in early 2017; and
- The completion of approximately 3 kilometres of underground development in support of the expanded production in 2016 and beyond.

In May 2015, the Board of Directors of the Company approved a $112.4 million expansion project at the Dolores mine for the development of a 1,500 tpd underground mine and construction of a 5,600 tpd pulp agglomeration plant to treat high-grade ore supplementing the existing open pit mine and heap leach operation. For 2016, the Company anticipates advancing underground mine developments to intersect the main ore body, installing the first ventilation raise, commencing lateral developments, and performing initial stope definition drilling. The Company also anticipates completing the engineering, completing the procurement of all major equipment and beginning ground-breaking excavations for the new pulp agglomeration plant during the first half of 2016. It is expected that substantial advancement of the construction of the pulp agglomeration plant will be made during the second half of 2016 targeting the commissioning of the pulp agglomeration plant in mid-2017 while ramping-up underground operations to the full 1,500 tpd design capacity by the end of 2017. In addition to the expansion project, the Company expects to complete and energize a new 115 kV powerline by mid-year 2016.

2016 General and Administrative Cost Forecast

Our 2016 general and administrative costs ("G&A"), including share based compensation, are expected to be approximately $16.2 million, 10% lower than our 2015 G&A. This figure is subject to fluctuations in the Canadian dollar ("CAD") to USD exchange rate, and the Company's ability to allocate certain costs incurred at head office that are directly attributable to operating subsidiaries.

The following table compares our 2016 forecast G&A against those incurred over the previous two years, as well as G&A on a per ounce of silver produced basis, which is a non-GAAP measure.

	Forecast	Actual	
	2016	2015	2014
General and administrative costs (in '000s of USD)	$ 16,179	$ 18,027	$ 17,908
Silver production (in '000s of ounces) (1)	24,500	26,119	26,112
General and administrative costs per silver ounce produced (2)	$ 0.66	$ 0.69	$ 0.69

(1) Forecast silver production at the mid-point of the guidance given in this MD&A for the Company's existing operations.

(2) G&A cost per silver ounce produced is a non-GAAP measure used by the Company to assess G&A costs relative to production. It is calculated as G&A costs divided by total ounces of silver production in the period.

2016 Exploration and Project Development Expense Forecast

Exploration and project development expenses for Pan American in 2016 are expected to total approximately $8.9 million, which is a $3.0 million decrease from 2015 exploration and project development expenses of $11.9 million. These expenses will continue to include advancing surface exploration on targets defined for certain Mexican and Peruvian properties, as well as holding costs for various exploration properties, including Navidad.

2016 Mine Operation Forecasts

Management's expectations of each mine's operating performance in 2016 are set out below, including discussion on expected production, cash costs and AISCSOS, and capital expenditures.

- ***La Colorada mine***

La Colorada's 2016 silver production is expected to be 5.60 million to 5.70 million ounces which is higher than the 5.33 million ounces produced in 2015. The 2016 mine plan contemplates a production rate of 1,350 tpd for the first nine months, with an increase to 1,600 tpd for the fourth quarter as the new sulphide plant and shaft are phased into production. With a combination of greater sulphide tonnages mined throughout the year and the additional capacity in the sulphide plant coming in during the fourth quarter, it is expected that base metal by-product production will also be increasing relative to 2015, with zinc increasing 7% to 12% to between 9.50 and 10.00 thousand tonnes, and lead increasing 13% to 15% to between 4.80 and 4.90 thousand tonnes.

2016 cash costs per ounce of $7.75 to $8.25 are expected to be slightly higher than the $7.41 per ounce 2015 cash costs, primarily due to minor interferences expected from the continued expansion project, and the decline in by-product metal prices, which are expected to be partially offset by the Mexican peso devaluation.

Sustaining capital expenditures at La Colorada in 2016 are expected to be between $8.0 to $10.5 million, comparable to the $9.9 million spent in 2015. The major elements making up the expected 2016 sustaining capital include: (i) approximately $4.3 million in mine capital, the largest components being a ventilation raise and numerous equipment overhauls; (ii) $1.2 million in brownfield exploration; (iii) $1.8 million in tailings storage expansion work; and (iv) $1.0 million in general capital expenditures including access road improvements, and mine rescue equipment.

AISCSOS at La Colorada for 2016 is expected to be between $9.25 and $10.30, in-line with the $9.57 AISCSOS reported in 2015.

In addition, capital expenditures relating to an expansion project for the La Colorada mine are expected to require $64.0 million to $66.5 million in 2016. Please see the "2016 Capital Expenditure Forecast" section for a detailed description of these expenditures.

- ***Dolores mine***

In 2016, the Company expects to stack an average of 16,200 tpd onto leach pads at Dolores, approximately a 3% reduction from 2015 stacking due to extensive crushing plant rebuilds planned for 2016. The ore processed at Dolores in 2016 is expected to have higher gold and lower silver grades compared to 2015 according to the mine sequencing. In 2016, silver production at Dolores is expected to be between 3.40 million and 3.60 million ounces or 15% to 20% lower than the 4.25 million ounces produced in 2015; and gold production is expected to increase to 97.0 to 102.0 million ounces from the 79.14 million ounces produced in 2015.

2016 cash costs per ounce are expected to be $5.00 to $6.50, a $2.78 to $4.28 per ounce decrease from 2015 cash costs of $9.28 per ounce. Despite relatively consistent operating costs per tonne expected in 2016 cash costs are expected to decrease as a result of higher gold credits, partially offset by lower silver production and lower gold prices compared to 2015.

Sustaining capital expenditures at Dolores during 2016 are expected to be between $39.0 million and $42.0 million, a 55% to 67% increase from the $25.2 million spent in 2015.

The increase is largely due to approximately $12.5 million of sustaining capital required for a leach pad extension. The other major components of 2016 anticipated sustaining capital investment at Dolores include: approximately $17.0 million for open pit mine pre-stripping; approximately $9.0 million in mining and drilling equipment rehabilitations; and approximately $1.5 million in various plant equipment rehabilitations and replacements.

AISCSOS at Dolores for 2016 is expected to be between $17.00 and $18.90, higher than the $12.67 AISCSOS reported in 2015 due primarily to the increased sustaining capital investments described above and decreased silver production, which is expected to be partially offset by the positive impact of increased gold production.

In addition, capital expenditures relating to Dolores expansion projects are expected to require $71.0 million to $73.5 million in 2016. Please see the section "2016 Capital Expenditure Forecast" for a detailed description of these expenditures.

- ***Alamo Dorado mine***

As planned with open pit mining completed by year-end 2015, the Alamo Dorado mine will only process stockpiles during the first half of 2016 resulting in an expected 45% to 50% decrease in throughputs as well as declined silver and gold grades and recoveries. The combination of the lower throughput grades and recoveries is reflected in the expected 60% to 66% reduction in both silver and gold production, which are expected to be between 1.0 million to 1.2 million ounces and 7.0 thousand to 8.0 thousand ounces, respectively.

The end of open pit activities at Alamo Dorado also results in a significant reduction to mining and overhead costs, leading to reduced unit costs per tonne. Despite the costs per tonne reductions, cash costs per ounce are expected to increase from $11.41 in 2015 to $13.50 to $14.50 per ounce in 2016 as result of the lower production levels and lower gold prices.

As with 2015, no sustaining capital expenditure has been planned for 2016 given the mine is at the end of its life.

AISCSOS at Alamo Dorado for 2016 is expected to be between $13.80 and $15.30, up from $12.72 AISCSOS reported in 2015 due to anticipated decreases in silver sales from processing lower grade mined ores and stockpiles.

- ***Huaron mine***

In 2016, throughput at Huaron is expected to increase 3% to the plant capacity of 920 thousand tonnes per year, given the unscheduled mill breakdown that was reported during the third quarter of 2015. The slightly improved throughput in 2016 is expected to be coupled with a slight increase in silver grades from mine sequencing resulting in a small increase in silver production to between 3.65 million to 3.80 million ounces, comparable to the 3.71 million ounces produced in 2015. Copper production is expected to decrease between 15% and 18%, due to mine sequencing away from the high-copper Travieso vein system. Zinc and lead production are expected to be relatively similar to 2015 levels.

Cash costs per ounce of between $12.25 and $13.25 are expected to increase from the 2015 level of $10.91 per ounce, primarily driven by a decline in by-product credits which is only partially offset by expected lower operating costs, and slightly higher silver payable production expected for 2016.

We have forecasted sustaining capital expenditures of between $6.0 million and $7.5 million for 2016, which are lower than the $13.6 million spent in 2015. The 2016 capital budget is primarily comprised of: $0.8 million for completion of the tailings storage expansion; $1.4 million in brownfield diamond drilling; and $1.2 million in mining equipment refurbishments and replacements.

AISCSOS at Huaron for 2016 is expected to be between $14.40 and $16.00, representing a 5% to 15% decrease from the $16.89 AISCSOS reported in 2015 due primarily to lower sustaining capital expenditures.

- ***Morococha mine***

Significant changes in mine sequencing are expected at Morococha during 2016, resulting in a change of the plant feed composition towards higher grade zinc and silver zones. Silver grades are expected to increase by up to 14% to 16%, while zinc grades are expected to increase up to 27% to 28%. Increases to both silver and zinc recoveries and grades are expected to result in silver production of between 2.45 million to 2.60 million ounces for the Company, a 13% to 20% increase from the 2.17 million ounces produced in 2015. Similarly, zinc production for the Company is expected to increase 42% to 50% to between 16.10 thousand and 17.00 thousand tonnes, and 2016 lead production is also expected to increase 5% to 9% to between 2.70 thousand to 2.80 thousand tonnes from 2015 production. Copper production for the Company is expected to decrease between 4% and 8% in 2016 to between 7.49 thousand and 7.79 thousand tonnes.

Cash costs are forecast to be between $12.00 and $13.75 per ounce in 2016, comparable to 2015 cash costs of $13.03 per ounce. The potential reduction to 2016 cash costs represented by the low end of 2016 guidance could be achieved through increased payable silver production and reduced operating costs and by-product production more than offsetting lower overall by-product metal prices and increased treatment and refining charges due primarily to the higher tonnage of zinc and lead concentrate production.

Morococha's sustaining capital for 2016 is expected to be between $7.0 million and $8.5 million, comparable to the 2015 capital spending of $7.7 million. The major components of the 2016 capital expenditures include: $4.2 million in mine development related to deepening the Manuelita shaft and development level, and $0.9 million for brownfield exploration.

AISCSOS at Morococha for 2016 is expected to be between $15.40 and $17.10, a 11% to 20% decrease from the $19.21 AISCSOS reported in 2015 primarily due to an expected increase in silver and by-product production levels and an expected decrease in operating costs more than offsetting the lower by-product metal prices.

- ***San Vicente mine***

Throughput rates at San Vicente are expected to increase up to 4% in 2016 while silver grades and recoveries are expected to be consistent with 2015 levels. The aggregate expected effect to 2016 silver production for the Company is a 4% to 6% increase to between 4.30 million and 4.35 million ounces, from the 4.12 million ounces produced in 2015. The increased throughput, improved zinc recoveries, and improved zinc grades are expected to drive increased zinc by-product production for the Company by 8% to 10%.

Expected 2016 cash costs per ounce of between $11.25 and $11.75 are comparable to the 2015 cash costs of $11.57 per ounce, due primarily to the offsetting effects of expected increased operating costs and lower by-product metal prices by the positive effects of expected increased silver production, improvement in zinc production, and reductions in royalties from reduced metal prices.

The expected sustaining capital at San Vicente in 2016 is between $3.0 million and $4.0 million, which is consistent with the $3.3 million of sustaining capital in 2015. Major components of 2016 sustaining capital budget include: $1.0 million on brownfield exploration; $0.7 million on mine equipment refurbishment and replacements; $0.4 million on a ventilation raise; and $0.3 million on environmental related expenditures including a water treatment plant.

AISCSOS at San Vicente for 2016 is expected to be between $12.00 and $13.30, comparable to the $11.91 AISCSOS reported in 2015. The same offsetting factors affecting cash costs along with expected sustaining capital investments are expected to result in a slight increase to AISCSOS.

- ***Manantial Espejo mine***

The open pit operation is scheduled to end in mid-2016 and will affect grades and production thereafter. Plant throughput is expected to increase by 3% to 10% in early 2016, while additional material from stockpiles will be processed to compensate for the reduced open pit ore feed, along with additional ore production from the underground mine. The increased throughput is expected to offset the decline in open pit mining and result in forecasted 2016 silver production of between 3.60 million and 3.75 million ounces, which is consistent with the 3.58 million ounces produced in 2015. The increased tonnage, however, does not offset the expected 18% to 19% decline in gold grades resulting in a forecasted decrease in gold production of between 12% to 16% to between 64.60 thousand and 68.10 thousand ounces in 2016 from the 77.3 thousand ounces produced in 2015.

Under the assumption that the devaluation of the Argentine peso will keep pace with local inflation rates during 2016, we expect that production costs will decrease from productivity improvements and the decommissioning of open pit mining activities by mid-2016. The effect of these reductions is expected to be offset by non-cash inventory variations from the drawdown of stockpiles in the calculations of cash costs. In 2015, stockpile inventory build-up reduced operating costs by $8.7 million, while in 2016 we expect to process stockpiles adding $9.1 million of non-cash charges to cash costs. The aggregate expected effect of these net cost increases, along with decreased gold production, is an increase in cash costs to $9.25 to $10.75 per ounce from the $7.33 per ounce reported for 2015.

Sustaining capital expenditure in 2016 is expected to be between $2.0 million and $2.5 million, a significant decrease from the $14.1 million spent in 2015. The majority of the decrease is a result of no open pit pre-stripping activities in 2016. The majority of the 2016 sustaining capital budget is for brownfield exploration.

AISCSOS at Manantial Espejo for 2016 is expected to be between $10.00 and $11.10, a significant decrease from the $18.81 AISCSOS reported in 2015 due mainly to the lower sustaining capital and lower net realizable value adjustments than those incurred in 2015.

MID-TERM OUTLOOK

These estimates are forward-looking statements and information that are subject to the cautionary note associated with forward-looking statements and information at the end of this MD&A.

- ***2017 and 2018 Silver Production, Gold Production, Cash Costs, Sustaining Capital and AISCSOS Forecasts:***

As a result of the transformational nature of the Company's mine expansion projects at La Colorada and Dolores and the contemporaneous completion of open pit mining at both Alamo Dorado and Manantial Espejo, the following silver production, gold production, cash costs, sustaining capital expenditures, and AISCSOS are expected for fiscal 2017 and 2018:

	2017	2018
Silver Production – million ounces	22.50 – 24.00	25.0 – 27.00
Gold production – thousand ounces	155.0 – 165.0	160.0 – 180.0
Cash costs (1)	$8.20 – $9.70	$5.50 – $7.50
Sustaining capital (millions)	$75.0 – $85.0	$75.0 – $90.0
AISCSOS (1)	$13.20 – $14.80	$10.00 – $12.20

(1) 2017 and 2018 forecasted cash costs per silver ounce, net of by-product credits, and AISCSOS were calculated using the following by-product metal prices assumptions: Au $1,100/oz, Zn $1,700/tonne, Pb $1,600/tonne, Cu $4,600/tonne. Exchange rates used relative to US$: Mexican Peso 17:1, Peruvian Sol 3.3:1, Argentinean Peso 11:1, Bolivian Boliviano 7:1. Cash costs and AISCSOS are non-GAAP measures, please refer to the Alternative Performance (Non-GAAP) Measures section of the MD&A for detailed descriptions of how these measures are calculated.

2015 OPERATING PERFORMANCE

The following table compares silver production and cash costs, net of by-product credits, at each of Pan American's operations for the respective three and twelve month periods ended December 31, 2015 and 2014:

	Silver Production (ounces '000s)				Cash Costs[1] ($ per ounce)			
	Three months ended December 31,		Twelve months ended December 31,		Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
La Colorada	**1,423**	1,286	**5,327**	4,979	**7.28**	7.57	**7.41**	8.14
Dolores	**947**	954	**4,250**	3,982	**11.64**	12.99	**9.28**	12.94
Alamo Dorado	**818**	865	**2,970**	3,473	**5.49**	14.07	**11.41**	12.89
Huaron	**987**	952	**3,705**	3,635	**11.35**	12.22	**10.91**	11.56
Morococha [2]	**524**	603	**2,165**	2,370	**12.99**	12.53	**13.03**	13.22
San Vicente [3]	**1,081**	1,172	**4,118**	3,949	**11.12**	11.88	**11.57**	13.16
Manantial Espejo	**1,005**	913	**3,583**	3,725	**6.48**	13.93	**7.33**	10.12
Consolidated Total [4]	**6,785**	6,745	**26,119**	26,112	**9.09**	11.92	**9.70**	11.46

(1) Cash costs is a non-GAAP measure. Please refer to the section "Alternative Performance (Non-GAAP) Measures" of this MD&A for a detailed description of the cash cost calculation, details of the Company's by-product credits and a reconciliation of this measure to the 2015 Financial Statements.

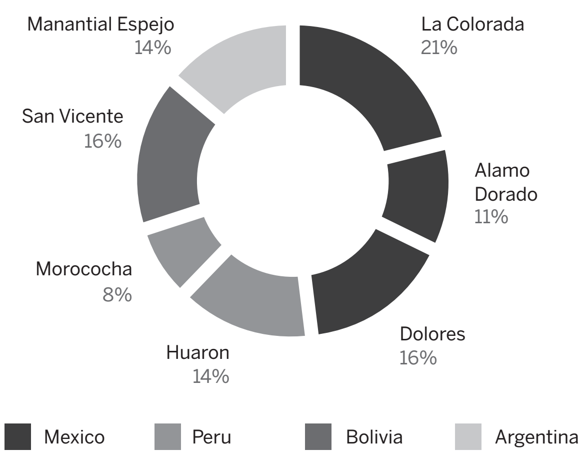
(2) Morococha data represents Pan American's 92.3% interest in the mine's production.

(3) San Vicente data represents Pan American's 95.0% interest in the mine's production.

(4) Totals may not add due to rounding.

- ***2015 Silver Production***

The chart below presents silver production by mine in 2015:



Consolidated silver production of 6.79 million ounces in Q4 2015 was 0.04 million ounces higher than that produced in the three months ended December 31, 2014 ("Q4 2014"). Production increases at La Colorada, Huaron, and Manantial Espejo resulted in a net 0.26 million ounce quarter over quarter increase as they partially offset production declines at the Company's other operations. The largest quarter over quarter increases came from the La Colorada and Manantial Espejo mines with an additional 0.14 million ounces and 0.09 million ounces produced, respectively. The largest decreases came from the San Vicente and Morococha mines where 0.09 million and 0.08 million fewer ounces were produced for the Company respectively.

Record consolidated silver production for 2015 of 26.12 million ounces was similar to 2014 consolidated silver production of 26.11 million ounces, with increases at the La Colorada, Dolores, Huaron, and San Vicente mines resulting in additional production of 0.86 million ounces, which offset a total 0.85 million ounce production decline from the Alamo Dorado, Morococha and Manantial Espejo mines. The largest year over year production increases came from La Colorada and Dolores, which added 0.35 million ounces and 0.27 million ounces, respectively. The most significant production decline was at Alamo Dorado where 0.5 million fewer ounces were produced in 2015.

- ***2015 By-Product Production***

The following tables set out the Company's by-product production for the three and twelve months ended December 31, 2015, together with amounts for the comparable periods in 2014:

	By-Product Production			
	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	**2015**	2014
Gold – koz	**48.2**	43.9	**183.7**	161.5
Zinc – kt	**11.5**	10.2	**40.6**	43.5
Lead – kt	**4.1**	3.9	**14.6**	15.0
Copper – kt	**4.0**	3.0	**15.0**	9.0

Gold production during Q4 2015 rose 10% from Q4 2014, driven by increased production at Alamo Dorado, Manantial Espejo, and Dolores, which was offset by slight decreases at the Company's other gold producing mines. Alamo Dorado and Manantial Espejo production made up the majority of the increase, with improved gold grades resulting in each mine producing an additional 2.2 thousand ounces of gold compared to the amount produced in Q4 2014.

In 2015 the Company produced 183.7 thousand ounces of gold, 22.2 thousand ounces or 14% more than in 2014. The 2015 record gold production was achieved by increased throughput and improved gold grades at Dolores delivering an additional 12.3 thousand ounces, and improved gold grades at Manantial Espejo and Alamo Dorado driving increased production of 6.9 thousand ounces and 2.8 thousand ounces, respectively.

During Q4 2015, Pan American also produced 11.5 thousand tonnes of zinc, 4.1 thousand tonnes of lead and 4.0 thousand tonnes of copper, 12%, 5% and 34% more than in Q4 2014, respectively. Copper production rose significantly in 2015 due to mine sequencing at the Company's Peruvian mines, where production continued to focus on copper-rich areas.

Pan American's consolidated base metals production during 2015 was 40.6 thousand tonnes of zinc, 14.6 thousand tonnes of lead and 15.0 thousand tonnes of copper. Zinc production declined 7% and lead production declined 3% from 2014, mainly due to lower production at Morococha due to a change in mine sequencing targeting higher value ores from the copper-rich Esperanza area that drove consolidated copper production up 66% from 2014.

- ***2015 Average Market Metal Prices***

The following tables set out the average market price for each metal produced for the three and twelve months ended December 31, 2015 together with prices for the comparable periods in 2014:

	Average Market Metal Prices			
	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014
Silver/ounce	**$ 14.77**	$ 16.50	**$ 15.68**	$ 19.08
Gold/ounce	**$ 1,106**	$ 1,201	**$ 1,160**	$ 1,266
Zinc/tonne	**$ 1,613**	$ 2,237	**$ 1,928**	$ 2,164
Lead/tonne	**$ 1,681**	$ 2,002	**$ 1,784**	$ 2,096
Copper/tonne	**$ 4,892**	$ 6,628	**$ 5,495**	$ 6,862

- ***2015 Cash Costs***

Consolidated cash costs per ounce of silver for the three and twelve months ended December 31, 2015, were $9.09 per ounce and $9.70 per ounce, respectively, which compared to $11.92 per ounce and $11.46 per ounce for the three and twelve months ended December 31, 2014.

Despite substantially lower prices for all by-products, consolidated cash costs during Q4 2015 declined 24% from those in Q4 2014 due to higher production of all by-product metals, and lower direct unit operating costs at all mines, particularly at Huaron, Morococha, Manantial Espejo and Alamo Dorado. The most significant contribution to the decrease to consolidated cash costs came from the Alamo Dorado mine, which had an $8.58 per ounce quarter over quarter cash cost decrease from decreased mining rates and improved by-product gold production. Each operation's cash costs are separately discussed in the "Individual Mine Performance" section of this MD&A.

Similarly, despite the substantially lower by-product metal prices, the Company reduced annual consolidated cash costs by 15% from 2014 due to record-breaking consolidated gold and copper production, as well as substantially lower unit operating costs per tonne at all of the Company's mines due to improved productivities, favorable currency exchange rates and lower costs for certain consumables, especially diesel fuel. Each mine contributed to the year over year decline in consolidated cash costs, with the most significant impacts from the Dolores, Manantial Espejo and Alamo Dorado operations, which all experienced both decreased direct operating costs per ounce and increased by-product credits on the back of increased gold production.

- ***2015 AISCSOS***

The following table reflects the quantities of payable silver sold and AISCSOS at each of Pan American's operations for the three and twelve months ended December 31, 2015, as compared to the same periods in 2014.

	Payable Silver Sold (ounces '000s)				AISCSOS (1) ($ per ounce)			
	Three months ended December 31,		Twelve months ended December 31,		Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
La Colorada	**1,263**	1,099	**5,109**	4,726	**9.75**	9.20	**9.57**	10.90
Dolores	**1,048**	883	**4,448**	3,912	**21.55**	31.20	**12.67**	27.02
Alamo Dorado	**726**	816	**2,944**	3,606	**7.93**	17.39	**12.72**	13.05
Huaron	**774**	788	**3,009**	3,025	**18.74**	22.35	**16.89**	19.07
Morococha	**483**	537	**1,995**	2,125	**21.02**	20.20	**19.21**	19.39
San Vicente	**1,448**	1,117	**4,019**	4,177	**11.00**	11.90	**11.91**	13.78
Manantial Espejo	**978**	1,113	**3,655**	3,860	**10.96**	17.21	**18.81**	17.93
Consolidated Total (2)	**6,719**	6,353	**25,180**	25,431	**14.76**	18.62	**14.92**	17.88

(1) AISCSOS is a non-GAAP measure. Please refer to the section "Alternative Performance (Non-GAAP) Measures" of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements. "G&A" costs are included in the consolidated AISCSOS, but not allocated in calculating AISCSOS for each operation.

(2) Totals may not add due to rounding.

Consolidated AISCSOS for the three and twelve months ended December 31, 2015 was $14.76 and $14.92, respectively, a 21% and 17% reduction, respectively from AISCSOS of $18.62 and $17.88 for the respective 2014 comparable periods.

The $3.86 per ounce decline in quarter over quarter consolidated AISCSOS resulted primarily from: (i) $15.6 million lower direct operating costs; (ii) $8.0 million higher by-product credits, particularly from more gold by-product production at Dolores and Alamo Dorado; and (iii) a 6% or 0.37 million ounce increase in the number of silver ounces sold. These factors were partially offset by higher general and administrative expenses and higher treatment and refining charges ("TCRCs"). AISCSOS in Q4 2015 and Q4 2014 were adversely impacted by negative net realizable value adjustments to inventories ("NRV adjustments"), which increased production costs by $5.0 million and $2.0 million, respectively, which increased AISCSOS by $0.75 per ounce and $0.35 per ounce, respectively.

The $2.96 per ounce decline in 2015 annual consolidated AISCSOS from 2014 resulted primarily from: (i) $25.4 million lower sustaining capital; (ii) $19.1 million less in negative NRV adjustments; (iii) $17.1 million lower direct operating costs; and (iv) $16.6 million higher by-product credits, particularly from more gold by-product production at Dolores. These factors were partially offset by a 0.25 million ounce decrease in the number of silver ounces sold, and higher TCRCs. AISCSOS in 2015 and 2014 were adversely impacted by negative NRV adjustments to inventories, which increased production costs by $10.9 million and $30.0 million, respectively, increasing AISCSOS by $0.43 per ounce, and $1.17 per ounce, respectively.

- ***Individual Mine Performance***

The following tables summarize the 2015 metal production, cash costs and AISCSOS achieved for each individual operation compared to the amounts forecasted in the annual MD&A for the fiscal year ended December 31, 2014. Following the summary tables is an analysis of each operation's 2015 operating performance as compared to 2014, as well as an analysis of the 2015 operating performance compared to management's initial 2015 forecast guidance. Actual 2015 results that met or exceeded 2015 guidance have been noted with a "√" in the following tables, 2015 results did not meet 2015 guidance have been noted with a "×". Reported metal figures included in tables in this section are volumes of metal produced.

	2015 Silver Production (million ounces)			**2015 Cash Costs (1) ($ per ounce)**			**2015 AISCSOS (1) ($ per ounce)**		
	Forecast (2)	Actual		**Forecast (2)**	Actual		**Forecast (2)**	Actual	
La Colorada	**4.90 – 5.00**	5.33	√	**8.50 – 9.25**	$7.41	√	**10.95 – 11.70**	$9.57	√
Dolores	**4.00 – 4.15**	4.25	√	**8.50 – 10.00**	9.28	√	**17.00 – 18.50**	$12.67	√
Alamo Dorado	**2.95 – 3.20**	2.97	√	**14.00 – 14.50**	11.41	√	**14.30 – 14.80**	$12.72	√
Huaron	**3.70 – 3.80**	3.71	√	**13.00 – 13.75**	10.91	√	**16.00 – 17.00**	$16.89	√
Morococha	**2.30 – 2.40**	2.17	×	**12.75 – 14.25**	13.03	√	**16.00 – 17.50**	$19.21	×
San Vicente	**4.00 – 4.15**	4.12	√	**11.00 – 12.00**	11.57	√	**12.25 – 13.25**	$11.91	√
Manantial Espejo	**3.65 – 3.80**	3.58	×	**10.50 – 11.75**	7.33	√	**13.80 – $15.05**	$18.81	×
Consolidated Total (3)	**25.50 – 26.50**	26.12	√	**10.80 – 11.80**	$9.70	√	**15.50 – 16.50**	$14.92	√

(1) Cash costs and AISCSOS are non-GAAP measures. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

(2) Forecasted amount per guidance included in the annual MD&A for fiscal 2014 dated March 26, 2015.

(3) Totals may not add due to rounding.

	2015 Gold Production (koz)			**2015 Zinc Production (kt)**		
	Forecast (1)	Actual		**Forecast (1)**	Actual	
La Colorada	**2.5 – 2.7**	2.6	√	**7.00 – 7.50**	8.91	√
Dolores	**75.0 – 80.0**	79.1	√	**–**	–	–
Alamo Dorado	**15.5 – 16.6**	20.3	√	**–**	–	–
Huaron	**1.0 – 1.2**	1.1	√	**13.50-14.00**	13.55	√
Morococha	**2.0 – 2.5**	3.2	√	**14.50 – 15.00**	11.37	×
San Vicente	**–**	–	–	**6.00 – 6.50**	6.82	√
Manantial Espejo	**69.0 – 72.0**	77.3	√	**–**	–	–
Consolidated Total (2)	**165.0 – 175.0**	183.7	√	**41.00 – 43.00**	40.65	×

	2015 Lead Production (kt)			**2015 Copper Production (kt)**		
	Forecast (1)	Actual		**Forecast (1)**	Actual	
La Colorada	**3.70 – 3.80**	4.26	√	**–**	–	–
Dolores	**–**	–	–	**–**	–	–
Alamo Dorado	**–**	–	–	**0.01 – 0.01**	0.10	√
Huaron	**6.10 – 6.20**	6.92	√	**4.75 – 5.00**	6.70	√
Morococha	**4.20 – 4.40**	2.56	×	**3.24 – 3.49**	8.16	√
San Vicente	**0.50 – 0.60**	0.84	√	**–**	–	–
Manantial Espejo	**–**	–	–	**–**	–	–
Consolidated Total (2)	**14.50 – 15.00**	14.58	√	**8.00 – 8.50**	14.96	√

(1) Forecasted amount per guidance included in the annual MD&A for fiscal 2014 dated March 26, 2015.

(2) Totals may not add due to rounding.

	Capital Investment ($ millions)		
	Forecast (1)	Actual	
La Colorada	**$11.0 – $12.0**	$9.9	√
Dolores	**$30.0 – $35.0**	$25.2	√
Huaron	**$8.0 – $10.0**	$13.6	×
Morococha	**$6.0 – $8.0**	$7.7	√
San Vicente	**$4.0 – $5.0**	$3.3	√
Manantial Espejo	**$12.0 – $14.0**	$14.1	×
Sustaining Capital Sub-Total (2)	**$71.0 – $84.0**	$73.7	√
La Colorada Expansion Project	**$75.0 – $80.0**	$48.2	√
Dolores Project	**$15.0 – $17.0**	$28.0	×
Project Sub-Total (2)	**$90.0 – $97.0**	$76.1	√
2015 Total Capital (2)	**$161.0 – $181.0**	$149.8	√

(1) Forecasted amount per guidance included in the annual MD&A for fiscal 2014 dated March 26, 2015.

(2) Totals may not add due to rounding.

An analysis of each operation for the year ended December 31, 2015, as compared to the operating performance for the year ended December 31, 2014, follows.

La Colorada mine

	Twelve months ended December 31,	
	2015	2014
Tonnes milled – kt	**485.4**	471.3
Average silver grade – grams per tonne	**379**	366
Average silver recovery – %	**90.1**	89.8
Production:		
Silver – koz	**5,327**	4,979
Gold – koz	**2.63**	2.57
Zinc – kt	**8.91**	7.70
Lead – kt	**4.26**	3.74
Cash cost per ounce net of by-products (1)	**$ 7.41**	$ 8.14
AISCSOS (2)	**$ 9.57**	$ 10.90
Payable silver sold – koz	**5,109**	4,726
Sustaining capital ('000s) (3)	**$ 9,869**	$ 13,476

(1) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(2) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

(3) Sustaining capital expenditures excludes $48.2 million of investing activity cash outflow for the year ended December 31, 2015 (2014: $17.9 million) related to investment capital incurred on the expansion project as disclosed in the "2015 Project Development Update" section of this MD&A.

2015 versus 2014

La Colorada achieved record silver production in 2015, 7% more than in 2014, due to increases in throughput, grades and recoveries. Ore mining rates increased in 2015 with benefits realized from the new mining equipment purchased as part of the mine expansion project that allowed for the development of new mining areas. During 2015, the mine produced 8.9 thousand tonnes of zinc and 4.3 thousand tonnes of lead, 16% and 14% more than in 2014, respectively. The increased base metal production was a function of the increased throughput in 2015 combined with improved zinc and lead grades of 13% and 10%, respectively.

La Colorada's cash costs per ounce during 2015 declined $0.73, or 9%, due to lower direct operating costs and a 7% increase in payable silver ounces produced. The decrease in unit operating costs per tonne primarily resulted from the devaluation of the Mexican peso and lower costs of certain consumables. 2015 by-product credits per ounce remained relatively consistent with 2014, as increased by-product metal production was largely offset by lower metal prices.

2015 AISCSOS of $9.57 decreased 12% from $10.90 in the previous year, primarily due to a $3.6 million decrease in sustaining capital expenditures, a $1.2 million decrease in production costs and an 8% increase in the amount of payable silver ounces sold.

2015 versus 2015 Guidance

2015 silver production at La Colorada of 5.33 million ounces exceeded the high end of management's forecast range of 4.90 million to 5.00 million ounces primarily as a result of realizing higher than expected throughput rates, and slightly higher than expected silver grades and recoveries. Similarly, base metal production benefited from the better than expected throughput rates, grades and recoveries, resulting in zinc and lead production which exceeded our guidance. The higher throughput also resulted in 2015 gold production being on the high end of the amount forecasted for 2015.

Actual cash costs of $7.41 per ounce were lower than management's forecast range of between $8.50 and $9.25 per ounce. Cash costs at La Colorada in 2015 were positively influenced by better than expected silver production and the previously discussed lower direct operating costs.

2015 AISCSOS of $9.57 was lower than management's forecast range of between $10.95 and $11.70. The positive influences to 2015 AISCSOS were higher than expected quantities of silver sold, lower than forecasted sustaining capital expenditures during the year, and low direct operating costs.

Sustaining capital expenditures at La Colorada during 2015 totalled $9.9 million, which is 27% lower than 2014 sustaining capital, and lower than the 2015 forecast of $11.0 million - $12.0 million. This is partially due to the devaluation of the Mexican peso. Sustaining capital included expenditures on mine infrastructure, exploration drilling, a mine dewatering treatment plant, mine equipment replacement and rehabilitations, process plant improvements, and access road upgrades. This sustaining capital excludes $48.2 million spent on the La Colorada expansion project during the year, which is further described in the 2015 Project Development Update section of this MD&A.

Dolores mine

	Twelve months ended December 31,			
	2015		2014	
Tonnes placed – kt		**6,108.9**		6,053.9
Average silver grade – grams per tonne		**44**		40
Average gold grade – grams per tonne		**0.57**		0.44
Average silver produced to placed ratio - %		**49.7**		51.8
Average gold produced to placed ratio - %		**70.9**		78.3
Production:				
Silver – koz		**4,250**		3,982
Gold – koz		**79.14**		66.82
Cash cost per ounce net of by-products (1)	**$**	**9.28**	$	12.94
AISCSOS (2)	**$**	**12.67**	$	27.02
Payable silver sold – koz		**4,448**		3,912
Sustaining capital ('000s) (3)	**$**	**25,162**	$	27,632

(1) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(2) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

(3) Sustaining capital expenditures exclude $28.0 million of investing activity cash outflow for the year ended December 31, 2015 (2014: $17.3 million) related to investment capital incurred on Dolores expansion projects as disclosed in the "Project Development Update" section of this MD&A.

2015 versus 2014

Dolores produced 4.25 million ounces of silver in 2015, which is 7% higher than the 3.98 million ounces produced in 2014, a result of record throughput and higher grades. Gold production of 79.1 thousand ounces in 2015 was 18% higher than the 66.8 thousand ounces produced in 2014, and primarily a result of a 30% improvement to grades.

Despite lower gold prices, cash costs at the mine declined 28% due to higher gold by-product production, favourable currency exchange rate movements, and lower costs for certain consumables, particularly diesel fuel.

2015 AISCSOS of $12.67 decreased 53% from $27.02. The decrease was primarily due to NRV adjustments, which reduced production costs by $11.4 million in 2015 and increased 2014 production costs by $23.3 million, representing a $34.7 million favorable year over year impact to 2015 AISCSOS. Other significant positive impacts to 2015 AISCSOS included: a $14.7 million increase in by-product credits, with increased gold production more than offsetting lower gold prices; a $2.5 million decrease in sustaining capital expenditures; and a 14% increase in the amount of silver sold.

2015 versus 2015 Guidance

In 2015, silver production of 4.25 million ounces at Dolores exceeded the top-end of management's guidance range of 4.00 million to 4.15 million ounces, a result of better than anticipated stacking rates and silver grades. Gold production was within management's guidance range of 75.0 thousand to 80.0 thousand ounces.

Cash costs for 2015 of $9.28 per ounce of silver fell within the $8.50 to $10.0 per ounce 2015 forecast range provided by management.

2015 AISCSOS of $12.67 was lower than management's forecast range of between $17.00 and $18.50. The primarily positive influences to 2015 AISCSOS were the positive net NRV adjustments in the year, higher than expected quantities of silver sold, and lower than forecasted sustaining capital expenditures during the year.

Sustaining capital expenditures at Dolores in 2015 totalled $25.2 million, which is 16% lower than the low end of managements forecast of $30 million to $35.0 million, primarily due to the timing of certain payments that were carried forward to the first quarter of 2016. Similarly, 2015 sustaining capital expenditures were 9% lower than the $27.6 million spent in 2014, again largely due to the timing of expenditures. The 2015 sustaining capital was mainly spent on pre-stripping activities, investments in mine and process equipment replacement and rehabilitations, exploration activities, surface water diversion upgrades, as well as camp and site access improvements. Sustaining capital excludes $28.0 million in project capital, which is further described in the "2015 Project Development Update" section of this MD&A.

Alamo Dorado mine

	Twelve months ended December 31,			
	2015		2014	
Tonnes milled – kt		**1,798.6**		1,763.0
Average silver grade – grams per tonne		**62**		75
Average gold grade – grams per tonne		**0.39**		0.37
Average silver recovery – %		**82.9**		81.4
Production				
Silver – koz		**2,970**		3,473
Gold – koz		**20.34**		17.56
Copper – kt		**0.10**		0.03
Cash cost per ounce net of by-products(1)	**$**	**11.41**	$	12.89
AISCSOS (2)	**$**	**12.72**	$	13.05
Payable silver – koz		**2,944**		3,606
Sustaining capital ('000s)	**$**	**-**	$	293

(1) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(2) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

2015 versus 2014

As expected, 2015 silver production of 3.0 million ounces at Alamo Dorado was 14% less than the 3.5 million ounces produced in 2014 as open pit mining ramped down and concluded by year-end, which resulted in less throughput tonnage of mined ore and switching to more from lower grade stockpiled ores. Gold production rose 16% to a record high due to higher grades and recoveries due to mining a high grade gold zone in the final stages of the pit.

Despite lower gold prices, Alamo Dorado's cash costs per ounce declined by 11% due to the combined effect of higher gold production and lower unit operating costs per tonne given the reduced mining rates, the favorable depreciation of the Mexican Peso, and the lower costs of certain consumables.

2015 AISCSOS of $12.72 decreased $0.33 from $13.05 in 2014. The 3% year over year reduction was attributable to a 12% decrease in production costs which benefited from the lower operating costs and a $2.5 million decrease in negative NRV adjustments, as well as a 5% increase in by-product credits on account of improved gold production. These positive influences more than offset the negative impact of an 18% reduction in the amount of silver ounces sold.

2015 versus 2015 Guidance

Alamo Dorado's silver production in 2015 of 2.97 million ounces was consistent with management's forecast range of 2.95 million to 3.20 million ounces. This was the result of better than expected throughput rates and recoveries compensating for lower than anticipated grade ore processed in the year. Gold production of 20.3 thousand ounces was 22% higher than the high end of management's guidance range of 15.5 thousand to 16.6 thousand ounces, resulting from the combined results of superior grades and throughput rates being stronger than expected.

Actual cash costs of $11.41 per ounce were lower than management's forecast range of $14.00 to $14.50, due to the favorable impacts of the previously discussed lower than expected direct operating costs, and superior by-product credits from gold production.

2015 AISCSOS of $12.72 was lower than management's forecast range of $14.30 to $14.80 per ounce. The primarily positive influences to 2015 AISCSOS were the lower than expected production costs, and higher than expected by-product credits from gold production.

There were no sustaining capital expenditures at Alamo Dorado during 2015 as it approaches the end of mine life.

Huaron mine

	Twelve months ended December 31,	
	2015	2014
Tonnes milled – kt	**894.5**	892.8
Average silver grade – grams per tonne	**157**	154
Average zinc grade – %	**2.41**	2.41
Average copper grade – %	**0.97**	0.86
Average lead grade – %	**1.08**	0.97
Average silver recovery – %	**83.2**	83.2
Average zinc recovery – %	**63.8**	68.1
Average copper recovery – %	**78.5**	77.5
Average lead recovery – %	**73.1**	71.5
Production		
Silver – koz	**3,705**	3,635
Gold – koz	**1.05**	1.16
Zinc – kt	**13.55**	14.20
Lead – kt	**6.70**	5.88
Copper – kt	**6.92**	6.03
Cash cost per ounce net of by-products(1)	**$ 10.91**	$ 11.56
AISCSOS (2)	**$ 16.89**	$ 19.07
Payable silver – koz	**3,009**	3,025
Sustaining capital ('000s)	**$ 13,610**	$ 17,327

(1) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(2) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

2015 versus 2014

With comparable year over year throughput rates, silver grades and recoveries, silver production during 2015 was similar to that in 2014. During 2015, Huaron produced 6.9 thousand tonnes of lead and 6.7 thousand tonnes of copper, which was 15% and 14%, respectively, more than in 2014, while zinc production of 13.6 tonnes was 5% less than 2014. The year over year difference in base metal production was a function of grades and recoveries on account of mine sequencing.

Huaron cash costs of $10.91 per ounce declined 6% as a result of substantially lower unit operating costs per tonne driven by benefits from the on-going mechanization efforts, while higher by-product lead and copper production was more than offset by lower base metal prices.

2015 AISCSOS of $16.89 was 11% lower than the $19.07 in the previous year. The decrease was attributable to a reduction in production costs, a $3.7 million decline in sustaining capital expenditures, and a reduction in TCRCs, which more than offset lower by-product credits driven by the decline in base metal prices.

2015 versus 2015 Guidance

As 2015 throughput rates, silver grades and recoveries were consistent with expectations, the 2015 silver production of 3.71 million ounces at Huaron was within management's

2015 guidance of 3.70 million ounces to 3.80 million ounces. Similarly, 2015 by-product metal production met or exceeded management's forecasted amounts with superior grades leading to lead and copper production of 6.9 thousand tonnes and 6.7 thousand tonnes, respectively, exceeding the high end of management's forecasted ranges of between 6.1 thousand and 6.2 thousand tonnes and between 4.8 thousand and 5.0 thousand tonnes, respectively.

Actual 2015 cash costs of $10.91 per ounce were 16% less than the low end of our forecast range of $13.00 to $13.75 per ounce. This positive performance was attributable to the lower than expected operating costs which more than compensated for lower than anticipated by-product credits that resulted from the 2015 decline in all base metal prices.

2015 AISCSOS of $16.89 was consistent with management's forecast range of $16.00 to $17.00 AISCSOS, a result of lower than expected production costs compensating for higher than planned sustaining capital and lower than expected by-product credits from deteriorated base metal prices.

Capital expenditures at Huaron during 2015 totalled $13.6 million, which was higher than our forecasted range of $8.0 million to $10.0 million. The increase in sustaining capital expenditure compared to guidance was primarily related to additional mine equipment, increased costs for a power supply upgrade, and a tailings storage expansion. Sustaining capital expenditures in 2015 were significantly lower than the $17.3 million spent in 2014 as the multi-year mine mechanization efforts were largely completed in the prior year. 2015 sustaining capital was primarily related to equipment refurbishments and replacements, the tailings storage expansion, site infrastructure upgrades, as well as exploration drilling.

***Morococha mine* (1)**

	Twelve months ended December 31,	
	2015	2014
Tonnes milled – kt	**637.2**	566.3
Average silver grade – grams per tonne	**124**	152
Average zinc grade – %	**2.83**	3.60
Average lead grade – %	**0.71**	1.12
Average copper grade – %	**1.52**	0.75
Average silver recovery – %	**85.2**	86.4
Average zinc recovery – %	**64.1**	77.3
Average lead recovery – %	**59.0**	74.0
Average copper recovery – %	**85.8**	72.0
Production		
Silver – koz	**2,165**	2,370
Gold – koz	**3.22**	2.92
Zinc – kt	**11.37**	15.80
Lead – kt	**2.56**	4.74
Copper – kt	**8.16**	3.08
Cash cost per ounce net of by-products(2)	**$ 13.03**	$ 13.22
AISCSOS (3)	**$ 19.21**	$ 19.39
Payable silver sold 100% – koz	**1,995**	2,125
Sustaining capital 100% ('000s)	**$ 7,713**	$ 10,199

(1) Production figures are for Pan American's 92.3% share only, unless otherwise noted.

(2) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(3) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

2015 versus 2014

In 2015, lower silver grades, partially offset by increased throughput, led to a silver production decline of 9% as compared to 2014, a result of a change in mine sequencing made in early 2015 that targeted higher value higher copper grade ore during the year. This increased throughput was partially offset by the impact of intersecting unexpected water in-flows in the high-value Esperanza copper-rich zones during the last four months of 2015, an issue that has now been resolved.

As a result of targeting the Esperanza copper-rich zones in 2015, Morococha produced 8.2 thousand tonnes of copper, more than twice that produced in 2014. The prioritization of copper-rich zones negatively impacted 2015 production of lead and zinc which were 46% and 28% less than in 2014, respectively, a result of lower grades and recoveries.

Cash costs of $13.03 per ounce declined 1% as a result of substantially lower unit operating costs per tonne driven by benefits from the on-going mechanization efforts and increased by-product credits per ounce from copper production. These positive variances more than compensated for the 8% decline in payable silver production and lower base metal prices.

2015 AISCSOS of $19.21 was $0.18 lower than $19.39 in 2014. The slight year over year reduction was attributable to a 4% decrease in production costs and a 24% reduction in sustaining capital which more than offset the 6% decrease in the amount of silver sold, and the 59% increase in TCRCs that resulted from the higher treatment and refining costs associated with the copper concentrate.

2015 versus 2015 Guidance

2015 silver production at Morococha was 6% lower than the bottom end of management's initial guidance range of 2.3 million to 2.4 million ounces. 2015 actual silver production was the result of lower than initially planned silver grades due to an early 2015 mine plan change to target a higher value copper-rich zone in 2015. This in turn resulted in copper production of 8.2 thousand tonnes, which was more than twice the 3.5 thousand tonne high end of management's initial 2015 forecast. This changed mine sequencing reduced lead and zinc production below the low end of management's original forecasted ranges of between 4.2 thousand and 4.4 thousand tonnes and between 14.5 thousand and 15.0 thousand tonnes, respectively.

Actual 2015 cash costs of $13.03 per ounce were within our forecast range of $12.75 to $14.25 per ounce. This positive performance was attributable to the lower than expected operating costs and high copper production more than compensating for the lower than anticipated silver production and deteriorated base metal prices that drove the decision to change the mine sequencing early in the year.

2015 AISCSOS of $19.21 was higher than management's forecast range of $16.00 to $17.50 AISCSOS, a result of lower than anticipated quantities of silver sold, due to the change in mine sequencing, and lower than expected base metal prices which were only partially offset by lower than expected production costs and higher copper production.

Sustaining capital expenditures at Morococha during 2015 totalled $7.7 million, which is consistent with management's guidance range of $6.0 to $8.0 million, and as expected 24% lower than the $10.2 million spent in 2014. The planned year over year reduction was the result of the vast majority of the multi-year mine mechanization efforts being completed in 2014. The majority of the capital expenditures in 2015 were on equipment refurbishments and replacements as well as exploration drilling.

San Vicente mine (1)

	Twelve months ended December 31,			
		2015		2014
Tonnes milled – kt		330.8		316.0
Average silver grade – grams per tonne		422		417
Average zinc grade – %		2.65		2.37
Average lead grade – %		0.32		0.19
Average silver recovery – %		92.6		93.2
Average zinc recovery – %		77.6		78.2
Average lead recovery – %		80.4		81.9
Production:				
Silver – koz		4,118		3,949
Zinc – kt		6.82		5.84
Lead – kt		0.84		0.50
Cash cost per ounce net of by-products(2)	$	11.57	$	13.16
AISCSOS (3)	$	11.91	$	13.78
Payable silver sold 100% - koz		4,019		4,177
Sustaining capital 100%-('000s)	$	3,286	$	3,415

(1) Production figures are for Pan American's 95.0% share only, unless otherwise noted.

(2) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(3) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

2015 versus 2014

San Vicente achieved record silver production in 2015, which was 4%, higher than in 2014 due to higher throughputs which, when combined with higher base metal grades also drove 17% higher zinc production to 6.8 thousand tonnes, and 68% higher lead production to 0.8 thousand tonnes.

2015 cash costs of $11.57 per ounce declined 12% aided by lower royalties, due to lower metal prices, along with higher zinc and lead by-product production, which were offset by the lower by-product metal prices.

2015 AISCSOS decreased by 14% to $11.91 from $13.78 in 2014. This decrease was primarily attributable to the lower royalty costs and TCRCs that resulted from lower metal prices and increased by-product credits, which more than offset a 4% decrease in the number of silver ounces sold.

2015 versus 2015 Guidance

Attributable silver production in 2015 of 4.12 million ounces was in line with management's forecast range of 4.00 million to 4.15 million ounces with throughput rates, silver grades and recovery rates all consistent with expectations. Higher than anticipated base metal by-product grades resulted in 2015 zinc and lead production both exceeding the high end of management's forecasted ranges between 6.0 thousand and 6.5 thousand tonnes and between 0.5 thousand and 0.6 thousand tonnes, respectively.

Actual cash costs of $11.57 per ounce of silver were consistent with management's forecasted range of $11.00 to $12.00 per ounce with higher than expected base metal production and lower than anticipated royalty costs compensating for the lower than expected base metal prices.

2015 AISCSOS of $11.91 were lower than management's forecast range of between $12.25 and $13.25. The primarily positive influences to 2015 AISCSOS were lower than expected royalty costs, slightly higher than expected quantities of silver sold, and slightly lower than forecasted sustaining capital expenditures during the year.

Capital expenditures at San Vicente during 2015 totalled $3.3 million, which was $0.7 million lower than management's forecasted range of between $4.0 and $5.0 million, and consistent with the $3.4 million incurred in 2014. Capital spending in 2015 was primarily on mine infrastructure, equipment overhauls, and mine site exploration.

Manantial Espejo mine

	Twelve months ended December 31,			
		2015		2014
Tonnes milled – kt		774.9		796.9
Average silver grade – grams per tonne		158		157
Average gold grade – grams per tonne		3.31		2.82
Average silver recovery – %		91.6		92.1
Average gold recovery – %		95.1		95.2
Production:				
Silver – koz		3,583		3,725
Gold – koz		77.32		70.47
Cash cost per ounce net of by-products (1)	$	7.33	$	10.12
AISCSOS (2)	$	18.81	$	17.93
Payable silver sold – koz		3,655		3,860
Sustaining capital ('000s)	$	14,061	$	26,741

(1) Cash costs is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed reconciliation of this measure to our cost of sales.

(2) AISCSOS is a non-GAAP measure. Please refer to the "Alternative Performance (non-GAAP) Measures" section of this MD&A for a detailed description of the AISCSOS calculation and a reconciliation of this measure to the 2015 Financial Statements.

2015 versus 2014

Manantial Espejo produced 4% less silver in 2015 due to lower throughput caused by a two-week shut-down of the open pit operations in the second quarter of 2015. The mine achieved record gold production during 2015 due to significantly higher gold grades with the mine sequencing into the final mineralized zone of the Maria open pit.

In 2015, cash costs at Manantial Espejo decreased by 28% compared to 2014 due to substantial productivity improvements that drove unit operating costs per tonne lower, while the 10% increase in gold production was mostly offset by the 8% lower gold price.

2015 AISCSOS increased 5% to $18.81 from $17.93 in 2014, due largely to production costs increases from an $18.0 million increase in negative NRV adjustments to inventories, and a 5% reduction in silver sales volumes which more than offset the benefits of a 47% reduction in sustaining capital expenditures, and a 5% increase in by-product credits with the significant increase in gold production. Inventory NRV adjustments increased production costs by $22.8 million in 2015 and reduced production costs by $4.8 million in 2014.

2015 versus 2015 Guidance

2015 silver production at Manantial Espejo was 2% lower than the bottom end of management's forecasted range of 3.65 million to 3.80 million ounces due to throughput being hampered by an unanticipated mid year two week shut down. 2015 gold production of 77.3 thousand ounces was 7% more than the high end of management's 2015 forecast of 69.0 thousand to 72.0 thousand ounces, a result of higher than anticipated gold grades in the final ore zones of the Maria open pit.

2015 cash costs of $7.33 per silver ounce were significantly lower than the forecast range of $10.50 to $11.75 per ounce. The main drivers for the lower than expected cash costs were higher than expected by-product credits as higher than expected gold production more than offset declining gold prices, and lower than expected direct operating costs achieved from the productivity improvements.

2015 AISCSOS of $18.81 was higher than management's forecast range of between $13.80 and $15.05, and this was mainly due to an unexpected $22.8 million in negative NRV adjustments which added $6.24 per ounce to 2015 AISCSOS, and more than offset the benefits of reduced direct operating costs and higher than planned gold production.

Sustaining capital expenditures at Manantial Espejo during 2015 totalled $14.1 million, consistent with the forecasted range of $12.0 to $14.0 million and significantly lower than the $26.7 million spent in 2014. The year over year decrease was due to the anticipated reduction in pre-stripping activities. The 2015 sustaining capital expenditures were primarily for open pit pre-stripping and exploration drilling.

2015 PROJECT DEVELOPMENT UPDATE

The following table reflects the amounts spent at each of Pan American's significant projects in 2015 as compared to 2014. Our accounting policies determine which portion of the amounts spent at our projects is capitalized and which portion is expensed during the period.

Project Development Investment (thousands of USD)				
		2015		2014 (1)
La Colorada Expansion (1)	**$**	**48,601**	$	19,615
Dolores Projects (1)	**$**	**25,093**	$	20,607
Navidad (2)	**$**	**6,827**	$	4,437
Total	**$**	**80,521**	$	44,659

(1) Previously reported Project Capital Spending amounts for the year ended 2014 were $17.9 million for the La Colorada Expansion, and $17.3 million for the Dolores Projects, and represented outflows of cash relating to the projects in 2014. The Project Development Investment amounts presented in the table above represent total investments made on the projects on an accrual basis during 2015 and 2014.

(2) Development spending at Navidad is expensed as incurred which will continue until such time that a change in circumstances regarding the project warrant project costs being capitalized.

- ***La Colorada Expansion Project***

During 2015, $48.6 million was invested in the La Colorada expansion project comprised primarily of: (i) purchasing of new process equipment, engineering, and construction of the new sulphide plant; (ii) raise boring of the new shaft, commencement of shaft sinking, and installation of the new hoist; (iii) initial permitting work related to a new 115 kV powerline; (iv) underground mine development in support of the future increased production levels; and (v) development of project site infrastructure required for the expansion.

There were $0.4 million less in investing activity cash outflows relating to the expansion project in 2015 resulting from changes in accounts payable (2014, $1.7 million less).

The following progress on the La Colorada expansion project was achieved during 2015:

- Construction of the new sulphide plant commenced in April and progressed as scheduled.
- All of the major pieces of process equipment for the plant arrived at site for installation by year-end, and mechanical installation was well advanced with the construction of the plant approximately 70% complete by year-end.
- Some challenging ground conditions were overcome in the raise boring of the 617-meter shaft, which was completed in early November, with the top portion of the shaft subsequently being remotely shotcreted as a means of temporary ground support.
- By the end of 2015, the top 30 metres of the shaft had been sunk and partially concrete-lined, allowing the suspension of the pre-fabricated Galloway work platform structure in the shaft. As of year-end, the shaft and hoisting plant portion of the project was approximately 50% complete.
- Fabrication of the headframe continued on schedule and the headframe was delivered to the site. In addition, the permanent double-drum hoist was installed in early 2015.
- Negotiations with the local power authorities and land owners continued on schedule for the new 115 kV powerline.
- Construction of the new substation at Chalchihuites commenced, with environmental approvals for the construction of the powerline awaiting approval by the regulatory authorities.

- 2,107 metres of underground mine development was completed during the year.

The Company anticipates that the construction and commissioning of the new headframe, sinking winches, and hoist will begin in Q1 2016, which will be used to outfit the remaining shaft length from the top down with concrete lining, shaft steel and services. Pan American expects that the new shaft will be fully commissioned by year-end 2016.

The Company will also advance the necessary underground development during 2016 to prepare new areas for production in order to ramp up ore production in late 2016 and beyond as anticipated in the original schedule. In addition, the Company is making provisions to provide necessary temporary power supplies, with the anticipated completion of the new 115 kV power line by early 2017.

Overall, the La Colorada expansion is advancing on-budget and Pan American anticipates overcoming the three-month delay in the shaft excavation that occurred during 2015 due to the challenging ground conditions encountered in the shaft raise boring. The project remains on schedule to reach the planned 1,800 tpd ore production rate by the end of 2017.

- ***Dolores Projects***

During 2015, the Company invested $25.1 million in Dolores projects comprised primarily of: (i) $11.5 million for construction of a new power line; (ii) $5.3 million to advance the new underground ramp decline; and (iii) $5.7 million on the new pulp agglomeration plant. Additional capital work on the leach pads, including the installation of a new permanent conveyor, was completed in 2016 constituting the balance of the capital expenditures.

There was an additional $2.9 million of investing activity cash outflows relating to Dolores projects in 2015 resulting from changes in accounts payable during the year (2014, $3.4 million less).

The Company successfully completed the right of way agreements for the new 115 kV line in the first quarter of 2015, and an agreement for the construction of the new line was negotiated with a Chihuahua based company. The necessary environmental permit relating to the line was obtained, and the installation of the new 115 kV line advanced during 2015. The powerline installation was approximately 74% complete by year-end and remains on budget and on schedule for an anticipated commissioning by mid-year 2016.

Underground ramp development advanced a total of 866 metres from the portal to the face as of year-end, with an additional 110 metres developed on auxiliary headings during 2015. The Company anticipates advancing the underground mine developments to intersect the main ore body, installing the first ventilation raise, commencing lateral development, and performing initial stope definition drilling during 2016 in accordance with the project schedule.

Engineering and procurement for the pulp agglomeration plant proceeded as planned. An environmental assessment document relating to the new plant was prepared and submitted to the authorities in December 2015. The Company anticipates completing engineering, continuing with the procurement of all major equipment, and beginning ground-breaking excavations for the new pulp agglomeration plant during the first half of 2016.

Overall, the Dolores expansion project is on budget and the Company anticipates meeting a scheduled start-up of the pulp agglomeration plant by mid-2017, while ramping up underground operations to the full 1,500 tpd design capacity by the end of 2017.

Apart from the expansion project, the projects team has also initiated the next phase of the leach pad sustaining capital expansion at Dolores, which is scheduled for completion by mid-year 2016 and will provide an additional 18 million tonnes of ore stacking capacity on Leach Pad 3.

OVERVIEW OF 2015 FINANCIAL RESULTS

- ***Selected Annual and Quarterly Information***

The following tables set out selected quarterly results for the past twelve quarters as well as selected annual results for the past three years, which are stated in thousands of USD, except for the per share amounts. The dominant factors affecting results in the quarters and years presented below are volatility of metal prices realized, industry wide cost pressures, and the timing of the sales of production which varies with the timing of shipments. The fourth quarter of 2015 included impairment charges to Morococha, Dolores, and Alamo Dorado, while the third quarter of 2015 included impairment charges to Manantial Espejo. The fourth quarter of 2014 included impairment charges related to Dolores, Manantial Espejo, Alamo Dorado and certain exploration and development properties, including Navidad. The fourth quarter of 2013 included impairment charges to Dolores, and the second quarter of 2013 included impairment charges to Dolores and certain exploration and development properties.

2015 (in thousands of USD, other than per share amounts)	Quarters Ended (unaudited)				Year Ended
	March 31 [1]	June 30	Sept 30	Dec 31	Dec 31
Revenue	$ 178,125	$ 174,189	$ 159,414	$ 162,960	$ 674,688
Mine operating earnings (loss)	$ 2,630	$ (952)	$ (25,996)	$ (7,771)	$ (32,089)
Attributable loss for the period	$ (19,371)	$ (7,322)	$ (67,048)	$ (132,909)	$ (226,650)
Basic loss per share	$ (0.13)	$ (0.05)	$ (0.44)	$ (0.88)	$ (1.49)
Diluted loss per share	$ (0.13)	$ (0.05)	$ (0.44)	$ (0.88)	$ (1.49)
Cash flow from operating activities [1]	$ 11,848	$ 20,577	$ 32,866	$ 23,401	$ 88,692
Cash dividends paid per share	$ 0.125	$ 0.05	$ 0.05	$ 0.05	$ 0.275
Other financial information					
Total assets					$ 1,715,037
Total long term financial liabilities					$ 114,354
Total attributable shareholders' equity					$ 1,297,222

(1) During the second quarter of 2015 it was determined that certain unrealized gains and losses relating to outstanding commodity contracts were incorrectly included in cash flow from operating activities for the three months ended March 31, 2015 ("Q1 2015"), as such Q1 2015 operating cash flows have been revised from those previously reported. The effect of this correction was a $98 thousand decrease to the $11.9 million previously reported Q1 2015 operating cash flows.

2014 (in thousands of USD, other than per share amounts)	Quarters Ended (unaudited)				Year Ended
	March 31	June 30	Sept 30	Dec 31	Dec 31
Revenue	$ 209,734	$ 200,847	$ 178,265	$ 163,096	$ 751,942
Mine operating earnings (loss)	$ 31,576	$ 10,245	$ (12,378)	$ (21,369)	$ 8,073
Attributable earnings (loss) for the period	$ 6,844	$ (5,472)	$ (20,254)	$ (526,706)	$ (545,588)
Basic earnings (loss) per share	$ 0.05	$ (0.04)	$ (0.13)	$ (3.48)	$ (3.60)
Diluted earnings (loss) per share	$ 0.05	$ (0.04)	$ (0.15)	$ (3.48)	$ (3.60)
Cash flow from operating activities	$ 36,125	$ 48,895	$ 38,345	$ 823	$ 124,188
Cash dividends paid per share	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.50
Other financial information					
Total assets					$ 2,017,873
Total long term financial liabilities					$ 79,823
Total attributable shareholders' equity					$ 1,563,092

2013 (in thousands of USD, other than per share amounts)	Quarters Ended (unaudited)				Year Ended
	March 31	June 30	Sept 30	Dec 31	Dec 31
Revenue	$ 243,012	$ 175,576	$ 213,556	$ 192,360	$ 824,504
Mine operating earnings	$ 74,816	$ 3,814	$ 33,934	$ 18,955	$ 131,519
Attributable earnings (loss) for the period	$ 20,148	$ (186,539)	$ 14,154	$ (293,615)	$ (445,851)
Basic earnings (loss) per share	$ 0.13	$ (1.23)	$ 0.09	$ (1.94)	$ (2.94)
Diluted earnings (loss) per share	$ 0.10	$ (1.23)	$ 0.09	$ (1.94)	$ (2.96)
Cash flow from operating activities	$ 32,251	$ 469	$ 40,730	$ 46,156	$ 119,606
Cash dividends paid per share	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.50
Other financial information					
Total assets					$ 2,767,456
Total long term financial liabilities					$ 110,088
Total attributable shareholders' equity					$ 2,182,334

- ***Income Statement, 2015 annual vs. 2014 annual:***

A net loss of $231.6 million was recorded in 2015 compared to a net loss of $544.8 million in 2014, which corresponds to basic losses per share of $1.49 and $3.60, respectively.

The following table highlights the key items that resulted in the net loss for the year ended December 31, 2015, differing from the net loss for the year ended December 31, 2014:

Net loss, year ended December 31, 2014 (in thousands of USD)		**$ (544,823)**
Decreased revenue:		
Lower realized metal prices	$ (128,901)	
Higher quantities of metal sold	65,442	
Increased settlement adjustments	(9,407)	
Increased treatment and refining charges	(4,388)	
Total decrease in revenue		**$ (77,254)**
Decreased cost of sales:		
Lower production costs and royalty charges	$ 40,227	
Higher depreciation and amortization	(3,135)	
Total decrease in cost of sales		**37,092**
Decreased impairment charges		445,994
Decreased exploration and project development expense		1,285
Decreased interest and finance expense		287
Decreased foreign exchange loss		271
Decreased income tax recovery		(88,295)
Increased other expense and investment income, net		(3,827)
Increased net loss on commodity contracts, asset sales and derivatives		(2,167)
Increased general and administrative expense		(119)
Net loss, year ended December 31, 2015		**$ (231,556)**

The $313.3 million year over year decrease to net losses is primarily attributable to the $392.7 million decrease in net of tax impairment charges, which was partially offset by the $77.3 million decline in revenue from 2014, both of which are described in detail below.

Revenue for the year ended December 31, 2015 was $674.7 million, a 10% decrease from the $751.9 million of revenue recognized in 2014. The major factors behind the revenue decrease were: (i) a $128.9 million price variance from lower metal prices realized for all metals; (ii) a $9.4 million increase in negative settlement adjustments; and (iii) a $4.4 million increase in treatment and refining charges. Offsetting these revenue effects was a positive $65.4 million variance from higher quantities of gold and copper sold, net of lower quantities of other metals sold.

The following table reflects the metal prices that the Company realized, and the quantities of metal sold during each year. During 2015, the Company sold 20% more ounces of gold and 73% more tonnes of copper than in 2014 due to record annual gold and copper production. The Company's 2015 average realized prices for silver and gold declined 16% and 8% from 2014, respectively. Pan American received an average of $15.53 per ounce of silver and $1,162 per ounce of gold in 2015. The Company received $1,889 per tonne of zinc in 2015, which is 13% less than in 2014, $1,745 per tonne of lead in 2015, which is 16% less than in 2014, and $5,314 per tonne of copper in 2015, which is 22% less than in 2014. These realized prices are inclusive of negative settlement adjustments on concentrate sales totaling approximately $9.4 million.

	Realized Metal Prices Year ended December 31,		**Quantities of Metal Sold Year ended December 31,**	
	2015	2014	**2015**	2014
Silver (1) – koz	**$ 15.53**	$ 18.53	**25,180**	25,431
Gold (1) – koz	**$ 1,162**	$ 1,268	**190.2**	158.1
Zinc (1) – kt	**$ 1,889**	$ 2,160	**34.7**	37.5
Lead (1) – kt	**$ 1,745**	$ 2,085	**13.5**	14.1
Copper (1) – kt	**$ 5,314**	$ 6,825	**12.8**	7.4

(1) Metal price stated as dollars per ounce for silver and gold, and dollars per tonne for zinc, lead and copper.

Mine operating losses for the year ended December 31, 2015 were $32.1 million, a $40.2 million deterioration from mine operating earnings of $8.1 million earned in the year ended December 31, 2014. Mine operating losses are equal to revenue less cost of sales, which is considered to be substantially the same as gross margin. The year over year decrease was largely the result of the previously discussed $77.3 million decrease in revenues.

Offsetting the decreased revenues was a $36.2 million decrease in production costs, driven largely from reductions in labour and consumable raw materials costs, particularly at the Huaron and Alamo Dorado mines, aided by favorable exchange rate changes; and lower negative NRV inventory adjustments in the year. There was $19.1 million less of negative NRV adjustments in 2015 compared to 2014, the combined impact of a $34.7 million positive variance at Dolores (which had positive NRV adjustments of $11.4 million in 2015 and negative NRV adjustments of $23.3 million in 2014), which is partially offset by an $18.0 million negative variance at Manantial Espejo (which had negative NRV adjustments of $22.8 million in 2015 and negative adjustments of $4.8 million in 2014). Offsetting these reductions to production costs were increased production costs at Dolores mine driven by year over year increases in throughput and quantities of metals sold.

2015 royalties of $23.9 million were $4.1 million lower than those in 2014, a result of the year over year declines in metal prices discussed above. Depreciation and amortization of $150.8 million and $147.7 million was comparable for the years ended December 31, 2015 and 2014, respectively, changing 2%.

Impairments of mineral property plant and equipment assets and goodwill of $150.3 million pre-tax ($106.0 million net of tax) in 2015 compared to the pre-tax non-cash impairments of $596.3 million ($498.7 million net of tax) recorded in 2014. As described below, the impairments were determined in relation to certain assets of the Company, and where applicable were allocated pro-rata amongst: depletable and non-depletable mineral property; exploration and evaluation property; and plant and equipment assets. The total 2015 pre-tax impairment of $150.3 million (2014, $596.3 million) was comprised of total impairments of: $90.4 million to depletable mineral properties (2014, $142.3 million); $14.6 million to non-depletable mineral properties (2014, $72.0 million); $nil to exploration and evaluation property (2014, $310.6 million); $45.3 million to plant and equipment assets (2014, $67.3 million); and $nil to goodwill (2014, $4.1 million).

The following table summarizes the before and after tax impairment charges taken on the Company's mineral property assets in 2015 and 2014:

	December 31, 2015 (millions)		December 31, 2014 (millions)	
	Pre-tax	Net of tax	**Pre-tax**	Net of tax
Mine assets:				
Morococha mine	**$ 80.7**	$ 59.1	**$ -**	$ -
Dolores mine [(1)]	**31.7**	20.7	**170.6**	110.8
Manantial Espejo mine	**28.8**	20.2	**23.7**	17.7
Alamo Dorado mine	**9.1**	6.0	**76.7**	55.9
Total mine assets	**$ 150.3**	$ 106.0	**$ 271.0**	$ 184.4
Development properties:				
Navidad property	**$ -**	$ -	**$ 286.1**	$ 286.1
Minefinders exploration properties [(1)]	**-**	-	**34.4**	23.4
Pico Machay property	**-**	-	**4.8**	4.8
Total development properties	**$ -**	$ -	**$ 325.3**	$ 314.3
Total	**$ 150.3**	$ 106.0	**$ 596.3**	$ 498.7

(1) The 2014 Exploration asset impairment includes a $4.1 million write-down to related goodwill.

The decrease in metal prices was most pronounced during the second half of 2015 and led to the Company lowering its price assumptions used to estimate long-term reserves at year-end. As a result of the year-end reserve price reduction and observed declines in near-term and mid-term consensus metal prices referenced in the Company's life of mine cash flow models, management concluded that there was an indication of impairment to certain assets in the third and fourth quarter of 2015. Based on the Company's estimation of the recoverable amounts of its mineral properties as at September 30, 2015, and December 31, 2015, determined on a fair value less costs to sell basis, the Company concluded that impairment charges were required during the year in respect of the Dolores, Alamo Dorado, Morococha, and Manantial Espejo mines.

The Company's key assumptions for each impairment test included the most current operating and capital costs information and risk adjusted project specific discount rates. The Company used a median of analysts' consensus pricing for the first four years of its economic modeling for impairment purposes, and long-term reserve prices for the remainder of each asset's life. The prices used can be found in the key assumptions and sensitivity section below.

As at December 31, 2015, the Company determined that the $434.3 million net carrying amount of the Dolores mine, including mineral properties, plant and equipment, and stockpile inventories, net of associated deferred tax assets and closure and decommissioning liabilities (the "Net Carrying Amount"), was greater than its then estimated recoverable amount of $413.6 million when using a 5.25% risk adjusted discount rate. Based on the assessment at December 31, 2015, the Company recorded a further impairment charge related to the Dolores mine of $31.7 million before tax ($20.7 million net of tax).

As at December 31, 2015, the Company determined that the $12.9 million Net Carrying Amount of the Alamo Dorado mine, was greater than its then estimated recoverable amount of $nil when using a 4.00% risk adjusted discount rate. Based on this assessment, the Company wrote–off the carrying value of the Alamo Dorado mine's mineral property, plant and equipment assets included in the impairment charge of $9.1 million before tax ($6.0 million net of tax).

As at December 31, 2015, the Company determined that the $112.4 million Net Carrying Amount of the Morococha mine, was greater than its then estimated recoverable amount of $36.3 million when using a 6.50% risk adjusted discount rate. Based on the assessment at December 31, 2015, the Company recorded an impairment charge related to the Morococha mine of $80.7 million before tax ($59.1 million net of tax).

As at September 30, 2015, the Company determined that the Net Carrying Amount of the Manantial Espejo mine of approximately $83.4 million was greater than its then estimated recoverable amount of $29.9 million, when using an 8.25% risk adjusted discount rate. Based on this assessment, the Company recorded an impairment charge related to the Manantial Espejo mineral property, plant and equipment assets of $28.8 million before tax ($20.2 million net of tax).

Similarly, primarily due to the sustained decrease in metal prices that began during the third quarter and continued through the balance of 2014, the Company concluded that impairment indicators existed and ultimately impairments were required as of December 31, 2014.

In the fourth quarter of 2014, the Company lowered the metal prices assumed in its reserve and resource estimates and its life of mine cash flow models which ultimately lead to a conclusion that a total impairment charge of $596.3 million ($498.7 million, net of tax) was required, made up of impairments on the Dolores, Alamo Dorado, Manantial Espejo and Navidad assets, as well as certain other exploration properties and goodwill. The pre and post-tax impairments relating to each of these assets is summarized in the table above. Impairments were allocated pro-rata amongst: depletable and non-depletable mineral property; exploration and evaluation property; and, plant and equipment assets. The total 2014 pre-tax impairment was comprised of: $142.3 million to depletable mineral properties; $72.0 million to non-depletable mineral properties; $310.6 million to exploration and evaluation property; and, $67.3 million to plant and equipment assets. For the purposes of the December 31, 2014 impairment review, the Company's key assumptions included the most current information on operating and capital costs, and the metal price assumptions summarized in the "Key assumptions and sensitivity" section below.

Key assumptions and sensitivity

The metal prices used to calculate the recoverable amounts at December 31, 2015, September 30, 2015 and December 31, 2014 are based on analyst consensus prices and the Company's long-term reserve prices, and are summarized in the following tables:

Metal prices used at December 31, 2015

	Consensus Prices				Long Term Prices
Commodity Prices	**2016**	**2017**	**2018**	**2019**	
Silver - $/oz.	$ 16.01	$ 16.78	$ 17.11	$ 17.56	$ 17.00
Gold - $/oz.	$ 1,156	$ 1,174	$ 1,192	$ 1,214	$ 1,180
Zinc - $/tonne	$ 2,026	$ 2,224	$ 2,341	$ 2,465	$ 1,800
Copper - $/tonne	$ 5,219	$ 5,528	$ 5,926	$ 6,087	$ 5,000
Lead - $/tonne	$ 1,836	$ 1,949	$ 1,943	$ 2,011	$ 1,800

Metal prices used at September 30, 2015

	Consensus Prices				Long Term Prices
Commodity Prices	**2015**	**2016**	**2017**	**2018**	
Silver - $/oz.	$ 16.17	$ 16.35	$ 17.35	$ 18.06	$ 18.50
Gold - $/oz.	$ 1,183	$ 1,183	$ 1,201	$ 1,227	$ 1,250

Metal prices used at December 31, 2014

	Consensus Prices				Long Term Prices
Commodity Prices	**2015**	**2016**	**2017**	**2018**	
Silver - $/oz.	$ 18.31	$ 18.72	$ 19.51	$ 19.59	$ 18.50
Gold - $/oz.	$ 1,253	$ 1,270	$ 1,271	$ 1,270	$ 1,250
Zinc - $/tonne	$ 2,376	$ 2,530	$ 2,592	$ 2,194	$ 2,000
Copper - $/tonne	$ 6,856	$ 7,048	$ 7,443	$ 6,637	$ 6,800
Lead - $/tonne	$ 2,211	$ 2,296	$ 2,327	$ 2,068	$ 2,000

The Company assesses impairment, when events or changes in circumstances indicate that the related carrying value may not be recoverable at the cash-generating unit level ("CGU"), which is considered to be individual mine sites or development properties. The discount rates used to present value the Company's life of mine cash flows are derived from the Company's weighted average cost of capital which was calculated as 6.4% for 2015 (2014 – 7.5%), with rates applied to the various mines and projects ranging from 4.00% to 10.00% depending on the Company's assessment of country risk, project risk, and other potential risks specific to each CGU.

The key assumptions in determining the recoverable value of the Company's mineral properties are metal prices, operating and capital costs, foreign exchange rates and discount rates. At December 31, 2015, the Company performed a sensitivity analysis on all key assumptions that assumed a negative 10% change to each individual assumption while holding the other assumptions constant.

At December 31, 2015, an adverse 10% movement in any of the major assumptions in isolation did not cause the recoverable amount to be equal to the CGU carrying value for any of La Colorada, San Vicente and Huaron. At December 31, 2014, some of these factors did affect the Huaron mine; however, improvements in operating costs more than offset the decline in metal prices experienced. In 2014, any of the following in isolation would have caused the estimated recoverable amount of the Huaron property to be equal to the December 31, 2014 CGU carrying value of $72.0 million: a 2% decrease in the long term silver price, a 4% decrease in the long term zinc price; a 6% decrease in the long term lead price; a 9% decrease in the long term copper price; a 1% increase in operating costs; a 4% appreciation of the Peruvian sol; or an 8% increase in capital expenditures.

In the case of the Dolores mine, the Alamo Dorado mine, the Manantial Espejo mine, the Morococha mine, the Navidad project and certain non-core exploration properties, which all have had their carrying values adjusted to fair value less cost to sell through impairment charges, a modest decrease in any one key assumption would reduce the recoverable amount below the carrying amount.

G&A expenses including share-based compensation expenses for the years ended December 31, 2015 and 2014 were $18.0 million and $17.9 million, respectively. The comparable G&A amounts in each year was the net result of increased year over year CAD denominated corporate costs, particularly relating to non-recurring termination of services payments, which was offset by the devaluation of the Canadian dollar in the year. Share-based compensation included in 2015 G&A totalled $2.6 million, comparable to the $2.5 million included in 2014 G&A.

Exploration and project development expenses for the year ended December 31, 2015 were $11.9 million, which was a $1.3 million decrease compared to the $13.2 million expense in 2014. Both 2015 and 2014 exploration and project development expenditures were primarily related to activities near the Company's existing mines, at select greenfield projects, and on the holding and maintenance costs associated with the Navidad project, where approximately $6.8 million was spent in 2015 compared to approximately $4.4 million in 2014.

Foreign exchange ("FX") losses for the year ended December 31, 2015 were $13.0 million comparable to the $13.3 million of losses incurred in 2014. The compared losses in each year is largely the net result of FX losses on Mexican Peso ("MXN") and on CAD denominated treasury balances. The MXN devalued approximately 24% during 2015 compared to an approximate 6% decline in 2014. Although the approximate 21% devaluation of the CAD in 2015 was much higher than the approximate 11% devaluation in 2014, the 2015 losses were lower due to the Company holding approximately 74% less CAD denominated treasury balances in 2015 than in 2014.

Investment income for the year ended December 31, 2015 totalled $2.5 million, comparable to $2.8 million in 2014, and continued to consist mainly of interest income and net gains from the sale of securities within the Company's short-term investment portfolio.

Interest and finance expense for the year ended December 31, 2015 was $8.5 million, which was $0.2 million less than the $8.7 million recorded for the year ended December 31, 2014. The expenses were comprised of accretion of the Company's closure liabilities and interest and fees associated with the revolving credit facility, short-term loans, leases and the outstanding convertible notes. The comparable year over year amounts were the net result of comparable accretion amounts and decreased implied interest rate on loans payable, which were offset by increased interest and finance fees attributable to a new revolving credit facility that was established in April 2015.

Income tax recovery for the year ended December 31, 2015 was $4.2 million, which was an $88.3 million decrease from the $92.5 million annual recovery recorded in 2014. The 2015 and 2014 income tax recoveries were comprised of current and deferred income taxes as follows:

	2015	2014
Current tax expense		
Current tax expense in respect of the current year	**$ 18,079**	$ 35,763
Adjustments recognized in the current year with respect to prior years	**(2,225)**	44
	15,854	35,807
Deferred tax recovery		
Deferred tax recovery recognized in the current year	**(14,241)**	(20,199)
Adjustments recognized in the current year with respect to prior years	**(1,747)**	2,862
Adjustments to deferred tax attributable to changes in tax rates and laws	**-**	(2,876)
Reduction in deferred tax liabilities due to tax impact of impairment of mineral property, plant, and equipment	**(44,512)**	(97,541)
Derecognition of previously recognized deferred tax assets	**44,218**	-
Reduction in deferred tax liabilities due to tax impact of net realizable value charge to inventory	**(3,771)**	(10,547)
	(20,053)	(128,301)
Income tax recovery	**$ (4,199)**	$ (92,494)

The decrease in income tax recovery from 2014 was primarily a consequence of the decrease in the non-taxable portion of impairment charges, and the derecognition of previously recognized deferred tax assets, as well as the effects of various temporary and permanent differences as shown in the table below. These result in an effective tax rate that varies considerably from the comparable period and from the amount that would result from applying the Canadian federal and provincial statutory income tax rates to earnings before income taxes, as shown in the following table:

	2015	2014
Loss before taxes	**$ (235,755)**	$ (637,317)
Statutory tax rate	**26.00%**	26.00%
Income tax recovery based on above rates	**$ (61,296)**	$ (165,702)
Increase (decrease) due to:		
Non-deductible expenses	**5,683**	4,902
Foreign tax rate differences	**(17,626)**	(61,445)
Change in net deferred tax assets not recognized:		
Argentina exploration expenses	**2,717**	2,289
Other deferred tax assets not recognized	**8,800**	5,762
Derecognition of deferred tax assets previously recognized	**44,218**	-
Non-taxable portion of net earnings of affiliates	**(4,915)**	(4,915)
Change to temporary differences	**(1,767)**	2,862
Non-taxable unrealized gains on derivative financial instruments	**(72)**	(350)
Effect of other taxes paid (mining and withholding)	**6,628**	8,050
Effect of foreign exchange on tax expense	**12,941**	4,430
Impact of Peruvian tax rate change	**-**	(2,876)
Effect of change in deferred tax resulting from prior asset purchase accounting under IAS12	**2,600**	3,272
Impairment charges with no tax benefit	**2,219**	110,692
Other	**(4,329)**	535
Income Tax Recovery	**$ (4,199)**	$ (92,494)
Effective tax rate	**1.78%**	14.51%

In addition to the specific items noted below, the main factors which affected the effective tax rate for the year ended December 31, 2015 and the comparable period of 2014 were the non-deductible foreign exchange losses, foreign tax rate differences, mining taxes paid, and withholding tax on payments from foreign subsidiaries.

As previously discussed in both 2015 and 2014, the Company recorded non-cash impairment charges on several properties. In 2015, the Company recorded impairment charges on non-current assets at its Alamo Dorado, Manantial Espejo, Dolores, and Morococha properties. A deferred tax benefit was recorded on these impairment charges.

In 2015, the Company determined that it could not support the utilization of certain deferred tax assets related to the Alamo Dorado, Manantial Espejo and Morococha properties. As a result, a deferred tax expense of $44.2 million was recorded to derecognize these assets.

In 2014, the Company recorded a non-cash impairment charge on non-current assets on several properties, with no tax benefit recognized on a substantial portion of the properties including Navidad. A non-cash impairment charge was also recorded on goodwill associated with the La Virginia property with no tax benefit recognized.

The Company expects that these and other factors will continue to cause volatility in effective tax rates in the future.

- ***Statement of Cash Flows, 2015 annual vs. 2014 annual:***

Cash flow from operations for the year ended December 31, 2015 generated $88.7 million, which is $35.5 million less than the $124.2 million generated in 2014. The operating cash flow decrease was predominantly due to the decline in cash revenue due to the previously discussed decline in metal prices. Offsetting this decrease was a reduction of $19.2 million in income taxes paid in 2015 compared to 2014, and an $8.2 million year over year increase in sources of cash from changes in non-cash operating working capital accounts.

The net increase in sources of cash from non-cash working capital movements arose on changes in trade and other receivables balances ("Receivables"), accounts payable and accrued liability balances ("Payables"), and inventory balances. Receivables changes in 2015 resulted in a $27.5 million source of cash, $20.1 million more than the $7.4 million source of cash in 2014. Similarly, inventory balance changes resulted in a $23.4 million cash flow source in 2015, $12.1 million more than the $11.3 million source in 2014. The year over year cash flow increases were partially offset by changes in Payables, which were an $18.4 million increased cash flow used in 2015 compared to 2014.

Investing activities utilized $52.4 million for the year ended December 31, 2015, inclusive of $91.3 million generated on net sales of short-term investments. Other investing activities for the period consisted primarily of $146.7 million on mineral properties, plant and equipment investments. 2014 investing activities used $143.2 million, inclusive of $13.5 million used on net purchases of short-term investments, and $131.8 million spent on mineral properties, plant and equipment at the Company's various operations and projects.

Financing activities in 2015 used $47.8 million, 43% less than the $83.9 million for the year ended December 31, 2014. Cash used in financing activities during 2015 consisted of $41.7 million paid as dividends, $34.1 million less than the $75.8 million paid in 2014. The $36.2 million repayment of convertible debentures in the fourth quarter was offset by a corresponding $36.2 million draw on the revolving credit facility. In 2015 there were $7.5 million of lease repayments and $2.0 million generated from additional short-term debt proceeds, compared to $5.3 million in lease payments and $2.4 million was spent on short-term debt repayment (net of proceeds) in 2014.

- ***Income Statement: Q4 2015 versus Q4 2014***

A net loss of $137.0 million was recorded in Q4 2015 compared to a net loss of $525.7 million in Q4 2014, which corresponds to basic losses per share of $0.88 and $3.48 in Q4 2015 and Q4 2014, respectively.

The following table highlights the key items driving the difference between the net loss in Q4 2015 as compared to the net loss recorded in Q4 2014:

Net loss, three months ended December 31, 2014 (in thousands of USD)				**$**	**(525,727)**
Decreased revenue:					
Lower realized metal prices	$	(24,237)			
Higher quantities of metal sold		31,086			
Increased settlement adjustments		(6,149)			
Increased treatment and refining charges		(836)			
Total change in revenue				**$**	**(136)**
Decreased cost of sales:					
Lower production costs and royalty charges		12,158			
Lower depreciation and amortization		1,576			
Total decrease in cost of sales					**13,734**
Decreased impairment charges					474,750
Decreased exploration and project development expense					1,958
Increased investment income and other expense, net					1,967
Decreased foreign exchange loss					515
Decreased income tax recovery					(97,278)
Increased general and administrative expense					(2,839)
Increased net loss on commodity contracts, asset sales and derivatives					(2,650)
Increased interest and finance expense					(1,252)
Net loss, three months ended December 31, 2015				**$**	**(136,958)**

The $388.8 million quarter over quarter decrease to net losses is primarily attributable to the $412.9 million decrease in impairment charges, net of tax.

Revenue for Q4 2015 was $163.0 million, which is similar to the $163.1 million of revenue recognized in Q4 2014. The consistent quarter over quarter revenue was primarily the result of higher quantities of all metals sold having a positive $31.1 million variance on quarter over quarter revenue, offsetting both a $24.2 million negative variance from lower metal prices realized for all metals sold and a $6.1 million increase in negative settlement adjustments.

The following table reflects the metal prices realized by the Company and the quantities of metal sold during each quarter:

	Realized Metal Prices Three months ended December 31,		Quantities of Metal Sold Three months ended December 31,	
	2015	2014	**2015**	2014
Silver (1) – koz	**$ 14.66**	$ 15.70	**6,719**	6,353
Gold (1) – koz	**$ 1,109**	$ 1,205	**47.3**	35.7
Zinc (1) – kt	**$ 1,672**	$ 2,233	**10.2**	8.5
Lead (1) – kt	**$ 1,684**	$ 1,960	**3.7**	3.5
Copper (1) – kt	**$ 4,871**	$ 6,621	**3.4**	2.3

(1) Metal price stated as dollars per ounce for silver and gold, and dollars per tonne for zinc, lead and copper, inclusive of final settlement adjustments on concentrate sales.

Realized prices for all metals sold decreased from those realized in Q4 2014. Copper, zinc and lead experienced the most significant decreases, falling 26%, 25% and 14%, respectively, while quarter over quarter gold and silver prices decreased 8% and 7%, respectively. The decline in prices was also the primary driver in the increased negative settlement adjustments. The most significant sales volumes impact on quarter over quarter revenues were from gold, copper, and silver sales which increased 32%, 48% and 6%, respectively.

Mine operating losses of $7.8 million in Q4 2015 were $13.6 million lower than the $21.4 million of mine operating losses recorded in Q4 2014. With comparable revenues in Q4 2014 and Q4 2015 the quarter over quarter decline in mine operating losses was the result of decreases to cost of sales. Q4 2015 production costs of $127.9 million were $12.8 million lower than the $140.7 million in Q4 2014. The production cost decline was largely from quarter over quarter labour and consumable raw materials cost reductions at certain mines, particularly at Manantial Espejo and Alamo Dorado, which also experienced lower quarter over quarter quantities of metal sold. Mine operating results in both periods were adversely impacted by negative NRV adjustments to inventories, which increased production costs by $5.0 million and $2.2 million in Q4 2015 and Q4 2014, respectively. Q4 2015 royalties remained relatively consistent with those in Q4 2014, as did depreciation and amortization of $36.9 million in Q4 2015 compared to $38.5 million Q4 2014.

Exploration and project development expenses of $2.3 million in Q4 2015 compared to the $4.3 million incurred in Q4 2014. The expenses recorded in each quarter primarily related to exploration and project development activities near the Company's existing mines, at select greenfield projects, and on the holding and maintenance costs associated with the Navidad project, where approximately $0.9 million was spent in 2015 compared to approximately $1.7 million in 2014. During Q4 2015 there were no significant developments affecting the status of the Navidad project.

G&A expense, including share-based compensation expense, was $5.9 million in Q4 2015 compared to a $3.1 million expense recorded in Q4 2014. The $2.8 million increase was driven largely by increased payroll and salary costs relating to certain annual bonuses and non-recurring payments, which were partially offset by the devaluation in the CAD from Q4 2014 to Q4 2015, as a large portion of G&A expenses are CAD denominated. Share-based compensation was $0.1 million in Q4 2015 compared to the $0.5 million in Q4 2014.

Impairments of mining assets during Q4 2015 were $121.5 million before tax ($85.4 million net of tax) compared to Q4 2014 pre-tax impairments of $596.3 million ($498.7 million net of tax). The Q4 2015 impairments related to the previously discussed 2015 impairments, with the exception of the Manantial Espejo impairment which occurred in the third quarter of the year. All of the previously discussed 2014 impairments occurred in the fourth quarter of 2014.

Foreign exchange losses for the quarter ended December 31, 2015 were $4.0 million, $0.5 million less than the $4.5 million of losses incurred in Q4 2014. The decreased loss was primarily the result of decreased quarter over quarter losses on CAD denominated treasury balances. With similar CAD devaluation in Q4 2015 and Q4 2014 of approximately 5%, the decreased quarter over quarter loss was due to the Company holding approximately 80% less CAD denominated treasury in Q4 2015 compared to Q4 2014.

Investment income for Q4 2015 totaled $1.4 million compared to $0.6 million in Q4 2014 and continued to consist mainly of interest income and net gains from the sale of securities within the Company's short-term investment portfolio.

Interest and finance expense for Q4 2015 was $2.5 million as compared to $1.3 million in Q4 2014, and consisted of accretion of the Company's closure liabilities and interest expense associated with the revolving credit facility, short-term loans, leases and the outstanding convertible notes. The increase in Q4 2015is attributable to the new revolving credit facility that was established in April 2015.

Income tax recovery during Q4 2015 was $8.0 million compared to $105.3 million in Q4 2014. The main factors which impacted the effective tax rates for Q4 2015 versus the expected statutory rate were similar to those described above for the full year 2015. The primary reasons for the change in the quarter over quarter recovery were the tax impact of impairment charges and the derecognition of previously recognized deferred tax assets.

- ***Statement of Cash Flows: Q4 2015 versus Q4 2014***

Cash flow from operations in Q4 2015 generated $23.4 million, significantly more than the $0.8 million generated in Q4 2014. The $22.6 million increase in quarterly operating cash flows was primarily the result of a $15.0 million quarter over quarter increase in operating cash flows before payments on interest and taxes, and working capital movements, which in turn were largely due to reduced cash production costs. The increased Q4 operating cash flows were further benefited by a $4.5 million reduction to income taxes paid, along with an additional $2.2 million quarter over quarter increase in sources of cash from changes in non-cash operating working capital accounts.

The net increase in sources of cash from non-cash working capital movements arose on changes to Receivables, Payables, and inventory balances Receivables changes in Q4 2015 resulted in a $20.0 million source of cash, $19.3 million more than the $0.8 million source of cash in Q4 2014. Similarly, inventory balance changes resulted in a $6.6 million cash flow source in 2015, $6.0 million more than the $0.6 million source in Q4 2014. The year over year cash flow increases were partially offset by changes in Payables, which were a $23.7 million increased cash flow use in Q4 2015 compared to Q4 2014.

Investing activities utilized $35.0 million in Q4 2015, inclusive of $18.2 million generated on the sale of short-term investments. The balance of Q4 2015 investing activities consisted primarily of spending $53.7 million on mineral property, plant and equipment at the Company's mines and projects as previously described in the "Operating Performance" section of this MD&A. In Q4 2014, investing activities generated $6.4 million inclusive of $33.7 million generated on the net sale of short-term investments, and $30.1 million spent on mineral property, plant and equipment additions at the Company's various operations and projects.

Financing activities in Q4 2015 used $8.6 million compared to $20.9 million in Q4 2014. Cash used in financing activities in Q4 2015 consisted of $7.6 million paid as dividends to shareholders, $0.4 million used for short-term debt repayment (net of proceeds), and $0.6 million of lease repayments. In Q4 2014 $18.9 million of dividends were paid, $0.4 million used for short-term debt repayment (net of proceeds), and $1.5 million of lease payments were made. The $36.2 million repayment of convertible debentures in Q4 2015 was offset by a corresponding $36.2 million draw on the revolving credit facility.

- ***2015 Annual and Q4 Adjusted Earnings***

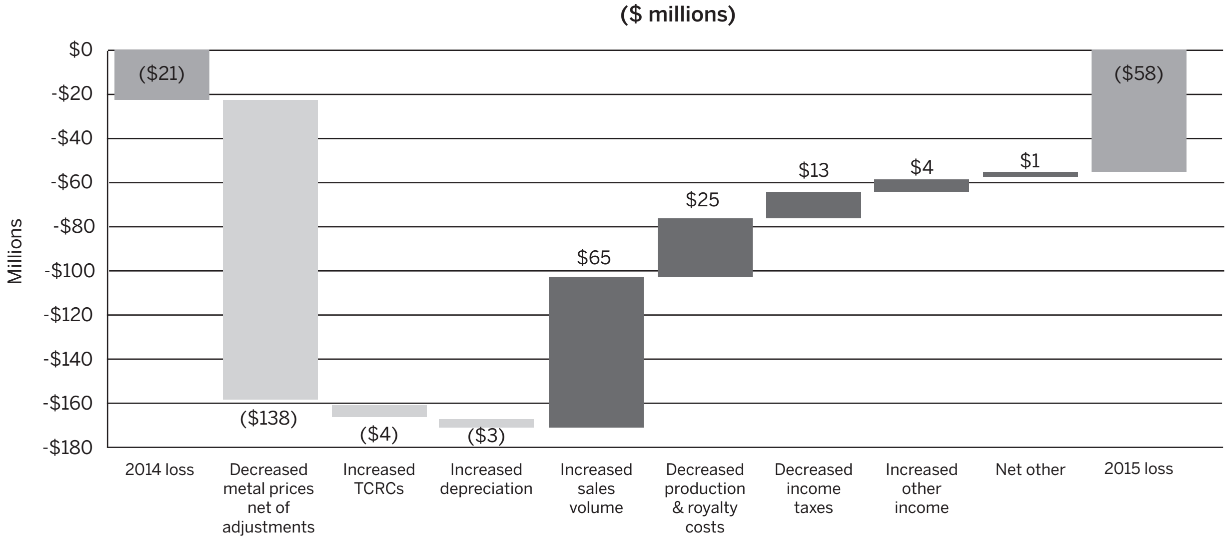
Adjusted earnings and basic adjusted earnings per share are non-GAAP measures that the Company considers to better reflect normalized earnings as it eliminates items that may be volatile from period to period, relating to positions which will settle in future periods, and items that are non-recurring. Neither adjusted earnings nor basic adjusted earnings per share have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

Please refer to the section of this MD&A entitled "Alternative Performance (Non-GAAP) Measures" for a detailed description of "adjusted earnings" and "basic adjusted earnings per share", and a reconciliation of these annual and fourth quarter measures to the 2015 Financial Statements.

Annual Adjusted Net Loss in 2015 was $58.0 million, representing a basic adjusted loss per share of $0.38, which was $37.1 million, or $0.24 per share, higher than 2014 adjusted net losses and basic losses per share of $20.8 million, and $0.14, respectively. The year over year increased adjusted loss was largely attributable to the previously discussed decline in revenues, offset by reduced production costs and royalties and lower income taxes.

The following chart illustrates the key factors leading to the change from adjusted net loss for the year ended December 31, 2014 to the adjusted net loss incurred in 2015:

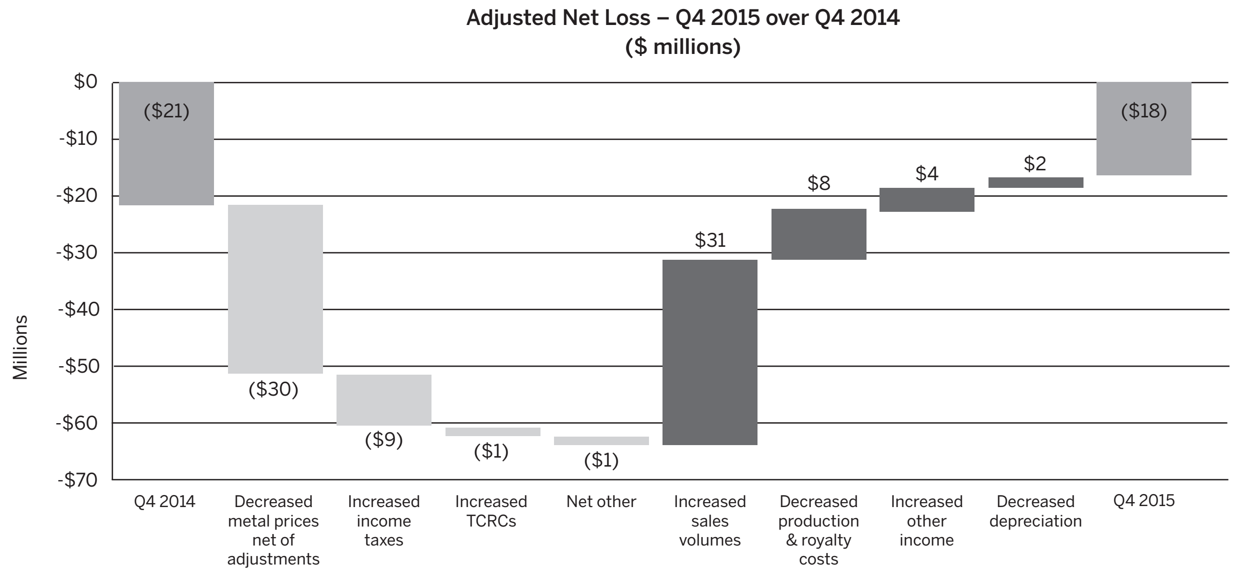
Adjusted Net Loss – 2015 over 2014
($ millions)



Q4 Adjusted Net Loss in 2015 was $17.5 million, representing a basic adjusted loss per share of $0.12, which was $3.7 million, or $0.02 per share, lower than Q4 2014 adjusted net losses and basic losses per share of $21.2 million, and $0.14, respectively.

The quarter over quarter decline in adjusted net loss was primarily the result of the previously discussed decline in production costs.

The following chart illustrates the key factors leading to the change from adjusted net loss for the year ended December 31, 2014 to the adjusted net loss incurred in 2015:



LIQUIDITY POSITION

The Company's cash balance at December 31, 2015 was $134.0 million, which was a decrease of $12.2 million from the balance at December 31, 2014. The balance of the Company's short-term investments at December 31, 2015, was $92.7 million, which was a decrease of $91.5 million from the $184.2 million balance at December 31, 2014. The combined liquidity decrease in 2015 of $103.8 million resulted primarily from an additional $146.7 million in capital expenditures used on mineral properties, plant and equipment, and an additional $41.7 million used for the payment of dividends, which were partially offset by the $88.7 million in cash generated from operating activities.

Pan American's investment objectives for its cash balances are to preserve capital, to provide liquidity and to maximize returns. The Company's strategy to achieve these objectives is to invest excess cash balances in a portfolio of primarily fixed income instruments with specified credit rating targets established by the Board of Directors, and by diversifying the currencies in which it maintains its cash balances. The Company does not own any asset-backed commercial paper or other similar, known, at-risk investments in its investment portfolio.

Working capital at December 31, 2015, was $392.2 million, which was a decrease of $130.5 million from December 31, 2014 working capital of $522.7 million. The decrease in working capital was due to the previously described $103.8 million decrease in cash and short-term investments and a net $26.6 million decrease in other working capital accounts that arose primarily from: a $48.2 million decrease in inventories (primarily associated with metal price declines and related NRV adjustments); an $18.6 million decrease in trade and other receivables; partially offset by a $48.1 million decrease in current liabilities, which was largely due to the fourth quarter settlement of the current convertible debenture liabilities.

On April 15, 2015, the Company entered into a senior secured revolving credit facility (the "Facility") with a syndicate of eight lenders. The Facility is a $300.0 million secured revolving line of credit that matures on April 15, 2019, and is available for general corporate purposes, including acquisitions. The terms of the Facility provide the Company with the flexibility of various borrowing and letter of credit options. With respect to loans drawn based on the average annual rate of interest at which major banks in the London interbank market are offering deposits in US Dollars ("LIBOR"), the interest margin on such loan is between 2.125% and 3.125% over LIBOR, depending on the Company's leverage ratio at the time of a specified reporting period. On December 29, 2015 the Company made a $36.2 million drawdown on the Facility by way of Libor loan at an annual rate of 2.55%. Subsequent to December 31, 2015, and at the date of this MD&A, $36.2 million remained drawn on the Facility through LIBOR loans with an average annual rate of 2.55%.

The Company's financial position at December 31, 2015, and the operating cash flows that are expected over the next twelve months lead management to believe that the Company's liquid assets are sufficient to satisfy our 2016 working capital requirements, fund currently planned capital expenditures for existing operations, and to discharge liabilities as they come due. The Company remains well positioned to take advantage of further strategic opportunities as they become available. Liquidity risks are discussed further in the "Risks and Uncertainties" section of this MD&A.

The impact of inflation on the Company's financial position, operational performance, or cash flows over the next twelve months cannot be determined with any degree of certainty.

CAPITAL RESOURCES

Total attributable shareholders' equity at December 31, 2015, was $1,297.2 million, a decrease of $265.9 million from December 31, 2014, primarily because of the $231.6 million net loss for the year ended December 31, 2015 and $41.7 million in dividends paid in 2015. As of December 31, 2015, the Company had approximately 151.9 million common shares outstanding for a share capital balance of $2,298.4 million (December 31, 2014, 151.6 million and $2,296.7 million). The basic weighted average number of common shares outstanding was 151.7 million and

151.5 million for the year ended December 31, 2015, and 2014, respectively.

On December 17, 2014, the Company announced that the TSX accepted the Company's notice of its intention to make a normal course issuer bid ("NCIB") to purchase up to 7,575,290 of its common shares, representing up to 5% of Pan American's issued and outstanding shares. The period of the bid began on December 22, 2014 and ended on December 21, 2015. No shares were repurchased under that program, and the Company has not made any subsequent NCIB. This was the Company's fourth consecutive NCIB program. Since initiating share buy backs in 2011, the Company has acquired and cancelled approximately 6.5 million of its shares.

Purchases pursuant to the historic NCIB were required to be made on the open market through the facilities of the TSX and the NASDAQ at the market price at the time of acquisition of any common shares, and in accordance with the rules and policies of the TSX and NASDAQ and applicable securities laws. Pan American was not obligated to make any purchases under the program. All common shares acquired by the Company under the share buy back programs have been cancelled and purchases were funded out of Pan American's working capital.

A copy of the Company's notice of its intention to make a NCIB filed with the TSX can be obtained from the Corporate Secretary of Pan American without charge.

As at December 31, 2015, the Company had approximately 1.6 million stock options outstanding, with exercise prices in the range of CAD $9.76 to CAD $40.22 and a weighted average life of 60 months. Approximately 1.0 million of the stock options were vested and exercisable at December 31, 2015, with an average weighted exercise price of CAD $19.23 per share.

The following table sets out the common shares and options outstanding as at the date of this MD&A:

	Outstanding as at March 24, 2016
Common shares	152,008,083
Options	1,505,764
Total	**153,513,847**

FINANCIAL INSTRUMENTS

A part of the Company's operating and capital expenditures is denominated in local currencies other than USD. These expenditures are exposed to fluctuations in USD exchange rates relative to the local currencies. From time to time, the Company mitigates part of this currency exposure by accumulating local currencies, entering into contracts designed to fix or limit the Company's exposure to changes in the value of local currencies relative to the USD, or assuming liability positions to offset financial assets subject to currency risk. The Company held cash and short-term investments of $13.0 million in CAD, $9.2 million in MXN, $1.7 million in Peruvian Soles, and $1.3 million in Bolivian Bolivianos ("BOB") at December 31, 2015. At December 31, 2015, the Company has collared its foreign currency exposure of MXN purchases with put and call contracts which have a nominal value of $35.7 million and have settlement dates between January, 2016 and December, 2016. The positions have a weighted average floor of $16.41 and average cap of $18.49. The Company recorded losses of $nil million and $0.2 million on the MXN forward contracts in the three and twelve months ended December 31, 2015, respectively (three and twelve months ended December 31, 2014 - $nil). Risks relating to foreign exchange rates is discussed in the "Risks and Uncertainties" section of this MD&A.

From time to time, Pan American mitigates the price risk associated with its base metal production by committing some of its future production under forward sales or option contracts. Risks relating to metal prices and hedging activities undertaken in relation to metal prices are discussed in the "Risks and Uncertainties" section of this MD&A.

During Q2 2015, the Company entered into copper swap contracts designed to fix or limit the Company's exposure to lower copper prices (the "Copper Swaps"). The Copper Swaps were on 4,080 metric tonnes ("MT") of copper at an average fixed price of $6,044 USD/MT. As of December 31, 2015 none of the Copper Swaps remained outstanding. The Company recorded gains of $0.4 million and $3.0 million on the Copper Swaps during the three and twelve months ended December 31, 2015. Of these gains, $1.8 million and $3.0 million were realized in the three and twelve months ended December 31 2015. No such gains or losses were recorded in the three and twelve months ended December 31, 2014.

During Q1 2015, the Company entered into diesel swap contracts designed to fix or limit the Company's exposure to higher fuel prices (the "Diesel Swaps"). The Diesel Swaps had an initial notional value of $13.0 million. During Q4 2015, the Company entered into additional Diesel Swaps with an initial notional value of $12.5 million. A total of $14.7 million of the notional amounts of the Diesel Swaps remained outstanding as of December 31, 2015. The Company recorded losses of $2.4 million and $3.1 million on the Diesel Swaps during the three and twelve months ended December 31, 2015, respectively. Of these losses, $0.8 million and $0.4 million were realized in the three and twelve months ended December 2015, respectively. No such gains or losses were recorded in the three and twelve months ended December 31, 2014.

Other than the Diesel Swaps, Copper Swaps and the MXN forward contract positions there were no other gains or losses on any commodity or foreign currency contracts in either the three or twelve months ended December 31, 2015, and 2014.

The Company maintains short term bank loans in Argentina and at December 31, 2015, had a balance outstanding of $19.6 million (December 31, 2014: $17.6 million). These loans were denominated in USD and Argentine pesos as at December 31, 2015, were denominated in Argentine pesos at December 31, 2014, and were drawn for the purposes of short-term cash management and to partially offset the foreign exchange exposure of holding local currency denominated financial assets.

The carrying value of the conversion feature on convertible notes assumed by the Company in the Minefinders transaction, which was settled in December 2015, was at fair value; while cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments.

The Company had the right to pay all or part of the liability associated with the Company's previously outstanding convertible notes in cash on the conversion date. Accordingly, the Company classified the convertible notes as a financial liability with an embedded derivative. The financial liability and embedded derivative were recognized initially at their respective fair values. The embedded derivative was recognized at fair value with changes in fair value reflected in profit or loss and the debt liability component is recognized as amortized cost using the effective interest method. Interest gains and losses related to the debt liability component or embedded derivatives were 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.

During the fourth quarter of 2015 and 2014, the Company recorded a gain (loss) on the revaluation of the conversion feature of the convertible notes of $nil and $(0.3) million, respectively. For the years ended December 31, 2015, and December 31, 2014, the Company recorded a gain on the revaluation of the conversion feature of the convertible notes of $0.3 million and $1.1 million, respectively.

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 judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The classification of financial instruments and the significant assumptions made in determining the fair value of financial instruments is described in note 7 of the 2015 Financial Statements.

CLOSURE AND DECOMMISSIONING COST PROVISION

The estimated future closure and decommissioning costs are based principally on the requirements of relevant authorities and the Company's environmental policies. The provision is measured using management's assumptions and estimates for future cash outflows. The Company accrues these costs initially at their fair value, which are determined by discounting costs using rates specific to the underlying obligation. Upon recognition of a liability for the closure and decommissioning costs, the Company capitalizes these costs to the related mine and amortizes such amounts over the life of each mine on a unit-of-production basis except in the case of exploration projects for which the offset to the liability is expensed. The accretion of the discount due to the passage of time is recognized as an increase in the liability and a finance expense.

The total inflated and undiscounted amount of estimated cash flows required to settle the Company's estimated future closure and decommissioning costs is $107.2 million (2014 - $99.7 million) which has been inflated using inflation rates of between 1% and 17%. The inflated and discounted (using discount rates between 1% and 20%) provision on the statement of financial position as at December 31, 2015 is $50.5 million (2014 - $43.2 million). Spending with respect to decommissioning obligations at the Alamo Dorado and Manantial Espejo mines is expected to be begin in 2016, while the remainder of the obligations are expected to be paid through 2035 or later if mine life is extended. Revisions made to the reclamation obligations in 2015 were primarily a result of increased site disturbance from the ordinary course of operations at the mines as well as revisions to the estimates based on periodic reviews of closure plans and related costs, actual expenditures incurred, and concurrent closure activities completed. These obligations will be funded from operating cash flows, reclamation deposits, and cash on hand.

The accretion of the discount charged to 2015 earnings as finance expense was $3.2 million, in line with $3.2 million in 2014. Reclamation expenditures incurred during the current year were $2.8 million (2014 - $2.0 million).

CONTRACTUAL COMMITMENTS AND CONTINGENCIES

The Company does not have any off-balance sheet arrangements or commitments that have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that are material. The Company had the following contractual obligations at December 31, 2015:

	Payments due by period				
	Total	Within 1 year (2)	2 - 3 years	4- 5 years	After 5 years
Current liabilities	$ 111,700	$ 111,700	$ -	$ -	$ -
Credit facility	39,400	960	1,920	36,520	-
Loan obligation	19,680	19,680	-	-	-
Finance lease obligations (1)	4,124	2,319	1,805	-	-
Severance accrual	3,811	720	1,444	975	672
Employee compensation (3)	3,178	1,707	1,471	-	-
Loss on commodity contracts	2,835	2,835	-	-	-
Provisions (4)	4,419	2,962	405	733	319
Income taxes payable	13,481	13,481	-	-	-
Total contractual obligations (4)	**$ 202,628**	**$ 156,364**	**$ 7,045**	**$ 38,228**	**$ 991**

(1) Includes lease obligations in the amount of $4.1 million (December 31, 2014 - $8.4 million) with a net present value of $4.0 million (December 31, 2014 - $8.0 million) discussed further in Note 16 of the 2015 Financial Statements.

(2) Includes all current liabilities as per the statement of financial position plus items presented separately in this table that are expected to be paid but not accrued in the books of the Company. A reconciliation of the current liabilities balance per the statement of financial position to the total contractual obligations within one year per the commitment schedule is shown in the table below.

December 31, 2015		Future interest component	Within 1 year
Current portion of:			
Accounts payable and other liabilities	$ 111,700	$ -	$ 111,700
Credit facility	-	960	960
Loan obligation	19,578	102	19,680
Current portion of finance lease	2,238	81	2,319
Current severance liability	720	-	720
Employee Compensation & Restricted Share Units	409	1,298	1,707
Unrealized loss on commodity contracts	2,835	-	2,835
Provisions (4)	2,962	-	2,962
Income tax payable	13,481	-	13,481
Total contractual obligations within one year	$ 153,923	$ 2,441	$ 156,364

(3) Includes RSU obligation in the amount of $2.5 million (December 31, 2014 – $2.2 million) that will be settled in cash or shares. The restricted share units vest in two instalments, 50% in December 2016, and 50% in December 2017.

(4) 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 18 of the 2015 Financial Statements.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, a company indirectly owned by a trust of which a director of the Company is a beneficiary, was paid approximately $1.4 million (2014 - $0.4 million) for consulting services. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. There are not any ongoing contractual or other commitments associated with this arrangement or with another related party.

ALTERNATIVE PERFORMANCE (NON-GAAP) MEASURES

- ***AISCSOS***

AISCSOS is a non-GAAP financial measure. AISCSOS does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. We believe that AISCSOS reflects a comprehensive measure of the full cost of operating our consolidated business given it includes the cost of replacing silver ounces through exploration, the cost of ongoing capital investments (sustaining capital), general and administrative expenses, as well as other items that affect the Company's consolidated earnings and cash flow. To facilitate a better understanding of this measure as calculated by the Company, the following table provides the detailed reconciliation of this measure to the applicable cost items, as reported in the consolidated income statements for the respective periods:

		Three months ended December 31,		Twelve months ended December 31,	
(in thousands USD, unless otherwise stated)		2015	2014	2015	2014
Direct Operating Costs		$ 122,845	$ 138,484	$ 521,169	$ 538,251
Net realizable value ("NRV") inventory adjustments		5,028	2,212	10,861	29,953
Production costs		127,873	140,695	532,031	568,204
Royalties		5,941	5,277	23,901	27,955
Smelting, refining and transportation charges (1)		24,995	24,159	90,858	86,470
Less by-product credits (1)		(92,138)	(84,141)	(377,954)	(361,309)
Cash cost of sales net of by-products (2)		66,671	85,990	268,835	321,319
Sustaining capital (3)		23,476	24,172	73,701	99,083
Exploration and project development		2,320	4,278	11,940	13,225
Reclamation cost accretion		810	809	3,239	3,238
General & administrative expense		5,890	3,051	18,027	17,908
All-in sustaining costs (2)	A	$ 99,167	$ 118,299	$ 375,744	$ 454,744
Payable ounces sold (in koz)	B	6,719.5	6,352.6	25,179.8	25,430.5
All-in sustaining cost per silver ounce sold, net of by-products	A/B	$ 14.76	$ 18.62	$ 14.92	$ 17.88
All-in sustaining cost per silver ounce sold, net of by-products (Excludes NRV)		$ 14.01	$ 18.27	$ 14.49	$ 16.71

(1)Included in the revenue line of the unaudited condensed interim consolidated income statements and are reflective of realized metal prices for the applicable periods.

(2) Totals may not add due to rounding.

(3) Please refer to the table below.

As part of the AISCSOS measure, sustaining capital is included while expansionary or acquisition capital (referred to by the Company as investment capital) is not. Inclusion of sustaining capital only is a better measure of capital costs associated with current ounces sold as opposed to investment capital, which is expected to increase future production. For the periods under review, the below noted items associated with the La Colorada expansion project, and Dolores' leach pad and other expansionary expenditures are considered investment capital projects.

Reconciliation of payments for mineral property, plant and equipment and sustaining capital (in thousands of USD)	Three months ended December 31,		Twelve months ended December 31,	
	2015	2014	**2015**	2014
Payments for mineral property, plant and equipment (1)	**$ 53,705**	$ 30,131	**$ 146,735**	$ 131,761
Add/(Subtract)				
Advances received for leases	**2,571**	636	**3,491**	3,230
Non-Sustaining capital (Dolores, La Colorada projects, and other)	**(32,800)**	(6,595)	**(76,524)**	(35,908)
Sustaining Capital (2)	**$ 23,476**	$ 24,172	**$ 73,701**	$ 99,083

(1) As presented on the unaudited condensed interim consolidated statements of cash flows.

(2) Totals may not add due to rounding.

	Three months ended December 31, 2015								
(in thousands of USD, except as noted)	La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	PAS CORP	**Consolidated**
Direct operating costs	$ 11,454	$ 29,065	$ 14,034	$ 16,999	$ 14,707	$ 11,747	$ 24,837	-	**$ 122,845**
NVR inventory adjustments	-	3,132	684	-	-	-	1,212	-	**5,028**
Production costs	$ 11,454	$ 32,198	$ 14,718	$ 16,999	$ 14,707	$ 11,747	$ 26,049	-	**$ 127,873**
Royalties	73	1,225	97	-	-	3,542	1,004	-	**5,941**
Smelting, refining and transportation charges	3,009	31	252	7,451	7,711	4,615	1,926	-	**24,995**
Less by-product credits	(5,415)	(21,110)	(9,369)	(14,752)	(15,587)	(5,031)	(20,874)	-	**(92,138)**
Cash cost of sales net of by-products (1)	$ 9,121	$ 12,344	$ 5,698	$ 9,698	$ 6,831	$ 14,873	$ 8,105	-	**$ 66,671**
Sustaining capital	2,965	10,064	-	4,599	2,516	996	2,337	-	**23,476**
Exploration and project development	172	86	-	53	722	-	-	1,287	**2,320**
Reclamation cost accretion	59	90	58	150	96	56	274	26	**810**
General & administrative expense	-	-	-	-	-	-	-	5,890	**5,890**
All-in sustaining costs (1)	$ 12,317	$ 22,585	$ 5,756	$ 14,500	$ 10,165	$ 15,925	$ 10,716	$ 7,202	**$ 99,167**
Payable silver ounces sold	1,262,660	1,048,000	726,214	773,799	483,481	1,447,582	977,754	-	**6,719,489**
All-in Sustaining Costs per Silver Ounce Sold, net of by products	$ 9.57	$ 21.55	$ 7.93	$ 18.74	$ 21.02	$ 11.00	$ 10.96	-	**$ 14.76**
All-in Sustaining Costs per Silver Ounce Sold (Excludes NRV Adjustments)	$ 9.75	$ 18.56	$ 6.98	$ 18.74	$ 21.02	$ 11.00	$ 9.72	-	**$ 14.01**

(1) Totals may not add due to rounding.

	Twelve months ended December 31, 2015								
(in thousands of USD, except as noted)	La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	PAS CORP	**Consolidated**
Direct operating costs	$ 48,842	$ 132,343	$ 60,159	$ 66,878	$ 66,096	$ 32,211	$ 114,640	-	**$ 521,169**
NVR inventory adjustments		(11,417)	(522)	-	-	-	22,800	-	**10,861**
Production costs	$ 48,842	$ 120,926	$ 59,637	$ 66,878	$ 66,096	$ 32,211	$ 137,440	-	**$ 532,031**
Royalties	385	5,289	344	-	-	14,051	3,832	-	**23,901**
Smelting, refining and transportation charges	11,877	132	682	26,986	31,424	11,147	8,609	-	**90,858**
Less by-product credits	(22,585)	(96,066)	(23,446)	(58,027)	(68,480)	(13,047)	(96,302)	-	**(377,954)**
Cash cost of sales net of by-products (1)	$ 38,519	$ 30,281	$ 37,217	$ 35,837	$ 29,041	$ 44,362	$ 53,579	-	**$ 268,836**
Sustaining capital	9,869	25,162	-	13,610	7,713	3,286	14,061	-	**73,701**
Exploration and project development	254	544	-	765	1,202	-	-	9,175	**11,940**
Reclamation cost accretion	237	362	232	600	384	226	1,096	103	**3,239**
General & administrative expense	-	-	-	-	-	-	-	18,027	**18,027**
All-in sustaining costs (1)	$ 48,879	$ 56,348	$ 37,450	$ 50,813	$ 38,339	$ 47,873	$ 68,736	$ 27,305	**$ 375,744**
Payable silver ounces sold	5,108,985	4,448,000	2,944,491	3,009,185	1,995,307	4,019,265	3,654,556		**25,179,788**
All-in Sustaining Costs per Silver Ounce Sold, net of by products	$ 9.57	$ 12.67	$ 12.72	$ 16.89	$ 19.21	$ 11.91	$ 18.81	-	**$ 14.92**
All-in Sustaining Costs per Silver Ounce Sold (Excludes NRV Adjustments)	$ 9.57	$ 15.24	$ 12.90	$ 16.89	$ 19.21	$ 11.91	$ 12.57	-	**$ 14.49**

(1) Totals may not add due to rounding.

Three months ended December 31, 2014									
(In thousands of USD, except as noted)	La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	PAS CORP	**Consolidated Total**
Direct operating costs	$ 11,676	$ 29,668	$ 18,309	$ 20,589	$ 16,583	$ 8,353	$ 33,307		**$ 138,484**
NVR inventory adjustments	-	6,341	1,248	-	-	-	(5,377)		**2,212**
Production costs	$ 11,676	$ 36,009	$ 19,557	$ 20,589	$ 16,583	$ 8,353	$ 27,929		**$ 140,696**
Royalties	95	1,023	96	-	-	3,112	951		**5,277**
Smelting, refining and transportation charges	2,775	49	149	10,363	5,163	3,471	2,188		**24,159**
Less by-product credits	(5,980)	(17,859)	(5,870)	(18,525)	(15,198)	(2,681)	(18,027)		**(84,141)**
Cash cost of sales net of by-products [(1)]	$ 8,565	$ 19,222	$ 13,931	$ 12,428	$ 6,549	$ 12,254	$ 13,041		**$ 85,990**
Sustaining capital	1,488	7,962	67	4,970	3,149	992	5,543		**24,172**
Exploration and project development	1	264	135	59	1,056	-	294	2,469	**4,278**
Reclamation cost accretion	59	90	58	150	96	56	274	25	**809**
General & administrative expense	-	-	-	-	-	-	-	3,051	**3,051**
All-in sustaining costs [(1)]	$ 10,113	$ 27,538	$ 14,191	$ 17,607	$ 10,849	$ 13,302	$ 19,152	$ 5,545	**$ 118,299**
Payable silver ounces sold	1,098,949	882,500	816,061	787,616	537,071	1,117,385	1,112,980		**6,352,562**
All-in Sustaining Costs per Silver Ounce Sold, net of by products	$ 9.20	$ 31.20	$ 17.39	$ 22.35	$ 20.20	$ 11.90	$ 17.21	N/A	**$ 18.62**
All-in Sustaining Costs per Silver Ounce Sold (Excludes NRV Adjustments)	$ 9.20	24.02	$ 15.86	$ 22.35	$ 20.20	$ 11.90	$ 22.04		**$ 18.27**

(1) Totals may not add due to rounding.

Twelve months ended December 31, 2014									
(In thousands of USD, except as noted)	La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	PAS CORP	**Consolidated Total**
Direct operating costs	$ 49,992	$ 129,154	$ 65,519	$ 77,013	$ 68,873	$ 34,126	$ 113,573		**$ 538,250**
NVR inventory adjustments	-	23,253	1,947	-	-	-	4,753		**29,953**
Production costs	$ 49,992	$ 152,407	$ 67,466	$ 77,013	$ 68,873	$ 34,126	$ 118,326		**$ 568,203**
Royalties	436	4,888	457	-	-	17,900	4,273		**27,955**
Smelting, refining and transportation charges	11,142	178	633	32,146	19,799	13,638	8,934		**86,470**
Less by-product credits	(23,761)	(81,377)	(22,370)	(70,723)	(59,487)	(11,753)	(91,838)		**(361,309)**
Cash cost of sales net of by-products [(1)]	$ 37,808	$ 76,097	$ 46,187	$ 38,437	$ 29,185	$ 53,911	$ 39,695		**$ 321,319**
Sustaining capital	13,476	27,632	293	17,327	10,199	3,415	26,741		**99,083**
Exploration and project development	9	1,602	336	1,312	1,453	-	1,657	6,855	**13,225**
Reclamation cost accretion	237	362	232	600	384	226	1,096	102	**3,238**
General & administrative expense	-	-	-	-	-	-	-	17,908	**17,908**
All-in sustaining costs [(1)]	$ 51,530	$ 105,693	$ 47,048	$ 57,676	$ 41,221	$ 57,552	$ 69,189	$ 24,865	**$ 454,773**
Payable silver ounces sold	4,726,138	3,911,600	3,605,832	3,024,572	2,125,430	4,177,048	3,859,900		**25,430,519**
All-in Sustaining Costs per Silver Ounce Sold, net of by products	$ 10.90	$ 27.02	$ 13.05	$ 19.07	$ 19.39	$ 13.78	$ 17.93	N/A	**$ 17.88**
All-in Sustaining Costs per Silver Ounce Sold (Excludes NRV Adjustments)	$ 10.90	21.08	$ 12.51	$ 19.07	$ 19.39	$ 13.78	$ 16.69		**$ 16.71**

(1) Totals may not add due to rounding.

- ***Cash Costs per Ounce of Silver, net of by-product credits***

Pan American produces by-product metals incidentally to our silver mining activities. We have adopted the practice of calculating the net cost of producing an ounce of silver, our primary payable metal, after deducting revenues gained from incidental by-product production, as a performance measure. This performance measurement has been commonly used in the mining industry for many years and was developed as a relatively simple way of comparing the net production costs of the primary metal for a specific period against the prevailing market price of that metal.

Cash costs per ounce metrics, net of by-product credits, were utilized extensively in our internal decision making processes. We believe they are useful to investors as these metrics facilitate comparison, on a mine by mine basis, notwithstanding the unique mix of incidental by-product production at each mine, of our operations' relative performance on a period by period basis, and against the operations of our peers in the silver industry on a consistent basis. Cash costs per ounce is conceptually understood and widely reported in the silver mining industry. However, cash cost per ounce of silver is a non-GAAP measure and does not have a standardized meaning prescribed by GAAP and the Company's method of calculating cash costs may differ from the methods used by other entities.

To facilitate a better understanding of these measures as calculated by the Company, the following table provides the detailed reconciliation of these measures to the production costs, as reported in the consolidated income statements for the respective periods:

Total Cash Costs per ounce of Payable Silver, net of by-product credits (in thousands of USD except as noted)		Three months ended December 31,		Twelve months ended December 31,	
		2015	2014	**2015**	2014
Production costs		$ **127,873**	$ 140,695	$ **532,031**	$ 568,204
Add/(Subtract)					
Royalties		**5,941**	5,277	**23,901**	27,955
Smelting, refining, and transportation charges		**24,319**	21,195	**94,804**	76,968
Worker's participation and voluntary payments		**62**	113	**(147)**	(484)
Change in inventories		**(3,115)**	8,966	**(19,114)**	15,835
Other		**882**	(1,461)	**(6,537)**	(5,653)
Non-controlling interests(1)		**(1,072)**	(1,204)	**(4,331)**	(4,746)
Metal inventories recovery (write-down)		**(5,028)**	(2,212)	**(10,861)**	(29,953)
Cash Operating Costs before by-product credits		**149,860**	171,369	**609,746**	648,126
Less gold credit		**(52,562)**	(51,794)	**(208,800)**	(201,317)
Less zinc credit		**(15,855)**	(19,676)	**(66,831)**	(81,357)
Less lead credit		**(6,477)**	(7,412)	**(24,488)**	(29,903)
Less copper credit		**(17,030)**	(16,935)	**(71,635)**	(52,856)
Cash Operating Costs net of by-product credits (2)	A	**57,936**	75,554	**237,992**	282,693
Payable Silver Production (koz)	B	**6,370.8**	6,340.4	**24,530.8**	24,663.4
Cash Costs per ounce net of by-product credits	(A*$1000) /B	$ **9.09**	$ 11.92	$ **9.70**	$ 11.46

(1) Figures presented in the reconciliation table above are on a 100% basis as presented in the unaudited condensed interim consolidated financial statements with an adjustment line item to account for the portion of the Morococha and San Vicente mines owned by non-controlling interests, an expense item not included in operating cash costs. The associated tables below are for the Company's share of ownership only.

(2) Figures in this table and in the associated tables below may not add due to rounding.

Three months ended December 31, 2015 (1)
(in thousands of USD except as noted)

		La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	**Consolidated Total**
Cash Costs before by-product credits	A	$ 15,861	$ 31,089	$ 13,353	$ 23,380	$ 21,143	$ 14,376	$ 29,203	**$ 148, 405**
Less gold credit	b1	(595)	(20,095)	(8,726)	(24)	(330)	(63)	(22,699)	**(52,531)**
Less zinc credit	b2	(3,420)	-		(5,299)	(3,664)	(3,006)	-	**(15,390)**
Less lead credit	b3	(1,956)	-		(3,107)	(1,040)	(274)	-	**(6,376)**
Less copper credit	b4	-	-	(181)	(5,750)	(10,241)	-	-	**(16,172)**
Sub-total by-product credits(1)	B=(b1+ b2+ b3+ b4)	$ (5,971)	$ (20,095)	$ (8,907)	$ (14,179)	$ (15,275)	$ (3,343)	$ (22,699)	**$ (90,469)**
Cash Costs net of by-product credits (1)	C=(A+B)	$ 9,890	$ 10,995	$ 4,446	$ 9,200	$ 5,868	$ 11,033	$ 6,505	**$ 57,936**
Payable ounces of silver (thousand)	D	1,359	945	810	810	452	992	1,003	**6,371**
Cash cost per ounce net of by-products	=C/D	$ 7.28	$ 11.64	$ 5.49	$ 11.35	$ 12.99	$ 11.12	$ 6.48	**$ 9.09**

(1) Totals may not add due to rounding.

Twelve months ended December 31, 2015 (1)
(in thousands of USD except as noted)

		La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	**Consolidated Total**
Cash Costs before by-product credits	A	$ 61,748	$ 130,918	$ 57,178	$ 93,503	$ 88,542	$ 56,262	$ 115,548	**$ 603,698**
Less gold credit	b1	(2,586)	(91,551)	(23,187)	(174)	(1,594)	(241)	(89,320)	**(208,654)**
Less zinc credit	b2	(14,429)	-	-	(21,416)	(17,973)	(10,932)	-	**(64,750)**
Less lead credit	b3	(7,049)	-	-	(11,586)	(4,261)	(1,173)	-	**(24,069)**
Less copper credit	b4	-	-	(439)	(27,189)	(40,606)	-	-	**(68,233)**
Sub-total by-product credits(1)	B=(b1+ b2+ b3+ b4)	$ (24,064)	$ (91,551)	$ (23,626)	$ (60,365)	$ (64,434)	$ (12,346)	$ (89,320)	**$ (365,706)**
Cash Costs net of by-product credits (1)	C=(A+B)	$ 37,683	$ 39,367	$ 33,553	$ 33,137	$ 24,107	$ 43,916	$ 26,228	**$ 237,992**
Payable ounces of silver (thousand)	D	5,089	4,242	2,941	3,037	1,851	3,796	3,576	**24.531**
Cash cost per ounce net of by-products	=C/D	$ 7.41	$ 9.28	$ 11.41	$ 10.91	$ 13.03	$ 11.57	$ 7.33	**$ 9.70**

(1) Totals may not add due to rounding.

Three months ended December 31, 2014 [1] (in thousands of USD except as noted)		La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	Consolidated Total
Cash Costs before by-product credits	A	$ 15,824	$ 33,909	$ 18,896	$ 29,001	$ 22,046	$ 15,736	$ 34,500	**$ 169,913**
Less gold credit	b1	(681)	(21,555)	(6,775)	(36)	(798)	(67)	(21,812)	**(51,724)**
Less zinc credit	b2	(4,154)	-	-	(6,177)	(6,110)	(2,586)	-	**(19,028)**
Less lead credit	b3	(1,897)	-	-	(3,049)	(2,069)	(211)	-	**(7,227)**
Less copper credit	b4	-	-	(32)	(9,746)	(6,604)	-	-	**(16,382)**
Sub-total by-product credits[1]	B=(b1+ b2+ b3+ b4)	$ (6,731)	$ (21,555)	$ (6,807)	$ (19,009)	$ (15,581)	$ (2,684)	$ (21,812)	**$ (94,360)**
Cash Costs net of by-product credits [1]	C=(A+B)	$ 9,093	$ 12,354	$ 12,089	$ 9,993	$ 6,465	$ 12,872	$ 12,688	**$ 75,553**
Payable ounces of silver (thousand)	D	1,202	951	859	818	516	1,084	911	**6,340**
Cash cost per ounce net of by-products	=C/D	$ 7.57	$ 12.99	$ 14.07	$ 12.22	$ 12.53	$ 11.88	$ 13.93	**$ 11.92**

(1) Totals may not add due to rounding.

Twelve months ended December 31, 2014 [1] (in thousands of USD except as noted)		La Colorada	Dolores	Alamo Dorado	Huaron	Morococha	San Vicente	Manantial Espejo	Consolidated Total
Cash Costs before by-product credits	A	$ 62,635	$ 135,665	$ 66,727	$ 107,990	$ 83,915	$ 59,287	$ 126,500	**$ 642,720**
Less gold credit	b1	(2,534)	(84,317)	(22,048)	(295)	(2,730)	(254)	(88,898)	**(201,075)**
Less zinc credit	b2	(14,128)	-	-	(25,414)	(28,381)	(10,504)	-	**(78,426)**
Less lead credit	b3	(7,265)	-	-	(11,817)	(9,340)	(663)	-	**(29,086)**
Less copper credit	b4	-	-	(164)	(34,394)	(16,884)	-	-	**(51,442)**
Sub-total by-product credits[1]	B=(b1+ b2+ b3+ b4)	$ (23,927)	$ (84,317)	$ (22,212)	$ (71,920)	$ (57,335)	$ (11,420)	$ (88,898)	**$ (360,028)**
Cash Costs net of by-product credits [1]	C=(A+B)	$ 38,708	$ 51,347	$ 44,516	$ 36,070	$ 26,581	$ 47,867	$ 37,602	**$ 282,692**
Payable ounces of silver (thousand)	D	4,756	3,969	3,454	3,120	2,010	3,636	3,717	**24,663**
Cash cost per ounce net of by-products	=C/D	$ 8.14	$ 12.94	$ 12.89	$ 11.56	$ 13.22	$ 13.16	$ 10.12	**$ 11.46**

(1) Totals may not add due to rounding.

- ***Adjusted Earnings and Basic Adjusted Earnings Per Share***

Adjusted earnings and basic adjusted earnings per share are non-GAAP measures that the Company considers to better reflect normalized earnings as it eliminates items that may be volatile from period to period, relating to positions which will settle in future periods, and items that are non-recurring. Certain items that become applicable in a period may be adjusted for, with the Company retroactively presenting comparable periods with an adjustment for such items and conversely, items no longer applicable may be removed from the calculation. The Company adjusts certain items in the periods that they occurred but does not reverse or otherwise unwind the effect of such items in future periods. Neither adjusted earnings nor basic adjusted earnings per share have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

The following table shows a reconciliation of adjusted loss and earnings for the three and twelve months ended December, 2015 and 2014, to the net (loss) earnings for each period.

(In thousands of USD, except as noted)	Three months ended December 31, 2015	Three months ended December 31, 2014	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Net (loss) earnings for the period	**$ (136,958)**	$ (525,727)	**$ (231,556)**	$ (544,823)
Adjust derivative gain	**(4)**	252	**(278)**	(1,348)
Adjust impairment of mineral properties	**121,512**	596,262	**150,268**	596,262
Adjust write-down of other assets	**2,678**	-	**22,812**	-
Adjust unrealized foreign exchange (gain) losses	**(1,319)**	(618)	**860**	4,034
Adjust net realizable value of heap inventory	**6,366**	10,982	**6,401**	36,578
Adjust unrealized loss on commodity contracts	**2,989**	-	**2,835**	-
Adjust gain on sale of assets	**(38)**	(945)	**(372)**	(1,145)
Adjust for effect of taxes	**(12,743)**	(101,413)	**(8,938)**	(110,383)
Adjusted loss for the period	**$ (17,517)**	$ (21,207)	**$ (57,968)**	$ (20,825)
Weighted average shares for the period	**151,715**	151,534	**151,664**	151,511
Adjusted loss per share for the period	**$ (0.12)**	$ (0.14)	**$ (0.38)**	$ (0.14)

- ***Working Capital***

Working capital is a non-GAAP measure calculated as current assets less current liabilities. Working capital does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. The Company and certain investors use this information to evaluate whether the Company is able to meet its current obligations using its current assets.

- ***General and Administrative Costs per Silver Ounce***

General and administrative costs per silver ounce produced ("G&A per ounce") is a non-GAAP measure that is calculated by dividing G&A expense recorded in a period by the number of silver ounces produced in the same period. G&A per ounce does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. The Company and certain investors use this information to evaluate corporate expenses incurred in a period in relation to the amount of consolidated silver produced during the same period.

RISKS AND UNCERTAINTIES

The Company is exposed to many risks in conducting its business, including but not limited to: metal price risk as the Company derives its revenue from the sale of silver, zinc, lead, copper, and gold; credit risk in the normal course of dealing with other companies; foreign exchange risk as the Company reports its financial statements in USD whereas the Company operates in jurisdictions that utilize other currencies; the inherent risk of uncertainties in estimating mineral reserves and mineral resources; political risks; and environmental risks and risks related to its relations with employees. These and other risks are described below and in Pan American's Annual Information Form (available on SEDAR at www.sedar.com), Form 40-F filed with the SEC, and the 2015 Financial Statements. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent to Pan American's business.

- ***Foreign Jurisdiction Risk***

Pan American currently conducts operations in Peru, Mexico, Argentina and Bolivia. All of these jurisdictions are potentially subject to a number of political and economic risks, including those described in the following section. The Company is unable to determine the impact of these risks on its future financial position or results of operations and the Company's exploration, development and production activities may be substantially affected by factors outside of Pan American's control. These potential factors include, but are not limited to: royalty and tax increases or claims by governmental bodies, expropriation or nationalization, lack of an independent judiciary, foreign exchange controls, import and export regulations, cancellation or renegotiation of contracts and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

All of Pan American's current production and revenue is derived from its operations in Peru, Mexico, Argentina and Bolivia. As Pan American's business is carried on in a number of developing countries, it is exposed to a number of risks and uncertainties, including the following: expropriation or nationalization without adequate compensation, particularly in jurisdictions such as Argentina and Bolivia who have a history of expropriation; changing political and fiscal regimes, and economic and regulatory instability; unanticipated changes to royalty and tax regulations; unreliable or undeveloped infrastructure; labour unrest and labour scarcity; difficulty obtaining key equipment and components for equipment; regulations and restrictions with respect to imports and exports; high rates of inflation; extreme fluctuations in currency exchange rates and the imposition of currency controls; the possible unilateral cancellation or forced renegotiation of contracts, and uncertainty regarding enforceability of contractual rights; inability to obtain fair dispute resolution or judicial determinations because of bias, corruption or abuse of power; difficulties enforcing judgments generally, including judgments obtained in Canadian or United States courts against assets and entities located outside of those jurisdictions; difficulty understanding and complying with the regulatory and legal framework respecting the ownership and maintenance of mineral properties, mines and mining operations, and with respect to permitting; local opposition to mine development projects, which include the potential for violence and property damage; violence and more prevalent or stronger organized crime groups; terrorism and hostage taking; military repression and increased likelihood of international conflicts or aggression; and increased public health concerns. Certain of these risks and uncertainties are illustrated well by circumstances in Bolivia and Argentina.

The Company's Mexican operations, Alamo Dorado and La Colorada, have suffered from armed robberies of doré in the past. The Company has instituted a number of additional security measures and a more frequent shipping schedule in response to these incidents. The Company has subsequently renewed its insurance policy to mitigate some of the financial loss that would result from such criminal activities in the future, however a substantial deductible amount would apply to any such losses in Mexico.

Local opposition to mine development projects has arisen periodically in some of the jurisdictions in which we operate, and such opposition has at times been violent. There can be no assurance that similar local opposition will not arise in the future with respect to Pan American's foreign operations. If Pan American were to experience resistance or unrest in connection with its foreign operations, it could have a material adverse effect on Pan American's operations or profitability.

In early 2009, a new constitution was enacted in Bolivia that further entrenched the government's ability to amend or enact laws, including those that may affect mining, and which enshrined the concept that all natural resources belong to the Bolivian people and that the state was entrusted with its administration.

On May 28, 2014, the Bolivian government enacted Mining Law No. 535 (the "New Mining Law"). Among other things, the New Mining Law established a new Bolivian mining authority to provide principal mining oversight (varying the role of COMIBOL) and set out a number of new economic and operational requirements relating to state participation in mining projects. Further, the New Mining Law provided that all pre-existing contracts were to migrate to one of several new forms of agreement within a prescribed period of time. As a result, we anticipate that our current joint venture agreement with COMIBOL relating to the San Vicente mine will be subject to migration to a new form of agreement and may require renegotiation of some terms in order to conform to the New Mining Law requirements. We are assessing the potential impacts of the New Mining Law on our business and are awaiting further regulatory developments, but the primary effects on the San Vicente operation and our interest therein will not be known until such time as we have, if required to do so, renegotiated the existing contract, and the full impact may only be realized over time. In the meantime, we understand that pre-existing agreements will be respected during the period of migration and we will take appropriate steps to protect and, if necessary, enforce our rights under our existing agreement with COMIBOL. There is, however, no guarantee that governmental actions, including possible expropriation or additional changes in the law, and the migration of our contract will not impact our involvement in the San Vicente operation in an adverse way and such actions could have a material adverse effect on us and our business.

On June 25, 2015, the Bolivian government enacted the new Conciliation and Arbitration Law No. 708 (the "New Conciliation and Arbitration Law"), which endeavors to set out newly prescribed arbitral norms and procedures, including for foreign investors. However, whether the New Conciliation and Arbitration Law applies specifically to pre-existing agreements between foreign investors and COMIBOL, and how this new legislation interacts with the New Mining Law, remains somewhat unclear. As a result, we await clarification by regulatory authorities and will continue to assess the potential impacts of the New Conciliation and Arbitration Law on our business.

Meanwhile, under the previous political regime in Argentina, the government intensified the use of price, foreign exchange, and import controls in response to unfavourable domestic economic trends. Among other the things, the Argentine government has imposed restrictions on the importation of goods and services and increased administrative procedures required to import equipment, materials and services required for operations at Manantial Espejo. In support of this policy, in May 2012, the government mandated that mining companies establish an internal function to be responsible for substituting Argentinian-produced goods and materials for imported goods and materials and required advance government review of plans to import goods and materials. In addition, the government of Argentina also tightened control over capital flows and foreign exchange in an attempt to curtail the outflow of hard currencies and protect its foreign currency reserves, including mandatory repatriation and conversion of foreign currency funds in certain circumstances, informal restrictions on dividend, interest, and service payments abroad and limitations on the ability of individuals and businesses to convert Argentine pesos into USD or other hard currencies, exposing us to additional risks of Peso devaluation and high domestic inflation. While a new federal government was elected in Argentina in late 2015 and has since taken steps to ease some of the previously instituted controls and restrictions, particularly relaxing certain rules relating to the inflow and outflow of foreign currencies, many of the policies of the previous government continue to adversely affect the Company's Argentine operations. It is unknown whether these recent changes will be lasting, what, if any, additional steps will be taken by the new administration or what financial and operational impacts these and any future changes might have on the Company. As such, the Company continues to monitor and assess the situation in Argentina.

In most cases, the effect of these risks and uncertainties cannot be accurately predicted and, in many cases, their occurrence is outside of our control. Although we are unable to determine the impact of these risks on our future financial position or results of operations, many of these risks and uncertainties have the potential to substantially affect our exploration, development and production activities and could therefore have a material adverse impact on our operations and profitability. Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies, including employing qualified and experienced personnel.

- ***Metal Price Risk***

Pan American derives its revenue from the sale of silver, zinc, lead, copper, and gold. The Company's sales are directly dependent on metal prices that have shown significant volatility and are beyond the Company's control. The table below illustrates the effect of changes in silver and gold prices on anticipated revenues for 2016, expressed in percentage terms. This analysis assumes that quantities of silver and gold produced and sold remain constant under all price scenarios presented.

2016 Revenue and Metal Price Sensitivity

Silver Price \ Gold Price	$800	$900	$1,000	$1,100	$1,200	$1,300	$1,400
$11.50	79%	82%	85%	88%	91%	94%	97%
$12.50	83%	86%	89%	92%	95%	98%	101%
$13.50	87%	90%	93%	96%	99%	102%	105%
$14.50	91%	94%	97%	100%	103%	106%	109%
$15.50	95%	98%	101%	104%	107%	110%	113%
$16.50	99%	102%	105%	108%	111%	114%	117%
$17.50	103%	106%	109%	112%	115%	118%	121%
$18.50	106%	109%	112%	115%	118%	121%	124%

Pan American Silver takes the view that its precious metals production should not be hedged, thereby, allowing the Company to maintain maximum exposure to precious metal prices. From time to time, Pan American mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production under forward sales and option contracts, as described under the "Financial Instruments" section of this MD&A. Decisions relating to hedging may have material adverse effects upon our financial performance, financial position, and results of operations. Since base metal and gold revenue are treated as a by-product credit for purposes of calculating cash costs per ounce of silver and AISCSOS, these non-GAAP measures are highly sensitive to base metal and gold prices. The table below illustrates this point by plotting the expected cash cost per ounce according to our 2016 forecast against various price assumptions for the Company's two main by-product credits, zinc and gold expressed in percentage terms:

2016 Cash Cost and Metal Price Sensitivity

Zinc Price \ Gold Price	$800	$900	$1,000	$1,100	$1,200	$1,300	$1,400
$1,400	128%	121%	113%	105%	97%	90%	82%
$1,500	127%	119%	111%	103%	96%	88%	80%
$1,600	125%	117%	109%	102%	94%	86%	78%
$1,700	123%	115%	108%	100%	92%	85%	77%
$1,800	122%	114%	106%	98%	91%	83%	75%
$1,900	120%	112%	104%	97%	89%	81%	73%
$2,000	118%	110%	103%	95%	87%	80%	72%
$2,100	117%	109%	101%	93%	86%	78%	70%

The Board of Directors continually assesses the Company's strategy towards its base metal exposure, depending on market conditions. If metal prices decline significantly below levels used in the Company's most recent impairment tests, for an extended period of time, the Company may need to reassess its price assumptions, and a significant decrease in the price assumptions could be an indicator of potential impairment. A description of the impact of metal price changes on certain Company assets is included in the Key Assumption and Sensitivity sections included in both the 2015 Financial Statements (included in Note 11), and in this MD&A (included in the Income Statement analysis section).

- ***Trading and Credit Risk***

The zinc, lead, and copper concentrates produced by us are sold through long-term supply arrangements to metal traders or integrated mining and smelting companies. The terms of the concentrate contracts may require us to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing us 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, we may incur losses for products already shipped and be forced to sell our concentrates in the spot market or we may not have a market for our concentrates and therefore our future operating results may be materially adversely impacted. For example, the Doe Run Peru smelter, a significant buyer of our production in Peru, experienced financial difficulties in the first quarter of 2009 and closed. We continued to sell copper concentrates to other buyers but on inferior terms. The Doe Run Peru smelter remains closed and we are owed approximately $8.2 million under the terms of our contract with Doe Run Peru. We continue to pursue all legal and commercial avenues to collect the amount outstanding.

As at December 31, 2015, we had receivable balances associated with buyers of our concentrates of $21.3 million (2014 - $29.3 million). All of this receivable balance is owed by eight well known concentrate buyers and the vast majority of our concentrate is sold to those same counterparts.

Silver doré production is refined under long term agreements with fixed refining terms at three separate refineries worldwide. We generally retain the risk and title to the precious metals throughout the process of refining and therefore are exposed to the risk that the refineries will not be able to perform in accordance with the refining contract and that we may not be able to fully recover our precious metals in such circumstances. As at December 31, 2015, we had approximately $21.4 million contained in precious metal inventory at refineries (2014 - $44.7 million). We maintain insurance coverage against the loss of precious metals at our mine sites, in-transit to refineries, and while at the refineries.

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

We maintain trading facilities with several banks and bullion dealers for the purposes of transacting our trading activities. None of these facilities are subject to margin arrangements. Our trading activities can expose us to the credit risk of our counterparties to the extent that our trading positions have a positive mark-to-market value.

Management constantly monitors and assesses the credit risk resulting from our concentrate sales, refining arrangements, and commodity contracts. 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.

From time to time, we may invest in equity securities of other companies. Just as investing in Pan American is inherent with risks such as those set out in this AIF, by investing in other companies we will be exposed to the risks associated with owning equity securities and those risks inherent in the investee companies.

- ***Liquidity Risk***

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. The volatility of the metals markets can impact our ability to forecast cash flow from operations.

We must maintain sufficient liquidity to meet our short-term business requirements, taking into account our anticipated cash flows from operations, our holdings of cash and cash equivalents, and committed loan facilities.

We manage our liquidity risk by continuously monitoring forecasted and actual cash flows. We have in place a rigorous reporting, planning and budgeting process to help determine the funds required to support our normal operating requirements on an ongoing basis and our expansion plans.

We continually evaluate and review capital and operating expenditures in order to identify, decrease, and limit all non-essential expenditures.

- ***Exchange Rate Risk***

Pan American reports its financial statements in 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 revenues 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. The local currencies that the Company has the most exposure to are the Peruvian soles ("PEN"), Mexican pesos ("MXN") and Argentine pesos ("ARS"). The following table illustrates the effect of changes in the exchange rate of PEN and MXN against the USD on anticipated cost of sales for 2016, expressed in percentage terms:

2016 Cash Cost and Metal Price Sensitivity

PEN/USD \ MXN/USD	$16.00	$16.50	$17.00	$17.50	$18.00	$18.50	$19.00
$3.15	101%	101%	101%	100%	100%	100%	99%
$3.20	101%	101%	100%	100%	100%	99%	99%
$3.25	101%	101%	100%	100%	99%	99%	99%
$3.30	101%	100%	**100%**	100%	99%	99%	99%
$3.35	101%	100%	100%	99%	99%	99%	99%
$3.40	100%	100%	100%	99%	99%	99%	98%
$3.45	100%	100%	100%	99%	99%	99%	98%
$3.50	100%	100%	99%	99%	99%	98%	98%

In order to mitigate this exposure, the Company maintains a portion of its cash balances in PEN, MXN and CAD and, from time to time, enters into forward currency positions to match anticipated spending as discussed in this in MD&A in the "Financial Instruments" section.

The Company's balance sheet contains various monetary assets and liabilities, some of which are denominated in foreign currencies. Accounting convention dictates that these balances are translated at the end of each period, with resulting adjustments being reflected as foreign exchange gains or losses on the Company's income statement.

Our balance sheet contains various monetary assets and liabilities, some of which are denominated in foreign currencies. Accounting convention dictates that these balances are fair valued at the end of each period, with resulting adjustments being reflected as foreign exchange gains or losses on our statement of operations.

In addition to the foregoing, governmental restrictions and controls relating to exchange rates also impact our operations. In Argentina, for example, the government has at times established official exchanges rates that were significantly different than the unofficial exchange rates more readily utilized in the local economy to determine prices and value. Our investments in Argentina are primarily funded from outside of the country, and therefore conversion of foreign currencies, like USD, at the official exchange rate has had the effect of reducing purchasing power and substantially increasing relative costs in an already high inflationary market. Maintaining monetary assets in ARS also exposes us to the risks of ARS devaluation and high domestic inflation.

- ***Taxation Risks***

Pan American is exposed to tax related risks, in assessing the probability of realizing income tax assets recognized, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, we give additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. We consider relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. We reassess unrecognized income tax assets at each reporting period.

- *Claims and Legal Proceedings*

Pan American 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 these claims relate to current or ex-employees, some of which involve claims of significant value, for matters ranging from workplace illnesses such as silicosis to claims for additional profit-sharing and bonuses in prior years. Furthermore, we are in some cases the subject of claims by local communities, indigenous groups or private land owners relating to land and mineral rights and such claimants may seek sizeable monetary damages against us and/or the return of surface or mineral rights that are valuable to us and which may impact our operations and profitability if lost. Each of these matters is subject to various uncertainties and it is possible that some of these matters may be resolved unfavourably to us. We carry liability insurance coverage and establish provisions for matters that are probable and can be reasonably estimated. In addition, we may be involved in disputes with other parties in the future that may result in litigation, which may result in a material adverse effect on our financial position, cash flow and results of operations.

SIGNIFICANT JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY IN THE APPLICATION OF ACCOUNTING POLICIES

In preparing financial statements in accordance with International Financial Reporting Standards, management is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. These critical accounting estimates represent management estimates and judgments that are uncertain and any changes in these could materially impact the Company's financial statements. Management continuously reviews its estimates, judgments, and assumptions using the most current information available.

Readers should also refer to Note 2 of the 2015 Financial Statements, for the Company's summary of significant accounting policies.

Significant Judgments in the Application of Accounting Policies

Judgments that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Capitalization of evaluation costs: The Company has determined that evaluation costs capitalized during the year relating to the operating mines and certain other exploration interests have potential future economic benefits and are potentially economically recoverable, subject to impairment analysis. In making this judgement, the Company has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity to existing ore bodies, operating management expertise and required environmental, operating and other permits.

Commencement of commercial production: During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as mineral property, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production based on a percentage of design capacity along with various qualitative factors including but not limited to the achievement of mechanical completion, continuous nominated level of production, the working effectiveness of the plant and equipment at or near expected levels and whether there is a sustainable level of production input available including power, water and diesel.

Assets' carrying values and impairment charges: In determining carrying values and impairment charges, the Company looks at recoverable amounts, defined as the higher of value in use or fair value less cost to sell in the case of assets, and at objective evidence that identifies significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Functional currency: The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries is the USD. The determination of functional currency may require certain judgments to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

Business combinations: Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.

Deferral of stripping costs: In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves and mineral resources that will be mined in a future period and therefore should be capitalized, the Company treats the costs of removal of the waste material during a mine's production phase as deferred, where it gives rise to future benefits. These capitalized costs are subsequently amortized on a unit of production basis over the reserves that directly benefit from the specific stripping activity. As at December 31, 2015, the carrying amount of stripping costs capitalized was $39.5 million comprised of Manantial - $3.2 million and Dolores - $36.3 million (2014 - $46.2 million was capitalized comprised of Manantial Espejo $13.0 million, Dolores $28.4 million, and Alamo Dorado $4.8 million).

Replacement convertible debenture: 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 Common Shares or a silver stream contract. The holder subsequently selected the silver stream contract. The convertible debenture is classified and accounted for as a deferred credit. In determining the appropriate classification of the convertible debenture as a deferred credit, the Company evaluated the economics underlying the contract as of the date the Company assumed the obligation. As at December 31, 2015, the carrying amount of the deferred credit arising from the Aquiline acquisition was $20.8 million (2014 - $20.8 million).

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. The notes, were settled in December 2015 along with all accrued interest.

Key Sources of Estimation Uncertainty in the Application of Accounting Policies

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

Revenue recognition: Revenue from the sale of concentrate to independent smelters is recorded at the time the risks and rewards of ownership pass to the buyer using forward market prices on the expected date that final sales prices will be fixed. Variations between the prices set under the smelting contracts may be caused by changes in market prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in the fair value classified in revenue. In a period of high price volatility, as experienced under current economic conditions, the effect of mark to market price adjustments related to the quantity of metal which remains to be settled with independent smelters could be significant. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted.

Estimated recoverable ounces: The carrying amounts of the Company's mining properties are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change to future depletion rates.

Mineral reserve estimates: The figures for mineral reserves and mineral resources are determined in accordance with NI 43-101 issued by the Canadian Securities Administrators, and in accordance with "Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines – adopted November 23, 2003" prepared by the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") Standing Committee on Reserve Definitions. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

Valuation of Inventory: In determining mine production costs recognized in the consolidated income statement, the Company makes estimates of quantities of ore stacked in stockpiles, placed on the heap leach pad and in process and the recoverable silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

Depreciation and amortization rates for mineral property, plant and equipment and mineral interests: Depreciation and amortization expenses are allocated based on assumed asset lives and depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the consolidated income statement prospectively. A change in the mineral reserve estimate for assets depreciated using the units of production method would impact depreciation expense prospectively.

Impairment of mining interests: While assessing whether any indications of impairment exist for mining interests, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests. Internal sources of information include the manner in which mineral property, plant and equipment are being used or are expected to be used and indications of the economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interests. Impairments of mining interests are discussed in Note 11 of the 2015 Financial Statements.

Estimation of decommissioning and restoration costs and the timing of expenditures: The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at the best estimate of expenditure required to settle the present obligation of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine at the end of the reporting period. The carrying amount is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. Refer to Note 15 of the 2015 Financial Statements for details on decommissioning and restoration costs.

Income taxes and recoverability of deferred tax assets: In assessing the probability of realizing income tax assets recognized, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Accounting for acquisitions: The provisional fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make certain judgments and estimates taking into account information available at the time of acquisition about future events, including, but not restricted to, estimates of mineral reserves and mineral resources required, exploration potential, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates and discount rates. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, are retrospectively adjusted when the final measurements are determined (within one year of the acquisition date).

Contingencies: Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event the Company's estimates of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur. Refer to Note 28 of the 2015 Financial Statements for further discussion on contingencies.

CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2015, the Company adopted the following new and revised IFRSs that were issued by the International Accounting Standards Board ("IASB"), effective for annual periods beginning on or after July 1, 2014:

Amended standard IFRS 2 Share-based Payment, the amendment to IFRS 2 re-defines the definition of "vesting condition." The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

Amended standard IFRS 3 Business Combinations, the amendment to IFRS 3 provides further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

Amended standard IFRS 8 Operating Segments, the amendments to IFRS 8 provides further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets. The application of this IFRS did not have a material impact on the disclosure required for the current or prior years but may affect the disclosure required in the future.

Amended standard IFRS 13 Fair Value Measurement, the amendment to IFRS 13 provides further details on the scope of the portfolio exception. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

Amended standard IAS 16 Property, Plant and Equipment, the amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

Amended standard IAS 24 Related Party Disclosures, the amendment to IAS 24 deals with the disclosure required for management entities. The application of this IFRS did not have a material impact on the disclosure required for the current or prior years but may affect the disclosure required in the future.

Amended standard IAS 38 Intangible Assets, the amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

a. Accounting Standards Issued but Not Yet Effective

IFRS 9 Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard and amendments on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") In May 2014, the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on our consolidated financial statements as a result of adopting this standard.

IFRS 16, *Leases* ("IFRS 16") In January 2016, the IASB issued IFRS 16 – Leases which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

CORPORATE GOVERNANCE, SOCIAL RESPONSIBILITY, AND ENVIRONMENTAL STEWARDSHIP

Governance

Pan American adheres to high standards of corporate governance and closely follows the requirements established by both the Canadian Securities Administrators and the SEC in the United States. We believe that our current corporate governance systems meet or exceed these requirements.

Our Board of Directors oversees the direction and strategy of the business and the affairs of the Company. The Board is comprised of eight directors, six of whom are independent. The Board's wealth of experience allows it to effectively oversee the development of corporate strategies, provide management with long-term direction, consider and approve major decisions, oversee the business generally and evaluate corporate performance. The Health, Safety and Environment Committee, appointed by the Board of Directors, provides oversight for the corporate social initiatives of the Company and reports directly to the Board.

We believe that good corporate governance is important to the effective performance of the Company and plays a significant role in protecting the interests of all stakeholders while helping to maximize value.

Community relations

We are committed to creating sustainable value in the communities where our people work and live. Guided by research conducted by our local offices, we participate in, and contribute to numerous community programs. They typically center on education and health, nutrition, environmental awareness, local infrastructure and alternative economic activities. Some of our key initiatives are:

- *Strengthening the production chain of livestock breeding.*
- *Value adding through the development of alpaca textiles weaving workshops with product commercialization in North America.*
- *Improving nutrition, focusing on children and pregnant women.*
- *Promoting community health with emphasis on immunizations, optometry, and focusing on oral health.*
- *Promoting tourism and local areas of interest such as the Stone Forest in Huayllay in Peru.*
- *Encouraging education for children and adults by contributing to teacher's salaries, and providing continuous support through different scholarships at a local and national level.*

Environmental Stewardship

We are committed to operating our mines and developing our new projects in an environmentally responsible manner. Guided by our Corporate Environmental Policy, we take every practical measure to minimize the environmental impacts of our operations in each phase of the mining cycle, from early exploration through development, construction and operation, up to and after the mine's closure.

We build and operate mines in varied environments across the Americas. From the Patagonian plateau to the Sierra Madre in Mexico, our mines are generally located in isolated places where information about environmental and cultural values is often limited. Our mines in Peru and Bolivia are situated in historic mining districts where previous operations have left significant environmental liabilities that have potential to impact on surrounding habitats and communities.

We manage these challenges using best practice methods in environmental impact assessment and teams of leading local and international professionals who clearly determine pre-existing environmental values at each location. These extensive baseline studies often take years of work and cover issues such as biodiversity and ecosystems, surface and groundwater resources, air quality, soils, landscape, archeology and paleontology, and the potential for acid rock drainage in the natural rocks of each new mineral deposit or historic waste or tailings dump. The data collected often significantly advances scientific knowledge about the environments and regions where we work.

The baseline information is then used interactively in the design of each new mine or to develop management and closure plans for historic environmental liabilities, in open consultation with local communities and government authorities. We conduct detailed modeling and simulation of the environmental effects of each alternative design in order to determine the optimum solution, always aiming for a net benefit.

Once construction and operations begin, we conduct regular monitoring of all relevant environmental variables in order to measure real impacts against baseline data and report to the government and communities on our progress. Community participation in environmental monitoring is encouraged across all our mines. We implement management systems, work procedures and regular staff training to ensure optimum day-to-day management of issues like waste separation and disposal, water conservation, spill prevention, and incident investigation and analysis.

We conduct corporate environmental audits of our operations to ensure optimum environmental performance. Environmental staffs from all mines participate in the audits which improves integration and consolidation of company-wide standards across our operations. In 2015, audits were conducted on the La Colorada, Dolores, Alamo Dorado, and Manantial Espejo mines. In 2014, audits were conducted on the Morococha, San Vicente and Huaron mines.

DISCLOSURE CONTROLS AND PROCEDURES

Pan American's management considers the meaning of internal control to be the processes established by management to provide reasonable assurance about the achievement of the Company's objectives regarding operations, reporting and compliance. Internal control is designed to address identified risks that threaten any of these objectives.

As of December 31, 2015, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2015, the Company's disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the year ended December 31, 2015 that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of Pan American is responsible for establishing and maintaining an adequate system of internal control, including internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. It includes those policies and procedures that:

a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Pan American,

b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of Pan American are being made only in accordance with authorizations of management and Pan American's directors, and

c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Pan American's assets that could have a material effect on the annual financial statements or interim financial reports.

The Company's management, including its President and Chief Executive Officer and Chief Financial Officer, believe that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Pan American's internal control over financial reporting as at December 31, 2015, based on the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concludes that, as of December 31, 2015, Pan American's internal control over financial reporting is effective.

Management reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. Deloitte LLP, an independent registered public accounting firm, were engaged, as approved by a vote of the Company's shareholders, to audit and provide independent opinions on the Company's consolidated financial statements and the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. Deloitte LLP has provided such opinions.

MINERAL RESERVES AND RESOURCES

MINERAL RESERVES - PROVEN AND PROBABLE

	Location	Classification	Tonnes (Mt)	Ag (g/t)	Contained Ag (Moz)	Au (g/t)	Contained Au (000's oz)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Proven	6.1	172	33.6	N/A	N/A	0.41	1.40	2.99
		Probable	3.7	167	19.9	N/A	N/A	0.27	1.58	3.17
Morococha (92.3%) (1)	Peru	Proven	2.3	176	13.0	N/A	N/A	0.78	1.18	3.57
		Probable	1.9	202	12.6	N/A	N/A	0.53	1.35	3.70
La Colorada	Mexico	Proven	3.3	474	49.6	0.35	36.2	N/A	1.69	3.15
		Probable	3.7	346	41.6	0.30	35.9	N/A	1.18	2.06
Dolores	Mexico	Proven	23.0	28	20.7	0.96	706.0	N/A	N/A	N/A
		Probable	29.2	34	32.4	0.92	864.0	N/A	N/A	N/A
Alamo Dorado	Mexico	Proven	1.6	55	2.9	0.23	12.2	N/A	N/A	N/A
		Probable	0.0	0	0.0	0.00	0.0	N/A	N/A	N/A
La Bolsa	Mexico	Proven	9.5	10	3.1	0.67	203.0	N/A	N/A	N/A
		Probable	6.2	7	1.4	0.57	113.1	N/A	N/A	N/A
Manantial Espejo	Argentina	Proven	2.5	120	9.4	1.60	126.4	N/A	N/A	N/A
		Probable	0.3	262	2.4	3.90	35.6	N/A	N/A	N/A
San Vicente (95%) (1)	Bolivia	Proven	2.0	482	30.4	N/A	N/A	N/A	0.35	2.66
		Probable	0.4	511	6.9	N/A	N/A	N/A	0.48	2.24
TOTALS (2)		**Proven + Probable**	**95.7**	**91**	**280.1**	**0.84**	**2,132.4**	**0.45**	**1.30**	**2.97**

MINERAL RESOURCES - MEASURED AND INDICATED

	Location	Classification	Tonnes (Mt)	Ag (g/t)	Contained Ag (Moz)	Au (g/t)	Contained Au (000's oz)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Measured	1.7	166	9.3	N/A	N/A	0.27	1.66	2.93
		Indicated	1.4	167	7.3	N/A	N/A	0.67	1.58	2.95
Morococha (92.3%) (1)	Peru	Measured	0.3	124	1.3	N/A	N/A	0.35	0.96	3.04
		Indicated	0.6	155	3.0	N/A	N/A	0.39	1.00	3.13
La Colorada	Mexico	Measured	0.4	234	3.2	0.22	3.0	N/A	0.47	0.85
		Indicated	1.9	288	17.7	0.26	16.0	N/A	0.64	0.88
Dolores	Mexico	Measured	11.8	17	6.5	0.29	109.2	N/A	N/A	N/A
		Indicated	20.2	25	16.2	0.62	400.3	N/A	N/A	N/A
Alamo Dorado	Mexico	Measured	1.2	50	1.8	0.23	8.5	N/A	N/A	N/A
		Indicated	0.9	78	2.1	0.40	10.9	N/A	N/A	N/A
La Bolsa	Mexico	Measured	1.4	11	0.3	0.90	31.4	N/A	N/A	N/A
		Indicated	4.5	9	1.1	0.50	59.8	N/A	N/A	N/A
Manantial Espejo	Argentina	Measured	0.9	99	2.9	1.14	33.6	N/A	N/A	N/A
		Indicated	0.5	188	2.8	1.84	26.9	N/A	N/A	N/A
San Vicente (95%) (1)	Bolivia	Measured	0.9	194	5.4	N/A	N/A	N/A	0.15	2.12
		Indicated	0.2	207	1.2	N/A	N/A	N/A	0.16	2.57
Navidad	Argentina	Measured	15.4	137	67.8	N/A	N/A	0.10	1.44	N/A
		Indicated	139.8	126	564.5	N/A	N/A	0.04	0.79	N/A
Pico Machay	Peru	Measured	4.7	N/A	N/A	0.91	137.5	N/A	N/A	N/A
		Indicated	5.9	N/A	N/A	0.67	127.1	N/A	N/A	N/A
Calcatreu	Argentina	Indicated	8.0	26	6.6	2.63	676.0	N/A	N/A	N/A
TOTALS (2)		**Measured + Indicated**	**222.3**	**106**	**721.0**	**0.83**	**1,640.2**	**0.06**	**0.86**	**2.21**

MINERAL RESOURCES - INFERRED

	Location	Classification	Tonnes (Mt)	Ag (g/t)	Contained Ag (Moz)	Au (g/t)	Contained Au (000's oz)	Cu (%)	Pb (%)	Zn (%)
Huaron	Peru	Inferred	7.3	153	36.2	N/A	N/A	0.32	1.48	2.75
Morococha (92.3%) (1)	Peru	Inferred	4.8	239	37.1	N/A	N/A	0.33	1.25	3.14
La Colorada	Mexico	Inferred	1.9	374	23.3	0.39	24.4	N/A	2.27	4.02
Dolores	Mexico	Inferred	4.1	30	4.0	1.17	155.7	N/A	N/A	N/A
Alamo Dorado	Mexico	Inferred	0.0	39	0.0	0.54	0.0	N/A	N/A	N/A
La Bolsa	Mexico	Inferred	13.7	8	3.3	0.51	222.4	N/A	N/A	N/A
Manantial Espejo	Argentina	Inferred	0.5	208	3.2	2.64	41.0	N/A	N/A	N/A
San Vicente (95%) (1)	Bolivia	Inferred	2.2	318	22.1	N/A	N/A	N/A	0.30	2.33
Navidad	Argentina	Inferred	45.9	81	119.4	N/A	N/A	0.02	0.57	N/A
Pico Machay	Peru	Inferred	23.9	N/A	N/A	0.58	445.7	N/A	N/A	N/A
Calcatreu	Argentina	Inferred	3.4	17	1.8	2.06	226.0	N/A	N/A	N/A
TOTALS (2)		**Inferred**	**107.8**	**93**	**250.5**	**0.73**	**1,115.3**	**0.08**	**0.77**	**2.36**

HISTORICAL ESTIMATES

Property	Location	Unclassified	Tonnes (Mt)	Ag (g/t)	Contained Ag (Moz)	Au (g/t)	Pb (%)	Contained Au (000's oz)	Zn (%)	Cu (%)
Hog Heaven (3)	USA	Historical (3)	2.7	167	14.6	0.62	N/A	53.9	N/A	N/A
Hog Heaven (3)	USA	Historical (3)	7.6	133	32.7	0.70	N/A	171.9	N/A	N/A
Waterloo (4)	USA	Historical	33.8	93	100.9	N/A	N/A	N/A	N/A	N/A
TOTAL (2)		**Historical**	**44.1**	**104**	**148.2**			**225.8**		

(1) This information represents the portion of mineral reserves and resources attributable to Pan American based on its ownership interest in the operating entity as indicated.

(2) Totals may not add-up due to rounding.

(3) The historical estimate for Hog Heaven was prepared by Gregory Hahn, Chief Geological Engineer for CoCa Mines Inc., a previous owner of the property, in a report titled "Hog Heaven Project Optimization Study" dated May 1989, prior to implementation of NI 43-101. The historical estimate was based on extensive diamond drilling, and was estimated using a silver price of $6.50 per ounce and a gold price of $400 per ounce (these were relevant prices at the time of the estimate). Michael Steinmann, P.Geo, has reviewed the available data, including drill sections, surface maps, and additional supporting information sources, and believes that the historic estimate was conducted in a professional and competent manner and is relevant for the purposes of the Company's decision to maintain its interest in this property. In the study, the historic estimate was sub-categorized as follows:

Category	Tons	oz/ton Ag	oz/ton Au
Proven Reserves	2,981,690	4.88	0.018
Probable & Possible Reserves	904,200	10.40	0.020
Heap leach ore	316,100	1.56	0.014
Possible Resources	4,500,000	2.41	0.020
Inferred Resources	2,700,000	4.44	0.022

However, the Company has not completed the work necessary to verify the historical estimate. Accordingly, the Company is not treating the historical estimate as current, NI 43-101-compliant mineral resources based on information prepared by or under the supervision of a QP. These historical estimates should not be relied upon.

The Company believes that the historical estimate category of "proven reserves" for Hog Heaven most closely corresponds to 2,705,000 tonnes in the CIM definition category of "indicated mineral resources".

The Company believes that the historical estimate categories of "proven & possible reserves", "heap leach ore stockpile", "possible resources" and "inferred resources" most closely correspond to 7,639,000 tonnes in the CIM definition category of "inferred mineral resources".

(4) The historical estimate for Waterloo was initially prepared by Asarco Inc. in 1968. In September 1994 Robert J. Rodger, P.Eng., reviewed the Asarco reports and prepared a Technical Evaluation Report on the Waterloo property, prior to the implementation of NI 43-101. The Technical Evaluation Report confirmed that the historical estimate was based on reverse circulation drilling and underground sampling, and concluded the estimate was based on sound methodology. The historical estimate at Waterloo was prepared using a silver price of $5.00 per ounce (the relevant price at the time of the estimate). Michael Steinmann, P.Geo., has reviewed the Technical Evaluation Report and believes the historic estimate was conducted in a professional and competent manner and is relevant for purposes of the Company's decision to maintain its interest in the property. The Company believes that the historical estimate category of 37,235,000 tons (at 2.71 ounces per ton silver) of "measured and indicated reserves" most closely corresponds to 33,758,000 tonnes in the CIM definition category of "indicated mineral resource". However, the Company has not completed the work necessary to verify the historical estimate. Accordingly, the Company is not treating the historical estimate as current, NI 43-101 compliant mineral resources based on information prepared by or under the supervision of a QP. These historical estimates should not be relied upon.

General Notes Applicable to the Foregoing Tables:

Mineral reserves and resources are as defined by the Canadian Institute of Mining, Metallurgy and Petroleum.

Mineral resources that are not mineral reserves have no demonstrated economic viability.

Pan American does not expect these mineral reserve and resource estimates to be materially affected by metallurgical, environmental, permitting, legal, taxation, socio-economic, political, and marketing or other relevant issues.

See the Company's Annual Information Form dated March 24, 2016, available at www.sedar.com, for more information concerning associated QA/QC and data verification matters, the key assumptions, parametres and methods used by the Company to estimate mineral reserves and mineral resources, and for a detailed description of known legal, political, environmental, and other risks that could materially affect the Company's business and the potential development of the Company's mineral reserves and resources.

Grades are shown as contained metal before mill recoveries are applied.

Pan American reports mineral resources and mineral reserves separately. Reported mineral resources do not include amounts identified as mineral reserves.

Prices used to estimate mineral reserves for 2015 were $17.00 per ounce of silver, $1,180 per ounce of gold, $1,800 per tonne of lead, $1,800 per tonne of zinc, and $5,000 per tonne of copper, except at Manantial Espejo where $14.50 per ounce of silver and $1,100 per ounce of gold was used for planned 2016 production, reverting to the previously stated metal prices thereafter, and Alamo Dorado stockpiles where metal prices of $15.00 per ounce of silver and $1,100 per ounce of gold were used due to their planned processing in the short term.

Metal prices for Dolores, Manantial Espejo and Alamo Dorado resources were $25 per ounce of silver and $1,400 per ounce of gold.

Metal prices used for Navidad were $12.52 per ounce of silver and $1,100 per tonne of lead.

Metal prices used for Calcatreu were $12.50 per ounce of silver and $650 per ounce of gold

Metal prices used for La Bolsa were $14.00 per ounce of silver and $825 per ounce of gold.

Mineral resource and reserve estimates for Huaron, Morococha, La Colorada, Dolores, Alamo Dorado, Manantial Espejo, San Vicente, La Bolsa, Pico Machay, and Calcatreu were prepared under the supervision of, or were reviewed by Martin Dupuis, P. Geo., Director, Geology and Martin G. Wafforn, P. Eng., Vice-President Technical Services, each of whom are Qualified Persons as that term is defined in National Instrument 43-101 ("NI 43-101"). Navidad mineral resource estimates were prepared by Pamela De Mark, P. Geo., Director, Resources, formerly Sr. Consultant of Snowden Mining Industry Consultants, also a Qualified Person as that term is defined in NI 43-101. Mineral resource estimates for Hog Heaven and Waterloo are based on historical third party estimates.

TECHNICAL INFORMATION

Martin Wafforn and Martin Dupuis, each of whom are Qualified Persons, as the term is defined in NI 43-101, have reviewed and approved the contents of this MD&A.

For more detailed information regarding the Company's material mineral properties and technical information related thereto, including a complete list of current technical reports applicable to such properties, please refer to the Company's Annual Information Form dated March 24, 2016 filed at www.sedar.com or the Company's most recent Form 40-F filed with the SEC.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

CERTAIN OF THE STATEMENTS AND INFORMATION IN THIS MD&A CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND "FORWARD-LOOKING INFORMATION" WITHIN THE MEANING OF APPLICABLE CANADIAN PROVINCIAL SECURITIES LAWS RELATING TO THE COMPANY AND ITS OPERATIONS. ALL STATEMENTS, OTHER THAN STATEMENTS OF HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS MD&A THE WORDS, "WILL", "BELIEVES", "EXPECTS", "INTENDS", "PLANS", "FORECAST", "OBJECTIVE", "GUIDANCE", "OUTLOOK", "POTENTIAL", "ANTICIPATED", "BUDGET", AND OTHER SIMILAR WORDS AND EXPRESSIONS, IDENTIFY FORWARD-LOOKING STATEMENTS OR INFORMATION. THESE FORWARD-LOOKING STATEMENTS OR INFORMATION RELATE TO, AMONG OTHER THINGS: FUTURE PRODUCTION OF SILVER, GOLD AND OTHER METALS PRODUCED BY THE COMPANY; FUTURE CASH COSTS PER OUNCE OF SILVER AND ALL-IN SUSTAINING COSTS PER SILVER OUNCE SOLD; THE PRICE OF SILVER AND OTHER METALS; THE EFFECTS OF LAWS, REGULATIONS AND GOVERNMENT POLICIES AFFECTING PAN AMERICAN'S OPERATIONS OR POTENTIAL FUTURE OPERATIONS, INCLUDING BUT NOT LIMITED TO THE LAWS IN THE PROVINCE OF CHUBUT, ARGENTINA, WHICH CURRENTLY HAVE SIGNIFICANT RESTRICTIONS ON MINING, AND THE NEW MINING LAW AND THE NEW CONCILIATION AND ARBITRATION LAW IN BOLIVIA, EACH OF WHICH COULD PLACE ADDITIONAL FINANCIAL OBLIGATIONS ON OUR SUBSIDIARIES; THE CONTINUING NATURE OF HIGH INFLATION, RISING CAPITAL AND OPERATING COSTS, CAPITAL RESTRICTIONS AND RISKS OF EXPROPRIATION RELATIVE TO CERTAIN OF OUR OPERATIONS, PARTICULARLY IN ARGENTINA AND BOLIVIA, AND THEIR EFFECTS ON OUR BUSINESS; THE SUFFICIENCY OF THE COMPANY'S CURRENT WORKING CAPITAL, ANTICIPATED OPERATING CASH FLOW OR ITS ABILITY TO RAISE NECESSARY FUNDS; TIMING OF PRODUCTION AND THE CASH AND TOTAL COSTS OF PRODUCTION AT EACH OF THE COMPANY'S PROPERTIES; THE ESTIMATED COST OF AND AVAILABILITY OF FUNDING NECESSARY FOR SUSTAINING CAPITAL; THE SUCCESSFUL IMPLEMENTATION AND EFFECTS OF ONGOING OR FUTURE DEVELOPMENT AND EXPANSION PLANS AND CAPITAL REPLACEMENT, IMPROVEMENT OR REMEDIATION PROGRAMS; FORECAST CAPITAL AND NON-OPERATING SPENDING; FUTURE SALES OF THE METALS, CONCENTRATES OR OTHER PRODUCTS PRODUCED BY THE COMPANY; AND THE COMPANY'S PLANS AND EXPECTATIONS FOR ITS PROPERTIES AND OPERATIONS; AND THE TIMING AND METHOD OF REPAYMENT OF RESTRICTED SHARE UNITS AND PERFORMANCE SHARE UNITS.

THESE STATEMENTS REFLECT THE COMPANY'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE NECESSARILY BASED UPON A NUMBER OF ASSUMPTIONS AND ESTIMATES THAT, WHILE CONSIDERED REASONABLE BY THE COMPANY, ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, POLITICAL AND SOCIAL UNCERTAINTIES AND CONTINGENCIES. MANY FACTORS, BOTH KNOWN AND UNKNOWN, COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM THE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT ARE OR MAY BE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS OR INFORMATION CONTAINED IN THIS MD&A AND THE COMPANY HAS MADE ASSUMPTIONS AND ESTIMATES BASED ON OR RELATED TO MANY OF THESE FACTORS. SUCH FACTORS INCLUDE, WITHOUT LIMITATION: FLUCTUATIONS IN SPOT AND FORWARD MARKETS FOR SILVER, GOLD, BASE METALS AND CERTAIN OTHER COMMODITIES (SUCH AS NATURAL GAS, FUEL OIL AND ELECTRICITY); FLUCTUATIONS IN CURRENCY MARKETS (SUCH AS THE PERUVIAN SOL, MEXICAN PESO, ARGENTINE PESO, BOLIVIAN BOLIVIANO AND CANADIAN DOLLAR VERSUS THE U.S. DOLLAR); RISKS RELATED TO THE TECHNOLOGICAL AND OPERATIONAL NATURE OF THE COMPANY'S BUSINESS; CHANGES IN NATIONAL AND LOCAL GOVERNMENT, LEGISLATION, TAXATION, CONTROLS OR REGULATIONS AND POLITICAL OR ECONOMIC DEVELOPMENTS IN CANADA, THE UNITED STATES, MEXICO, PERU, ARGENTINA, BOLIVIA OR OTHER COUNTRIES WHERE THE COMPANY MAY CARRY ON BUSINESS IN THE FUTURE; RISKS AND HAZARDS ASSOCIATED WITH THE BUSINESS OF MINERAL EXPLORATION, DEVELOPMENT AND MINING (INCLUDING ENVIRONMENTAL HAZARDS, INDUSTRIAL ACCIDENTS, UNUSUAL OR UNEXPECTED GEOLOGICAL OR STRUCTURAL FORMATIONS, PRESSURES, CAVE-INS AND FLOODING); RISKS RELATING TO THE CREDIT WORTHINESS OR FINANCIAL CONDITION OF SUPPLIERS, REFINERS AND OTHER PARTIES WITH WHOM THE COMPANY DOES BUSINESS; INADEQUATE INSURANCE, OR INABILITY TO OBTAIN INSURANCE, TO COVER THESE RISKS AND HAZARDS; EMPLOYEE RELATIONS; RELATIONSHIPS WITH AND CLAIMS BY LOCAL COMMUNITIES AND INDIGENOUS POPULATIONS; AVAILABILITY AND INCREASING COSTS ASSOCIATED WITH MINING INPUTS AND LABOUR; THE SPECULATIVE NATURE OF MINERAL EXPLORATION AND DEVELOPMENT, INCLUDING THE RISKS OF OBTAINING NECESSARY LICENSES AND PERMITS AND THE PRESENCE OF LAWS AND REGULATIONS THAT MAY IMPOSE RESTRICTIONS ON MINING, INCLUDING THOSE CURRENTLY IN THE PROVINCE OF CHUBUT, ARGENTINA; DIMINISHING QUANTITIES OR GRADES OF MINERAL RESERVES AS PROPERTIES ARE MINED; GLOBAL FINANCIAL CONDITIONS; THE COMPANY'S ABILITY TO COMPLETE AND SUCCESSFULLY INTEGRATE ACQUISITIONS AND TO MITIGATE OTHER BUSINESS COMBINATION RISKS; CHALLENGES TO, OR DIFFICULTY IN MAINTAINING, THE COMPANY'S TITLE TO PROPERTIES AND CONTINUED OWNERSHIP THEREOF; THE ACTUAL RESULTS OF CURRENT EXPLORATION ACTIVITIES, CONCLUSIONS OF ECONOMIC EVALUATIONS, AND CHANGES IN PROJECT PARAMETRES TO DEAL WITH UNANTICIPATED ECONOMIC OR OTHER FACTORS; INCREASED COMPETITION IN THE MINING INDUSTRY FOR PROPERTIES, EQUIPMENT, QUALIFIED PERSONNEL, AND THEIR COSTS; HAVING SUFFICIENT CASH TO PAY OBLIGATIONS AS THEY COME DUE AND THOSE FACTORS IDENTIFIED UNDER THE CAPTION "RISKS RELATED TO PAN AMERICAN'S BUSINESS" IN THE COMPANY'S MOST RECENT FORM 40-F AND ANNUAL INFORMATION FORM FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CANADIAN PROVINCIAL SECURITIES REGULATORY AUTHORITIES. INVESTORS ARE CAUTIONED AGAINST ATTRIBUTING UNDUE CERTAINTY OR RELIANCE ON FORWARD-LOOKING STATEMENTS OR INFORMATION. ALTHOUGH THE COMPANY HAS ATTEMPTED TO IDENTIFY IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY, THERE MAY BE OTHER FACTORS THAT CAUSE RESULTS NOT TO BE AS ANTICIPATED, ESTIMATED, DESCRIBED OR INTENDED. THE COMPANY DOES NOT INTEND, AND DOES NOT ASSUME ANY OBLIGATION, TO UPDATE THESE FORWARD-LOOKING STATEMENTS OR INFORMATION TO REFLECT CHANGES IN ASSUMPTIONS OR CHANGES IN CIRCUMSTANCES OR ANY OTHER EVENTS AFFECTING SUCH STATEMENTS OR INFORMATION, OTHER THAN AS REQUIRED BY APPLICABLE LAW.

CAUTIONARY NOTE TO US INVESTORS CONCERNING ESTIMATES OF MINERAL RESERVES AND RESOURCES

THIS MD&A HAS BEEN PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF CANADIAN SECURITIES LAWS, WHICH DIFFER FROM THE REQUIREMENTS OF U.S. SECURITIES LAWS. UNLESS OTHERWISE INDICATED, ALL MINERAL RESERVE AND RESOURCE ESTIMATES INCLUDED IN THIS NEWS RELEASE HAVE BEEN PREPARED IN ACCORDANCE WITH CANADIAN NATIONAL INSTRUMENT 43-101 – STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS (''NI 43-101'') AND THE CANADIAN INSTITUTE OF MINING, METALLURGY AND PETROLEUM CLASSIFICATION SYSTEM. NI 43-101 IS A RULE DEVELOPED BY THE CANADIAN SECURITIES ADMINISTRATORS THAT ESTABLISHES STANDARDS FOR ALL PUBLIC DISCLOSURE AN ISSUER MAKES OF SCIENTIFIC AND TECHNICAL INFORMATION CONCERNING MINERAL PROJECTS. CANADIAN STANDARDS, INCLUDING NI 43-101, DIFFER SIGNIFICANTLY FROM THE REQUIREMENTS OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), AND INFORMATION CONCERNING MINERALIZATION, DEPOSITS, MINERAL RESERVE AND RESOURCE INFORMATION CONTAINED OR REFERRED TO HEREIN MAY NOT BE COMPARABLE TO SIMILAR INFORMATION DISCLOSED BY U.S. COMPANIES. IN PARTICULAR, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THIS MD&A USES THE TERMS ''MEASURED RESOURCES'', ''INDICATED RESOURCES'' AND ''INFERRED RESOURCES''. U.S. INVESTORS ARE ADVISED THAT, WHILE SUCH TERMS ARE RECOGNIZED AND REQUIRED BY CANADIAN SECURITIES LAWS, THE SEC DOES NOT RECOGNIZE THEM. THE REQUIREMENTS OF NI 43-101 FOR IDENTIFICATION OF ''RESERVES'' ARE NOT THE SAME AS THOSE OF THE SEC, AND RESERVES REPORTED BY PAN AMERICAN IN COMPLIANCE WITH NI 43-101 MAY NOT QUALIFY AS ''RESERVES'' UNDER SEC STANDARDS. UNDER U.S. 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. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OF A "MEASURED RESOURCE" OR "INDICATED RESOURCE" WILL EVER BE CONVERTED INTO A "RESERVE". U.S. INVESTORS SHOULD ALSO UNDERSTAND THAT "INFERRED RESOURCES" HAVE A GREAT AMOUNT OF UNCERTAINTY AS TO THEIR EXISTENCE AND GREAT UNCERTAINTY AS TO THEIR ECONOMIC AND LEGAL FEASIBILITY. IT CANNOT BE ASSUMED THAT ALL OR ANY PART OF "INFERRED RESOURCES" EXIST, ARE ECONOMICALLY OR LEGALLY MINEABLE OR WILL EVER BE UPGRADED TO A HIGHER CATEGORY. UNDER CANADIAN SECURITIES LAWS, ESTIMATED "INFERRED RESOURCES" MAY NOT FORM THE BASIS OF FEASIBILITY OR PRE-FEASIBILITY STUDIES EXCEPT IN RARE CASES.DISCLOSURE OF "CONTAINED OUNCES" IN A MINERAL RESOURCE IS PERMITTED DISCLOSURE UNDER CANADIAN SECURITIES LAWS. HOWEVER, THE SEC NORMALLY ONLY PERMITS ISSUERS TO REPORT MINERALIZATION THAT DOES NOT CONSTITUTE "RESERVES" BY SEC STANDARDS AS IN PLACE TONNAGE AND GRADE, WITHOUT REFERENCE TO UNIT MEASURES. ACCORDINGLY, INFORMATION CONCERNING MINERAL DEPOSITS SET FORTH HEREIN MAY NOT BE COMPARABLE WITH INFORMATION MADE PUBLIC BY COMPANIES THAT REPORT IN ACCORDANCE WITH U.S. STANDARDS.

Pan American
SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND DECEMBER 31, 2014

Pan American
SILVER CORP.

Management's Responsibility For Financial Reporting

The accompanying Consolidated Financial Statements of Pan American Silver Corp. were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Financial information appearing throughout our management's discussion and analysis is consistent with these Consolidated Financial Statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring employees, policies and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of Pan American Silver Corp. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues.

Deloitte LLP, Independent Registered Public Accounting Firm appointed by the shareholders of Pan American Silver Corp. upon the recommendation of the Audit Committee and Board, have performed an independent audit of the Consolidated Financial Statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

"signed"

Michael Steinmann
President & Chief Executive Officer

"signed"

A. Robert Doyle
Chief Financial Officer

March 24, 2016

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Pan American Silver Corp.

We have audited the accompanying consolidated financial statements of Pan American Silver Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated income statements, consolidated statements of comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pan American Silver Corp. and subsidiaries as at December 31, 2015 and December 31, 2014, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 24, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, Canada

March 24, 2016

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Pan American Silver Corp.

We have audited the internal control over financial reporting of Pan American Silver Corp. and subsidiaries (the "Company") as of December 31, 2015, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2015 of the Company and our report dated March 24, 2016 expressed an unmodified/unqualified opinion on those financial statements.

/s/ Deloitte LLP

Chartered Professional Accountants

Vancouver, Canada

March 24, 2016

Pan American Silver Corp.

Consolidated Statements of Financial Position
As at December 31, 2015 and 2014
(in thousands of U.S. dollars)

		December 31, 2015		December 31, 2014
Assets				
Current assets				
Cash and cash equivalents (Note 24)	**$**	**133,963**	$	146,193
Short-term investments (Note 8)		**92,678**		184,220
Trade and other receivables (Note 7)		**87,041**		105,644
Income taxes receivable		**27,373**		37,626
Inventories (Note 9)		**204,361**		252,549
Prepaid and other current assets		**6,748**		4,464
		552,164		730,696
Non-current assets				
Mineral properties, plant and equipment (Note 10)		**1,145,221**		1,266,391
Long-term refundable tax		**8,994**		7,698
Deferred tax assets (Note 27)		**3,730**		2,584
Other assets (Note 12)		**1,871**		7,447
Goodwill (Note 11)		**3,057**		3,057
Total Assets	**$**	**1,715,037**	$	2,017,873
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 13)	**$**	**112,829**	$	126,209
Loans payable (Note 14)		**19,578**		17,600
Current portion of long term debt (Note 17)		**-**		34,797
Derivative financial instruments (Note 7)		**2,835**		-
Current portion of provisions (Note 15)		**8,979**		3,121
Current portion of finance lease (Note 16)		**2,238**		3,993
Current income tax liabilities		**13,481**		22,321
		159,940		208,041
Non-current liabilities				
Long-term portion of provisions (Note 15)		**45,892**		45,063
Deferred tax liabilities (Note 27)		**142,127**		160,072
Long-term portion of finance lease (Note 16)		**1,759**		4,044
Long-term debt (Note 17)		**36,200**		-
Other long-term liabilities (Note 18)		**30,503**		30,716
Total Liabilities		**416,421**		447,936
Equity				
Capital and reserves (Note 19)				
Issued capital		**2,298,390**		2,296,672
Share option reserve		**22,829**		22,091
Investment revaluation reserve		**(458)**		(485)
Deficit		**(1,023,539)**		(755,186)
Total Equity attributable to equity holders of the Company		**1,297,222**		1,563,092
Non-controlling interests		**1,394**		6,845
Total Equity		**1,298,616**		1,569,937
Total Liabilities and Equity	**$**	**1,715,037**	$	2,017,873

Commitments and Contingencies (Notes 7, 28)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD ON MARCH 24, 2016

"signed" Ross Beaty, Director "signed" Michael Steinmann, Director

Pan American Silver Corp.

Consolidated Income Statements
For the years ended December 31, 2015 and 2014
(in thousands of U.S. dollars, except per share amounts)

		2015		2014
Revenue (Note 25)	$	**674,688**	$	751,942
Cost of sales				
Production costs (Note 20)		**(532,031)**		(568,204)
Depreciation and amortization (Note 10)		**(150,845)**		(147,710)
Royalties		**(23,901)**		(27,955)
		(706,777)		(743,869)
Mine operating (loss) earnings		**(32,089)**		8,073
General and administrative		**(18,027)**		(17,908)
Exploration and project development		**(11,940)**		(13,225)
Impairment charge (Note 11)		**(150,268)**		(596,262)
Foreign exchange losses		**(13,004)**		(13,275)
Losses on commodity and foreign currency contracts		**(324)**		-
Gain on sale of mineral properties, plant and equipment		**372**		1,145
Other expenses (Note 26)		**(4,762)**		(1,314)
Loss from operations		**(230,042)**		(632,766)
Gain on derivatives (Note 17)		**278**		1,348
Investment income		**2,461**		2,840
Interest and finance expense (Note 22)		**(8,452)**		(8,739)
Loss before income taxes		**(235,755)**		(637,317)
Income taxes recovery (Note 27)		**4,199**		92,494
Net loss for the year	$	**(231,556)**	$	(544,823)

See accompanying notes to the consolidated financial statements.

Attributable to:				
Equity holders of the Company	$	**(226,650)**	$	(545,588)
Non-controlling interests		**(4,906)**		765
	$	**(231,556)**	$	(544,823)
Loss per share attributable to common shareholders (Note 23)				
Basic and Diluted loss per share	$	**(1.49)**	$	(3.60)
Weighted average shares outstanding (in 000's) Basic and Diluted		**151,664**		151,511

Consolidated Statements of Comprehensive loss

For the years ended December 31, 2015 and 2014
(in thousands of U.S. dollars)

		2015		2014
Net loss for the year	$	**(231,556)**	$	(544,823)
Items that may be reclassified subsequently to net earnings:				
Unrealized net losses on available for sale securities (net of zero dollars tax in 2015 and 2014)		**(1,459)**		(1,429)
Reclassification adjustment for net losses on available for sale securities included in earnings (net of zero dollars tax in 2015 and 2014)		**1,486**		1,081
Total comprehensive loss for the year	$	**(231,529)**	$	(545,171)
Total comprehensive loss attributable to:				
Equity holders of the Company	$	**(226,623)**	$	(545,936)
Non-controlling interests		**(4,906)**		765
	$	**(231,529)**	$	(545,171)

See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(in thousands of U.S. dollars)

		2015		2014
Cash flow from operating activities				
Net loss for the year	**$**	**(231,556)**	$	(544,823)
Current income tax expense (Note 27)		**15,854**		35,807
Deferred income tax recovery (Note 27)		**(20,053)**		(128,301)
Interest Expense (Note 22)		**3,640**		5,072
Depreciation and amortization (Note 10)		**150,845**		147,710
Impairment charge of mineral properties and goodwill (Note 11)		**150,268**		596,262
Accretion on closure and decommissioning provision (Note 15)		**3,239**		3,238
Unrealized losses on foreign exchange		**860**		4,034
Share-based compensation expense		**2,569**		2,529
Losses on commodity and foreign currency contracts		**324**		-
Gain on derivatives (Note 17)		**(278)**		(1,348)
Gain on sale of mineral properties, plant and equipment		**(372)**		(1,145)
Net realizable value adjustment for inventory		**10,861**		29,953
Changes in non-cash operating working capital (Note 24)		**19,840**		11,597
Operating cash flows before interest and income taxes		**106,041**		160,585
Interest paid		**(4,472)**		(5,051)
Interest received		**1,012**		1,792
Income taxes paid		**(13,889)**		(33,138)
Net cash generated from operating activities	**$**	**88,692**	$	124,188
Cash flow from investing activities				
Payments for mineral properties, plant and equipment	**$**	**(146,735)**	$	(131,761)
Proceeds from sales (purchase) of short term investments		**91,296**		(13,524)
Proceeds from settlement of commodity contracts		**2,511**		-
Proceeds from sale of mineral property, plant and equipment		**647**		1,852
Net refundable tax and other asset expenditures		**(111)**		187
Net cash used in investing activities	**$**	**(52,392)**	$	(143,246)
Cash flow from financing activities				
Proceeds from issue of equity shares	**$**	**-**	$	3
Dividends paid		**(41,703)**		(75,751)
Payment of Convertible Debenture		**(36,235)**		-
Proceeds from credit facility		**36,200**		-
Proceeds from (payment of) short term loan (Note 14)		**1,978**		(2,438)
Payment of equipment leases		**(7,531)**		(5,347)
Distributions to non-controlling interests		**(545)**		(375)
Net cash used in financing activities	**$**	**(47,836)**	$	(83,908)
Effects of exchange rate changes on cash and cash equivalents		**(694)**		(778)
Net decrease in cash and cash equivalents		**(12,230)**		(103,744)
Cash and cash equivalents at the beginning of the year		**146,193**		249,937
Cash and cash equivalents at the end of the year	**$**	**133,963**	$	146,193

See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014
(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 deficit**	**Total**	**Non-controlling interests**	**Total equity**
Balance, December 31, 2013	**151,500,294**	**$ 2,295,208**	**$ 21,110**	**$ (137)**	**$ (133,847)**	**$ 2,182,334**	**$ 6,455**	**$ 2,188,789**
Total comprehensive income	-	-	-	-	-		-	
Net loss for the year	-	-	-	-	(545,588)	(545,588)	765	(544,823)
Other comprehensive loss	-	-	-	(348)	-	(348)	-	(348)
	-	-	-	(348)	(545,588)	(545,936)	765	(545,171)
Shares issued as compensation	142,986	1,461	-	-	-	1,461	-	1,461
Shares repurchased and cancelled	92	3	-	-	-	3	-	3
Distributions by subsidiaries to non-controlling interests	-	-	-	-	-	-	(375)	(375)
Share-based compensation on option grants	-	-	981	-	-	981	-	981
Dividends paid	-	-	-	-	(75,751)	(75,751)	-	(75,751)
Balance, December 31, 2014	**151,643,372**	**$ 2,296,672**	**$ 22,091**	**$ (485)**	**$ (755,186)**	**$ 1,563,092**	**$ 6,845**	**$ 1,569,937**
Total comprehensive loss								
Net loss for the year	-	-	-	-	(226,650)	(226,650)	(4,906)	(231,556)
Other comprehensive loss	-	-	-	27	-	27	-	27
				27	(226,650)	(226,623)	(4,906)	(231,529)
Shares issued as compensation	240,362	1,718	-	-	-	1,718	-	1,718
Distributions by subsidiaries to non-controlling interests	-	-	-	-	-	-	(545)	(545)
Share-based compensation on option grants	-	-	738	-	-	738	-	738
Dividends paid	-	-	-	-	(41,703)	(41,703)	-	(41,703)
Balance, December 31, 2015	**151,883,734**	**$ 2,298,390**	**$ 22,829**	**$ (458)**	**$ (1,023,539)**	**$ 1,297,222**	**$ 1,394**	**$ 1,298,616**

See accompanying notes to the consolidated financial statements.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, 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"). Pan American Silver Corp is incorporated and domiciled in Canada, and its 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, Mexico, and the United States.

At December 31, 2015 the Company's principal producing properties were comprised of the Huaron and Morococha mines located in Peru, the Alamo Dorado, La Colorada and Dolores mines located in Mexico, the San Vicente mine located in Bolivia and the Manantial Espejo mine located in Argentina.

The Company's significant development project at December 31, 2015 was the Navidad project in Argentina.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS comprises IFRSs, International Accounting Standards ("IAS"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretations Committee ("SIC").

These consolidated financial statements were approved for issuance by the Board of Directors on March 24, 2016.

b. Basis of Preparation

The Company's accounting policies have been applied consistently in preparing these consolidated annual financial statements for the year ended December 31, 2015, and the comparative information as at December 31, 2014.

c. Significant Accounting Policies

Principles of Consolidation: The financial statements consolidate the financial statements of Pan American and its subsidiaries. All intercompany balances, transactions, unrealized profits and losses arising from intra-company transactions, have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. This occurs when the Company has existing rights that give it the current ability to direct the relevant activities, is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance and the ability to use its power over the investee to affect the amount of the investor's returns. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control. Subsidiaries use the same reporting period and same accounting policies as the Company.

For partly owned subsidiaries, the net assets and net earnings attributable to non-controlling shareholders are presented as "net earnings attributable to non-controlling interests" in the consolidated statements of financial position, and in the consolidated income statements. Total comprehensive income is attributable to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

The consolidated financial statements include the wholly-owned and partially-owned subsidiaries of the Company; the most significant at December 31, 2015 and 2014 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. de C.V.	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
Minera Tritón Argentina 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

Investments in associates: An associate is an entity over which the investor has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist where the Company has between 20% and 50% of the voting rights, but can also arise where the Company has less than 20%, if the Company has the power to participate in the financial and operating policy decisions affecting the entity. The Company's share of the net assets and net earnings or loss is accounted for in the consolidated financial statements using the equity method of accounting.

Basis of measurement: These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, share purchase warrants and assets classified as at fair value through profit or loss or available-for-sale which are measured at fair value. Additionally, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Currency of presentation: The consolidated financial statements are presented in United States dollars ("USD"), which is the Company's and each of the subsidiaries functional and presentation currency, and all values are rounded to the nearest thousand except where otherwise indicated.

Business combinations: Upon the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) acquired on the basis of fair value at the date of acquisition. When the cost of the acquisition exceeds the fair value attributable to the Company's share of the identifiable net assets, the difference is treated as purchased goodwill, which is not amortized and is reviewed for impairment annually or more frequently when there is an indication of impairment. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the income statement. Acquisition related costs, other than costs to issue debt or equity securities of the acquirer, including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Company as consideration for the acquisition are reduced from share capital as share issuance costs. The costs to issue debt securities are capitalized and amortized using the effective interest method.

Non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirers' identifiable net assets as at the date of acquisition. The choice of measurement basis is made on a transaction by transaction basis.

Control of a business may be achieved in stages. Upon the acquisition of control, any previously held interest is re-measured to fair value at the date control is obtained resulting in a gain or loss upon the acquisition of control. Additionally, any change relating to interest previously recognized in other comprehensive income is reclassified to the income statement upon the acquisition of control.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Revenue recognition: Revenue associated with the sale of commodities is recognized when all significant risks and rewards of ownership of the asset sold are transferred to the customer, usually when insurance risk and title has passed to the customer and the commodity has been delivered to the shipping agent. At this point the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the commodities and the costs incurred, or to be incurred, in respect of the sale, can be reliably measured. Revenue is recognized at the fair value of the consideration receivable, to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Sales revenue is recognized at the fair value of consideration received, which in most cases is based on invoiced amounts.

The Company's concentrate sales contracts with third-party smelters, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on applicable commodity prices set on specified quotational periods, typically ranging from one month prior to shipment, and can extend to three months after the shipment arrives at the smelter and is based on average market metal prices. For this purpose, the selling price can be measured reliably for those products, such as silver, gold, zinc, lead and copper, for which there exists an active and freely traded commodity market such as the London Metals Exchange and the value of product sold by the Company is directly linked to the form in which it is traded on that market.

Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. In such cases, sales revenue is initially recognized on a provisional basis using the Company's best estimate of contained metal, and adjusted subsequently. Revenues are recorded under these contracts at the time title passes to the buyer based on the expected settlement period. Revenue on provisionally priced sales is recognized based on estimates of the fair value of the consideration receivable based on forward market prices. At each reporting date provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. Variations between the price recorded at the shipment date and the actual final price set under the smelting contracts are caused by changes in metal prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with the fair value adjustments recognized in revenue.

Refining and treatment charges under the sales contract with third-party smelters are netted against revenue for sales of metal concentrate.

Financial instruments: A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit and loss. Derivatives are included in this category and are classified as current assets or non-current assets based on their maturity date. The Company does not acquire financial assets for the purpose of selling in the short term. Financial assets carried at fair value through profit or loss are initially recognized at fair value. The directly attributable transaction costs are expensed in the income statement in the period in which they are incurred. Subsequent changes in fair value are recognized in net earnings.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise 'trade and other receivables', 'other assets' and 'cash' in the statement of financial position. Loans and receivables are carried at amortized cost less any impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either specifically designated as available-for- sale or not classified in any of the other categories. They are included in non-current assets unless the Company intends to dispose of the investment within 12 months of the statement of financial position date. Changes in the fair value of available-for-sale financial assets denominated in a currency other than the functional currency of the holder, other than equity investments, are analyzed between translation differences and other changes in the carrying amount of the security. The translation differences are recognized in the income statement. Any impairment charges are also recognized in the income statement, while other changes in fair value are recognized in other comprehensive income. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments previously recognized in accumulated other comprehensive income are reclassified to the income statement. Dividends on available-for-sale equity instruments are also recognized in the income statement within investment income when the Company's right to receive payments is established.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

ii) Financial liabilities

Borrowings and other financial liabilities are classified as other financial liabilities and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received (net of transaction costs) and the redemption value is recognized in the income statement over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(iii) Derivative financial instruments

When the Company enters into derivative contracts these transactions are designed to reduce exposures related to assets and liabilities, firm commitments or anticipated transactions. All derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each statement of financial position date.

Embedded derivatives: Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts.

(iv) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where relevant market prices are available, these are used to determine fair values. In other cases, fair values are calculated using quotations from independent financial institutions, or by using valuation techniques consistent with general market practice applicable to the instrument.

- The fair values of cash, and short term borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.
- Derivative financial assets and liabilities are measured at fair value based on published price quotations for the period for which a liquid active market exists.

(v) Impairment of financial assets

Available-for-sale financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, an evaluation is made as to whether a decline in fair value is 'significant' or 'prolonged' based on an analysis of indicators such as significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

(vi) Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized when its contractual rights to the cash flows that comprise the financial asset expire or substantially all the risks and rewards of the asset are transferred.

Financial liabilities

Gains and losses on discharge, cancellation or expiry of a financial liability are recognized within finance income and finance costs, respectively.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a settlement of the original liability and the recognition of a new liability, and any difference in the respective carrying amounts is recognized in the income statement.

(vii) Trade receivables

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency, default in payment or a significant deterioration in credit worthiness. Any impairment is recognized in the income statement within 'doubtful accounts provision'. When a trade receivable is uncollectable, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are credited against 'doubtful accounts provision' in the income statement.

(viii) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

<u>Derivative Financial Instruments:</u> The Company utilizes metals and currency contracts, including forward contracts to manage exposure to fluctuations in metal prices and foreign currency exchange rates. For metals production, these contracts are intended to reduce the risk of falling prices on the Company's future sales. Foreign currency derivative financial instruments, such as forward contracts are used to manage the effects of exchange rate changes on foreign currency cost exposures. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative and any gains or losses arising from changes in fair value on derivatives are taken directly to earnings for the year. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and prices for contracts with similar maturity profiles.

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.

<u>Normal purchase or sale exemption:</u> Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the Company's expected purchase, sale or usage requirements fall under the exemption from IAS 32 and IAS 39, which is known as the "normal purchase or sale exemption" (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative. Refer to note 7b for more information). For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognizes such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

<u>Convertible Notes:</u> 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.

<u>Cash and cash equivalents:</u> Cash and cash equivalents include cash on hand and cash in banks. It also includes short-term money market investments that are readily convertible to cash with original terms of three months or less. Cash and cash equivalents are classified as loans and receivables and therefore are stated at amortized cost, less any impairment.

<u>Short-term investments:</u> Short-term investments are classified as "available-for-sale", and consist of highly-liquid debt securities with original maturities in excess of three months and equity securities. These debt and equity securities are initially

recorded at fair value, which upon their initial measurement is equal to their cost. Subsequent measurements and changes in the market value of these debt and equity securities are recorded as changes to other comprehensive income. Investments are assessed quarterly for potential impairment.

Inventories: Inventories include work in progress, concentrate ore, doré, processed silver and gold, heap leach inventory, and operating materials, and supplies. Work in progress inventory includes ore stockpiles and other partly processed material. Stockpiles represent ore that has been extracted and is available for further processing. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore are sampled for metal content and are valued based on the lower of cost or estimated net realizable value based upon the period ending prices of contained metal. Cost is determined on a weighted average basis or using a first-in-first-out basis and includes all costs incurred in the normal course of business including direct material and direct labour costs and an allocation of production overheads, depreciation and amortization, and other costs, based on normal production capacity, incurred in bringing each product to its present location and condition. Material that does not contain a minimum quantity of metal to cover estimated processing expenses to recover the contained metal is not classified as inventory and is assigned no value. The work in progress inventory is considered part of the operating cycle which the Company classifies as current inventory and hence heap leach and stockpiles are included in current inventory. Quantities are assessed primarily through surveys and assays.

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 during the metallurgical process. When the ore is placed on the pad, an estimate of the 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 cost.

The Company uses several integrated steps to scientifically measure the metal content of the ore placed on the leach pads. The tonnage, grade, and ore type to be mined in a period was first estimated using the Mineral Reserve model. As the ore body is drilled in preparation for the blasting process, samples are taken of the drill residue which is assayed to determine their metal content and quantities of contained metal. 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 the crushing facility 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. The samples from the automated sampler are assayed each shift and used for process control. The quantity of leach solution is measured by flow meters throughout the leaching and precipitation process. The pregnant solution from the heap leach is collected and passed through the processing circuit to produce precipitate which is retorted and then smelted to produce doré bars.

The Company allocates direct and indirect production costs to by-products on a systematic and rational basis. With respect to concentrate and doré inventory, production costs are allocated based on the silver equivalent ounces contained within the respective concentrate and doré.

The inventory is stated at lower of cost or net realizable value, 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 and estimated models of the leaching kinetics in the heap leach pads. Test work consists of leach columns of up to 400 days duration with 150 days being the average, from which the Company projects metal recoveries up to three 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 include 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 the leaching operations cease.

Supplies inventories are valued at the lower of average cost and net realizable value using replacement cost plus cost to dispose, net of obsolescence. Concentrate and doré inventory includes product at the mine site, the port warehouse and product held by refineries. At times, the Company has a limited amount of finished silver at a minting operation where coins depicting Pan American's emblem are stamped.

Mineral Properties, Plant, and Equipment: On initial acquisition, mineral properties, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the

location and condition necessary for the asset to be capable of operating in the manner intended by management.
When provisions for closure and decommissioning are recognized, the corresponding cost is capitalized as part of the cost of the related assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in mineral property, plant and equipment and depreciated accordingly.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated.

Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The expected useful lives are included below in the accounting policy for depreciation of property, plant, and equipment. The net carrying amounts of mineral property, land, buildings, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is recorded as an impairment provision in the financial year in which this is determined.

In countries where the Company paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the VAT payments have either been deferred with mineral property costs relating to the property or expensed if it relates to mineral exploration. If the Company ultimately recovers previously deferred amounts, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

Where an item of mineral property, plant and equipment is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is disclosed as earnings or loss on disposal in the income statement. Any items of mineral property, plant or equipment that cease to have future economic benefits are derecognized with any gain or loss included in the financial year in which the item is derecognized.

Operational Mining Properties and Mine Development:
When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs incurred to develop such property including costs to further delineate the ore body and remove overburden to initially expose the ore body prior to the start of mining operations, are also capitalized. Such costs are amortized using the units-of-production method over the estimated life of the ore body based on proven and probable reserves.

Costs associated with commissioning activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the Company is ready to commence commercial production. Any revenues earned during this period are recorded as a reduction in deferred commissioning costs. These costs are amortized using the units-of-production method (described below) over the life of the mine, commencing on the date of commercial production.

Acquisition costs related to the acquisition of land and mineral rights are capitalized as incurred. Prior to acquiring such land or mineral rights the Company makes a preliminary evaluation to determine that the property has significant potential to economically develop the deposit. The time between initial acquisition and full evaluation of a property's potential is dependent on many factors including: location relative to existing infrastructure, the property's stage of development, geological controls and metal prices. If a mineable deposit is discovered, such costs are amortized when production begins. If no mineable deposit is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. In countries where the Company has paid VAT and where there is uncertainty of its recoverability, the VAT payments have either been deferred with mineral property costs relating to the property or expensed if it relates to mineral exploration. If the Company ultimately makes recoveries of the VAT, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Major development expenditures on producing properties incurred to increase production or extend the life of the mine are capitalized while ongoing mining expenditures on producing properties are charged against earnings as incurred. Gains or losses from sales or retirements of assets are included in gain or loss on sale of assets.

Depreciation of Mineral Property, Plant and Equipment: The carrying amounts of mineral property, plant and equipment (including initial and any subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reviewed annually and any change in estimate is taken into account in the determination of remaining depreciation charges, and adjusted if appropriate, at each statement of financial position date. Changes to the estimated residual values or useful lives are accounted for prospectively. Depreciation commences on the date when the asset is available for use as intended by management.

Units of production basis

For mining properties and leases and certain mining equipment, the economic benefits from the asset are consumed in a pattern which is linked to the production level. Except as noted below, such assets are depreciated on a unit of production basis.

In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable reserves.

Straight line basis

Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter than the related mine are depreciated on a straight line basis.

Mineral properties, plant and equipment are depreciated over their useful life, or over the remaining life of the mine if shorter. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis as follows:

- Land – not depreciated
- Mobile equipment – 3 to 7 years
- Buildings and plant facilities – 25 to 50 years
- Mining properties and leases – based on reserves on a unit of production basis. Capitalized evaluation and development expenditure – based on applicable reserves on a unit of production basis
- Exploration and evaluation – not depreciated until mine goes into production
- Assets under construction – not depreciated until assets are ready for their intended use

Exploration and Evaluation Expenditure: relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration expenditures relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Expenditures on exploration activity are not capitalized.

Capitalization of evaluation expenditures commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Company.

Evaluation expenditures, other than that acquired from the purchase of another mining company, is 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.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

In the case of undeveloped projects there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for the development of the undeveloped project. In some cases, the undeveloped projects are regarded as successors to ore bodies, smelters or refineries currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output, which results where existing smelters and/or refineries are closed. It is often the case that technological and other improvements will allow successor smelters and/or refineries to more than replace the capacity of their predecessors. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project, net of any related impairment provisions, are written off.

An impairment review is performed, either individually or at the cash generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is expensed in the financial year in which this is determined. Capitalized exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that the conditions discussed above for expenditure on exploration activity and evaluation expenditure are met.

Expenditures are transferred to mining properties and leases or assets under construction once the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the work completed to date supports the future development of the property. In order to demonstrate technical feasibility and commercial viability, the Company evaluates the individual project and its established mineral reserves, assesses the relevant findings and conclusions from the Company's activities and in applicable technical or other studies relating to the project, and considers whether and how any additional factors and circumstances might impact the project, particularly in light of the Company's capabilities, risk tolerance and desired economic returns. The Company conducts its managerial evaluation for commercial viability by assessing the factors it considers relevant to the commercial development of the project, taking into consideration the exploration and technical evaluation activities and work undertaken in relation to the project. If the asset demonstrates technical feasibility and commercial viability, the asset is reclassified to mineral properties, plant and equipment. Assessment for impairment is conducted before reclassification.

Deferred Stripping Costs: In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body. During the preproduction phase, these costs are capitalized as part of the cost of the mine property and subsequently amortized over the life of the mine (or pit) on a units of production basis.

The costs of removal of the waste material during a mine's production phase are deferred, where they give rise to future benefits. These capitalized costs are subsequently amortized on a unit of production basis over the reserves that directly benefit from the specific stripping activity.

Asset Impairment: Management reviews and evaluates its assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is normally assessed at the level of cash-generating units which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets. In addition, an impairment loss is recognized for any excess of carrying amount over the fair value less costs to sell of a non-current asset or disposal group held for sale. When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of value in use (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less costs to sell ("FVLCTS"). The best evidence of FVLCTS is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCTS is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Where the recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans. For value in use, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36 "Impairment of Assets." The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, capital expenditure, close down, restoration and environmental clean-up. These may include net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proven or probable ore reserves. Such non reserve material is included where there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralization that are contiguous with existing reserves. Typically, the additional evaluation to achieve reserve status for such material has not yet been done because this would involve incurring costs earlier than is required for the efficient planning and operation of the mine.

Where the recoverable amount of a cash generating unit is dependent on the life of its associated ore, expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction. The mine plan takes account of all relevant characteristics of the ore, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company's cash flow forecasts are based on estimates of future commodity prices, which assume market prices will revert to the Company's assessment of the long term average price, generally over a period of three to five years. These assessments often differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted, including appropriate adjustments for the risk profile of the countries in which the individual cash generating units operate. The great majority of the Company's sales are based on prices denominated in USD. To the extent that the currencies of countries in which the Company produces commodities strengthen against the USD without commodity price offset, cash flows and, therefore, net present values are reduced. Non-financial assets other than goodwill that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Closure and Decommissioning Costs: The mining, extraction and processing activities of the Company normally give rise to obligations for site closure or rehabilitation. Closure and decommissioning works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognized at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and decommissioning activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and decommissioning activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognized as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation. The timing of the actual closure and decommissioning expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating license conditions, and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and decommissioning requirements. Closure and decommissioning provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the underlying obligation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements which give rise to a constructive or legal obligation.

When provisions for closure and decommissioning are initially recognized, the corresponding cost is capitalized as a component of the cost of the related asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in Property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognized in finance expenses.

Closure and decommissioning provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the un-depreciated capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in the income statement. In the case of closed sites, changes to estimated costs are recognized immediately in the income statement. Changes to the capitalized cost result in an adjustment to future depreciation and finance charges. Adjustments to the estimated amount and timing of future closure and decommissioning cash flows are a normal occurrence in light of the significant judgements and estimates involved.

The provision is reviewed at the end of each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations and adjusted to reflect current best estimate. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Foreign Currency Translation: The Company's functional currency and that of its subsidiaries is the USD as this is the principal currency of the economic environments in which they operate. Transaction amounts denominated in foreign currencies (currencies other than USD) are translated into USD at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are re-translated at each statement of financial position date to reflect the U.S. exchange rate prevailing at that date.

Gains and losses arising from translation of foreign currency monetary assets and liabilities at each period end are included in earnings except for differences arising on decommissioning provisions which are capitalized for operating mines.

Share-based Payments: The Company makes share-based awards, including free shares and options, to certain employees.

For equity-settled awards, the fair value is charged to the income statement and credited to equity, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest. The fair value of the equity-settled awards is determined at the date of grant. Non-vesting conditions and market conditions, such as target share price upon which vesting is conditioned, are factored into the determination of fair value at the date of grant. All other vesting conditions are excluded from the determination of fair value and included in management's estimate of the number of awards ultimately expected to vest.

The fair value is determined by using option pricing models. At each statement of financial position date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions).

The movement in cumulative expense is recognized in the income statement with a corresponding entry within equity. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification, over the remainder of the new vesting period.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Any compensation paid up to the fair value of the awards at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they are a modification of the original award, as described in the previous paragraph.

Leases: The determination of whether an arrangement is, or contains a lease is based in the substance of the arrangement at the inception date, including whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. A reassessment after inception is only made in specific circumstances.

Assets held under finance leases, where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalized in the statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments during the lease term calculated using the interest rate implicit in the lease agreement. These amounts are determined at the inception of the lease and are depreciated over the shorter of their estimated useful lives or the lease term. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the statement of financial position. The interest elements of the lease or hire purchase obligations are charged to the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Leases where substantially all the risks and rewards of ownership have not passed to the Company are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Income Taxes: Taxation on the earnings or loss for the year comprises current and deferred tax. Taxation is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is recognized in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at the year end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences.

The tax effect of certain temporary differences is not recognized, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable earnings); and temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the Company is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future. The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred taxes relating to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or equity and not in the income statement. Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. Judgements are required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognized only where it is probable that taxable earnings will be available against which the losses or deductible temporary differences can be utilized. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and decommissioning costs, capital expenditures, dividends and other capital management transactions.

Earnings (loss) Per Share: Basic earnings (loss) per share is calculated by dividing earnings attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share calculation is based on the earnings attributable to ordinary equity holders and the weighted average number of shares outstanding after adjusting for the effects of all potential ordinary shares. This method requires that the number of shares used in the calculation be the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. This method assumes that the potential ordinary shares converted into ordinary shares at the beginning of the period (or at the time of issuance, if not in existence at beginning of the period). The number of dilutive potential ordinary shares is determined independently for each period presented.

For convertible securities that may be settled in cash or shares at the holder's option, returns to preference shareholders and income charges are added back to net earnings used for basic EPS and the maximum number of ordinary shares that could be issued on conversion is used in the computing diluted earnings per share.

Borrowing Costs and Upfront Costs: Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized. Qualifying assets are assets that require a substantial amount of time to prepare for their intended use, including mineral properties in the evaluation stage where there is a high likelihood of commercial exploitation. Qualifying assets also include significant expansion projects at the 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.

Upfront costs incurred in connection with entering new credit facilities are recorded as Other assets and are amortized over the life of the respective credit facilities.

3. CHANGES IN ACCOUNTING STANDARDS

Changes in Accounting Policies

Effective January 1, 2015, the Company adopted the following new and revised IFRSs that were issued by the International Accounting Standards Board ("IASB").

Effective for annual periods beginning on or after July 1, 2014

(i) Amended standard IFRS 2 Share-based Payment

The amendment to IFRS 2 re-defines the definition of "vesting condition." The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

(ii) Amended standard IFRS 3 Business Combinations

The amendment to IFRS 3 provides further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

(iii) Amended standard IFRS 8 Operating Segments

The amendments to IFRS 8 provides further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets. The application of this IFRS did not have a material impact on the disclosure required for the current or prior years but may affect the disclosure required in the future.

(iv) Amended standard IFRS 13 Fair Value Measurement

The amendment to IFRS 13 provides further details on the scope of the portfolio exception. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

(v) Amended standard IAS 16 Property, Plant and Equipment

The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

(vi) Amended standard IAS 24 Related Party Disclosures

The amendment to IAS 24 deals with the disclosure required for management entities. The application of this IFRS did not have a material impact on the disclosure required for the current or prior years but may affect the disclosure required in the future.

(vii) Amended standard IAS 38 Intangible Assets

The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years but may affect the presentation of future transactions or arrangements.

Accounting standards issued but not yet effective

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard and amendments on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") In May 2014, the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to January 1, 2018. Companies can elect to use either a full or modified retrospective approach when adopting this standard. The Company will apply IFRS 15 beginning on January 1, 2018. The Company is in the process of analyzing IFRS 15 and determining the effect on our consolidated financial statements as a result of adopting this standard.

IFRS 16, *Leases* ("IFRS 16") In January 2016, the IASB issued IFRS 16 – Leases which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

4. SIGNIFICANT JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- *Capitalization of evaluation costs:* The Company has determined that evaluation costs capitalized during the year relating to the operating mines and certain other exploration interests have potential future economic benefits and are potentially economically recoverable, subject to impairment analysis as discussed in Note 11. In making this judgement, the Company has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity to existing ore bodies, operating management expertise and required environmental, operating and other permits.
- *Commencement of commercial production:* During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as mineral property, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production based on a percentage of design capacity along with various qualitative factors including but not limited to the achievement of mechanical completion, continuous nominated level of production, the working effectiveness of the plant and equipment at or near expected levels and whether there is a sustainable level of production input available including power, water and diesel.
- *Assets' carrying values and impairment charges:* In determining carrying values and impairment charges the Company looks at recoverable amounts, defined as the higher of value in use or fair value less cost to sell in the case of assets, and at objective evidence that identifies significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- *Functional currency:* The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries is the USD. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.
- *Business combinations:* Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.
- *Deferral of stripping costs:* In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves that will be mined in a future period and therefore should be capitalized, the Company treats the costs of removal of the waste material during a mine's production phase as deferred, where it gives rise to future benefits. These capitalized costs are subsequently amortized on a unit of production basis over the reserves that directly benefit from the specific stripping activity. As at December 31, 2015, the carrying amount of stripping costs capitalized was $39.5 million comprised of Manantial Espejo - $3.2 million and Dolores - $36.3 million (2014 - $46.2 million was capitalized comprised of Manantial Espejo $13.0 million, Dolores $28.4 million, and Alamo Dorado $4.8 million).
- *Replacement convertible debenture:* 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. The holder subsequently selected the Silver Stream contract. The convertible debenture is classified and accounted for as a deferred credit. In determining the appropriate classification of the convertible debenture as a deferred credit, the Company evaluated the economics underlying the contract as of the date the Company assumed the obligation. As at December 31, 2015, the carrying amount of the deferred credit arising from the Aquiline acquisition was $20.8 million (2014 - $20.8 million).
- *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. The notes, were settled in December 2015 along with all accrued interest.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY IN THE APPLICATION OF ACCOUNTING POLICIES

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

- *Revenue recognition:* Revenue from the sale of concentrate to independent smelters is recorded at the time the risks and rewards of ownership pass to the buyer using forward market prices on the expected date that final sales prices will be fixed. Variations between the prices set under the smelting contracts may be caused by changes in market prices and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in the fair value classified in revenue. In a period of high price volatility, as experienced under current economic conditions, the effect of mark-to-market price adjustments related to the quantity of metal which remains to be settled with independent smelters could be significant. For changes in metal quantities upon receipt of new information and assay, the provisional sales quantities are adjusted.

- *Estimated recoverable ounces:* The carrying amounts of the Company's mining properties are depleted based on recoverable ounces. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change to future depletion rates.
- *Mineral reserve estimates:* The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43 -101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators and in accordance with "Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines – adopted November 23, 2003", prepared by the CIM Standing Committee on Reserve Definitions. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.
- *Valuation of Inventory:* In determining mine production costs recognized in the consolidated income statement, the Company makes estimates of quantities of ore stacked in stockpiles, placed on the heap leach pad and in process and the recoverable silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. Refer to Note 9 for details.
- *Depreciation and amortization rates for mineral property, plant and equipment and mineral interests:* Depreciation and amortization expenses are allocated based on assumed asset lives and depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the consolidated income statement prospectively. A change in the mineral reserve estimate for assets depreciated using the units of production method would impact depreciation expense prospectively.
- *Impairment of mining interests:* While assessing whether any indications of impairment exist for mining interests, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests. Internal sources of information include the manner in which mineral property, plant and equipment are being used or are expected to be used and indications of the economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interests. Impairments of mining interests are discussed in Note 11.
- *Estimation of decommissioning and restoration costs and the timing of expenditures:* The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at the best estimate of expenditure required to settle the present obligation of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine at the end of the reporting period. The carrying amount is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. Refer to Note 15 for details on decommissioning and restoration costs.
- *Income taxes and recoverability of deferred tax assets:* In assessing the probability of realizing income tax assets recognized, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws

in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- *Accounting for acquisitions:* The provisional fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make certain judgments and estimates taking into account information available at the time of acquisition about future events, including, but not restricted to, estimates of mineral reserves and resources required, exploration potential, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates and discount rates. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, are retrospectively adjusted when the final measurements are determined (within one year of the acquisition date).
- *Contingencies:* Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event the Company's estimates of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur. Refer to Note 28 for further discussion on contingencies.

6. 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 shareholders' equity (comprising issued capital plus share option reserve plus retained deficit, plus investment revaluation reserve) with a balance of $1.3 billion as at December 31, 2015 (2014 - $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 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, 2014. Refer to note 17 for details of the Company's revolving credit facility and related covenants.

7. FINANCIAL INSTRUMENTS

a) Financial assets and liabilities classified as at fair value through profit or loss ("FVTPL")

The Company's financial assets and liabilities classified as at FVTPL are as follows:

	December 31, 2015	December 31, 2014
Current derivative liability		
Diesel fuel swaps and foreign currency contracts	**$ 2,835**	$ -
Conversion feature on convertible notes (Note 17)	-	278
	$ 2,835	$ 278

In addition, trade and other receivables include accounts receivable arising from sales of metal concentrates and have been designated and classified as at FVTPL. The total trade and other receivables are as follows:

	December 31, 2015	December 31, 2014
Trade receivables from provisional concentrates sales	**$ 21,272**	$ 29,288
Not arising from sale of metal concentrates	**65,769**	76,356
Trade and other receivables	**$ 87,041**	$ 105,644

b) Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the Company's expected purchase, sale or usage requirements fall in the exemption from IAS 32 and IAS 39, which is known as the "normal purchase or sale exemption". For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognizes such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

c) Financial assets designated as available-for-sale

The Company's short term investments are designated as available-for-sale. The unrealized losses on available-for-sale investments recognized in other comprehensive loss for the years ended December 31, were as follows:

	Twelve months ended December 31, 2015	2014
Unrealized net losses on available for sale securities	**$ (1,459)**	$ (1,429)
Reclassification adjustment for net losses on available for sale securities included in earnings	**1,486**	1,081
	$ 27	$ (348)

d) Risk

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 principle financial risks to which the Company is exposed are metal price risk, credit risk, interest rate 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 significant 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 current policy is to not hedge the price of silver. A 10% increase in all metal prices for the year ended December 31, 2015, would result in an increase of approximately $72.8 million (2014 – $79.4 million) in the Company's revenues. A 10% decrease in all metal prices for the same period would result in a decrease of approximately $76.5 million (2014 - $83.8 million) in the Company's revenues. The Company also enters into provisional concentrate contracts to sell the zinc, lead and copper concentrates produced by the Huaron, Morococha, San Vicente and La Colorada mines. A 10% increase in metal prices (zinc, lead, copper and silver) on open positions for provisional concentrate contracts for the year ended December 31, 2015 would result in an increase of approximately $6.2 million (2014 - $6.3 million) in the Company's before tax earnings which would be reflected in 2015 results. A 10% decrease in metal prices for the same period would result in a decrease of approximately $6.2 million (2014 - $6.5 million) in the Company's before tax earnings.

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 December 31, 2015, the Company had outstanding contracts to sell some of its base metals production.

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 concentrates. Should any of these counterparties not honor 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 December 31, 2015 the Company had receivable balances associated with buyers of its concentrates of $21.3 million (2014 - $29.3 million). The vast majority of the Company's concentrate is sold to eight 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 December 31, 2015 the Company had approximately $21.4 million (2014 - $44.7 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.

At December 31, 2015, the Company has recorded an allowance for doubtful accounts provision in the amount of $7.6 million (2014 – $7.6 million). $7.6 million relates to amounts owing from Doe Run Peru ("DRP"), one of the buyers of concentrates from the Company's Peruvian operations, for deliveries of concentrates that occurred in early 2009. The Company will continue to pursue every possible avenue to recover the amounts owed by DRP. At December 31, 2015, no additional provisions for doubtful accounts were recorded other than those described above.

Cash, trade accounts receivable and other receivables that represent the maximum credit risk to the Company consist of the following:

	December 31,			
		2015		2014
Cash and cash equivalents	**$**	**133,963**	$	146,193
Trade accounts receivable		**21,272**		29,288
Advances to suppliers and contractors		**12,502**		22,766
Export tax receivable		**5,182**		5,182
Insurance receivable		**3,713**		4,447
Royalty receivable		**61**		4,274
Employee loans		**1,140**		1,107
Other		**4,919**		3,731
Total accounts receivable (1)		**48,789**		70,795
Total cash and cash equivalents, and accounts receivable	**$**	**182,752**	$	216,988

(1) Excludes Value added taxes receivable of $38.3 million (2014 - $34.8 million).

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.

Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. At December 31, 2015, the Company has $4.0 million in lease obligations (2014 - $8.0 million), that are subject to an annualized interest rate of 2.2% and an amount drawn on the credit facility of $36.2 million (2014 - $nil) at an annual interest rate of 2.125% to 3.125% over LIBOR. At December 31, 2014 the Company had $36.2 million of unsecured convertible notes that bore interest at 4.5%, payable semi-annually on June 15 and December 15. The interest paid by the Company for the year ended December 31, 2015 on its lease obligations was $0.4 million (2014 – $0.4 million). The Company has received short term loans in Argentina totaling $5.3 million Argentinean Pesos (USD $0.6 million) at an annual interest rate of 40% and USD $12.3 million at an annual interest rate of 4%. In addition, the Company has also drawn on an available line of credit in Argentina for $89.1 million Argentinean Pesos (USD $6.7 million) at an interest rate of 30.0%. $113.5 million Argentinean Pesos are due in January 2016, and USD $5.1 million are due in January 2016, USD$3.2 million is due in February 2016 and USD$4.0 million is due in March 2016. The interest paid by the Company for the year ended December 31, 2015 on the convertible notes was $1.6 million (2014 – $1.6 million).

The average interest rate earned by the Company during the year ended December 31, 2015 on its cash and short term investments was 0.88% (2014 - 0.54%). A 10% increase or decrease in the interest earned from financial institutions on cash and short term investments would result in a $0.2 million increase or decrease in the Company's before tax earnings (2014 – $0.3 million).

Foreign Exchange Rate Risk

The Company reports its financial statements in 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.

In order to mitigate this exposure, from time to time the Company has purchased Peruvian Nuevo Sol ("PEN"), Mexican Peso ("MXN") and CAD to match anticipated spending. At December 31, 2015, the Company had no outstanding contracts to purchase CAD or PEN. At December 31, 2015, the Company has collared its foreign currency exposure of MXN purchases with puts and call contracts which have a nominal value of $35.7 million and have settlement dates between January and December, 2016. The positions have a weighted average floor of $16.42 and average cap of $18.49. The Company's net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. The Company has reviewed its monetary assets and monetary liabilities and is exposed to foreign exchange risk through financial assets and liabilities and deferred income tax liabilities denominated in currencies other than USD as shown in the table below. The Company estimates that a 10% change in the exchange rate of the foreign currencies in which its December 31, 2015 non-USD net monetary liabilities were denominated would result in an income before taxes change of about $12.7 million (2014 - $5.3 million).

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

The Company is exposed to currency risk through the following financial assets and liabilities, and deferred income tax assets and liabilities denominated in foreign currencies:

At December 31, 2015	Cash and short-term investments	Other current and non-current assets	Income taxes receivable (payable), current and non-current	Accounts payable and accrued liabilities and non-current liabilities	Deferred income tax assets and liabilities
Canadian Dollar	$ 12,999	$ 229	$ -	$ (549)	$ (238)
Mexican Peso	9,202	29,309	7,074	(34,000)	(124,375)
Argentinian Peso	46	25,961	2,294	(38,817)	-
Bolivian Boliviano	1,334	10,077	(556)	(13,171)	(4,144)
European Euro	8	-	(373)	(19)	(183)
Peruvian Nuevo Sol	1,692	2,158	5,454	(8,913)	(9,457)
	$ 25,281	**$ 67,734**	**$ 13,893**	**$ (95,469)**	**$ (138,397)**

At December 31, 2014	Cash and short-term investments	Other current and non-current assets	Income taxes receivable (payable), current and non-current	Accounts payable and accrued liabilities and non-current liabilities	Deferred income tax assets and liabilities
Canadian Dollar	$ 74,262	$ 232	$ (243)	$ (259)	$ (180)
Mexican Peso	18,735	11,389	12,592	(136)	(135,421)
Argentinian Peso	157	31,301	1,767	(53,600)	(1,914)
Bolivian Boliviano	401	10,777	(4,077)	-	(2,453)
European Euro	41	-	-	(95)	-
Peruvian Nuevo Sol	4,844	2,593	5,266	(11,145)	(17,520)
	$ 98,440	**$ 56,292**	**$ 15,305**	**$ (65,235)**	**$ (157,488)**

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 on an ongoing basis and its expansion plans.

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.

e) Commitments

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

	Payments due by period 2015				
	Total	Within 1 year (2)	2 - 3 years	4- 5 years	After 5 years
Current liabilities	$ 111,700	$ 111,700	$ -	$ -	$ -
Credit Facility	39,400	960	1,920	36,520	-
Loan obligation (Note 14)	19,680	19,680	-	-	-
Finance lease obligations (1)	4,124	2,319	1,805	-	-
Severance accrual	3,811	720	1,444	975	672
Employee compensation (3)	3,178	1,707	1,471	-	-
Loss on commodity contracts	2,835	2,835	-	-	-
Provisions (5)	4,419	2,962	405	733	319
Income taxes payable	13,481	13,481	-	-	-
Total contractual obligations (5)	**$ 202,628**	**$ 156,364**	**$ 7,045**	**$ 38,228**	**$** 991

Payments due by period 2014									
		Total		Within 1 year[(2)]		2 - 3 years		4- 5 years	After 5 years
Current liabilities	$	125,031	$	125,031	$	-	$	-	$ -
Loan obligation (Note 14)		17,600		17,600		-		-	-
Finance lease obligations [(1)]		8,425		4,238		4,187		-	-
Severance accrual		4,135		749		469		2,053	864
Employee compensation		2,542		1,498		1,044		-	-
Current portion of long term debt [(4)]		37,867		37,867		-		-	-
Provisions		3,121		3,121		-		-	-
Income taxes payable		22,321		22,321		-			
Total contractual obligations [(5)]	**$**	**221,042**	**$**	**212,425**	**$**	**5,700**	**$**	**2,053**	**$** 864

(1) Includes lease obligations in the amount of $4.1 million (December 31, 2014 - $8.4 million) with a net present value of $4.0 million (December 31, 2014 - $8.0 million) discussed further in Note 16.

(2) Includes all current liabilities as per the statement of financial position plus items presented separately in this table that are expected to be paid but not accrued in the books of the Company. A reconciliation of the current liabilities balance per the statement of financial position to the total contractual obligations within one year per the commitment schedule is shown in the table below.

December 31, 2015				Future interest component		**Within 1 year**
Current portion of:						
Accounts payable and other liabilities	$	111,700	$	-	**$**	**111,700**
Credit Facility		-		960		**960**
Loan obligation		19,578		102		**19,680**
Current portion of finance lease		2,238		81		**2,319**
Current severance liability		720		-		**720**
Employee Compensation & RSU's		409		1,298		**1,707**
Unrealized loss on commodity contracts		2,835		-		**2,835**
Provisions [(5)]		2,962		-		**2,962**
Income tax payable		13,481		-		**13,481**
Total contractual obligations within one year [(5)]	$	153,923	$	2,441	**$**	**156,364**

December 31, 2014				Future interest component		**Within 1 year**
Current portion of:						
Accounts payable and other liabilities	$	125,031	$	-	**$**	**125,031**
Loan obligation		17,600		-		**17,600**
Current portion of finance lease		3,993		245		**4,238**
Current severance liability		749		-		**749**
Employee Compensation PSU's & RSU's		429		1,069		**1,498**
Convertible note		34,797		3,070		**37,867**
Provisions		3,121		-		**3,121**
Income tax payable		22,321		-		**22,321**
Total contractual obligations within one year	$	208,041	$	4,384	**$**	**212,425**

(3) Includes RSU obligation in the amount of $2.5 million (2014 – $2.2 million) that will be settled in cash. The RSUs vest in two instalments, 50% in December 2016 and 50% in December 2017.

(4) Represents the face value of the replacement convertible note and future interest payments related to the Minefinders acquisition. Refer to Note 17 for further details.

(5) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation (current of $6.0 million, long-term $44.5 million), the deferred credit arising from the Aquiline acquisition ($20.8 million) discussed in Note 18, and deferred tax liabilities ($142.1 million).

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, short-term investments, trade and other receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods 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.

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.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

The following table sets forth the Company's financial assets and liabilities measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no observable market data).

At December 31, 2015, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the Consolidated Statements of Financial Position at fair value are categorized as follows:

	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets and Liabilities:				
Short-term investments	$ 92,678	$ 92,678	$ -	$ -
Trade receivable from provisional concentrate sales	21,272	-	21,272	-
Foreign currency contracts	(168)	-	(168)	
Diesel swap contracts	(2,667)	-	(2,667)	-
	$ 111,115	$ 92,678	$ 18,437	$ -

	Fair Value at December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets and Liabilities:				
Short-term investments	$ 184,220	$ 184,220	$ -	$ -
Trade receivable from provisional concentrate sales	29,288	-	29,288	-
Conversion feature of convertible notes	(278)	-	(278)	-
	$ 213,230	$ 184,220	$ 29,010	$ -

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, 2014.

Valuation Techniques

Short-term investments and other investments

The Company's short-term investments and other investments are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy and are primarily money market securities and U.S. Treasury securities. The fair value of the investment securities is calculated as the quoted market price of the investment and in the case of equity securities, the quoted market price multiplied by the quantity of shares held by the Company.

Derivative Financial Instruments

The Company's unrealized gains and losses on commodity swaps, diesel fuel swaps and foreign currency contracts are valued using observable market prices and as such are classified as Level 2 of the fair market value hierarchy. As of December 31, 2015, the unrealized gains and losses on commodity and foreign currency contracts was $2.8 (2014 - $nil).

During the year ended December 31, 2015 the Company entered into diesel swap contracts designated to fix or limit the Company's exposure to higher fuel prices (the "Diesel fuel swaps"). The Diesel fuel swaps had an initial notional value of $25.5 million of which $14.7 million remained outstanding as at December 31, 2015. The Company recorded losses of $3.1 million on the Diesel fuel swaps in the year ended December 31, 2015 (2014 - $nil).

During the year ended December 31, 2015 the Company entered into copper swap contracts designated to fix or limit the Company's exposure to lower copper prices (the "Copper swaps"). The copper swaps were on 4,080 metric tonnes ("MT") of copper at an average price of $6,044 USD/MT. The Company recorded gains of $3.0 million on the copper contracts in the year ended December 31, 2015 (2014 - $nil). As at December 31, 2015 there were no Copper Swap contracts outstanding.

During the year ended December 31, 2015 the Company entered into collared positions for its foreign currency exposure of MXN purchases with puts and call contracts which have a nominal value of $35.7 million and have settlement dates between January and December, 2016. The positions have a weighted average floor of $16.42 and average cap of $18.49. The Company recorded losses of $0.2 million on the MXN forward contracts in the year ended December 31, 2015 (2014 - $nil).

Share purchase warrants

These warrants expired December 7th, 2014. During the year ended December 31, 2014, the unrealized gain on share purchase warrants was $0.2 million.

Convertible notes

The Company's unrealized gains and losses on conversion feature of the convertible notes are valued using observable inputs and as such are classified as Level 2 of the fair market value hierarchy. 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. During the year ended December 31, 2015, the unrealized gain on the convertible notes was $0.3 million (2014 – $1.1 million). The notes, were settled in December 2015 along with all accrued interest.

Receivables from Provisional Concentrate Sales

The Company's trade receivables arose from provisional concentrate sales and are valued using quoted market prices based on the forward London Metal Exchange ("LME") for copper, zinc and lead and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver.

8. Short Term Investments

	December 31, 2015			December 31, 2014		
Available for Sale	**Fair Value**	**Cost**	**Accumulated unrealized holding losses**	Fair Value	Cost	Accumulated unrealized holding gains
Short term investments	**$ 92,678**	**$ 93,136**	**$ (458)**	$ 184,220	$ 184,705	$ (485)

9. Inventories

Inventories consist of:

	December 31, 2015	December 31, 2014
Concentrate inventory	**$ 17,216**	$ 16,679
Stockpile ore [1]	**18,988**	44,236
Heap leach inventory and in process [2]	**82,846**	78,564
Doré and finished inventory [3]	**33,981**	57,175
Materials and supplies	**51,330**	55,895
	$ 204,361	$ 252,549

(1) Includes an impairment charge of $28.8 million to reduce the cost of inventory to NRV at Manantial Espejo, Alamo Dorado and Dolores mines (December 31, 2014 – $0.9 at Manantial Espejo Mine).

(2) Includes an impairment charge of $21.3 million to reduce the cost of inventory to NRV at Dolores and Manantial Espejo mines (December 31, 2014 - $32.3 million at Dolores and Alamo Dorado mines).

(3) Includes an impairment charge of $3.7 million to reduce the cost of inventory to NRV at Dolores and Manantial Espejo mines (December 31, 2014 - $9.7 at Dolores, Alamo Dorado and Manantial Espejo mines).

Production costs, including depreciation and amortization, and royalties for the year ended December 31, 2015 were $706.8 million (2014 - $743.9 million). Production costs represent cost of inventories sold during the year. During 2015, a $10.9 million (2014 - $30.0 million) net realizable value adjustment was recognized and included in production costs (Note 20). Inventories held at net realizable value amounted to $119.0 million (2014 – $156.9 million). The Stockpile ore of $4.5 million (2014 – $32.7 million) and a portion of the heap leach inventory amounting to $57.6 million (2014 - $54.0 million) are expected to be recovered or settled after more than twelve months.

10. MINERAL PROPERTIES, 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 expense 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 potential 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.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

Mineral properties, plant and equipment consist of:

	Mining Properties				
	Depletable	Non-depletable			
	Reserves and Resources	Reserves and Resources	Exploration and Evaluation	Plant and Equipment	Total
Carrying value					
As at January 1, 2015					
Net of accumulated depreciation	$ 646,374	$ 129,944	$ 281,401	$ 208,672	$ 1,266,391
Additions	114,092	-	-	42,461	156,553
Disposals	-	-	-	(255)	(255)
Depreciation and amortization	(69,479)	-	-	(81,366)	(150,845)
Depreciation charge captured in inventory	15,661	-	-	-	15,661
Impairment charges	(90,431)	(14,571)	-	(45,266)	(150,268)
Transfers (1)	(5,249)	4,978	(5,094)	4,282	(1,083)
Capitalized borrowing costs	1,994	-	-	-	1,994
Closure and decommissioning – changes in estimate	7,073	-	-	-	7,073
As at December 31, 2015	**$ 620,035**	**$ 129,944**	**$ 276,307**	**$ 128,528**	**$ 1,145,221**
Cost as at December 31, 2015	$ 1,502,411	$ 341,331	$ 677,846	$ 720,786	$ 3,242,374
Accumulated depreciation and impairments	**(882,376)**	**(220,980)**	**(401,539)**	**(592,258)**	**(2,097,153)**
Carrying value – December 31, 2015	**$ 620,035**	**$ 120,351**	**$ 276,307**	**$ 128,528**	**$ 1,145,221**

(1) Includes reclassification to Supply inventory and supplier advances.

	Mining Properties				
	Depletable	Non-depletable			
	Reserves and Resources	Reserves and Resources	Exploration and Evaluation	Plant and Equipment	Total
Carrying value					
As at January 1, 2014					
Net of accumulated depreciation	$ 706,831	$ 226,415	$ 602,816	$ 334,616	$ 1,870,678
Additions	107,650	-	17	33,911	141,578
Disposals	-	-	(377)	(267)	(644)
Depreciation	(70,749)	-	-	(76,961)	(147,710)
Depreciation charge captured in inventory	(9,418)	-	-	-	(9,418)
Impairment charges	(142,269)	(72,038)	(310,593)	(67,286)	(592,186)
Transfers (1)	51,297	(24,433)	(10,411)	(15,341)	1,112
Capitalized borrowing costs	2,338	-	-	-	2,338
Closure and decommissioning – changes in estimate	694	-	(51)	-	643
As at December 31, 2014	**$ 646,374**	**$ 129,944**	**$ 281,401**	**$ 208,672**	**$ 1,266,391**
Cost as at December 31, 2014	$ 1,373,338	$ 336,353	$ 682,940	$ 690,368	$ 3,082,999
Accumulated depreciation and impairments	**(726,964)**	**(206,409)**	**(401,539)**	**(481,696)**	**(1,816,608)**
Carrying value – December 31, 2014	**$ 646,374**	**$ 129,944**	**$ 281,401**	**$ 208,672**	**$ 1,266,391**

(1) Includes amounts transferred from Accounts Receivable for advances.

	December 31, 2015			December 31, 2014		
	Cost	**Accumulated Depreciation and Impairment**	**Carrying Value**	Cost	Accumulated Depreciation and Impairment	Carrying Value
Huaron mine, Peru	**$ 171,574**	**$ (82,896)**	**$ 88,678**	$ 158,750	$ (71,351)	$ 87,399
Morococha mine, Peru	**214,855**	**(177,621)**	**37,234**	211,545	(86,936)	124,609
Alamo Dorado mine, Mexico	**198,950**	**(198,950)**	**-**	193,715	(179,274)	14,441
La Colorada mine, Mexico	**200,083**	**(72,732)**	**127,351**	140,784	(61,650)	79,134
Dolores mine, Mexico	**921,169**	**(512,308)**	**408,861**	859,655	(452,645)	407,010
Manantial Espejo mine, Argentina	**360,735**	**(341,457)**	**19,278**	346,498	(277,296)	69,202
San Vicente mine, Bolivia	**130,595**	**(72,230)**	**58,365**	128,014	(63,812)	64,202
Other	**25,237**	**(16,441)**	**8,796**	24,745	(15,696)	9,049
Total	**$ 2,223,198**	**$ (1,474,635)**	**$ 748,563**	$ 2,063,706	$ (1,208,660)	$ 855,046

Land and Exploration and Evaluation:		
Land	$ 3,515	$ 4,977
Navidad project, Argentina	190,471	190,471
Minefinders exploration projects, Mexico	173,401	180,074
Morococha, Peru	3,238	9,674
Other	26,033	26,149
Total non-producing properties	**$ 396,658**	**$ 411,345**
Total mineral properties, plant and equipment	**$ 1,145,221**	**$ 1,266,391**

Navidad Project, Argentina

During the year ended December 31, 2015 the Company capitalized $nil of evaluation costs and mineral properties, plant and equipment at the Navidad Project in Argentina (2014 - $nil).

At December 31, 2014, it was determined that the estimated realizable value of the Navidad project was below its carrying value and an impairment charge of $286.1 million was recorded. Refer to Note 11 for further details.

Morococha Mine, Peru

During the second quarter of 2010, the Company's 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 would 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 $40.0 million, of which, to December 31, 2015, the Company received $23.8 million (2014 - $23.8 million) which has been recognized as other income.

At December 31, 2015, it was determined that the estimated realizable value of the Morococha mine was below its carrying value and an impairment charge of $80.7 million (net of tax of $59.1million) was recorded. Refer to Note 11 for further details.

Dolores Mine, Mexico

On March 30, 2012, the Company acquired all of the issued and outstanding common shares of Minefinders. Minefinders' primary mining property was its 100% owned Dolores gold and silver mine located in Chihuahua, Mexico.

During the year ended December 31, 2015 the Company capitalized $53.1 million of mineral properties, plant and equipment (2014 - $49.7 million) which included deferred stripping costs of $18.1, powerline construction costs of $11.5 and pad 3 construction additions of $2.2 million (2014 - $17.5 million). For the year ended December 31, 2015, the Company capitalized $2.0 million in interest related to the capital expenditures (2014 - $2.3 million) at a capitalization rate of 8.7% (2014 - 8.7%).

At December 31, 2015, it was determined that the estimated realizable value of the Dolores mine was below its carrying value and a further impairment charge of $31.8 million (net of tax of $20.7 million) was recorded. Refer to Note 11 for further details.

At December 31, 2014, it was determined that the estimated realizable value of the Dolores mine was below its carrying value and an impairment charge of $170.6 million (net of tax of $110.8 million) was recorded. Refer to Note 11 for further details.

11. IMPAIRMENT OF NON-CURRENT ASSETS AND GOODWILL

Non-current assets are tested for impairment when events or changes in circumstance indicate that the carrying amount may not be recoverable. The Company performs an impairment test for goodwill at each financial year end and when events or changes in circumstances indicate that the related carrying value may not be recoverable. The Company considers use of its internal discounted cash flow economic models as a proxy for the calculation of fair value less cost to sell, given a willing market participant would use such models in establishing a value for the properties. The Company considered impairment at the cash generating unit ("CGU") level, which is considered to be an individual mine or a development property. The CGU carrying amount for purposes of this test includes the carrying value of the mineral properties plant and equipment less deferred tax liabilities and closure and decommissioning liabilities related to each CGU.

Impairment at December 31, 2015

The sustained decrease in metal prices, that was most pronounced during the second half of 2015, led to the Company lowering its long term reserve prices at year-end. The year-end reserve price reduction and observed declines in near-term and mid-term period consensus metal prices referenced in the Company's life of mine cash flow models, led management to conclude that there was an indication of impairment to certain assets in the third and fourth quarter of 2015. Based on the Company's estimation of the recoverable amounts of its mineral properties as at September 30, 2015 and December 31, 2015, determined on a fair value less costs to sell basis, the Company concluded that impairment charges were required during the year on the Dolores, Manantial Espejo, Morococha, and Alamo Dorado mines.

The Company's key assumptions for each impairment test included the most current operating and capital costs information and risk adjusted project specific discount rates. The Company used a median of analysts' consensus pricing for the first four years of its economic modeling for impairment purposes, and long term reserve prices for the remainder of each asset's life. The prices used can be found in the key assumptions and sensitivity section below.

As at December 31, 2015, the Company determined the carrying value of the Dolores mine, including mineral properties, plant and equipment, and stockpile inventories, net of associated deferred tax liabilities and closure and decommissioning liabilities of $434.3 million (the "Net Carrying Amount"), was greater than its then estimated recoverable amount of $413.6 million when using a 5.25% risk adjusted discount rate. Based on the assessment at December 31, 2015, the Company recorded a further impairment charge related to the Dolores mine of $31.7 million before tax ($20.7 million net of tax).

As at December 31, 2015, the Company determined that the $12.9 million Net Carrying Amount of the Alamo Dorado mine, was greater than its then estimated recoverable amount of $nil when using a 4.00% risk adjusted discount rate. Based on this assessment the Company wrote–off the carrying value of the Alamo Dorado mine's mineral properties, plant and equipment assets of $9.1 million before tax ($6.0 million net of tax).

As at December 31, 2015, the Company determined that the $112.4 million Net Carrying Amount of the Morococha mine, was greater than its then estimated recoverable amount of $36.3 million when using a 6.50% risk adjusted discount rate. Based on the assessment at December 31, 2015, the Company recorded an impairment charge related to the Morococha mine of $80.7 million before tax ($59.1 million net of tax).

As at September 30, 2015, the Company determined that the Net Carrying Amount of the Manantial Espejo mine of approximately $83.4 million was greater than its then estimated recoverable amount of $29.9 million, when using an 8.25% risk adjusted discount rate. Based on this assessment the Company recorded an impairment charge related to the Manantial Espejo mineral properties, plant and equipment of $28.8 million before tax ($20.2 million net of tax).

Impairment at December 31, 2014

Similarly, as at December 2014 primarily due to the sustained decrease in metal prices that began during the third quarter and continued through the balance of 2014, the Company concluded that impairment indicators existed and ultimately impairments were required as of December 31, 2014.

In the fourth quarter of 2014 the Company lowered the metal prices assumed in its reserve and resource estimates and its life of mine cash flow models which ultimately led to a conclusion that a total impairment charge of $596.3 million ($498.7 million, net of tax), made up of impairments required on the Dolores, Alamo Dorado, and Manantial Espejo mines in addition to imparment charges on Navidad assets and other exploration properties including $4.1 million of goodwill. The pre and post-tax impairments relating to each of these assets is summarized in the table above. Impairments were allocated pro-rata amongst: depletable and non-depletable mineral property; exploration and evaluation property; and, plant and equipment assets. The total 2014 pre-tax impairment was comprised of total impairments of: $142.2 million to depletable mineral properties; $72.1 million to non-depletable mineral properties; $310.5 million to exploration and evaluation property; and, $67.3 million to plant and equipment assets. For the purposes of the December 31, 2014 impairment review, the Company's key assumptions included the most current information on operating and capital costs, and the metal price assumptions summarized in the "Key assumptions and sensitivity" section below.

Key assumptions and sensitivity

The metal prices used to calculate the recoverable amounts at December 31, 2015, September 30, 2015 and December 31, 2014 are based on analyst consensus prices and the Company's long term reserve prices, and are summarized in the following tables:

Metal prices used at December 31, 2015:

Commodity Prices	2016-2019 average	Long term
Silver Price - $/oz.	$16.87	$17.00
Gold Price - $/oz.	$1,184	$1,180
Zinc Price - $/tonne	$2,264	$1,800
Copper price - $/tonne	$5,690	$5,000
Lead Price - $/tonne	$1,935	$1,800

Metal prices used at September 30, 2015:

Commodity Prices	2015-2018 average	Long term
Silver Price - $/oz.	$16.98	$18.50
Gold Price - $/oz.	$1,199	$1,250

Metal prices used at December 31, 2014:

Commodity Prices	2015-2018 average	Long term
Silver Price - $/oz.	$19.03	$18.50
Gold Price - $/oz.	$1,266	$1,250
Zinc Price - $/tonne	$2,423	$2,000
Copper price - $/tonne	$6,996	$6,800
Lead Price - $/tonne	$2,225	$2,000

The Company assesses impairment, when events or changes in circumstances indicate that the related carrying value may not be recoverable, at the cash-generating unit level ("CGU"), which is considered to be individual mine sites or development properties. The discount rates used to present value the Company's life of mine cash flows are derived from the Company's weighted average cost of capital which was calculated as 6.4% for 2015 (2014 – 7.5%), with rates applied to the various mines and projects ranging from 4.00% to 10.00% depending on the Company's assessment of country risk, project risk, and other potential risks specific to each CGU.

The key assumptions in determining the recoverable value of the Company's mineral properties are metal prices, operating and capital costs, foreign exchange rates and discount rates.

At December 31, 2015, an adverse 10% movement in any of the major assumptions in isolation did not cause the recoverable amount to be equal to the CGU carrying value for any of La Colorada, San Vicente and Huaron.

In the case of the Dolores mine, the Alamo Dorado mine, the Manantial Espejo mine, the Morococha mine, and the Navidad project, which all have had their carrying values adjusted to fair value less cost to sell through impairment charges, a modest decrease in any one key assumption would reduce the recoverable amount below the carrying amount.

Goodwill

Goodwill arose when the Company acquired Minefinders in 2012 and consists of:

As at December 31, 2013	$	7,134
Impairments (1)		(4,077)
As at December 31, 2014		**3,057**
Impairments		**-**
As at December 31, 2015	**$**	**3,057**

(1) Impairment of exploration properties; La Virginia and other. December, 2014

12. OTHER ASSETS

Other assets consist of:

		December 31, 2015		December 31, 2014
Long-term receivable (1)	**$**	**-**	$	5,461
Investments in Associates		**1,450**		1,450
Reclamation bonds		**199**		91
Lease receivable		**185**		408
Other assets		**37**		37
	$	**1,871**	$	7,447

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

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

		December 31, 2015		December 31, 2014
Trade accounts payable (1)	**$**	**53,570**	$	52,985
Royalties payable		**1,947**		6,019
Other accounts payable and trade related accruals		**28,796**		33,780
Payroll and related benefits		**17,366**		18,808
Severance accruals		**720**		749
Other taxes payable		**1,220**		1,541
Advances on concentrate inventory		**-**		2,345
Other		**9,210**		9,982
	$	**112,829**	$	126,209

(1) No interest is charged on the trade accounts payable ranging from 30 to 60 days from the invoice date. The Company has policies in place to ensure that all payables are paid within the credit terms.

14. Loans payable

		December 31, 2015		December 31, 2014
Loan payable	**$**	**19,578**	$	17,658
Unrealized gain on foreign exchange		**-**		(58)
Net loan payable (1)	**$**	**19,578**	$	17,600

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

(1)

As at December 31, 2015							
Due		Argentine Peso		US$	Int. Rate		Total US$
January 6, 2016	$	5,291	$	-	40.00%	$	406
January 15, 2016		89,065		-	30.00%		6,872
January 23, 2016		-		2,305	3.90%		2,305
January 29, 2016		-		300	5.30%		300
January 29, 2016		-		2,500	3.82%		2,500
February 28, 2016		-		3,195	4.25%		3,195
March 9, 2016		-		3,200	3.35%		3,200
March 9, 2016		-		800	3.85%		800
	$	94,356	$	12,300		$	19,578

As at December 31, 2014							
Due		Argentine Peso		US$	Int. Rate		Total US$
October 31, 2015	$	60,000	$	-	32.90%	$	7,017
January 15, 2015		49,500		-	25.00%		5,870
February 11, 2015		-		4,713	3.20%		4,713
	$	109,500	$	4,713		$	17,600

15. Provisions

		Closure and Decommis-sioning		Litigation		Total
December 31, 2013	$	41,469		5,520		46,989
Revisions in estimates and obligations incurred	$	421		-		421
Charged (credited) to earnings:						
-new provisions		-		375		375
-unused amounts reversed		-		(91)		(91)
-exchange gains on provisions		-		(284)		(284)
Charged in the year		(1,955)		(509)		(2,464)
Accretion expense (Note 22)		3,238		-		3,238
December 31, 2014	$	43,173	$	5,011		48,184
Revisions in estimates and obligations incurred	$	6,859		-		6,859
Charged (credited) to earnings:						
-new provisions		-		125		125
-unused amounts reversed		-		(86)		(86)
-exchange gains on provisions		-		(377)		(377)
Charged in the year		(2,818)		(255)		(3,073)
Accretion expense (Note 22)		3,239		-		3,239
December 31, 2015	$	50,453	$	4,418	$	54,871

Maturity analysis of total provisions:

		December 31, 2015		December 31, 2014
Current	$	**8,979**	$	3,121
Non-Current		**45,892**		45,063
	$	**54,871**	$	48,184

Closure and Decommissioning Cost Provision

The total inflated and undiscounted amount of estimated cash flows required to settle the Company's closure and decommissioning provision is $107.2 million (2014 - $99.7 million) which has been discounted using discount rates between 1% and 20% (2014 – 1% and 21%). Revisions made to the reclamation obligations in 2015 were primarily a result of increased site disturbance at the mines as well as revisions to the estimate based on periodic reviews of closure plans, actual expenditures incurred and concurrent closure activities completed. These obligations will be funded from operating cash flows, reclamation deposits and cash on hand.

The accretion expense charged to 2015 earnings as finance expense was $3.2 million (2014 - $3.2 million). Reclamation expenditures paid during the current year were $2.8 million (2014 - $2.0 million).

Litigation Provision

The litigation provision consists of amounts accrued for labour claims at several of the Company's mine operations. The balance of $4.4 million at December 31, 2015 (2014 - $5.0 million) represents the Company's best estimate for all known and anticipated future obligations related to the above claims. The amount and timing of any expected payments are uncertain as their determination is outside the control of the Company.

16. Finance Lease Obligations

		December 31, 2015		December 31, 2014
Lease obligations(1)	$	**3,997**	$	8,037

		December 31, 2014		December 31, 2013
Maturity analysis of finance leases:				
Current	$	**2,238**	$	3,993
Non-Current		**1,759**		4,044
	$	**3,997**	$	8,037

(1) Represents equipment lease obligations at several of the Company's subsidiaries. A reconciliation of the total future minimum lease payments at December 31 to their present value is presented in the table below.

		December 31, 2015		December 31, 2014
Less than a year	$	**2,319**	$	4,238
2 years		**1,030**		2,697
3 years		**775**		1,490
4 years		**-**		-
5 years		**-**		-
		4,124		8,425
Less future finance charges		**(127)**		(388)
Present value of minimum lease payments	$	**3,997**	$	8,037

17. Long Term Debt

	December 31, 2015	December 31, 2014
Credit Facility	$ 36,200	$ -
Convertible notes	-	34,519
Conversion feature on the convertible notes	-	278
Total long-term debt	$ 36,200	$ 34,797

	December 31, 2015	December 31, 2014
Maturity analysis of Long Term Debt		
Current	$ -	$ 34,797
Non-Current	36,200	-
	$ 36,200	$ 34,797

On April 15, 2015 the Company entered into a new $300.0 million secured revolving credit facility with a 4-year term (the "Credit Facility"). In connection with the Credit Facility the Company paid upfront costs of $3.0 million which have been recorded as an asset under the classification Prepaids and other current assets and are being amortized over the life of the Credit Facility. The Credit Facility can be drawn down at any time to finance the Company's working capital requirements, acquisitions, investments and for general corporate purposes.

At the option of the Company, amounts can be drawn under the Credit Facility and will incur interest based on the Company's leverage ratio at either (i) LIBOR plus 2.125% to 3.125% or; (ii) the Bank of Nova Scotia's Base Rate plus 1.125% to 2.125%. Undrawn amounts under the Revolving Facility are subject to a stand-by fee of 0.478% to 0.703% per annum, dependent on the Company's leverage ratio.

Under the Credit Facility, the Company is subject to various general and financial covenants, the financial covenants include the requirement for the Company to maintain: (i) a leverage ratio less than or equal to 3.5:1; (ii) an interest coverage ratio more than or equal to 3.0:1; and (iii) a tangible net worth (exclusive of any prospective write-downs of certain assets) of greater than $1,248.0 million plus 50% of the positive net earnings for each subsequent fiscal quarter. As of December 31, 2015 the Company was in compliance with all covenants required by the Credit Facility.

On December 29, 2015 the Company made a $36.2 million drawdown on the Credit Facility by way of 1-month LIBOR loan at an annual rate of 2.55%. Subsequent to December 31, 2015 the $36.2 million remained drawn under LIBOR loans at an average annual rate of 2.55%

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 were due and settled on December 15, 2015.

During the year ended December 31, 2015, the Company recorded a $0.3 million gain on the revaluation of the embedded derivative on the convertible notes (2014 – $1.1 million).

18. Other Long Term Liabilities

Other long term liabilities consist of:

	December 31, 2015	December 31, 2014
Deferred credit(1)	$ 20,788	$ 20,788
Other income tax payable	6,624	6,542
Severance accruals	3,091	3,386
	$ 30,503	$ 30,716

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 selected the silver stream alternative. The final contract for the alternative is being discussed and pending the final resolution of this discussion, the Company continues to classify the fair value calculated at the acquisition of this alternative, as a deferred credit.

19. SHARE CAPITAL AND EMPLOYEE COMPENSATION PLANS

The Company has a comprehensive stock option and compensation share plan for its employees, directors and officers (the "Compensation Plan"). The Compensation 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 Compensation 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 trading 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. Subject to certain exceptions, any modifications to the Compensation Plan require shareholders' approval.

The Board has developed long term incentive plan ("LTIP") guidelines, which provide 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 buy shares of the Company and a grant of the Company's common shares with a two year no trading legend. The options are 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. In addition, the restricted share units ("RSUs") plan described below is part of the LTIP plan. In early 2014, the Board approved the adding of performance share units ("PSUs") to the Company's LTIP, plan described below.

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 Board of Directors. Additionally, from time to time, the Company issues replacement awards and warrants related to acquisitions.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

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

	Stock Options		Share Purchase Warrants		
	Shares	Weighted Average Exercise Price CAD$	Warrants	Weighted Average Exercise Price CAD$	Total
As at December 31, 2013	1,397,370	$ 20.76	7,814,605	$ 35.00	9,211,975
Granted	212,869	$ 11.58	-	$ -	212,869
Exercised	-	$ -	(92)	$ 35.00	(92)
Expired	(195,562)	$ 17.73	(7,814,513)	$ 35.00	(8,010,075)
Forfeited	(20,162)	$ 23.02	-	$ -	(20,162)
As at December 31, 2014	1,394,515	$ 19.74	-	$ -	1,394,515
Granted	446,279	$ 9.76	-	$ -	446,279
Exercised	-	$ -	-	$ -	-
Expired	(190,862)	$ 25.19	-	$ -	(190,862)
Forfeited	(97,009)	$ 23.21	-	$ -	(97,009)
As at December 31, 2015	**1,552,923**	**$ 15.98**	**-**	**$ -**	**1,552,923**

Long Term Incentive Plan

During the year ended December 31, 2015, the Company awarded 215,234 (2014 - 137,465) shares of common stock with a two year holding period and granted 446,279 (2014 – 212,869) options under this plan. During 2015, 25,128 common shares were issued to Directors in lieu of Directors fees of $0.2 million (2014 - 5,521 of $0.1 million). The Company used as its assumptions for calculating the fair value a risk free interest rate of 1.5%-2.2% (2014 – 1.2%), weighted average volatility of 54% using a historical volatility (2014 – 50%), expected lives ranging from 3.5 to 4.5 (2014 – 3.5 to 4.5) years, expected dividend yield of 5.4%-6.4% (2014 – 3.4%), and an exercise price of CAD $9.76 (2014 – CAD $11.58) per share. The weighted average fair value of each option was determined to be CAD $3.30 (2014 – CAD $3.51).

During the year ended December 31, 2015, nil common shares were issued in connection with the exercise of options under the plan (December 31, 2014 – nil common shares) 190,862 options expired (2014 - 195,562) and 97,009 options were forfeited (2014 – 20,162).

Share Option Plan

The following table summarizes information concerning stock options outstanding and options exercisable as at December 31, 2015. The underlying option agreements are specified in Canadian dollar amounts.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices CAD$	**Number Outstanding as at December 31, 2015**	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price CAD$	Number Exercisable as at December 31, 2015	Weighted Average Exercise Price CAD$
$9.76 - $11.57	**743,826**	73.78	$ 10.45	297,547	$ 11.49
$11.58 - $17.01	**233,511**	72.93	$ 11.68	127,079	$ 11.76
$17.02 - $18.53	**184,130**	49.38	$ 18.43	184,130	$ 18.43
$18.54 - $24.90	**314,520**	34.50	$ 24.90	314,520	$ 24.89
$24.91 - $40.22	**76,936**	23.33	$ 40.22	76,936	$ 40.22
	1,552,923	60.31	$ 15.98	1,000,212	$ 19.23

For the year ended December 31, 2015, the total employee stock-based compensation expense recognized in the income statement was $2.6 million (2014 - $2.5 million).

Share Purchase Warrants

During 2014, 92 warrants were exercised for common shares for proceeds of $0.003 million. The outstanding warrants of 7,814,513 expired on December 7, 2014 as per the agreement. 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 year ended December 31, 2014, there was a derivative gain of $0.2 million.

Performance Shares Units

In early 2014, the Board approved the adding of performance share units ("PSUs") to the Company's LTIP. PSUs are notional share units that mirror the market value of the Company's common shares (the "Shares"). Each vested PSU entitles the participant to a cash payment equal to the value of an underlying share, less applicable taxes, at the end of the term, plus the cash equivalent of any dividends distributed by the Company during the three-year performance period. PSU grants will vest on the date that is three years from the date of grant subject to certain exceptions. Performance results at the end of the performance period relative to predetermined performance criteria and the application of the corresponding performance multiplier determine how many PSUs vest for each participant. The Board approved the issuance of 73,263 PSUs (2014 – 30,408) with a share price of CAD $9.33 (2014 – CAD$11.51) as of December 31, 2015. Compensation expense for PSUs was $0.08 million in 2015 (2014 - $0.005 million) and is presented as a component of general and administrative expense.

At December 31, 2015, the following PSU's were outstanding:

PSU	Number Outstanding		Fair Value
As at December 31, 2013	-		-
Granted	30,408	$	305
Paid out	-		-
Forfeited	-		-
Change in value	-		(24)
As at December 31, 2014	30,408	$	281
Granted	73,263		503
Paid out	-		-
Forfeited	-		-
Change in value	-		(101)
As at December 31, 2015	**103,671**	**$**	**683**

Restricted Share Units

Under the Company's RSU plan, selected employees are granted RSUs where each RSU has a value equivalent to one Pan American common share. The RSUs are settled in cash or Common Shares at the discretion of the Board and vest in two instalments, the first 50% vest on the first anniversary date of the grant and a further 50% vest on the second anniversary date of the grant. Additionally, RSU value is adjusted to reflect dividends paid on Pan American common share over the vesting period.

Compensation expense for RSU's was $0.6 million in 2015 (2014 – $0.9 million) and is presented as a component of general and administrative expense.

At December 31, 2015, the following RSU's were outstanding:

RSU	Number Outstanding		Fair Value
As at December 31, 2013	196,102	$	2,288
Granted	165,240		1,670
Paid out	(116,381)		(1,224)
Forfeited	(4,204)		(44)
Change in value	-		(429)
As at December 31, 2014	240,757	$	2,261
Granted	305,455		2,192
Paid out	(148,891)		(1,068)
Forfeited	(17,177)		(112)
Change in value	-		(778)
As at December 31, 2015	**380,144**	**$**	**2,495**

Issued share capital

The Company is authorized to issue 200,000,000 common shares of no par value.

Normal Course Issuer Bid

On December 17, 2014 the Company received regulatory approval for a normal course issuer bid to purchase up to 7,575,290 of its common shares, during one-year period from December 22, 2014 and December 21, 2015.

No common shares were purchased during the years ended December 31, 2015 or 2014.

Dividends

On February 19, 2015, the Company declared a quarterly dividend of $0.125 per common share paid to holders of record of its common share as of the close of business on March 2, 2015.

On May 11, 2015, the Company declared a quarterly dividend of $0.05 per common share paid to holders of record of its common share as of the close of business on May 22, 2015.

On August 13, 2015, the Company declared a quarterly dividend of $0.05 per common share paid to holders of record of its common shares as of the close of business on August 25, 2015.

On November 12, 2015, the Company declared a quarterly dividend of $0.05 per common share paid to holders of record of its common shares as of the close of business on November 23, 2015.

On February 18, 2016, the Company declared a quarterly dividend of $0.0125 per common share paid to holders of record of its common shares as of the close of business day on February 29, 2016. These dividends were declared subsequent to the year end and have not been recognized as distributions to owners during the period presented.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

20. PRODUCTION COSTS

Production costs are comprised of the following:

	2015	2014
Consumption of raw materials and consumables	**$ 202,909**	$ 223,238
Employee compensation and benefits expense (Note 21)	**158,952**	172,558
Contractors and outside services	**84,474**	87,023
Utilities	**20,656**	25,229
Other expenses	**37,034**	25,360
Changes in inventories [1]	**28,006**	34,796
	$ 532,031	$ 568,204

(1) Includes NRV charge $10.9 million (2014 - $30.0 million)

21. EMPLOYEE COMPENSATION AND BENEFIT EXPENSE

	2015	2014
Wages, salaries and bonuses	**$ 175,242**	$ 189,656
Share-based payments	**2,569**	2,529
Total employee compensation and benefit expenses	**177,811**	192,185
Less: Expensed within General and Administrative expenses	**(15,134)**	(16,086)
Less: Expensed Exploration expenses	**(3,725)**	(3,541)
Employee compensation and benefits expenses included in production costs (Note 20)	**$ 158,952**	$ 172,558

22. INTEREST AND FINANCE EXPENSE

	2015	2014
Interest expense	**$ 3,640**	$ 5,072
Finance fees	**1,573**	429
Accretion expense (Note 15)	**3,239**	3,238
	$ 8,452	$ 8,739

23. LOSS PER SHARE ("LPS") (BASIC AND DILUTED)

For the year ended December 31,	2015			2014		
	Earnings (Numerator)	Shares (000's) (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (000's) (Denominator)	Per-Share Amount
Net loss [1]	**$ (226,650)**			$ (545,588)		
Basic LPS	**$ (226,650)**	**151,664**	**$ (1.49)**	$ (545,588)	151,511	$ (3.60)
Effect of Dilutive Securities:						
Stock Options	-	-		-	-	
Convertible notes	-	-		-	-	
Diluted LPS	**$ (226,650)**	**151,664**	**$ (1.49)**	$ (545,588)	151,511	$ (3.60)

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

Potentially dilutive securities excluded in the diluted earnings per share calculation for the twelve months ended December 31, 2015 were 1,552,923 out-of-money options (2014 – 1,394,515).

24. 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:	2015	2014
Trade and other receivables	**$ 27,514**	$ 7,373
Inventories	**23,412**	11,267
Prepaid expenditures	**(2,111)**	4,659
Accounts payable and accrued liabilities	**(26,750)**	(8,398)
Provisions	**(2,225)**	(3,304)
	$ 19,840	$ 11,597

Significant non-cash items:	2015	2014
Advances received for equipment leases	**$ 3,491**	$ 3,230
Share-based compensation issued to employees and directors	**$ 1,718**	$ 1,461

Cash and Cash Equivalents	2015	2014
Cash in banks	**$ 123,144**	$ 118,099
Short term money markets	**10,819**	28,094
Cash and cash equivalents	**$ 133,963**	$ 146,193

25. 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 in nature whereby Mine General Managers are responsible for achieving specified business results within a framework of global policies and standards. We have determined that each producing mine and significant development property represents an operating segment.

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. Operating results of operating segments are reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance. 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. Significant information relating to the Company's reportable operating segments is summarized in the table below:

	For the year ended December 31, 2015									
	Peru		Mexico			Argentina		Bolivia		
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente	Other	Total
Revenue from external customers	$ 75,678	$ 64,761	$ 166,125	$ 69,206	$ 89,575	$ 145,014	$ -	$ 64,329	$ -	$ 674,688
Depreciation and amortization	$ (11,537)	$ (20,398)	$ (48,626)	$ (11,567)	$ (10,918)	$ (38,453)	$ (175)	$ (8,565)	$ (606)	$ (150,845)
Exploration and project development	$ (765)	$ (1,202)	$ (400)	$ -	$ (254)	$ -	$ (6,827)	$ -	$ (2,492)	$ (11,940)
Interest income	$ 75	$ 13	$ 3	$ 345	$ 3	$ 525	$ 11	$ -	$ 37	$ 1,012
Interest and financing expenses	$ (709)	$ (565)	$ 853	$ (239)	$ (258)	$ (4,432)	$ (45)	$ (226)	$ (2,831)	$ (8,452)
Gain (loss) on disposition of assets	$ 5	$ 283	$ 40	$ 3	$ 61	$ (62)	$ -	$ 23	$ 19	$ 372
Gain on derivatives	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 278	$ 278
Foreign exchange gain (loss)	$ 250	$ 59	$ (2,267)	$ (2,728)	$ (1,488)	$ 2,939	$ 1,324	$ 921	$ (12,014)	$ (13,004)
Loss on commodity, fuel swaps and foreign currency contracts	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (324)	$ (324)
Impairment charge	$ -	$ (62,534)	$ (31,750)	$ (9,104)	$ -	$ (28,755)	$ -	$ -	$ (18,125)	$ (150,268)
(Loss) earnings before income taxes	$ (3,393)	$ (88,214)	$ (53,968)	$ (14,735)	$ 4,745	$ (75,040)	$ (8,422)	$ 9,559	$ (6,287)	$ (235,755)
Income tax (expense) recovery	$ (2,353)	$ 7,687	$ 12,602	$ (7,892)	$ (37)	$ 1,502	$ (38)	$ (2,209)	$ (5,063)	$ 4,199
Net (loss) earnings for the period	$ (5,746)	$ (80,527)	$ (41,366)	$ (22,627)	$ 4,708	$ (73,538)	$ (8,460)	$ 7,350	$ (11,350)	$ (231,556)
Capital expenditures	$ 11,074	$ 6,758	$ 53,118	$ -	$ 58,037	$ 14,061	$ 111	$ 3,286	$ 290	$ 146,735
Total assets	$ 111,999	$ 62,012	$ 721,926	$ 68,575	$ 167,836	$ 95,866	$ 193,213	$ 81,981	$ 211,629	$ 1,715,037
Total liabilities	$ 33,576	$ 19,235	$ 164,900	$ 16,909	$ 25,305	$ 63,020	$ 1,379	$ 17,974	$ 74,123	$ 416,421

	For the year ended December 31, 2014									
	Peru		Mexico			Argentina		Bolivia		
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente	Other	Total
Revenue from external customers	$ 94,985	$ 79,070	$ 156,559	$ 90,477	$ 98,024	$ 156,076	$ -	$ 76,751	$ -	$ 751,942
Depreciation and amortization	$ (11,877)	$ (18,745)	$ (47,776)	$ (12,693)	$ (8,784)	$ (38,031)	$ (166)	$ (8,986)	$ (652)	$ (147,710)
Exploration and project development	$ (1,312)	$ (1,453)	$ (1,242)	$ (336)	$ (9)	$ (1,657)	$ (4,437)	$ -	$ (2,779)	$ (13,225)
Interest income	$ 291	$ 22	$ 9	$ 299	$ 251	$ 723	$ 15	$ -	$ 182	$ 1,792
Interest and financing expenses	$ (751)	$ (778)	$ (1,353)	$ (241)	$ (256)	$ (4,087)	$ (45)	$ (226)	$ (1,002)	$ (8,739)
Gain (loss) on disposition of assets	$ 17	$ 404	$ 2	$ -	$ -	$ (102)	$ -	$ (6)	$ 830	$ 1,145
Gain on derivatives	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,348	$ 1,348
Foreign exchange gain (loss)	$ 190	$ (364)	$ 1,322	$ (1,494)	$ (1,143)	$ 4,818	$ (388)	$ 290	$ (16,506)	$ (13,275)
Impairment charge	$ -	$ -	$ (170,579)	$ (23,721)	$ -	$ (76,697)	$ (286,076)	$ -	$ (39,189)	$ (596,262)
Earnings (loss) before income taxes	$ 3,631	$ (13,345)	$ (251,621)	$ (17,517)	$ 14,611	$ (87,183)	$ (292,397)	$ 15,091	$ (8,587)	$ (637,317)
Income tax (expense) recovery	$ (1,494)	$ 3,565	$ 87,350	$ (1,566)	$ (4,477)	$ 23,078	$ (77)	$ (7,544)	$ (6,341)	$ 92,494
Net earnings (loss) for the period	$ 2,137	$ (9,780)	$ (164,271)	$ (19,083)	$ 10,134	$ (64,105)	$ (292,474)	$ 7,547	$ (14,928)	$ (544,823)
Capital expenditures	$ 14,948	$ 9,348	$ 44,887	$ 293	$ 31,400	$ 26,741	$ 50	$ 3,415	$ 679	$ 131,761
Total assets	$ 125,071	$ 167,862	$ 744,498	$ 99,334	$ 117,219	$ 183,402	$ 192,651	$ 91,712	$ 296,124	$ 2,017,873
Total liabilities	$ 34,162	$ 35,954	$ 175,195	$ 15,596	$ 30,382	$ 79,648	$ 1,632	$ 24,589	$ 50,778	$ 447,936

	Twelve Months ended Dec 31,	
Product Revenue	2015	2014
Refined silver and gold	**$ 400,790**	$ 424,591
Zinc concentrate	**54,239**	73,487
Lead concentrate	**135,926**	163,854
Copper concentrate	**83,733**	90,010
Total	**$ 674,688**	$ 751,942

The Company has 20 customers that account for 100% of the concentrate and silver and gold sales revenue. The Company has 7 customers that accounted for 25%, 14%, 11%, 10%, 9%, 8%, and 8% of total sales in 2015, and 7 customers that accounted for 30%, 16%, 13%, 10%, 9%, 8%, and 6% of total sales in 2014. The loss of certain of these customers or curtailment of purchases by such customers could have a material adverse effect on the Company's results of operations, financial condition, and cash flows.

(Tabular amounts are in thousands of U.S. dollars except number of shares. options, warrants and per share amounts)

26. OTHER INCOME AND (EXPENSES)

		2015		2014
Royalties income	$	**161**	$	144
Other (expenses)		**(4,923)**		(1,458)
Total	$	**(4,762)**	$	(1,314)

27. INCOME TAXES

		2015		2014
Current tax expense				
Current tax expense in respect of the current year	$	**18,079**	$	35,763
Adjustments recognized in the current year with respect to prior years		**(2,225)**		44
		15,854		35,807
Deferred tax expense (recovery)				
Deferred tax recovery recognized in the current year		**(14,241)**		(20,199)
Adjustments recognized in the current year with respect to prior years		**(1,747)**		2,862
Adjustments to deferred tax attributable to changes in tax rates and laws		**-**		(2,876)
Reduction in deferred tax liabilities due to tax impact of impairment of mineral property, plant, and equipment (Note 10, 11)		**(44,512)**		(97,541)
Derecognition of previously recognized deferred tax assets		**44,218**		-
Reduction in deferred tax liabilities due to tax impact of net realizable value charge to inventory (Note 20)		**(3,771)**		(10,547)
		(20,053)		(128,301)
Provision for income tax recovery)	$	**(4,199)**	$	(92,494)

Income tax expense differs from the amount 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 results in an effective tax rate that varies considerably from the comparable period. In addition to the specific items noted below, the main factors which have affected the effective tax rate for the year ended December 31, 2015 and the comparable period of 2014 were the non-deductible foreign exchange losses, foreign tax rate differences, mining taxes paid, and withholding tax on payments from foreign subsidiaries.

In 2015, the Company determined that it could not support the utilization of certain deferred tax assets related to the Alamo Dorado, Manantial Espejo and Morococha properties. As a result, a deferred tax expense of $44.2 million was recorded to de-recognize these assets.

In 2014, the Company recorded a non-cash impairment charge on non-current assets on several properties, with no tax benefit recognized on a substantial portion of the properties including Navidad. A non-cash impairment charge was also recorded on goodwill associated with the La Virginia property with no tax benefit recognized.

The Company continues to expect that these and other factors will continue to cause volatility in effective tax rates in the future.

		2015		2014
Loss taxes	$	**(235,755)**	$	(637,317)
Statutory tax rate		**26.00%**		26.00%
Income tax recovery based on above rates	$	**(61,296)**	$	(165,702)
Increase (decrease) due to:				
Non-deductible expenses		**5,683**		4,902
Foreign tax rate differences		**(17,626)**		(61,445)
Change in net deferred tax assets not recognized:				
- Argentina exploration expenses		**2,717**		2,289
- Other deferred tax assets not recognized		**8,800**		5,762
Derecognition of deferred tax assets previously recognized		**44,218**		-
Non-taxable portion of net earnings of affiliates		**(4,915)**		(4,915)
Change to temporary differences		**(1,767)**		2,862
Non-taxable unrealized gains on derivative financial instruments		**(72)**		(350)
Effect of other taxes paid (mining and withholding)		**6,628**		8,050
Effect of foreign exchange on tax expense		**12,941**		4,430
Impact of Peruvian tax rate change		**-**		(2,876)
Effect of change in deferred tax resulting from prior asset purchase accounting under IAS12		**2,600**		3,272
Impairment charges with no tax benefit		**2,219**		110,692
Other		**(4,329)**		535
Income tax recovery	$	**(4,199)**	$	(92,494)
Effective tax rate		**1.78%**		14.51%

Deferred tax assets and liabilities

The following is the analysis of the deferred tax assets (liabilities) presented in the consolidated financial statements:

	2015	2014
Net deferred assets (liabilities) beginning of year	**$ (157,488)**	$ (285,782)
Recognized in net (loss) earnings in year	**20,053**	128,301
Devaluation of tax credits on the Mexican de-consolidation payments	**(1,009)**	-
Other	**47**	(7)
Net deferred liabilities end of year	**$ (138,397)**	$ (157,488)
Deferred tax assets	**3,730**	2,584
Deferred tax liabilities	**(142,127)**	(160,072)
Net deferred tax liability	**$ (138,397)**	$ (157,488)

Components of deferred tax assets and liabilities

The deferred tax assets (liabilities) are comprised of the various temporary differences as detailed below:

	2015	2014
Deferred tax assets (liabilities) arising from:		
Closure and decommissioning costs	**$ 5,657**	$ 6,273
Tax losses	**30,039**	20,866
Deductible Mexican mining taxes	**1,223**	1,633
Tax credit resulting from Mexican de-consolidation	**6,671**	8,337
Accounts payable and accrued liabilities	**2,311**	5,081
Trade and other receivables	**4,641**	7,806
Provision for doubtful debts and inventory adjustments	**(4,802)**	(2,778)
Mineral properties, plant, and equipment	**(176,861)**	(197,108)
Estimated sales provisions	**(7,675)**	(7,573)
Prepaids and other current assets	**(429)**	(959)
Other temporary differences and provisions	**828**	934
Net deferred tax asset (liability)	**$ (138,397)**	$ (157,488)

At December 31, 2015, the net deferred tax liability above, included the benefit of tax losses of $30.0 million of which $99.5 million of tax losses (deferred tax impact of $29.4 million) will expire after the 2024 year-end if unused. The remaining tax losses of $1.5 million (deferred tax impact of $0.6 million) are expected to be used against taxable income in 2016.

At December 31, 2014 the net deferred tax liability above, included the benefit of tax losses of $20.9 million of which $39.4 million of tax losses (deferred tax impact of $11.8 million) will expire after the 2024 year-end if unused, and $34.8 million of tax losses (deferred tax impact of $9.0 million) that have no expiry.

Unrecognized deductible temporary differences, unused tax losses and unused tax credits

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2015	2014
Tax loss (revenue in nature)	**$ 190,464**	$ 144,287
Net tax loss (capital in nature)	**10,732**	-
Resource pools	**22,653**	22,675
Financing fees	**47**	-
Property plant and equipment	**45,344**	27,113
Closure and decommissioning costs	**33,788**	23,435
Exploration expenses	**52,288**	49,783
Expense not deductible until paid	**7,284**	-
Doubtful debt and inventory	**48,485**	-
Deferred income and estimated sales	**4,072**	-
Deductible Mexican mining taxes	**946**	-
Payroll and vacation accruals	**1,257**	1,158
Other temporary differences	**827**	286
	$ 418,187	$ 268,737

Included in the above amount are losses, which if not utilized will expire as follows:

At December 31, 2015	Canada	US	Spain	Peru	Mexico	Barbados	Argentina	Total
2016	$ -	$ -	$ -	$ 104	$ -	$ 8	$ -	$ 112
2017	-	-	-	506	-	5	-	511
2018 – and after	95,054	13,732	17,520	51,476	1,752	39	10,268	189,841
Total tax losses	**$ 95,054**	**$ 13,732**	**$ 17,520**	**$ 52,086**	**$ 1,752**	**$ 52**	**$ 10,268**	**$ 190,464**

At December 31, 2014	Canada	US	Spain	Peru	Mexico	Barbados	Argentina	Total
2015	$ 20,572	$ -	$ -	$ 31	$ -	$ 13	$ -	$ 20,616
2016	-	-	-	71	-	7	-	78
2017 – and after	90,036	13,471	17,398	1,101	1,403	99	85	123,593
Total tax losses	**$ 110,608**	**$ 13,471**	**$ 17,398**	**$ 1,203**	**$ 1,403**	**$ 119**	**$ 85**	**$ 144,287**

Taxable temporary differences associated with investment in subsidiaries

As at December 31, 2015, taxable temporary differences of $55.4 million (2014 – $144.0 million) associated with the investments in subsidiaries have not been recognized as the Company is able to control the timing of the reversal of these differences which are not expected to reverse in the foreseeable future.

28. 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 7.

c. Credit Facility

On April 15, 2015, Pan American entered into a $300 million secured revolving line of credit facility ("the Facility") with a syndicate of eight lenders ("the Lenders"). The purpose of the Facility is for general corporate purposes, capital expenditures, investments or potential acquisitions. The Facility, which is principally secured by a pledge of Pan American's equity interests in its material subsidiaries, has a term of four years. The interest margin on the Facility ranges from 2.125% to 3.125% over LIBOR, based on the Company's leverage ratio at the time of a specified reporting period. Pan American has agreed to pay a commitment fee of between 0.47% and 0.703% on undrawn amounts under the Facility, depending on the Company's leverage ratio. As at December 31, 2015, the Company has drawn $36.2 million 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 December 31, 2015 and December 31, 2014 $50.5 million and $43.2 million, respectively, were accrued for reclamation costs relating to mineral properties. See also Note 15.

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.

In December 2014, the Peruvian Parliament approved a bill that decreases the effective tax rate applicable to the Company's Peruvian operations. The law is effective January 1, 2015 and decreases the future corporate income tax rate from 30% in 2014, to 28% in 2015 and 2016, 27% in 2017 and 2018, and to 26% in 2019 and future years. In addition, this new law increased withholding tax on dividends paid to non-resident shareholders from 4.1% in 2014, to 6.8% in 2015 and 2016, 8% in 2017 and 2018, and to 9.3% in 2019 and future years.

As a result of this law becoming enacted in the fourth quarter of 2014, the Company recognized a non-cash recovery of $2.9 million related to the deferred tax impacts of the above tax changes.

In December 2013, the Mexican President passed a bill that increases the effective tax rate applicable to the Company's Mexican operations. The law is effective January 1, 2014 and increases the future corporate income tax rate to 30%, creates a 10% withholding tax on dividends paid to non-resident shareholders (subject to any reduction by an Income Tax Treaty) and creates a new Extraordinary Mining Duty equal to 0.5% of gross revenues from the sale of gold, silver, and platinum. In addition, the law requires taxpayers with mining concessions to pay a new 7.5% Special Mining Duty. The Extraordinary Mining Duty and Special Mining Duty will be tax deductible for income tax purposes. The Special Mining Duty will generally be applicable to earnings before income tax, depreciation, depletion, amortization, and interest. In calculating the Special Mining Duty there will be no deductions related to development type costs but exploration and prospecting costs are deductible when incurred.

f. Finance Leases

The present value of future minimum lease payments classified as finance leases at December 31, 2015 is $4.0 million (2014 - $8.0 million) and the schedule of timing of payments for this obligation is found in Note 16.

g. Law changes in Argentina

Government regulation in Argentina related to the economy has increased substantially over the past few years. In particular, the government has intensified the use of price, foreign exchange, and import controls in response to unfavourable domestic economic trends. During 2012, an Argentinean Ministry of Economy and Public Finance resolution 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 doré 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.

The Argentine government has also imposed restrictions on the importation of goods and services and increased administrative procedures required to import equipment, materials and services required for operations at Manantial Espejo. In addition, in May 2012, the government mandated that mining companies establish an internal function to be responsible for substituting Argentinian-produced goods and materials for imported goods and materials. Under this mandate, the Company is required to submit its plans to import goods and materials for government review 120 days in advance of the desired date of importation.

The government of Argentina has also 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.

In September 2013, the provincial government of Santa Cruz, Argentina passed amendments to its tax code that introduced a new mining property tax with a rate of 1% to be charged annually on published "measured" reserves, which has the potential to affect the Manantial Espejo mine as well as other companies operating in the province. In December 2015, the legislature of the Province of Santa Cruz passed a bill abrogating this mining property tax and the bill became law and was published in the Official Gazette on December 30, 2015, as Law 3,462. Law 3,462 was promulgated through a decree that confirmed that the tax was unconstitutional because: (i) it contravened the contents of Federal Mining Investments Law, and (ii) it attempted to regulate matters reserved to Federal legislation. It is unclear on whether any or all of the subject taxes already paid will be refunded or credited.

On September 23, 2013, Argentina's federal Income Tax Statute was amended to include a 10% income tax withholding on dividend distributions by Argentine corporations and branch profit distributions by foreign corporations.

h. Labour law change in Mexico

In December 2012, the Mexican government introduced changes to the Federal labour law which made certain amendments to the law relating to the use of service companies and subcontractors and the obligations with respect to employee benefits. These amendments may have an effect on the distribution of profits to workers and this could result in additional financial obligations to the Company. At this time, the Company is evaluating these amendments in detail, but currently believes that it continues to be in compliance with the federal labour law and that these amendments will not result in any new material obligations for the Company. Based on this assessment, the Company did not accrue any amounts. The Company will continue to monitor developments in Mexico and to assess the potential impact of these amendments.

i. Political changes in Bolivia

On May 28, 2014, the Bolivian government enacted Mining Law No. 535 (the "New Mining Law"). Among other things, the New Mining Law has established a new Bolivian mining authority to provide principal mining oversight (varying the role of COMIBOL) and sets out a number of new economic and operational requirements relating to state participation in mining projects. Further, the New Mining Law provides that all pre-existing contracts are to migrate to one of several new forms of agreement within a prescribed period of time. As a result, we anticipate that our current joint venture agreement with COMIBOL relating to the San Vicente mine will be subject to migration to a new form of agreement and may require renegotiation of some terms in order to conform to the New Mining Law requirements. We are assessing the potential impacts of the New Mining Law on our business and are awaiting further regulatory developments, but the primary effects on the San Vicente operation and our interest therein will not be known until such time as we have, if required to do so, renegotiated the existing contract, and the full impact may only be realized over time. In the meantime, we understand that pre-existing agreements will be respected during the period of migration and we will take appropriate steps to protect and, if necessary, enforce our rights under our existing agreement with COMIBOL. There is, however, no guarantee that governmental actions, including possible expropriation or additional changes in the law, and the migration of our contract will not impact our involvement in the San Vicente operation in an adverse way and such actions could have a material adverse effect on us and our business.

j. 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 un-asserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or un-asserted 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.

k. 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.

l. 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 a law that increased mining taxes to fund anti-poverty infrastructure projects in the country, effective October 1, 2011. The law changed the scheme for royalty payments, so that mining companies that had not signed legal stability agreements with the government had 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 were subject to a "special tax" at a rate ranging from 2% to 8.4% of operating profit. Companies that had 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 change in the royalty and the new tax had no material impact 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. Refer below to the Navidad project section below 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 18.

Huaron 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 $60.0 million; (ii) 2.0% for companies with sales between $60.0 million and $120.0 million; and (iii) 3.0% for companies with sales greater than $120.0 million. This royalty is a net smelter returns royalty, the cost of which is deductible for income tax purposes.

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 1.0 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 year ended December 31, 2015, the royalties to COMIBOL amounted to approximately $8.1 million (2014 - $10.4 million).

A royalty is also payable to EMUSA, a former partner of the Company on the project. The royalty is a 2% net smelter return royalty (as per the Agreement) 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. 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.

Dolores mine

Production from the Dolores mine is subject to underlying net smelter return royalties comprised of 2% on gold and silver production and 1.25% on gold production. These royalties are payable to Royal Gold Inc. and were effective in full as of

May 1, 2009, on the commencement of commercial production at the Dolores mine. For the year ended December 31, 2015, the royalties to Royal Gold amounted to approximately $4.3 million (2014 – $4.9 million).

Navidad project

In late June 2012 the governor of the province of Chubut submitted to the provincial legislature a draft law which, if passed, would regulate all future oil and gas and mining activities in the province. The draft legislation incorporated the expected re-zoning of the province, allowing for the development of Navidad as an open pit mine. However, the draft legislation also introduced a series of new regulations that would have greatly increased provincial royalties and imposed the province's direct participation in all mining projects, including Navidad.

In October 2012, the proposed bill was withdrawn for further study; however, as a result of uncertainty over the zoning, regulatory and tax laws which will ultimately apply, the Company has been forced to temporarily suspend project development activities at Navidad.

The Company remains committed to the development of Navidad and to contributing to the positive economic and social development of the province of Chubut upon the adoption of a favorable legislative framework.

29. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, a company indirectly owned by a trust of which a director of the Company is a beneficiary, was paid approximately $1.4 million (2014 - $0.4 million) for consulting services. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year were as follows:

		2015		2014
Short-term benefits	**$**	**9,069**	$	9,648
Share-based payments		**3,161**		2,487
	$	**12,230**	$	12,135

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