PAN AMERICAN SILVER INCREASES SILVER AND GOLD PRODUCTION IN THE FIRST QUARTER OF 2014

(Unaudited Results. All amounts in US$ unless otherwise stated. Approximate production figures.)

Vancouver, B.C. May 8, 2014 – Pan American Silver Corp. (NASDAQ: PAAS; TSX: PAA) (the "Company", or "Pan American"), is pleased to report that its consolidated first quarter silver production increased by 5% to 6.61 million ounces, while gold production rose 43% to 45,900 ounces. At the same time, cash costs dropped 27% to $8.25 per ounce and All-in Sustaining Cost per Silver Ounce Sold "AISCSOS" (1) was reduced 20% to $15.54 per ounce. The first quarter results are on track for the Company to achieve or surpass its consolidated forecast for this year, particularly in relation to gold production and cash costs.

First Quarter 2014 Highlights (unaudited)(2)
• Silver production of 6.61 million ounces, up 5% year-on-year • Gold production of 45,900 ounces, up 43% year-on-year • AISCSOS of $15.54, net of by-product credits, down 20% year-on-year • Consolidated cash costs(3) of $8.25 per silver ounce, net of by-product credits, down 27% year-on-year • Revenue of $209.7 million • Mine operating earnings(4) of $31.6 million • Net earnings of $6.8 million or $0.05 per share • Adjusted earnings(5) of $8.6 million or $0.06 per share • Net cash generated from operating activities of $36.1 million, or $0.24 per share, up 12% year-on-year • Total dividends paid to common shareholders of $18.9 million

Financial Position at March 31, 2014
• Cash and short term investments of $394.4 million • Working capital of $680.3 million • Long term debt of $40.3 million

(1) All-in sustaining costs per silver ounce sold ("AISCSOS") is a non-GAAP measure. The Company has adopted the reporting of AISCSOS as a measure of a silver mining company's consolidated operating performance and the ability to generate cash flow from all operations collectively. We believe it is a more comprehensive measure of the cost of operating our consolidated business than traditional cash and total costs per 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. This measure including its subcomponent Sustaining Capital are non – GAAP measures and readers should refer to the table in the Alternative Performance (Non-GAAP) Measures section of the MD&A for the period ending March 31, 2014 for a reconciliation of this measure to the unaudited condensed interim consolidated financial statements.

(2) Financial information in this news release is based on International Financial Reporting Standards ("IFRS"); results are unaudited; percentages compare period-on-period.

(3) Cash costs per payable ounce of silver, net of by-product credits, is a non-GAAP measure. The Company believes that in addition to production costs, depreciation and amortization, and royalties, cash costs per ounce is a useful and complementary benchmark that investors use to evaluate the Company's performance and ability to generate cash flow and is well understood and widely reported in the silver mining industry. However, cash costs per ounce does not have a standardized meaning prescribed by IFRS as an indicator of performance. Investors are cautioned that cash costs per ounce 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. The Company's method of calculating cash costs per ounce may differ from the methods used by other entities and, accordingly, the Company's cash costs per ounce may not be comparable to similarly titled measures used by other entities. This measure is a non-GAAP measure and readers should refer to the table in the Alternative Performance (Non-GAAP) Measures section of the MD&A for the period ending March 31, 2014 for a reconciliation of this measure to the unaudited condensed interim consolidated financial statements.

(4) Mine operating earnings is a non-GAAP measure used by the Company to assess the performance of its silver mining operations. Mine operating earnings is calculated as revenue less production costs, depreciation and amortization and royalties. The Company and certain investors use this information to evaluate the Company's performance.

(5) Adjusted earnings and adjusted earnings per share are non-GAAP measures. Adjusted earnings is calculated as net (loss) earnings for the period adjusting for the gains or losses recorded on fair market value adjustments on the Company's outstanding derivative instruments, impairment of mineral property, unrealized foreign exchange gains or losses, unrealized gain or loss on commodity contracts, realized and unrealized losses on silver and gold forward contracts, severance expense, the transaction costs arising from the Minefinders transaction, gain or loss on sale of assets, and the effect of taxes on the above items. The Company considers this measure to better reflect normalized earnings as it does not include items which may be volatile from period to period. See "Financial and Operating Highlights" at the end of this news release for a reconciliation of this measure to the Company's Net income.

Commenting on the Company's first quarter results, Geoff Burns, President & CEO said, "We have had a very strong start to 2014, recording increased silver and gold production at lower than forecast costs. The excellent production results are really just an extension of the operating efficiencies and momentum we generated over the second half of last year, in response to falling metal prices, and I fully expect it to continue throughout the year. The first quarter also saw us kick off our exciting La Colorada expansion project where we are making good progress on the underground development needed to commence shaft boring, while concurrently completing the detailed engineering required for the expansion of the sulfide plant. Lastly, we are nearing completion of the engineering work necessary to fully evaluate the economic potential of adding a pulp agglomeration circuit and underground mine at Dolores and we expect to release the results of these studies near the end of the second quarter. Burns continued, “We significantly reduced our costs in the second half of 2013 and it is gratifying to see this trend continue into 2014.”

Financial Results

Pan American generated revenue of $209.7 million during the first quarter of 2014, 14% less than in the first quarter of last year due to sharply lower prices for all metals produced by the Company, partially offset by increased quantities of silver and gold sold during the current quarter. During the quarter, Pan American’s average realized price per silver and gold ounce sold was $19.99 and $1,283, respectively, which was significantly lower than the $30.11 per silver ounce and $1,630 per gold ounce realized during the first quarter of last year.

The Company generated $6.8 million in net earnings during the first quarter of 2014, or $0.05 per share, compared to $20.1 million during the first quarter of 2013. The decline was a result of the negative effect of lower metals prices on revenue, higher costs of sales due to greater quantities of metals sold, including a $2.3 million negative adjustment on the value of inventories at Dolores, as well as a $5.5 million foreign exchange loss, predominantly on cash balances held in Canadian dollars.

Adjusted earnings for the reporting quarter were $8.6 million or $0.06 per share, compared to $40.0 million in the first quarter of 2013.

Mine operating earnings during the first three months of 2014 fell 58% from the same period of 2013 to $31.6 million. Again, this decline was a direct result of lower metals prices and higher depreciation on increased volumes sold.

During the first three months of 2014, the Company generated $36.1 million in cash flow from operations, 12% more than in the comparable period of 2013. The increase resulted from lower income taxes paid and changes in non-cash operating working capital, partially offset by lower mine operating earnings.

During the first quarter of 2014, Pan American paid $18.9 million in cash dividends to common shareholders.

Pan American maintains one of the strongest balance sheets in the industry. At March 31, 2014, the Company had $394.4 million in cash and short-term investments, and working capital of $680.3 million, a decrease of $28.3 million and $8.7 million, respectively as compared to the fourth quarter of 2013. Long-term debt was relatively unchanged at $40.3 million.

Operating Results

During the first quarter of 2014, Pan American produced a total of 6.61 million ounces of silver, 5% more than was produced during the first quarter of 2013. The increase was achieved due to production gains at all of the Company’s operations, except for Alamo Dorado. Substantial production increases at Dolores, La Colorada and Manantial Espejo were more than enough to offset the decline at Alamo Dorado.

Consolidated gold production for the first quarter of 2014 climbed to 45,900 ounces, a 43% increase as compared to the first quarter of 2013. The increase was attributable to a 13% rise in gold production at Dolores, which contributed 16,400 ounces, and an 88% rise in gold ounces from Manantial Espejo, where production increased to 24,500 ounces due to higher grades and higher throughput.

Quarterly consolidated zinc, lead and copper production was also higher compared to a year ago as a result of higher throughput rates and grades at La Colorada, Morococha, Huaron and San Vicente. Zinc production rose 18% to 11,400 tonnes, lead production rose 16% to 3,600 tonnes and copper production rose 55% to 1,700 tonnes.

<u>Mexico</u>

La Colorada had a record first quarter, producing 1.2 million ounces of silver, 8% higher than a year ago. The mine achieved higher throughput and processed higher grades as accelerated mine development for the mine expansion project begins to provide more access to higher grade sulphide ore, deeper in the mine. Grades for all base metals are also improving as mining operations progress to lower levels.

Quarterly silver production at Dolores rose 23% from the first quarter of 2013 to 1.01 million ounces, a quarterly record for the mine. The increase was achieved on higher throughput rates and a marked improvement in recovery rates due to longer primary leach cycle times obtained with the commissioning of Pad 3 in late 2013. In addition, incremental production was achieved by bringing a staged leaching sequence into operation on Pad 2 and Pad 3 during the quarter. Overall recovery rates are expected to trend downwards over the coming months as the benefits of staged leaching begin to decrease and recoveries fall to the mine's modelled recovery rates towards year-end.

Alamo Dorado's silver production during the first three months of 2014 fell short of management's expectations at 0.91 million ounces of silver, 28% lower than in the first quarter of 2013. The production decline resulted from the combination of an unscheduled 15-day stoppage to repair a failed mill motor and expected lower head grades as the plant begins to process lower grade ore being mined and a higher proportion of lower grade stockpiled ore.

Peru

Huaron produced 0.83 million ounces of silver during the first quarter, a 10% increase from the first quarter of 2013, as the mine sustained the higher throughput rates achieved last year in addition to benefitting from better recoveries, which more than compensated for slightly lower than expected grades.

Quarterly silver production at Morococha rose to 0.59 million ounces from 0.52 million ounces a year ago. The increase was due to higher grades obtained through mine development initiatives put into place last year.

Bolivia

San Vicente's quarterly silver production rose to 1.0 million ounces, 7% more than in the first quarter of 2013. The increase was due to encountering higher-than-expected silver grades, which made up for slightly lower recoveries as compared to a year ago.

Argentina

Manantial Espejo's silver production rose significantly to 1.03 million ounces, 25% higher than in the first quarter of 2013. The production increase was achieved with higher throughput, higher grades, and a drawdown of in-process inventories while the processing plant was down for scheduled maintenance work. Throughput increased as the relaxation of importation restrictions greatly improved the supply of critical spare parts, which are starting to catch up to operational needs. Higher grades were achieved from the open pit mine sequencing that accessed the final benches of the Phase 1 Maria open pit, which was mined out in the quarter. We do not anticipate seeing similar high grade ores from the open pit until year-end, as pre-stripping of the Phase 2 Maria open pit will advance through the next two quarters.

All-in Sustaining Costs Per Silver Ounce Sold

AISCSOS for the first quarter of 2014 was reduced 20% to $15.54 from $19.47 in the first quarter of 2013. The decline was attributable to significantly higher by-product credits due to more quantities of metals sold, more favourable treatment and refining terms for the Company and the continuation of cost-cutting measures implemented last year. More importantly, continuing the trend established last year, AISCSOS for the first quarter of this year fell 9% as compared to the fourth quarter of 2013. For a full reconciliation of AISCSOS calculation, please refer to the section "Alternative Performance (Non-GAAP) Measures" of the Company's MD&A for the period ended March 31, 2014.

Consolidated Cash Costs

Pan American's cost-cutting and productivity enhancement initiatives introduced last year continue to reduce the Company's unit operating costs. For the first quarter of 2014, Pan American's seven mining operations reported consolidated cash costs of $8.25 per ounce of silver, net of by-product credits, a 27% decrease from cash costs reported during the first quarter of 2013 and 14% lower than cash costs recorded in the fourth quarter of 2013. The cost reduction was achieved due to the positive effect of higher by-product credits on more quantities of by-products sold, which were partly offset by lower by-product prices, and lower operating costs mostly attributable to lower smelting costs and royalties. Please refer to the section "Alternative Performance (Non-GAAP) Measures" of the Company's MD&A for the period ended March 31, 2014 for a full description of this non-GAAP measure.

Sustaining Capital

During the first quarter of 2014, Pan American spent $24.7 million in sustaining capital at its seven operating mines. The largest expenditures were incurred at: Manantial Espejo, where $8.4 million was spent mainly on pre-stripping of the Maria Phase 2 open pit and an expansion of the tailings dam; at Dolores, where $6.4 million was spent mainly on pre-stripping, access road construction and exploration; at Huaron, where $3.1 million was spent on upgrades to the ventilation systems and equipment, camp infrastructure, exploration, and roads; and at La Colorada, where $2.9 million was spent on development drilling, equipment replacement and near-mine exploration. In addition, $1.8 million was spent primarily on mine development at Morococha and $0.8 million was spent at San Vicente for equipment and infrastructure upgrades.

Projects

La Colorada Expansion

The La Colorada expansion project was initiated in January 2014. During the first quarter of 2014, work progressed as planned with expenditures of $3.6 million, predominantly on lateral and ramp underground development, underground equipment purchases, and construction related to raising the tailings dam. We continue to pre-qualify contractors, and expect to award contracts for the new shaft development and the plant expansion within the upcoming months.

Dolores

Work on phase two of Dolores' leach Pad 3 development advanced as planned during the first quarter of 2014, with ore stacking and leaching in the lower portions of the pad progressing concurrently with the lining of benches 3, 4, and 5. The new solution pumping system was commissioned early in the year, allowing solution flow from Pad 2 to Pad 3, thus enriching the leachate solution with metals prior to being pumped to the Merrill Crowe plant for gold and silver recovery. We expect to complete lining up to bench 5 prior to year-end, thereby providing sufficient stacking capacity for ore storage and leaching on Pad 3 until the middle of 2017.

In addition, the design of the new power line to connect the operation with Chihuahua's grid power was approved, and the Company is now engaged in negotiations for right of way agreements with land owners, as well as working on an environmental assessment for the new 108 km power line.

Work continued to determine the benefits of a milling and pulp agglomeration option and underground mine at Dolores. A review of the initial plant design was completed during the first quarter of 2014, with work currently focusing on updating the capital and operating costs estimates, conducting a thorough review of mine plan alternatives to optimize the overall mineral resource, and the evaluation of whether there are any economic benefits to adding an underground option which would access existing resources below the ultimate pit floor.

Commenting on the Company's operational performance, Steve Busby, Chief Operating Officer, said, "Our first quarter performance has given us a solid start to the year, with production on target, costs below expectations and our exciting La Colorada expansion project already well underway. We continue to focus on finding sustainable ways to further bolster our business in the current metal price environment through identifying additional cost-cutting and productivity enhancing initiatives, advancing on our high-return mine-site projects and investigating a host of other mine-site expansion opportunities. This is an exciting time for Pan American as our teams are extremely energized and focused on expanding on our recent successes at unlocking additional value for our stakeholders."

Pan American Recognized as a Leader in Sustainability

Pan American is pleased to announce that it has been ranked 19th out of over 200 Canadian companies in Corporate Knights: "The Future 40 Responsible Corporate Leaders in Canada". This ranking acknowledges the many years of effort that the Company has dedicated to sustainable development through its social, economic and environmental programs.

"Sustainable development has always been one of Pan American's core values. It is rewarding to see that our hard work has been recognized by the Corporate Knights organization. Creating a sustainable future is a goal we share with our employees, our local communities, governments, industry groups, and non-government partners who are instrumental in our success." said Geoff Burns, President and CEO of Pan American Silver.

The Company recently released its fifth annual Sustainability Report, based on the Global Reporting Initiative - G4 guidelines. Copies of Pan American's 2013 Sustainability Report are available at www.panamericansilver.com

For more information on Corporate Knights and "The Future 40 Responsible Corporate Leaders in Canada" ranking, visit www.corporateknights.com/report/2014-future-40-ranking

Outlook

With silver and gold production during the first quarter of 2014 at, or above Company expectations and with costs that were lower than expected, the Company remains confident that it will achieve or surpass its forecast for precious metals production (particularly gold), as well as likely be closer to the low end of annual guidance for AISCSOS and cash costs (provided metal prices remain near current levels). Pan American confirms guidance of annual consolidated production of 25.75 to 26.75 million ounces of silver and 155,000 to 165,000 ounces of gold at AISCSOS of $17.00 to $18.00 and cash costs of $11.70 to $12.70 per silver ounce, net of by-product credits.

The Company also confirms its forecast for 2014 annual sustaining capital of $95.5 million and project investment capital of $67.0 million.

About Pan American

Pan American Silver's mission is to be the world's pre-eminent silver producer, with a reputation for excellence in discovery, engineering, innovation and sustainable development. The Company has seven operating mines in Mexico, Peru, Argentina and Bolivia. Pan American also owns several development projects in the USA, Mexico, Peru and Argentina.

Technical information contained in this news release with respect to Pan American has been reviewed by Michael Steinmann, P.Geo., Executive VP Corporate Development & Geology, and Martin Wafforn, P.Eng., VP Technical Services, who are the Company's Qualified Persons for the purposes of NI 43-101.

Pan American will host a conference call to discuss these results on Friday, May 9, 2014 at 10:00 am EST (7:00 am PST). To participate in the conference please dial toll number 1+ 604-638-5340. A live audio webcast and presentation will be available at http://services.choruscall.ca/links/pan140509.html. The call and webcast will also be available for replay for one week after the call by dialing 1-604-638-9010 and entering code # 6218 followed by the # sign.

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NON-GAAP MEASURE – CASH COSTS PER OUNCE, NET OF BY-PRODUCT CREDITS

THIS NEWS RELEASE PRESENTS INFORMATION ABOUT OUR CASH COSTS OF PRODUCTION OF AN OUNCE OF SILVER FOR OUR OPERATING MINES. CASH COSTS PER OUNCE PRODUCED, NET OF BY-PRODUCT CREDITS IS CALCULATED AS FOLLOWS:

- *EXCEPT AS OTHERWISE NOTED, CASH COSTS PER OUNCE PRODUCED IS CALCULATED BY DIVIDING TOTAL CASH COSTS, NET OF BY-PRODUCT CREDITS BY TOTAL SILVER OUNCES PRODUCED AT THE RELEVANT MINE OR MINES.*
- *TOTAL CASH COSTS INCLUDE MINE OPERATING COSTS SUCH AS MINING, PROCESSING, ADMINISTRATION, ROYALTIES AND OPERATING TAXES, BUT EXCLUDE AMORTIZATION, RECLAMATION COSTS, FINANCING COSTS AND CAPITAL DEVELOPMENT AND EXPLORATION. CERTAIN AMOUNTS OF STOCK-BASED COMPENSATION ARE EXCLUDED AS WELL.*

CASH COST PER OUNCE OF SILVER PRODUCED, NET OF BY-PRODUCT CREDITS IS INCLUDED IN THIS NEWS RELEASE BECAUSE CERTAIN INVESTORS USE THIS INFORMATION TO ASSESS OUR PERFORMANCE AND ALSO TO DETERMINE OUR ABILITY TO GENERATE CASH FLOW FOR USE IN INVESTING AND OTHER ACTIVITIES. THE INCLUSION OF CASH COSTS PER OUNCE PRODUCED MAY ENABLE INVESTORS TO BETTER UNDERSTAND YEAR-OVER-YEAR CHANGES IN OUR PRODUCTION COSTS, WHICH IN TURN AFFECT PROFITABILITY AND CASH FLOW. CASH COSTS PER OUNCE, NET OF BY-PRODUCT CREDITS DOES NOT HAVE A STANDARDIZED MEANING OR A CONSISTENT BASIS OF CALCULATION PRESCRIBED BY CANADIAN ACCOUNTING STANDARDS. INVESTORS ARE CAUTIONED THAT CASH COSTS PER OUNCE PRODUCED, NET OF BY-PRODUCT CREDITS SHOULD NOT BE CONSIDERED IN ISOLATION OR CONSTRUED AS A SUBSTITUTE TO COSTS DETERMINED IN ACCORDANCE WITH CANADIAN ACCOUNTING STANDARDS AS PRESCRIBED UNDER IFRS AS AN INDICATOR OF PERFORMANCE. OUR METHOD OF CALCULATING CASH COSTS PER OUNCE PRODUCED, NET OF BY-PRODUCT CREDITS MAY DIFFER FROM THE METHODS USED BY OTHER ENTITIES AND, ACCORDINGLY, OUR CASH COSTS PER OUNCE PRODUCED MAY NOT BE COMPARABLE TO SIMILARLY TITLED MEASURED USED BY OTHER ENTITIES.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN OF THE STATEMENTS AND INFORMATION IN THIS NEWS RELEASE 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 NEWS RELEASE RELATE TO, AMONG OTHER THINGS: OUR ESTIMATED PRODUCTION OF SILVER, GOLD AND OTHER METALS IN 2014; OUR FORECAST CASH COSTS PER OUNCE OF SILVER IN 2014; OUR ESTIMATED AISCSOS FOR 2014; OUR ANTICIPATED CAPITAL INVESTMENTS FOR 2014; 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; THE

COMPLETION AND ANTICIPATED RESULTS OF ANY TECHNICAL REPORTS OR OTHER EVALUATIONS; AND ANY ANTICIPATED LEVEL OF FINANCIAL AND OPERATIONAL SUCCESS IN 2014.

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; 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 NEWS RELEASE 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 FORM 40-F AND ANNUAL INFORMATION FORM FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CANADIAN PROVINCIAL 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.

Pan American Silver Corp.
Financial & Operating Highlights

	Three months ended March 31, 2014	2013
Consolidated Financial Highlights		
(Unaudited in thousands of U.S. Dollars)		
Net earnings for the period	**$ 6,760**	$ 20,076
Earnings per share attributable to common shareholders (basic)	**$ 0.05**	$ 0.13
Adjusted earnings for the period(1)	**$ 8,554**	$ 39,972
Adjusted earnings per share (basic)(1)	**$ 0.06**	$ 0.26
Mine operating earnings	**$ 31,576**	$ 74,816
Net cash generated from operating activities	**$ 36,125**	$ 32,251
Operating cash flows before changes in non-cash operating working capital	**$ 36,122**	$ 45,297
Capital spending	**$ 36,811**	$ 39,693
Dividends paid	**$ 18,940**	$ 19,021
Shares repurchased	**$ -**	$ 5,442
Cash and short-term investments	**$ 394,381**	$ 490,146
Working capital(2)	**$ 680,318**	$ 738,379
Consolidated Metals Recovered		
Silver metal – million ounces	**6.61**	6.28
Gold metal - thousand ounces	**45.9**	32.1
Zinc metal - thousand tonnes	**11.4**	9.7
Lead metal - thousand tonnes	**3.6**	3.1
Copper metal - thousand tonnes	**1.7**	1.1
Average Realized Price		
Silver metal ($/oz)	**$ 19.99**	$ 30.11
Gold metal ($/oz)	**$ 1,283**	$ 1,630
Consolidated Cost per Ounce of Silver (net of by-product credits)(3)		
Cash cost per ounce	**$ 8.25**	$ 11.33
Total production cost per ounce	**$ 14.93**	$ 17.29
Millions of payable ounces of silver (used in cost per ounce calculations)	**6.26**	5.96
All-in Sustaining Cost per Silver Ounce Sold (net of by-product credits)(4)	**$ 15.54**	$ 19.47

(1) Adjusted earnings and adjusted earnings per share attributable to common shareholders are non-GAAP measures. Adjusted earnings is calculated as net (loss) earnings for the period adjusting for the gains or losses recorded on fair market value adjustments on the Company's outstanding derivative instruments, impairment of mineral property, unrealized foreign exchange gains or losses, unrealized gain or loss on commodity contracts, realized and unrealized losses on silver and gold forward contracts, severance expense, the transaction costs arising from the Minefinders transaction, gain or loss on sale of assets, and the effect for taxes on the above items. The Company considers this measure to better reflect normalized earnings as it does not include items which may be volatile from period to period.

Adjusted Earnings Reconciliation	Three months ended March 31, 2014	2013
Net earnings for the period	**$ 6,760**	$ 20,076
Adjust derivative losses	**99**	2,649
Adjust unrealized foreign exchange losses	**1,704**	4,327
Adjust realized and unrealized on commodity contracts	**-**	(1,268)
Adjust gain on sale of mineral properties	**(6)**	(4,068)
Adjust write-down of mining assets	**-**	19,339
Adjust for effect of taxes on above items	**(3)**	(1,083)
Adjusted earnings for the period	**$ 8,554**	$ 39,972
Weighted average shares for the period	**151,500**	151,760
Adjusted earnings per share for the period	**$ 0.06**	$ 0.26

(2) 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.

(3) Consolidated cash cost per ounce of silver is a non-GAAP measure. The Company believes that in addition to production costs, depreciation and amortization, and royalties, cash cost per ounce is a useful and complementary benchmark that investors use to evaluate the Company's performance and ability to generate cash flows and is well understood and widely reported in the silver mining industry. However, cash cost per ounce does not have a standardized meaning prescribed by IFRS as an indicator of performance. Investors are cautioned that cash costs per ounce 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. The Company's method of calculating cash costs per ounce may differ from the methods used by other entities.

(4) The Company has adopted the reporting of All-In Sustaining Costs per Silver Ounce Sold ("AISCSOS") as a measure of a silver mining company's consolidated operating performance and the ability to generate cash flow from all operations collectively. We believe it is a more comprehensive measure of the cost of operating our consolidated business than traditional cash and total costs per 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.

Pan American SILVER CORP.®

FIRST QUARTER REPORT TO SHAREHOLDERS

For the period ending MARCH 31, 2014

Pan American
SILVER CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS AND NOTES

FOR THE FIRST QUARTER ENDING MARCH 31, 2014

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

		March 31, 2014		December 31, 2013
Assets				
Current assets				
Cash and cash equivalents (Note 18)	**$**	**178,097**	$	249,937
Short-term investments (Note 5)		**216,284**		172,785
Trade and other receivables (Note 4a)		**136,015**		114,782
Income taxes receivable		**23,822**		40,685
Inventories (Note 6)		**276,049**		284,352
Prepaids and other current assets		**7,977**		9,123
		838,244		871,664
Non-current assets				
Mineral properties, plant and equipment (Note 7)		**1,866,972**		1,870,678
Long-term refundable tax		**10,247**		9,801
Deferred tax assets		**540**		165
Other assets (Note 9)		**7,825**		8,014
Goodwill (Note 8)		**7,134**		7,134
Total Assets	**$**	**2,730,962**	$	2,767,456
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 10)	**$**	**132,030**	$	125,609
Loan payable (Note 11)		**14,589**		20,095
Provisions (Note 12)		**3,079**		3,172
Current portion of finance lease (Note 13)		**4,837**		4,437
Current income tax liabilities		**3,391**		29,319
		157,926		182,632
Non-current liabilities				
Provisions (Note 12)		**44,235**		43,817
Deferred tax liabilities		**285,856**		285,947
Share purchase warrants (Note 16)		**63**		207
Long-term portion of finance lease (Note 13)		**5,364**		5,717
Long-term debt (Note 14)		**34,925**		34,302
Other long-term liabilities (Note 15)		**25,764**		26,045
Total Liabilities		**554,133**		578,667
Equity				
Capital and reserves (Note 16)				
Issued capital		**2,295,208**		2,295,208
Share option reserve		**21,349**		21,110
Investment revaluation reserve		**(156)**		(137)
Retained deficit		**(145,943)**		(133,847)
Total Equity attributable to equity holders of the Company		**2,170,458**		2,182,334
Non-controlling interests		**6,371**		6,455
Total Equity		**2,176,829**		2,188,789
Total Liabilities and Equity	**$**	**2,730,962**	$	2,767,456

Commitments and Contingencies (Notes 4, 23)
See accompanying notes to the condensed interim consolidated financial statements.

APPROVED BY THE BOARD ON May 8, 2014

"signed" *Ross Beaty, Director* *"signed"* *Geoff A. Burns, Director*

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

	Three months ended March 31, 2014	2013
Revenue (Note 19)	**$ 209,734**	$ 243,012
Cost of sales		
Production costs (Note 20)	**(130,878)**	(128,549)
Depreciation and amortization	**(36,860)**	(30,067)
Royalties	**(10,420)**	(9,580)
	(178,158)	(168,196)
Mine operating earnings	**$ 31,576**	$ 74,816
General and administrative	**(5,578)**	(5,854)
Exploration and project development	**(2,980)**	(6,252)
Impairment charge (Note 8)	**-**	(18,256)
Foreign exchange losses	**(5,540)**	(3,779)
Gain on commodity and foreign currency contracts	**-**	1,383
Gain on sale of mineral properties, plant and equipment	**6**	4,068
Other income (expenses)	**239**	(3,838)
Earnings from operations	**17,723**	42,288
Loss on derivatives (Note 4)	**(99)**	(2,649)
Investment income	**593**	1,772
Interest and finance expense (Note 21)	**(2,764)**	(1,677)
Earnings before income taxes	**15,453**	39,734
Income taxes (Note 22)	**(8,693)**	(19,658)
Net earnings for the period	**$ 6,760**	$ 20,076
Attributable to:		
Equity holders of the Company	**$ 6,844**	$ 20,148
Non-controlling interests	**(84)**	(72)
	$ 6,760	$ 20,076
Earnings per share attributable to common shareholders (Note 17)		
Basic earnings per share	**$ 0.05**	$ 0.13
Diluted earnings per share	**$ 0.05**	$ 0.10
Weighted average shares outstanding (in 000's) Basic	**151,500**	151,760
Weighted average shares outstanding (in 000's) Diluted	**151,570**	153,694

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

	Three months ended March 31, 2014	2013
Net earnings for the period	**$ 6,760**	$ 20,076
Items that may be reclassified subsequently to net earnings:		
Unrealized net losses on available for sale securities (net of zero dollars tax in 2014 and 2013)	**(334)**	(255)
Reclassification adjustment for net losses (gains) on available for sale securities included in earnings (net of zero dollars tax in 2014 and 2013)	**315**	(1,177)
Total comprehensive income for the period	**$ 6,741**	$ 18,644
Total comprehensive income attributable to:		
Equity holders of the Company	**$ 6,825**	$ 18,716
Non-controlling interests	**(84)**	(72)
Total comprehensive income for the period	**$ 6,741**	$ 18,644

See accompanying notes to the condensed interim consolidated financial statements.

Pan American Silver Corp.
Condensed Interim Consolidated Statements of Cash Flows

(unaudited in thousands of U.S. dollars)		Three months ended March 31,		
		2014		2013
Cash flow from operating activities				
Net earnings for the period	**$**	**6,760**	$	20,076
Current income tax expense (Note 22)		**9,208**		27,761
Deferred income tax recovery (Note 22)		**(515)**		(8,103)
Depreciation and amortization		**36,860**		30,067
Impairment charge (Note 8)		**-**		18,256
Accretion on closure and decommissioning provision (Note 12)		**819**		757
Unrealized losses on foreign exchange		**1,704**		4,327
Share-based compensation expense		**1,165**		202
Unrealized gains on commodity contracts (Note 4)		**-**		(1,268)
Loss on derivatives (Note 4)		**99**		2,649
Gain on sale of mineral property, plant and equipment		**(6)**		(4,068)
Changes in non-cash operating working capital (Note 18)		**3**		(13,046)
Operating cash flows before interest and income taxes		**56,097**		77,610
Interest paid		**(1,220)**		(883)
Interest received		**298**		609
Income taxes paid		**(19,050)**		(45,085)
Net cash generated from operating activities	**$**	**36,125**	$	32,251
Cash flow from investing activities				
Payments for mineral properties, plant and equipment		**(36,811)**		(39,693)
Payments for short term investments		**(47,679)**		(52,797)
Proceeds from sale of mineral property, plant and equipment		**104**		4,008
Net refundable tax and other asset expenditures		**(314)**		491
Net cash used in investing activities	**$**	**(84,700)**	$	(87,991)
Cash flow from financing activities				
Shares repurchased and cancelled		**-**		(5,442)
Dividends paid		**(18,940)**		(19,021)
Payment of short term loan (Note 11)		**(4,708)**		-
Proceeds from short term loan (Note 11)		**2,040**		-
Payment of construction and equipment leases		**(1,132)**		(21,043)
Net cash used in financing activities	**$**	**(22,740)**	$	(45,506)
Effects of exchange rate changes on cash and cash equivalents		**(525)**		(410)
Net decrease in cash and cash equivalents		**(71,840)**		(101,656)
Cash at the beginning of the period		**249,937**		346,208
Cash and cash equivalents at the end of the period	**$**	**178,097**	$	244,552

See accompanying notes to the consolidated financial statements.

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

	Attributable to equity holders of the Company							
	Issued shares	Issued capital	Share option reserve	Investment revaluation reserve	Retained deficit	Total	Non-controlling interests	Total equity
Balance, December 31, 2012	**151,820,635**	**$ 2,300,517**	**$ 20,560**	**$ 964**	**$ 388,202**	**$ 2,710,243**	**$ 7,328**	**$ 2,717,571**
Total comprehensive (loss) income								
Net loss for the year	-	-	-	-	(445,851)	(445,851)	5	(445,846)
Other comprehensive loss	-	-	-	(1,101)	-	(1,101)	-	(1,101)
	-	-	-	(1,101)	(445,851)	(446,952)	5	(446,947)
Transaction with owners								
Shares issued as compensation	94,659	1,035	-	-	-	1,035	-	1,035
Shares repurchased and cancelled	(415,000)	(6,344)	-	-	(396)	(6,740)	-	(6,740)
Distributions by subsidiaries to non-controlling interests	-	-	-	-	(47)	(47)	(878)	(925)
Share-based compensation on option grants	-	-	550	-	-	550	-	550
Dividends paid	-	-	-	-	(75,755)	(75,755)	-	(75,755)
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 earnings for the period	-	-	-	-	6,844	6,844	(84)	6,760
Other comprehensive loss	-	-	-	(19)	-	(19)	-	(19)
	-	-	-	(19)	6,844	6,825	(84)	6,741
Share-based compensation on option grants	-	-	239	-	-	239	-	239
Dividends paid	-	-	-	-	(18,940)	(18,940)	-	(18,940)
Balance, March 31, 2014	**151,500,294**	**$ 2,295,208**	**$ 21,349**	**$ (156)**	**$ (145,943)**	**$ 2,170,458**	**$ 6,371**	**$ 2,176,829**

	Attributable to equity holders of the Company							
	Issued shares	Issued capital	Share option reserve	Investment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance, December 31, 2012	**151,820,635**	**$ 2,300,517**	**$ 20,560**	**$ 964**	**$ 388,202**	**$ 2,710,243**	**$ 7,328**	**$ 2,717,571**
Total comprehensive income								
Net earnings for the period	-	-	-	-	20,148	20,148	(72)	20,076
Other comprehensive income	-	-	-	(1,432)	-	(1,432)	-	(1,432)
	-	-	-	(1,432)	20,148	18,716	(72)	18,644
Shares repurchased and cancelled	(335,000)	(5,121)	-	-	(321)	(5,442)	-	(5,442)
Share-based compensation on option grants	-	-	(509)	-	-	(509)	-	(509)
Dividend paid	-	-	-	-	(19,021)	(19,021)	-	(19,021)
Balance, March 31, 2013	**151,485,635**	**$ 2,295,396**	**$ 20,051**	**$ (468)**	**$ 389,008**	**$ 2,703,987**	**$ 7,256**	**$ 2,711,243**

See accompanying notes to the condensed interim consolidated financial statements.

1. Nature of Operations

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

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

2. Summary of Significant Accounting Policies

a. Basis of Preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2013, with the exception of accounting policies described below. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, as they do not include all the information and disclosures required by accounting principles generally accepted in Canada for complete financial statements.

In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for a fair presentation of these condensed interim consolidated financial statements have been included. Operating results for the three month period ending March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 31, 2013.

Changes in Accounting Policies

The Company adopted the following new accounting interpretation along with any consequential amendments, effective January 1, 2014:

IFRIC 21 – *Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"),* clarifies that the obligating event, as defined by IAS 37, that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company has applied IFRIC 21 on a retrospective basis in compliance with the transitional requirements of IFRIC 21. The application of IFRIC 21 did not result in an adjustment to the Company's condensed interim consolidated financial statements.

b. Accounting Standards Issued But Not Yet Effective

IFRS 9 *Financial Instruments* is intended to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety and some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosure about investments in equity instruments measured at fair value in Other Comprehensive Income ("OCI"), and guidance on financial liabilities and de-recognition of financial instruments. The mandatory effective date will be added when all phases of IFRS 9 are completed with sufficient lead time for implementation. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

c. Basis of Consolidation

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

Subsidiary	Location	Ownership Interest	Status	Operations and Development Projects Owned
Pan American Silver Huaron S.A.	Peru	100%	Consolidated	Huaron Mine
Compañía Minera Argentum S.A.	Peru	92%	Consolidated	Morococha Mine
Minera Corner Bay S.A.	Mexico	100%	Consolidated	Alamo Dorado Mine
Plata Panamericana S.A. de C.V.	Mexico	100%	Consolidated	La Colorada Mine
Compañía Minera Dolores S.A. de C.V.	Mexico	100%	Consolidated	Dolores Mine
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

3. Management of Capital

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders. The Company's capital structure consists of equity, comprised of issued capital plus share option reserve plus investment revaluation reserve plus retained deficit with a balance of $2.2 billion as at March 31, 2014 (December 31, 2013 - $2.2 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, 2013.

4. 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 follow:

	March 31, 2014	December 31, 2013
Current derivative assets		
	$ -	$ -
Current derivative liabilities		
	$ -	$ -
Non-current derivative liabilities		
Share purchase warrants	**$ (63)**	$ (207)
Conversion feature on convertible notes	**(1,662)**	(1,419)
	$ (1,725)	$ (1,626)

In addition, accounts receivable arising from sales of metal concentrates have been designated and classified as at FVTPL.

	March 31, 2014	December 31, 2013
Trade receivables from provisional concentrates sales	**$ 48,528**	$ 31,727
Not arising from sale of metal concentrates	**87,487**	83,055
Accounts receivable	**$ 136,015**	$ 114,782

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

The net gains (losses) on derivatives for the three months ended March 31 were comprised of the following:

		2014		2013
Gain on commodity and foreign currency contracts:				
Realized gains on foreign currency and commodity contracts	**$**	**-**	$	115
Unrealized gains on commodity and foreign currency contracts		**-**		1,268
	$	**-**	$	1,383
Gain (loss) on derivatives				
Gain on share purchase warrants	**$**	**144**	$	6,159
(Loss) gain on conversion feature of convertible notes		**(243)**		4,726
Loss on private placement subscription		**-**		(13,534)
	$	**(99)**	$	(2,649)

b) Financial assets designated as available-for-sale

The Company's investments in marketable securities are designated as available-for-sale. The unrealized (losses) gains on available-for-sale investments recognized in other comprehensive (loss) income for the three months ended March 31 were as follows:

		March 31, 2014		March 31, 2013
Unrealized (losses) on equity securities	**$**	**(334)**	$	(255)
Reclassification adjustment for net loss included in earnings		**315**		(1,177)
	$	**(19)**	$	(1,432)

c) Fair Value of Financial Instruments

(i) For value measurement of financial assets and liabilities recognized in the condensed interim consolidated financial statements

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.

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 March 31, 2014, 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 on a recurring basis are categorized as follows:

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

	March 31, 2014				December 31, 2013			
	Level 1		**Level 2**		Level 1		Level 2	
Assets and Liabilities:								
Short-term investments	$	216,284	$	-	$	172,785	$	-
Trade receivable from provisional concentrate sales	$	-	$	48,528	$	-	$	31,727
Share purchase warrants	$	-	$	(63)	$	-	$	(207)
Conversion feature of convertible notes	$	-	$	(1,662)	$	-	$	(1,419)
	$	**216,284**	**$**	**46,803**	**$**	172,785	$	30,101

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between level 1 and level 2 during the three months ended March 31, 2014.

At March 31, 2014, there were no financial assets or liabilities measured and recognized in the condensed interim consolidated income statements at a fair value that would be categorized as a level 3 in the fair value hierarchy above (December 31, 2013 - $nil).

(ii) Valuation Techniques

Short-term 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 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.

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.

Derivative financial assets
The Company's unrealized gains and losses on commodity and foreign currency contracts are valued using observable market prices and as such are classified as Level 2 of the fair market value hierarchy.

Share purchase warrants
The Company's unrealized gains and losses on share purchase warrants are valued using observable inputs and as such are classified as Level 2 of the fair market value hierarchy. The share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. The fair value of the share purchase warrants is determined using the Black Scholes pricing model which is further discussed in Note 16.

Convertible notes
The Company's unrealized gains and losses on the conversion feature of the convertible note 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 is classified as and accounted for as a financial liability at fair value with changes in fair value included in earnings. 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.

d) Financial Instruments and Related Risks

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, foreign exchange rate risk, and liquidity risk. The Company's Board of

Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(i) Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company derives its revenue from the sale of silver, gold, lead, copper, and zinc. The Company's sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control. Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, the Company's policy is to not hedge the price of silver. The Company mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production from time to time under forward sales and option contracts. The Board of Directors continually assess the Company's strategy towards its base metal exposure, depending on market conditions. As at March 31, 2014, the Company had zero tonnes of lead and zero tonnes of zinc under contract.

(ii) Credit Risk

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

The Company has long-term concentrate contracts to sell the zinc, lead and copper concentrates produced by the Huaron, Morococha, San Vicente and La Colorada mines. Concentrate contracts are common business practice in the mining industry. The terms of the concentrate contracts may require the Company to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing the Company to credit risk of the buyers of our concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, the Company may incur losses for products already shipped and be forced to sell its concentrates on the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted. At March 31, 2014 the Company had receivable balances associated with buyers of its concentrates of $48.5 million (December 31, 2013 - $31.7 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 March 31, 2014 the Company had approximately $54.5 million (December 31, 2013 - $54.7 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.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The credit risk, which the Company regularly assesses, is that the bank as an issuer of a financial instrument will default.

(iii) Foreign Exchange Rate Risk

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

To mitigate this exposure, from time to time the Company has purchased Peruvian New soles ("PEN"), Mexican pesos ("MXN") and CAD to match anticipated spending. At March 31, 2014, the Company had no contracts outstanding to purchase foreign currency. The Company's net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. At March 31, 2014, the Company's cash and short term investments include $134.8 million in CAD, $4.0 million in PEN and $19.6 million in MXN.

(iv) 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.

(v) Commitments

The Company's commitments at March 31, 2014 have contractual maturities as summarized below:

	Payments due by period				
	Total	**Within 1 year[2]**	**2 - 3 years**	**4- 5 years**	**After 5 years**
Finance lease obligations[1]	$ 10,835	$ 5,182	$ 4,461	$ 1,192	$ -
Current liabilities	135,124	135,124	-	-	-
Loan Payable (Note 11)	15,378	15,378	-	-	-
Severance indemnity	4,266	1,304	432	1,626	904
Contribution plan obligation[3]	3,031	3,031	-	-	-
Restricted share units ("RSUs") [3]	2,497	1,520	977	-	-
Convertible notes[4]	39,497	1,631	37,866	-	-
Total contractual obligations[5]	**$ 210,628**	**$ 163,170**	**$ 43,736**	**$ 2,818**	**$ 904**

(1) Includes lease obligations in the amount of $10.8 million (December 31, 2013 - $10.9 million) with a net present value of $10.2 million (December 31, 2013 - $10.1 million) and equipment and construction advances in the amount of nil million (December 31, 2013 - nil); both discussed further in Note 13.

(2) Includes all current liabilities as per the statement of financial position less 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.

		2014
Total current liabilities per Statements of Financial Position	$	**157,926**
Add:		
Future interest component of:		
- Finance lease		**345**
- Loan Payable		**789**
- Convertible note		**1,631**
Future commitments less portion accrued for:		
- Contribution plan		**1,598**
- Restricted share units		**881**
Total contractual obligations within one year	$	**163,170**

(3) Includes a retention plan obligation in the amount of $3.0 million (December 31, 2013 - $3.4 million) on June 1, 2014 and a RSU obligation in the amount of $2.5 million (December 31, 2013 – $2.3 million) that will be settled in cash. The RSUs vest in two instalments, the first 50% vest in December 2014 and a further 50% vest in December, 2015.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

(4) Represents the face value of the replacement convertible note and future interest payments related to the Minefinders acquisition. Refer to Note 14 for further details.
(5) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation, the deferred credit arising from the Aquiline acquisition discussed in Note 15, and deferred tax liabilities.

5. Short Term Investments

	March 31, 2014			December 31, 2013		
Available for sale	**Fair Value**	**Cost**	**Accumulated unrealized holding losses**	Fair Value	Cost	Accumulated unrealized holding gains
Short term investments	**$ 216,284**	**$ 216,440**	**$ (156)**	$ 172,785	$ 172,922	$ (137)

6. Inventories

Inventories consist of:

	March 31, 2014[1]	December 31, 2013[2]
Concentrate inventory	**$ 18,078**	$ 32,189
Stockpile ore	**36,913**	42,389
Heap inventory	**105,663**	90,456
Doré and finished inventory	**56,735**	58,256
Materials and supplies	**58,660**	61,062
	$ 276,049	$ 284,352

(1) Includes an additional net adjustment of $2.3 million to reduce the carrying value of inventory to net realizable value at Dolores mine as at March 31, 2014.
(2) Includes an adjustment of $12.9 million to reduce the carrying value of inventory to net realizable value at Dolores mine December 31, 2013.

7. 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 operations in the period they are incurred.

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

Mineral properties, plant and equipment consist of:

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

	March 31, 2014			December 31, 2013		
	Cost	**Accumulated Depreciation And Impairment**	**Carrying Value**	Cost	Accumulated Depreciation and And Impairment	Carrying Value
Huaron mine, Peru	**$ 150,309**	**$ (65,703)**	**$ 84,606**	$ 147,391	$ (62,878)	$ 84,513
Morococha mine, Peru	**205,054**	**(73,031)**	**132,023**	202,213	(68,220)	133,993
Alamo Dorado mine, Mexico	**193,374**	**(146,715)**	**46,659**	193,035	(143,330)	49,705
La Colorada mine, Mexico	**113,557**	**(54,804)**	**58,753**	107,002	(52,588)	54,414
Dolores mine, Mexico	**783,986**	**(314,251)**	**469,735**	767,194	(296,751)	470,443
Manantial Espejo mine, Argentina	**329,520**	**(170,958)**	**158,562**	321,047	(162,058)	158,989
San Vicente mine, Bolivia	**125,781**	**(57,708)**	**68,073**	124,859	(55,727)	69,132
Other	**24,653**	**(4,591)**	**20,062**	24,735	(4,476)	20,259
Total	**$ 1,926,234**	**$ (887,761)**	**$1,038,473**	$1,887,476	$ (846,028)	$ 1,041,448

	March 31, 2014	December 31, 2013
Land and Exploration and Evaluation:		
Land	**$ 8,513**	$ 8,513
Navidad Project, Argentina	**462,374**	462,400
Minefinders Group, Mexico	**317,109**	317,117
Morococha, Peru	**9,674**	10,432
Other	**30,829**	30,768
Total non-producing properties	**$ 828,499**	$ 829,230
Total mineral properties, plant and equipment	**$1,866,972**	$ 1,870,678

8. Impairment of Non-Current Assets and Goodwill

Goodwill consists of:

	2014	2013
As at January 1,	**$ 7,134**	$ 198,946
Impairment of La Bolsa property[(1)]	**-**	(7,124)
As At March 31,	**$ 7,134**	$ 191,822

[(1)] Non-current assets held for sale were tested for impairment based on fair value less cost to sell. It was determined that the estimated recoverable value of the non-current assets held for sale on a fair value less costs to sell basis was below its carrying value, and as a result an impairment charge of approximately $18.3 million was recorded, including goodwill of $7.1 million and $1.0 million of selling costs.

	2013
As at January 1,	**$** 198,946
Impairment of Dolores Mine	(184,688)
Impairment of La Bolsa property[(1)]	(7,124)
As at December 31, 2013	**$** 7,134

[(1)] Non-current assets held for sale were tested for impairment based on fair value less cost to sell. It was determined that the estimated recoverable value of the non-current assets held for sale on a fair value less costs to sell basis was below its carrying value, and as a result an impairment charge of approximately $18.3 million was recorded, including goodwill of $7.1 million and $1.0 million of selling costs.

9. Other Assets

Other assets consist of:

	March 31, 2014	December 31, 2013
Long-term prepaid expense[(1)]	**$ 5,605**	$ 5,648
Investments in Associates	**1,450**	1,450
Reclamation bonds	**92**	92
Lease receivable	**642**	788
Other assets	**36**	36
	$ 7,825	$ 8,014

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

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	March 31, 2014	December 31, 2013
Trade accounts payable	**$ 54,813**	$ 51,590
Royalties payable	**14,268**	9,799
Other accounts payable and trade related accruals	**33,386**	28,419
Payroll and related benefits	**17,295**	19,463
Severance accruals	**1,304**	649
Other taxes payable	**462**	235
Advances on concentrate	**3,298**	7,810
Other	**7,204**	7,644
	$ 132,030	$ 125,609

11. Loan payable

	March 31, 2014	December 31, 2013
Loan payable(1)	**$ 20,828**	$ 23,496
Unrealized gain on foreign exchange	**(6,239)**	(3,401)
Net loan payable	**$ 14,589**	$ 20,095

(1) On June 25, 2013, one of the Company's subsidiaries (Minera Triton Argentina S.A.) received an unsecured bank loan for $100.0 million Argentine pesos (equivalent to USD$18.6 million) in order to meet its short term obligations. On November 27, 2013 an additional loan was received for $30.0 million Argentine pesos (USD$4.7 million) for a total cumulative of $130.0 Argentine pesos (USD$23.3 million). The loan terms are one year from June 25, 2013 and 90 days from November 27, 2013 with interest rates of 25.3% and 27.25% respectively. During the three months ended March 31, 2014, the Company paid off the Loan due February 27, 2014 for $30 million Argentine Pesos or USD$4.7 million. In addition during March 2014 the company acquired an additional loan amount for $16.5 million Argentine Pesos or USD$2.0 million, due in April at a rate of 28% per year. At March 31, 2014 the combined fair value of the outstanding loans payable were $14.6 and at December 31, 2013, were $20.1 million.

12. Provisions

	Closure and Decommissioning	Litigation	Total
As at December 31, 2013	**$ 41,469**	**$ 5,520**	**$ 46,989**
Revision in estimates and obligations incurred	(67)	-	(67)
Charged (credited) to earnings:			
-new provisions	-	126	126
-unused amounts reversed	-	(8)	(8)
-exchange gains on provisions	-	(143)	(143)
Charged in the period	(135)	(267)	(402)
Accretion expense	819	-	819
As at March 31, 2014	**$ 42,086**	**$ 5,228**	**$ 47,314**

Maturity analysis of total provisions:

	March 31, 2014	December 31, 2013
Current	**$ 3,079**	$ 3,172
Non-current	**44,235**	43,817
	$ 47,314	$ 46,989

13. Finance Lease Obligations

	March 31, 2014	December 31, 2013
Lease obligations(1)	**$ 10,201**	$ 10,154
	$ 10,201	$ 10,154

	March 31, 2014	December 31, 2013
Maturity analysis of finance leases:		
Current	**$ 4,837**	$ 4,437
Non-current	**5,364**	5,717
	$ 10,201	$ 10,154

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

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

		March 31, 2014		December 31, 2013
Less than a year	$	**5,182**	$	4,800
2 years		**2,662**		2,585
3 years		**1,799**		1,832
4 years		**1,192**		1,639
5 years		**-**		-
		10,835		10,856
Less future finance charges		**(634)**		(702)
Present value of minimum lease payments	$	**10,201**	$	10,154

14. Long Term Debt

		March 31, 2014		December 31, 2013
Convertible notes	$	**33,263**	$	32,883
Conversion feature on the convertible notes		**1,662**		1,419
Total long-term debt	$	**34,925**	$	34,302

As part of the 2012 Minefinders acquisition the Company issued replacement unsecured convertible senior notes with an aggregate principal amount of $36.2 million (the "Notes"). Until such time as the earlier of December 15, 2015 and the date the Notes are converted, each Note shall bear interest at 4.5% payable semi-annually on June 15 and December 15 of each year. The principal outstanding on the Notes is due on December 15, 2015, if any Notes are still outstanding at that time. The Notes are convertible into a combination of cash and Pan American shares.

The interest and principal amounts of the Notes are classified as debt liabilities and the conversion option is classified as a derivative liability. The debt liability is measured at amortized cost. As a result, the carrying value of the debt liability is lower than the aggregate face value of the Notes. The unwinding of the discount is accreted as interest expense over the terms of the notes using an effective interest rate. For the three months ended March 31, 2014, $0.4 million was capitalized to mineral property, plant and equipment (March 31, 2013 – $0.2 million). The Company has the right to pay all or part of the liability associated with the Company's outstanding convertible notes in cash on the conversion date. Accordingly, the conversion feature on the convertible notes is considered an embedded derivative and re-measured at fair value each reporting period. The fair value of the conversion feature of the convertible notes is determined using a model that includes the volatility and price of the Company's common shares and a credit spread structure with reference to the corresponding fair value of the debt component of the convertible notes. Assumptions used in the fair value calculation of the embedded derivative component at March 31, 2014 were expected stock price volatility of 45.9%, expected life of 1.7 years, and expected dividend yield of 3.9%.

During the three months ended March 31, 2014, the Company recorded a $0.2 million loss on the revaluation of embedded derivative on the convertible notes (2013 – $4.7 million gain).

The approximate current fair value of the notes, excluding the conversion feature at March 31, 2014 is $36.0 million (December 31, 2013 - $34.7 million).

15. Other Long Term Liabilities

Other long term liabilities consist of:

		March 31, 2014		December 31, 2013
Deferred credit(1)	$	**20,788**	$	20,788
Other income tax payable		**2,015**		2,180
Severance accruals		**2,961**		3,077
	$	**25,764**	$	26,045

(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 selected 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.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

16. Share Capital and Employee Compensation Plans

The Company has a comprehensive stock compensation 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 days prior to the award date. The options can be granted for a maximum term of 10 years with vesting provisions determined by the Company's Board of Directors. Any modifications to the Compensation Plan require shareholders' approval.

The Board has developed long term incentive plan ("LTIP") guidelines, which provides annual compensation to the senior managers of the Company based on the long term performance of both the Company and the individuals that participate in the plan. The LTIP consists of annual grants of restricted shares, restricted share units, and/or options to participants to buy shares of the Company, whereby at least 25% of the total annual award is comprised of restricted share units. For the remaining 75% of the award amount, participants may elect a mix of restricted shares, restricted share units, and option grants. Restricted share units vest in two tranches, one half (50%) on the first anniversary of the grant date and the second half (50%) on the second anniversary date of the award. For share awards, participants are issued Pan American shares, with a two year "No Trading Legend," and are therefore required to hold the shares for a minimum of two years. There is no gross-up on common share awards, making the common share component of all awards net of required withholding taxes. For option awards, no options vest immediately. 50% of options granted in a particular year vest on the one year anniversary of being granted, and the other 50% on the second anniversary of being granted. The options expire after seven years as set out under the LTIP guidelines.

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, 2012	**2,196,565**	**$ 24.07**	**7,814,605**	**$ 35.00**	**10,011,170**
Granted	326,047	$ 11.57	-	$ -	326,047
Exercised	-	$ -	-	$ -	-
Expired	(922,965)	$ 25.19	-	$ -	(922,965)
Forfeited	(202,277)	$ 21.63	-	$ -	(202,277)
As at December 31, 2013	**1,397,370**	**$ 20.76**	**7,814,605**	**$ 35.00**	**9,211,975**
Granted	-	$ -	-	$ -	-
Exercised	-	$ -	-	$ -	-
Expired	(195,562)	$ 17.73	-	$ -	(195,562)
Forfeited	(18,321)	$ 22.35	-	$ -	(18,321)
As at March 31, 2014	**1,183,487**	**$ 21.22**	**7,814,605**	**$ 35.00**	**8,998,092**

Long Term Incentive Plan

During the quarter ended March 31, 2014, nil common shares were exercised in connection with the options under the plan (2013 – nil common shares), 195,562 options expired (2013 – 229,327) and 18,321 options were forfeited (2013 – 5,212).

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 pre-determined performance criteria and the application of the corresponding performance multiplier determine how many PSUs vest for each participant. The Board will consider PSU grants under the LTIP for the first time in late 2014.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

Share Option Plan

The following table summarizes information concerning stock options outstanding and options exercisable as at March 31, 2014. The underlying options agreements are specified in Canadian dollar amounts.

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices CAD$	Number Outstanding as at March 31, 2014	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price CAD$	Number Exercisable as at March 31, 2014	Weighted Average Exercise Price CAD$
$11.49 - $22.23	**552,232**	77.28	$ 14.39	**139,862**	$ 17.54
$22.24 - $25.19	**540,100**	39.19	$ 25.00	**540,100**	$ 25.00
$36.67 - $40.22	**91,155**	44.35	$ 40.22	**91,155**	$ 40.22
	1,183,487	57.36	$ 21.22	**771,117**	$ 23.90

During the three months ended March 31, 2014, the total employee share-based compensation expense recognized in the income statement was $1.2 million (2013 - $0.2 million).

Share Purchase Warrants

As part of the acquisition of Aquiline Resources Inc. in 2009 the Company issued share purchase warrants (Consideration and Replacement Warrants). The following table summarizes information concerning the warrants outstanding and warrants exercisable as at March 31, 2014. The underlying options agreements are specified in Canadian dollar amounts.

	Warrants Outstanding			Warrants Exercisable	
Exercise Price CAD$	**Number Outstanding as at March 31, 2014**	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price CAD$	**Number Exercisable as at March 31, 2014**	Weighted Average Exercise Price CAD$
$35.00	**7,814,605**	8.25	$ 35.00	**7,814,605**	$ 35.00

The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. During the three months ended March 31, 2014, there was a derivative gain of $0.1 million (2013 – gain of $6.2 million).

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

	March 31, 2014	December 31, 2013
Warrant strike price (CAD)	**$ 35.00**	$ 35.00
Exchange rate (1CAD = USD)	**0.90**	0.94
Risk-free interest rate	**0.9%**	1.0%
Expected dividend yield	**3.5%**	4.0%
Expected stock price volatility	**41.6%**	46.8%
Expected warrant life in years	**0.69**	0.93
Quoted market price at period end (CAD)	**$ 14.21**	$ 12.41

The conversion feature on the convertible note, further discussed in Note 14, is considered an embedded derivative and is classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings.

Restricted Share Units ("RSUs")

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 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. Additional RSUs are credited to reflect dividends paid on Pan American common shares over the vesting period.

Compensation expense for RSUs was $0.4 million for the quarter ended March 31, 2014 (2013 – $0.3 million) and is presented as a component of general and administrative expense.

Key Employee Long Term Contribution Plan

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

The 2012 Contribution Plan is a two year plan with a percentage of the retention bonus payable at the end of each year of the program. The 2012 Contribution Plan design consists of three bonus levels that are commensurate with various levels of responsibility, and provides for a specified annual payment for two years starting in June 2012. Each year, the annual contribution award will be paid in the form of either cash or shares of the Company. The minimum aggregate value that will be paid in cash or issued in shares over the two year period of the plan was $7.7 million. As of March 31, 2014, $3.0 million remains to be paid as described above. No shares will be issued from treasury pursuant to the 2012 Contribution Plan without the prior approval of the plan by the shareholders of the Company and any applicable securities regulatory authorities. The Company's Contribution Plan is classified and accounted for as a financial liability and as such this liability is marked-to-market with changes in value included in net earnings. During the quarter ended March 31, 2014, there was a $0.01 million unrealized gain on the mark-to-market of the Contribution Plan (2013 – $0.3 million). The Company uses the Black Scholes pricing model to determine the fair value of the Canadian dollar denominated Contribution Plan. Assumptions used are as follows: stock price - $14.21 CAD, exercise price - $17.91 CAD, expected life in years – 0.17 years, annualized volatility 44%, expected dividend yield – 3.89% risk free interest rate - .9%, exchange rate (1CAD=USD) – 0.90.

Normal Course Issuer Bid

On November 28, 2013, the Company received regulatory approval for a third normal course issuer bid to purchase up to 7,570,535 of its common shares, during the one year period from December 5, 2013 to December 4, 2014. No shares were purchased during the three months ended March 31, 2014 (2013- $35)

Dividends

On February 19, 2014, the Company declared a dividend of $0.125 per common share paid to holders of record of its common share as of the close of business on March 3, 2014.

On May 8, 2014, the Company declared a quarterly dividend of $0.125 per common share to be paid to holders of record of its common shares as of the close of business on May 21, 2014. These dividends were not recognized in these condensed interim consolidated financial statements during the period ended March 31, 2014.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

17. Earnings Per Share (Basic and Diluted)

Three months ended March 31,	**2014**			2013		
	Earnings (Numerator)	**Shares (Denominator)**	**Per-Share Amount**	Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Net Earnings[1]	**$ 6,844**			$ 20,148		
Basic EPS	**$ 6,844**	**151,500**	**$ 0.05**	$ 20,148	151,760	$ 0.13
Effect of Dilutive Securities:						
Stock Options	**-**	**70**		-	7	
Convertible Notes	**-**	**-**		(4,726)	1,927	
Diluted EPS	**$ 6,844**	**151,570**	**$ 0.05**	$ 15,422	153,694	$ 0.10

[1] Net earnings attributable to equity holders of the Company.

Potentially dilutive securities excluded in the diluted earnings per share calculation for the three months ended March 31, 2014 were 8,672,045 out-of-money options and warrants (2013 – 9,014,633).

18. Supplemental Cash Flow Information

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

Three months ended March 31,	**2014**	2013
Changes in non-cash operating working capital items:		
Trade and other receivables	**$ (21,220)**	$ (6,636)
Inventories	**13,440**	(6,195)
Prepaid expenditures	**1,146**	1,217
Accounts payable and accrued liabilities	**7,074**	(1,425)
Provisions	**(437)**	(7)
	$ 3	$ (13,046)

Significant Non-Cash Items:	**2014**	2013
Advances received for equipment leases	**$ 1,179**	$ 30

Cash and cash equivalents are comprised of:	**March 31, 2014**	December 31, 2013
Cash in banks	**$ 126,909**	$ 242,191
Short term money markets	**$ 51,188**	$ 7,746
Cash and cash equivalents	**$ 178,097**	$ 249,937

19. Segmented Information

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

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

	Three months ended March 31, 2014									
	Peru		Mexico			Argentina		Bolivia		
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente	Other	**Total**
Revenue from external customers	21,681	18,269	44,649	25,944	27,134	44,579	-	27,478	-	**209,734**
Depreciation and amortization	(2,771)	(4,685)	(12,491)	(3,961)	(2,042)	(7,669)	(41)	(3,036)	(164)	**(36,860)**
Exploration and project development	(400)	(188)	(244)	(9)	(3)	(102)	(778)	-	(1256)	**(2,980)**
Interest income	79	8	1	46	43	-	15	-	106	**298**
Interest and financing expenses	(187)	(227)	(89)	(60)	(64)	(1,665)	(11)	(56)	(405)	**(2,764)**
Gain on disposition of assets	-	108	-	-	-	(103)	-	1	-	**6**
Loss on derivatives	-	-	-	-	-	-	-	-	(99)	**(99)**
Foreign exchange gain (loss)	17	(24)	74	57	163	4,506	176	211	(10,720)	**(5,540)**
Gain on commodity and foreign currency contracts	-	-	-	-	-	-	-	-	-	**-**
Impairment charge	-	-	-	-	-	-	-	-	-	**-**
Earnings (loss) before income taxes	791	(3,676)	(9,753)	5,585	7,361	16,545	(527)	6,288	(7,161)	**15,453**
Income taxes (expense) recovery	(342)	509	4,331	(2,467)	(2,809)	(4,217)	(54)	(3,077)	(567)	**(8,693)**
Net earnings (loss) for the period	449	(3,167)	(5,422)	3,118	4,552	12,328	(581)	3,211	(7,728)	**6,760**
Capital expenditures	3,133	1,819	16,003	90	6,524	8,357	2	786	97	**36,811**
Total assets	125,657	178,441	974,895	117,940	112,007	283,951	469,089	101,362	367,620	**2,730,962**
Total liabilities	37,963	42,204	248,167	12,312	27,787	99,050	1,207	31,345	54,098	**554,133**

	Three months ended March 31, 2013									
	Peru		Mexico			Argentina		Bolivia		
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente	Other	**Total**
Revenue from external customers	27,987	25,526	40,665	51,504	26,188	45,339	-	25,803	-	**243,012**
Depreciation and amortization	(2,739)	(4,766)	(6,770)	(4,675)	(1,215)	(6,998)	(35)	(2,675)	(194)	**(30,067)**
Exploration and project development	(174)	(665)	(2)	(319)	(77)	(53)	(1,716)	-	(3,246)	**(6,252)**
Interest income	116	45	1	7	3	24	-	-	413	**609**
Interest and financing expenses	(178)	(265)	(76)	(50)	(56)	(366)	(12)	(70)	(604)	**(1,677)**
Gain on disposition of assets	-	66	-	-	4,002	-	-	-	-	**4,068**
Loss on derivatives	-	-	-	-	-	-	-	-	(2,649)	**(2,649)**
Foreign exchange gain (loss)	29	(92)	(905)	(30)	345	(459)	20	568	(3,255)	**(3,779)**
Gain on commodity and foreign currency contracts	-	-	-	-	-	-	-	-	1,383	**1,383**
Impairment charge	-	-	-	-	-	-	-	-	(18,256)	**(18,256)**
Earnings (loss) before income taxes	4,517	(3,900)	5,400	30,189	14,747	7,227	(2,211)	7,317	(23,552)	**39,734**
Income taxes (expense) recovery	(2,036)	519	2,446	(8,945)	(4,844)	(2,609)	(11)	(3,465)	(713)	**(19,658)**
Net earnings (loss) for the period	2,481	(3,381)	7,846	21,244	9,903	4,618	(2,222)	3,852	(24,265)	**20,076**
Capital expenditures	4,415	6,257	20,704	2,308	4,208	548	113	1,005	106	**39,664**
Total assets	137,756	188,168	1,428,162	156,471	115,292	305,984	470,251	112,073	435,021	**3,349,178**
Total liabilities	45,823	52,988	299,332	11,362	20,981	84,592	2,243	37,099	83,515	**637,935**

	Three months ended March 31,	
Product Revenue	**2014**	2013
Refined silver and gold	**$ 120,895**	$ 146,673
Zinc concentrate	**18,490**	18,424
Lead concentrate	**26,668**	24,623
Copper concentrate	**43,681**	53,292
Total	**$ 209,734**	$ 243,012

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

20. Production Costs

Production costs are comprised of the following:

For the three months ended March 31,		2014		2013
Consumption of raw materials and consumables	$	51,593	$	47,507
Employee compensation and benefits expense		32,271		37,620
Contractors and outside services		18,266		27,088
Utilities		10,071		5,460
Other expenses		8,529		14,833
Changes in inventory		10,148		(3,959)
	$	130,878	$	128,549

21. Interest and Finance Expense

For the three months ended March 31,		2014		2013
Interest expense	$	1,768	$	681
Finance fees		177		239
Accretion of Reclamation expense (Note 12)		819		757
	$	2,764	$	1,677

22. Income Taxes

For the three months ended March 31,		2014		2013
Current income tax expense		9,208		27,761
Deferred income tax recovery		(515)		(8,103)
Provision for income taxes	$	8,693	$	19,658

As of April 1, 2013, the applicable income tax rate in Canada was increased from 25.00% to 26.00%. The change in tax rate had no income tax impact because the deductible temporary differences in Canada are not recognized.

Income tax expense differs from the amounts that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the items shown on the following table, which result in effective tax rates that vary considerably from the comparable periods. The main factors which have affected the effective tax rates for the three months ended March 31, 2014 and the comparable period of 2013 were foreign income tax rate differentials, foreign exchange rate changes, non-recognition of certain deferred tax assets, mining taxes paid, and withholding taxes paid on payments from foreign subsidiaries. The Company expects that these and other factors will continue to cause volatility in effective tax rates in the future.

(unaudited tabular amounts are in thousands of U.S. dollars except number of options and warrants and per share amounts)

Three months ended March 31,		**2014**		2013
Income before taxes		**15,453**		39,734
Statutory tax rate		**26.00%**		25.00%
Income tax expense based on above rates	**$**	**4,018**	$	9,934
Increase (decrease) due to:				
Non-deductible expenses		**991**		1,706
Change in net deferred tax assets not recognized		**2,289**		(1,646)
Non-taxable unrealized gains on derivative financial instruments - derivatives		**26**		662
Foreign tax rate differences		**999**		1,637
Effect of other taxes paid (mining and withholding)		**1,626**		2,859
Change in net deferred tax assets not recognized for exploration expenses		**183**		772
Non-deductible foreign exchange gain		**(1,765)**		(2,144)
Impairment charge – Esperanza transaction related assets(1)		**-**		4,971
Other		**326**		907
	$	**8,693**	$	19,658
Effective tax rate		**56.25%**		49.47%

(1) During the three months ended March 31, 2013, the Company took a non-cash impairment charge of $18.4 million on non-current assets held for sale.

23. 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 condition of the Company.

b. Purchase Commitments

The Company had no purchase commitments other than those commitments described in Note 4.

c. 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 March 31, 2014 and December 31, 2013, $42.1 million, and $41.5 million, respectively, were accrued for closure and decommissioning costs relating to mineral properties. See also Note 12.

d. 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 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.

e. Finance Leases

The present value of future minimum lease payments classified as finance leases at March 31, 2014 is $10.2 million (2013 - $10.2 million) and the schedule of timing of payments for this obligation is found in Note 13.

f. Law changes in Argentina

Government regulation in Argentina related to the economy has increased substantially over the past year. In particular, the government has intensified the use of price, foreign exchange, and import controls in response to unfavourable domestic economic trends. 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. The new law came into effect on July 5, 2013. The Company has in place certain contracts that could potentially affect or exempt the Company from having this new tax applicable and as such is evaluating its options with its advisors. The Company and other mining companies in the province are also evaluating options that include challenging the legality and constitutionality of the tax.

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.

g. Labour law changes 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 has not accrued any additional amounts for the quarter ended March 31, 2014. The Company will continue to monitor developments in Mexico and to assess the potential impact of these amendments.

h. Political changes in Bolivia

In early 2009, a new constitution was enacted in Bolivia that further entrenches the government's ability to amend or enact certain laws, including those that may affect mining. On May 1, 2011, Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the mining law and this has caused some concerns amongst foreign companies doing business in Bolivia due to the government's policy objective of nationalizing parts of the resource sector. However, Mr. Morales made no reference to reviewing or terminating agreements with private mining companies. Operations at San Vicente have continued to run normally under Pan American's administration and it is expected that normal operations will continue status quo. Pan American will take every measure available to enforce its rights under its agreement with COMIBOL, but there is no guarantee that governmental actions will not impact the San Vicente operation and its profitability. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts and threatened expropriation of assets, all of which could have a material adverse impact on the Company's operations or profitability.

i. Other Legal Matters

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

In assessing loss contingencies related to legal proceedings that are pending against the Company or 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.

j. Title Risk

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

k. Royalty Agreements and Participation Agreements

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

On September 22, 2011, Peru's Parliament approved new laws that increase mining taxes to fund anti-poverty infrastructure projects in the country, effective October 1, 2011. The new law changes the scheme for royalty payments, so that mining companies that have not signed legal stability agreements with the government will have to pay royalties of 1% to 12% on operating profit; royalties under the previous rules were 1% to 3% on net sales. In addition to these royalties, such companies will be subject to a "special tax" at a rate ranging from 2%

to 8.4% of operating profit. Companies that have concluded legal stability agreements (under the General Mining Law) will be required to pay a “special contribution” of between 4% and 13.12% of operating profits. The Company’s calculations of the change in the royalty and the new tax indicate that no material impact is expected on the results of the Company’s Peruvian operations.

In the province of Chubut, Argentina which is the location of the Company’s Navidad property, there is a provincial royalty of 3% of the “Operating Income”. Operating income is defined as revenue minus production costs (not including mining costs), treatment and transportation charges. Additionally, the governor of the province of Chubut, Argentina, has submitted to the provincial legislature draft law which if passed will introduce a 5% net smelter return royalty, in addition to the 3% provincial royalty discussed above. 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 15.

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 million; (ii) 2.0% for companies with sales between $60 million and $120 million; and (iii) 3.0% for companies with sales greater than $120 million. This royalty is a net smelter returns royalty, the cost of which is deductible for income tax purposes.

Manantial Espejo mine

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

San Vicente mine

Pursuant to an option agreement entered into with COMIBOL, a Bolivian state mining company, with respect to the development of the San Vicente property, the Company is obligated to pay COMIBOL a participation fee of 37.5% (the “Participation Fee”) of the operations cash flow. Once full commercial production of San Vicente began, the Participation was reduced by 75% until the Company recovers its investment in the property. Thereafter, the Participation Fee will revert back to its original percentage. For the three months ended March 31, 2014 the royalties to COMIBOL amounted to approximately $4.5 million (2012 - $4.6 million).

A royalty is also payable to EMUSA, a former partner of the Company on the project. The royalty is a 2% net smelter royalty payable only after the Company has recovered its capital investment in the project and only when the average price of silver in a given financial quarter is $9.00 per ounce or greater. For the three months ended March 31, 2014 the royalties to EMUSA amounted to approximately $0.4 million. For the three months ended March 31, 2013 the royalties amounted to $nil because recovery of capital investment was not yet achieved as of March 31, 2013.

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. For the three month ended March 31, 2014 and 2013 the royalty amounted to $2.4 million and $2.3 million, respectively.

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 three months ended March 31, 2014, the royalties to Royal Gold amounted to approximately $1.4 million (2013 – $4.5 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.

Pan American Silver Corp.

Management's Discussion and Analysis for the First Quarter ended March 31, 2014

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

May 8, 2014

INTRODUCTION

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Pan American Silver Corp.'s and its subsidiaries' ("Pan American" or the "Company") performance and such factors that may affect its future performance. The MD&A should be read in conjunction with the Company's Audited Consolidated Financial Statements for the year ended December 31, 2013 and the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014 and 2013 and the related notes contained therein. All amounts in this MD&A and in the Condensed interim consolidated financial statements are expressed in United States dollars ("USD"), unless identified otherwise. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Pan American's significant accounting policies are set out in Note 2 of the Audited Consolidated 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", "total cost per ounce of silver", "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 entitled "Alternative Performance (Non-GAAP) Measures" beginning on page 23 for a detailed description of all-in sustaining cost per silver ounce sold, total cost per ounce of silver, adjusted earnings and basic adjusted earnings, as well as the cash cost calculation, details of the Company's by-product credits and a reconciliation of this measure to the unaudited condensed interim consolidated 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 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 the risks associated with forward looking statements at the back of this MD&A and the "Risks Related to Pan American's Business" contained in the Company's most recent Form 40-F and Annual Information Form on file with the U.S. Securities and Exchange Commission and the Canadian provincial securities regulatory authorities. Additional information about Pan American and its business activities, including its Annual Information Form, is available on SEDAR at www.sedar.com

CORE BUSINESS AND STRATEGY

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

HIGHLIGHTS OF Q1 2014

OPERATIONS & PROJECT DEVELOPMENT

- ***Strong Silver and Gold Production***

Silver production was 6.61 million ounces in the first quarter of 2014 ("Q1 2014"), an increase of 5% over the 6.28 million ounces produced in Q1 2013, while gold production was 45.9 koz ounces, 43% higher than productionin the first quarter of 2013 (Q1 2013"). Increases in silver production over Q1 2013 levels were recorded at all operations, except for Alamo Dorado, most notably at Manantial Espejo and Dolores, which both increased quarterly production by 0.2 million ounces. Both silver and gold production increases in Q1 2014 were primarily driven by higher stacking rates and recoveries at Dolores and by significantly higher grades at Manantial Espejo.

- ***Continued Cost Control Discipline***

The Company continued to focus its efforts on operational optimizations and cost cutting initiatives to realign the Company's operational performance with the prevailing price environment and to ensure that we maintained our strong financial position. All-in sustaining cost per silver ounce sold("AISCSOS") declined by 20% in Q1 2014 relative the Q1 2013, down almost $4.00 to $15.54 per ounce. Cash costs were $8.25 for Q1 2014 as compared to $11.33 in the same period of 2013. Actual AISCSOS and cash costs per ounce in Q1 2014 were well below management's guidance ranges of $17.00 to $18.00 and $11.70 to $12.70 per silver ounce, respectively.

- ***Project Development On Track***

The La Colorada Expansion Project commenced in Q1 2014 with considerable activity, including lateral and ramp development advances in the underground mine, surface work related to community and camp upgrades, and a tailings facility expansion. Certain engineering contracts for the plant expansion, the new hoist, headframe, and shaft are scheduled to be awarded in Q2 2014. At the Dolores mine, various expansion projects were progressed, including phase II of the pad 3 construction, preliminary engineering for a future power line, and advancements in the investigation into processing optimization opportunities, including the possibility of adding a milling and pulp agglomeration circuit to the processing flow sheet to enhance silver and gold recoveries on high grade ores.

FINANCIAL

- ***Resilient Revenue on Higher Quantities Sold***

Revenue in Q1 2014 was $209.7 million, a decrease of 14% compared to the same period of 2013. The lower revenue was due to the sharp drop in realized prices for all metals produced, including an over $10 per ounce decline in silver prices relative to a year ago. Partially offsetting the lower price environment, the Company was able to sell 0.55 million more ounces of silver and 16.9 K more ounces of gold in Q1 2014 than it did in Q1 2013.

- ***Healthy Mine Operating Earnings and Cash Flows***

The Company was able to achieve a gross margin (mine operating earnings/revenue) of 15% with mine operating earnings of $31.6 million in Q1 2014, despite lower realized metal prices. This compared to a gross margin of 31% achieved in Q1 2013 and a margin of 16% for the full 2013 year. Cash flow from operating activities was $36.1 million in Q1 2014, 12% higher than in Q1 2013 on lower tax payments and working capital movements.

- ***Return of Value to Shareholders***

Strong operating cash flow facilitated the continued return of value to shareholders in Q1 2014 by way of $18.9 million in dividend payments. The Company's quarterly dividend continues to be one of the highest in the industry at $0.125 per share or $0.50 on an annual basis.

- ***Robust Liquidity, and Working Capital Position***

The Company had cash and short term investment balances of $394.3 million and a working capital position of $680.3 million at March 31, 2014, a decrease of $28.3 million and $8.7 million, respectively, from December 31, 2013.

Q1 OPERATING PERFORMANCE

The following table reflects silver production and cash costs, net of by-product credits, at each of Pan American's operations for Q1 2014, as compared to the same period of 2013.

	Silver Production (ounces '000s) Three months ended March 31,		Cash Costs[1] ($ per ounce) Three months ended March 31,	
	2014	2013	2014	2013
La Colorada	1,201	1,110	8.14	8.81
Alamo Dorado	911	1,269	10.69	7.00
Dolores	1,011	825	11.92	7.75
Huaron	831	758	9.31	15.76
Morococha[2]	590	524	13.54	22.95
San Vicente[3]	1,041	969	12.73	18.62
Manantial Espejo	1,030	825	(4.82)	7.11
Consolidated Total[4]	6,614	6,278	8.25	11.33

(1) Please refer to the section Alternative Performance (Non-GAAP) Measures 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 Unaudited Consolidated 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.

Pan American's silver production increased to 6.61 million ounces in Q1 2014, 5% higher than production levels in the same period of 2013. Higher quarterly silver production was achieved at all of Pan American's mines, other than Alamo Dorado. The improved silver production was a result of higher consolidated throughput rates and recoveries.

AISCSOS declined by 20% in Q1 2014 relative to Q1 2013, down $3.93 to $15.54 per ounce. The drop in AISCSOS over the comparable quarter of 2013 was primarily a result of higher payable ounces sold at significantly lower cash cost of sales, net of by-products, together with a decline in discretionary expense items, such as exploration and general and administrative expense. The lower AISCSOS reflects an extensive range of cost cutting and productivity enhancing initiatives executed to realign the Company's operational performance with the prevailing price environment.

Consolidated cash costs per ounce of silver were $8.25 in Q1 2014, a 27% decrease from the cash costs per ounce of $11.33 in the same period of 2013. The decrease from a year ago was attributable to an increase in by-product credits, combined with an increase in payable production of silver while reducing unit operating costs, largely due to an increase in consolidated throughput rates. Operating costs were lowered primarily due to reductions in smelting costs and royalties in Q1 2014.

The following tables set out the Company's by-product production for Q1 2014 and the average price for each by-product metal produced, together with comparables for Q1 2013:

	By-Product Production Three months ended March 31, 2014	2013	Average By-Product Prices* Three months ended March 31, 2014	2013
Gold – thousands of ounces	**45.9**	32.1	**$ 1,293**	$ 1,631
Zinc – thousands of tonnes	**11.4**	9.7	**$ 2,029**	$ 2,033
Lead – thousands of tonnes	**3.6**	3.1	**$ 2,106**	$ 2,301
Copper – thousands of tonnes	**1.7**	1.1	**$ 7,041**	$ 7,931

*Price per ounce for gold and per tonne for zinc, lead and copper

In Q1 2014, production of gold increased by 43% as compared to the same period of 2013 primarily as a result of a sharp jump in production from Manantial Espejo resulting from higher throughput rates and grades. A significant increase in gold production was also achieved at Dolores due to higher stacking rates and recoveries.

Consolidated base metal production achieved double-digit percentage increases as a result of higher production at all of our polymetalic operations, most notably at the Company's Peruvian mines. Higher throughput rates at Huaron and improved zinc and lead grades at Morococha and San Vicente combined to achieve the higher production levels of those metals. Copper production benefited from higher grades at both Huaron and Morococha.

An analysis of each operation's Q1 2014 operating performance follows, as compared to the operating performance for the comparable period of 2013. Reported metal figures in the tables in this section reflect actual volumes of metals produced.

- ***La Colorada mine***

	Three months ended March 31, 2014	2013
Tonnes milled – thousand	**114.2**	106.8
Average silver grade – grams per tonne	**364**	359
Average silver recovery – %	**89.8**	90.2
Silver – thousand ounces	**1,201**	1,110
Gold – thousand ounces	**0.70**	0.60
Zinc – thousand tonnes	**1.89**	1.77
Lead – thousand tonnes	**0.99**	0.83
Payable silver – thousand ounces	**1,155**	1,061
Cash cost per ounce of silver net of by-product credits		
Cash cost per ounce net of by-products(1)	**$ 8.14**	$ 8.81
Total cost per ounce net of by-products(1)	**$ 10.10**	$ 10.56
Capital Expenditures – thousands(2)	**$ 2,899**	$ 4,208

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

(2) Capital expenditures excluded $3.6 million in Q1 2014 related to investment capital incurred on the expansion project as disclosed in the section Alternative Performance (non-GAAP) Measures.

Silver production at the **La Colorada** mine in Q1 2014 was 1.20 million ounces, an 8% increase over the comparable period of 2013, which was a combined result of higher throughput rates and slightly better grades.

In Q1 2014, cash costs decreased by 8% to $8.14 per ounce compared to the same period last year. This decline was mainly due to achieving reduced unit costs per ton driven by higher throughput rates, particularly in the by-product rich sulfide ores. By-product credits increased as higher gold and base metal production was partially offset by lower realized prices.

Sustaining capital expenditures at La Colorada during Q1 2014 totalled $2.9 million. The capital was mainly spent on developmental drilling, equipment replacements, ventilation raises and near-mine exploration.

- ***Alamo Dorado mine***

	Three months ended March 31, 2014	2013
Tonnes milled – thousand	**349.7**	404.3
Average silver grade – grams per tonne	**100**	115
Average gold grade – grams per tonne	**0.39**	0.33
Average silver recovery – %	**81.1**	87.3
Silver – thousand ounces	**911**	1,269
Gold – thousand ounces	**3.51**	3.14
Copper – tonnes	**20**	20
Payable silver – thousand ounces	**903**	1,261
Cash cost per ounce of silver net of by-product credits		
Cash cost per ounce net of by-products[1]	**$ 10.69**	$ 7.00
Total cost per ounce net of by-products[1]	**$ 14.55**	$ 10.63
Capital Expenditures – thousands	**$ 90**	$ 2,308

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

Alamo Dorado endured a challenging quarter in Q1 2014, producing 0.91 million ounces of silver, a 28% decline from one year ago. The lower silver production was principally due to a failure of the SAG mill motor in January, which resulted in a 15-day unscheduled stoppage of the mill. The lower throughput rates caused by the SAG mill motor failure were compounded by a decline in silver grades compared to a year ago, which was expected.

Cash costs for Q1 2014 were $10.69 per ounce, an increase of 53% from $7.00 per ounce a year ago as lower silver production and a 2% increase in operating costs was compounded by a 10% decrease in by-product credits on account of lower gold prices.

Capital expenditures at Alamo Dorado during Q1 2014 totalled only $0.09 million, primarily for minor work on the tailings facility.

- ***Dolores mine***

	Three months ended March 31,			
		2014		2013
Tonnes milled – thousand		**1,542.2**		1,387.2
Average silver grade – grams per tonne		**38**		47
Average gold grade – grams per tonne		**0.37**		0.43
Average silver recovery – %		**54.2**		39.0
Average gold recovery – %		**90.7**		76.1
Silver – thousand ounces		**1,011**		825
Gold – thousand ounces		**16.43**		14.50
Payable silver – thousand ounces		**1,008**		823
Cash cost per ounce of silver net of by-product credits				
Cash cost per ounce net of by-products[1]	**$**	**11.92**	$	7.75
Total cost per ounce net of by-products[1]	**$**	**29.45**	$	21.46
Capital Expenditures[2] – thousands	**$**	**6,439**	$	7,663

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

[2] Capital expenditures excluded $9.6 million and $13.0 million, in the Q1 2014 and Q1 2013 reporting periods, respectively, related to investment capital incurred on the leach pad and other expansion projects as disclosed in the section Alternative Performance (non-GAAP) Measures.

Silver production at the **Dolores** mine in Q1 2014 was 1.01 million ounces, a 23% increase over the comparable period of 2013, due primarily to significantly better recoveries and higher throughput rates. The improvement in recoveries was attributable to the combined benefits of a multi-stage leach process, whereby solutions recovered from leaching of ore stacked on pad 2 were further enriched by leaching newly stacked ore on pad 3, in addition to the benefits of increased heap leach surface area on pad 3 allowing for longer primary leach cycle times.

In Q1 2014, cash costs increased by 54% to $11.92 per ounce as compared to the same period last year. The higher cash costs were due to the combination of an 11% increase in operating costs driven largely by the effects of drawing down in-progress inventories from pad 2 and a 10% decrease in by-product credits, partially offset by higher silver production. By-product credits declined as a result of 21% lower realized gold prices, partially offset by a 13% increase in gold production.

Sustaining capital expenditures at Dolores in Q1 2014 totalled $6.4 million. The capital was mainly spent on pre-stripping activities, near-mine exploration and access road upgrades.

- ***Huaron mine***

	Three months ended March 31, 2014	Three months ended March 31, 2013
Tonnes milled – thousand	**209.1**	183.2
Average silver grade – grams per tonne	**147**	159
Average zinc grade – %	**2.46**	2.46
Average silver recovery – %	**83.2**	81.8
Silver – thousand ounces	**831**	758
Gold – thousand ounces	**0.29**	0.23
Zinc – thousand tonnes	**3.61**	3.12
Lead – thousand tonnes	**1.43**	1.29
Copper – thousand tonnes	**1.19**	0.62
Payable silver – thousand ounces	**713**	661
Cash cost per ounce of silver net of by-product credits		
Cash cost per ounce net of by-products(1)	**$ 9.31**	$ 15.76
Total cost per ounce net of by-products(1)	**$ 13.48**	$ 19.78
Capital Expenditures – thousands	**$ 4,312**	$ 4,415

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

In Q1 2014, **Huaron** produced 0.83 million ounces of silver, which was 10% higher than the production level achieved in Q1 2013. Silver production was increased primarily by higher throughput rates and silver recoveries, but were partially offset by declines in silver grades.

Cash costs per ounce in Q1 2014 were $9.31, which were 41% lower than the $15.76 per ounce realized in Q1 2013. The drop in cash costs was mainly due to a 34% rise in by-product credits driven by a 54% increase in copper grades, and to a 10% decrease of unit operating costs driven by the higher throughput rates.

Capital expenditures during Q1 2014 totaled $4.3 million at the Huaron mine, which comprised mainly of sustaining investments related to repair and replacements of equipment, upgrades to the ventilation systems and lease payments.

- ***Morococha mine****

	Three months ended March 31, 2014	2013
Tonnes milled – thousand	**139.3**	140.8
Average silver grade – grams per tonne	**156**	133
Average zinc grade – %	**3.68**	2.83
Average silver recovery – %	**86.6**	86.9
Silver – thousand ounces	**590**	524
Gold – thousand ounces	**0.50**	0.64
Zinc – thousand tonnes	**4.09**	3.30
Lead – thousand tonnes	**1.10**	0.92
Copper – thousand tonnes	**0.52**	0.42
Payable silver – thousand ounces	**498**	449
Cash cost per ounce of silver net of by-product credits		
Cash cost per ounce net of by-products(1)	**$ 13.54**	$ 22.95
Total cost per ounce net of by-products(1)	**$ 22.67**	$ 32.50
Capital Expenditures – thousands	**$ 1,819**	$ 6,257

* Production figures are for Pan American's 92.3% share only.

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

The **Morococha** mine produced 0.59 million ounces of silver during Q1 2014, up 13% from the production achieved in the comparable 2013 period. The increase was attributable to higher grades as throughput rates and recoveries remained stable.

Cash costs per ounce in Q1 2014 were $13.54, 41% lower than $22.95 per ounce a year earlier. The dramatic reduction in cash costs was a combined result of increasing silver production and decreasing unit operating costs by 9% fueled by higher throughput efficiencies, and a 14% rise in by-product credits which were driven by enhanced stope preparations that contributed to a 30% increase in zinc, 14% increase in lead and 27% increase in copper grades.

Capital expenditures during Q1 2014 totalled $1.8 million at the Morococha mine. The capital spending was primarily on mine development, equipment overhauls, and exploration drilling.

- ***San Vicente mine****

		Three months ended March 31, 2014		2013
Tonnes milled – thousand		**79.3**		79.1
Average silver grade – grams per tonne		**442**		408
Average zinc grade – %		**2.96**		2.43
Average silver recovery – %		**92.5**		93.2
Silver– thousand ounces		**1,041**		969
Zinc – thousand tonnes		**1.81**		1.50
Lead – thousand tonnes		**0.13**		0.11
Payable silver – thousand ounces		**958**		882
Cash cost per ounce of silver net of by-product credits				
Cash cost per ounce net of by-products[1]	**$**	**12.73**	$	18.62
Total cost per ounce net of by-products[1]	**$**	**14.79**	$	21.65
Capital Expenditures – thousands	**$**	**786**	$	1,005

* Production figures are for Pan American's 95.0% share only.
[1] Cash costs per ounce and total costs per ounce are non-GAAP measurements. Please refer to section Alternative Performance (Non-GAAP) Measures for a detailed reconciliation of these measures to our cost of sales.

Silver production at the **San Vicente** mine in Q1 2014 was 1.04 million ounces, a 7% increase from the 0.97 million ounces produced during the same quarter last year. The increase in silver production was attributable to an 8% improvement in grades due to mine sequencing, as throughput rates and recoveries remained relatively stable as compared to Q1 2013.

Cash costs at San Vicente were $12.73 per ounce, which was 32% lower than the comparable quarter last year. The large reduction was in cash costs per ounce at San Vicente driven by significant reductions in royalties due to lower metal prices and reduced smelting costs, aided by higher by-product credits and improved silver production.

Capital expenditures at San Vicente during Q1 2014 totalled $0.8 million and consisted mainly of equipment and mine infrastructure upgrades.

- ***Manantial Espejo mine***

	Three months ended March 31,			
		2014		**2013**
Tonnes milled – thousand		**191.2**		170.1
Average silver grade – grams per tonne		**174**		174
Average gold grade – grams per tonne		**3.85**		2.48
Average silver recovery – %		**92.3**		92.7
Average gold recovery – %		**95.9**		94.3
Silver – thousand ounces		**1,030**		825
Gold – thousand ounces		**24.45**		13.02
Payable silver – thousand ounces		**1,028**		823
Cash cost per ounce of silver net of by-product credits				
Cash cost per ounce net of by-products[(1)]	**$**	**(4.82)**	$	7.11
Total cost per ounce net of by-products[(1)]	**$**	**3.81**	$	17.07
Capital Expenditures – thousands	**$**	**8,357**	$	548

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

Silver production at the **Manantial Espejo** mine in Q1 2014 was 1.03 million ounces, up 25% from the same quarter last year, as higher throughput rates combined with a drawdown of in-process inventories at quarter-end while the mill underwent scheduled preventive maintenance work.

Cash costs per ounce decreased from $7.11 in Q1 2013 to negative $4.82 in Q1 2014, a 168% improvement. This improvement in cash costs was primarily driven by a large increase in by-product credits due to significantly higher gold production, by lower unit operating costs, which benefited from a vastly devalued local currency offset by the inventory drawdown, and by the increased silver production. Gold production jumped by 88% due primarily to a significant 55% improvement in gold grades, combined with higher throughput rates.

Capital expenditures at Manantial Espejo during Q1 2014 totalled $8.4 million and consisted mainly of capitalized open pit pre-stripping and taillings dam construction. Additionally, sustaining capital was allocated to a tailings dam expansion and near-mine exploration in Q1 2014.

2014 OPERATING OUTLOOK

Consolidated silver production of 6.61 million ounces for the three months ended March 31, 2014 was well within the production rates required to achieve management's full year forecast range of 25.75 to 26.75 million silver ounces, as indicated in the 2013 Annual MD&A. Gold production of 45.9k ounces in Q1 2014 was above management's expected production rates required to achieve annual production of between 155k and 165k ounces. Base metal production in Q1 2014 was also ahead of management's expectations. Based on the Company's operating plans for the balance of 2014, management remains confident that full year production of silver, gold, zinc, lead and copper will be within guidance ranges provided in the 2013 Annual MD&A.

Cash costs in Q1 2014 of $8.25 per ounce and AISCSOS of $15.54 were well below management's forecast of $11.70 to $12.70 per ounce and $17.00 to $18.00 per ounce, respectively, for the full year 2014. This better than expected performance was primarily due to lower than expected direct operating costs, higher than expected by-product production and higher realized by-product metal prices than assumed. At the date of this MD&A, management reaffirms the guidance for cash costs per ounce and AISCSOS for the full year of 2014 as presented in the 2013 Annual MD&A.

Total sustaining capital for Q1 2014 was $24.7 million, while investment capital expended on project development totaled $13.3 million for the quarter. This level of capital spending was in line with management's plans and forecasts for the full 2014 year. Management continues to expect sustaining capital and investment capital for 2014 to be approximately $95.5 million and $67.0 million, respectively.

Q1 2014 PROJECT DEVELOPMENT UPDATE

- ***La Colorada Expansion Project***

The La Colorada expansion project commenced in Q1 2014 with considerable activity, requiring capital of $3.6 million. Lateral and ramp to shaft bottom development advanced in the underground mine, with over 350 meters of new drifts being developed. Orders were placed for additional underground mobile equipment and surface works commenced on the community infrastructure upgrades and the camp expansion. In addition, a tailings facility expansion proceeded on schedule. The engineering contracts for the plant expansion and for the new hoist, headframe, and shaft are scheduled to be awarded during 2014.

- ***Dolores Projects***

At the Dolores mine, the Company spent a total of $9.6 million in Q1 2014 on various expansion projects which included phase II of leach pad 3 construction, preliminary engineering for a future power line, and processing improvements studies.

Management advanced the investigation into processing optimization opportunities, including the possibility of adding a milling and pulp agglomeration circuit to the processing flow sheet to enhance silver and gold recoveries on high grade ores. The Company has completed additional optimizations of the proposed processing plant design during the quarter and is currently updating capital and operating cost estimates using a qualified third party engineering firm. In addition, the Company is completing a thorough mine plan analysis to generate estimates of any economic benefits that could be gained with the addition of both the proposed milling and pulp agglomeration circuit with and without inclusion of an underground mining operation to extract resources that exist beneath the ultimate pit floor. After the completion of its evaluation work later this year, the Company intends to prepare a preliminary economic assessment outlining the results.

Excellent progress was made on the project to construct a new power line to the Dolores mine, that when completed will replace the current diesel generated power with grid power from the state of Chihuahua. This project is expected to have a pay-back period of approximately 2 years. Approval for the design of the line and the supply of electrical power has been received from the national power utility in Mexico. The Company is currently working with a third party engineering and construction company to negotiate right of way agreements with local land owners and to complete an environmental assessment along the 108 km long route.

The expansion of leach pad 3 continued on schedule and on budget. The ore stacking and leaching on the lower portions of pad 3 continued concurrent with the construction, with no interferences encountered. In addition, the new pad 3 solution pumping system was successfully commissioned in Q1 2014. Expansion of pad 3 up to the top of bench 5 will be completed prior to the end of 2014, which will provide sufficient stacking room for ore production to mid-2017.

OVERVIEW OF Q1 FINANCIAL RESULTS

The following table sets out selected quarterly results for the past nine quarters, which are stated in thousands of USD, except for the per share amounts. The dominant factors affecting results in the quarters presented below is volatility of metal prices realized, industry wide cost pressures, and the timing of the sales of production which varies with the timing of shipments. Beginning in the second quarter of 2012, results include the Dolores mine which was acquired with the completion of the Minefinders acquisition on March 30, 2012. The fourth quarter of 2012 included a partial write-down of the Navidad project, while the second and fourth quarters of 2013 included impairment charges related to Dolores.

Quarter Ended (unaudited)		
2014		March 31
Revenue	$	209,734
Mine operating earnings	$	31,576
Attributable earnings for the period	$	6,844
Adjusted earnings for the period(2)(3)	$	8,554
Basic earnings per share	$	0.05
Diluted earnings per share	$	0.05
Cash flow from operating activities	$	36,125
Cash dividends paid per share	$	0.125
Other financial information		
Total assets	$	2,730,962
Total long term financial liabilities	$	110,351
Total attributable shareholders' equity	$	2,170,458

				Quarters Ended (unaudited)						Year Ended
2013		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 (loss) earnings for the period	$	20,148	$	(186,539)	$	14,154	$	(293,615)	$	(445,851)
Adjusted earnings (loss) for the period(2)(3)	$	39,972	$	(17,409)	$	12,240	$	(84,306)	$	(49,502)
Basic (loss) earnings per share	$	0.13	$	(1.23)	$	0.09	$	(1.94)	$	(2.94)
Diluted (loss) earnings 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

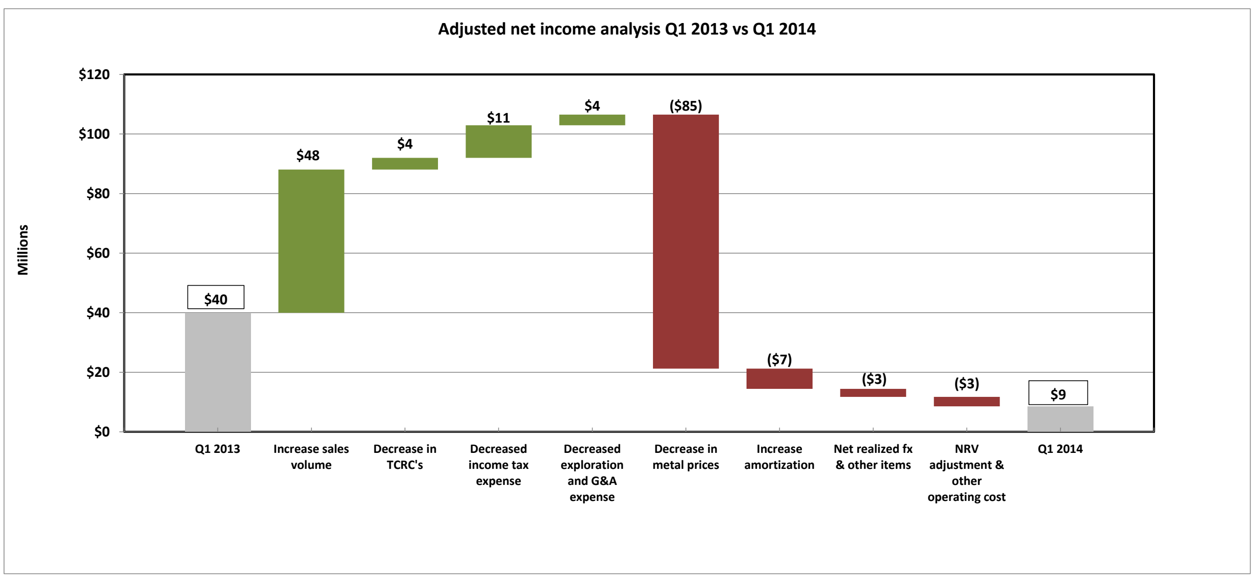
2012		March 31		June 30		Sept 30		Dec 31		Year Ended Dec 31
				Quarters Ended (unaudited)						
Revenue	$	228,819	$	200,597	$	251,843	$	247,335	$	928,594
Mine operating earnings[1]	$	101,896	$	51,517	$	65,440	$	85,091	$	303,944
Attributable earnings (loss) for the period[1]	$	49,883	$	36,920	$	22,582	$	(31,185)	$	78,200
Adjusted earnings for the period [1][2]	$	66,211	$	8,225	$	37,259	$	55,119	$	166,814
Basic earnings (loss) per share[1]	$	0.47	$	0.24	$	0.15	$	(0.18)	$	0.56
Diluted earnings (loss) per share[1]	$	0.47	$	0.18	$	0.15	$	(0.23)	$	0.49
Cash flow from (used in) operating activities	$	37,395	$	(5,200)	$	79,507	$	81,603	$	193,305
Cash dividends paid per share	$	0.0375	$	0.0375	$	0.05	$	0.05	$	0.175
Other financial information										
Total assets[1]									$	3,394,625
Total long term financial liabilities									$	143,022
Total attributable shareholders' equity[1]									$	2,710,243

(1) Mine operating earnings, unadjusted and adjusted attributable earnings, and basic and diluted earnings per share for the quarters ended June 30, September 30, December 31, 2012 and the year ended December 31, 2012 have been recast for the finalization of the Minefinders purchase price allocation. This recast also affected total assets and total attributable shareholders' equity as at December 31, 2012. Readers should refer to Notes of the 2013 Audited Consolidated Financial Statements for full details of the recast results.

(2) Adjusted earnings for the period is an alternative performance measure. Please refer to the section, Alternative Performance (Non-GAAP) Measures, of this MD&A for a calculation of adjusted earnings for the period.

(3) The adjusted attributable loss for the three months ended June 30, 2013 has been revised to $(16,853) from the amount previously presented of $(9,371). In Q2 2013, the Company added back $13.2 million of net realizable value of inventory write-downs ($7.5 million net of tax) applicable to certain doré and stockpiles. As the doré was sold in the normal course of business during Q3 2013 and a partial reversal of the stockpile was recognized in Q3 2013, the Company no longer presents this item as an adjusting item.

For the three months ended March 31, 2014, the Company's attributable earnings and adjusted earnings both decreased from the comparable period in 2013, primarily due to lower realized metal prices. The following graph illustrates the key factors leading to the change in adjusted earnings in the three months ended March 31, 2014 to the adjusted earnings generated in Q1 2013. Further analysis of the key factors is discussed in the section that follows.



The following table reflects the metal prices that the Company realized and the quantities of metal sold during each period. As seen below, there was a sharp decline in realized metal prices, especially for silver and gold, but the quantities of all metals sold in Q1 2014 increased compared to the comparable period in 2013.

	Realized Metal Prices Three months ended March 31, 2014			2013	Quantities of Metal Sold Three months ended March 31, 2014	2013
Silver – in ounces[1]	**$**	**19.99**	$	30.11	**6,735,313**	6,183,727
Gold – in ounces[1]	**$**	**1,283**	$	1,630	**46,695**	29,785
Zinc – in tonnes[2]	**$**	**2,038**	$	2,039	**9,547**	8,545
Lead – in tonnes[2]	**$**	**2,103**	$	2,300	**3,234**	2,795
Copper – in tonnes[2]	**$**	**6,995**	$	7,200	**1,323**	1,200

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

- ***Income Statement***

Earnings for Q1 2014 were $6.8 million, compared to earnings of $20.1 million in Q1 2013. Basic earnings per share declined to $0.05 in Q1 2014 compared to $0.13 per share in the comparative period. The decrease in earnings in Q1 2014 was primarily the result of generating significantly lower mine operating earnings due to lower realized prices. The Company's revenue benefited from increases in overall quantities of all metals sold, as reflected in the table above, but was offset by decreases in the realized metal prices received. Higher cost of sales in Q1 2014, which includes production costs, depreciation and amortization, and royalty expense, primarily reflected an increase in the quantities sold and also a $2.3 million net realizable value adjustment to inventories at the Dolores mine. Earnings in Q1 2014 were diminished by a $5.5 million foreign exchange loss, primarily on the Company's CAD dollar balances.

Adjusted earnings for Q1 2014 were $8.6 million compared to $40.0 million in the comparable period of 2013. The only significant adjustment to the net income figure in Q1 2014 in the calculation of adjusted earnings was the reversal of a unrealized foreign exchange loss of $1.7 million. Please see the section "Alternative Performance (Non-GAAP) Measures" for a detailed description of Adjusted Earnings. Adjusted earnings per share were $0.06 for Q1 2014 compared to $0.26 for Q1 2013.

Revenue for Q1 2014 was $209.7 million, a 14% decrease from revenue for the same period last year of $243.0 million. This decrease was driven by an $85.3 million price variance from lower metal prices realized for all metals, inclusive of negative price and quantity adjustments, offset by a $48.1 million positive volume variance from higher quantities of metals sold.

Mine operating earnings were $31.6 million in Q1 2014, a decrease of 58% from the $74.8 million generated in the same period of 2013. The decrease resulted from the lower revenue noted above and an increase in cost of sales by $10.0 million, which primarily reflected higher volumes sold. Mine operating earnings are equal to revenue less cost of sales, which is considered to be substantially the same as gross margin.

General and administrative costs, including share based compensation, declined by 5% in Q1 2014 to $5.6 million (Q1 2013 - $5.9 million). This decrease was primarily as a result of the cost reduction initiatives adopted by the Company in response to the reduced metal price environment.

Exploration and project development expenses in Q1 2014 were $3.0 million compared to $6.3 million incurred in Q1 2013. The reduction in exploration spending compared to the comparable period of 2013 was determined by management to be appropriate given the decline in metal prices. The expenses recorded in Q1 2014 primarily represented the exploration and project development expenses incurred in the vicinity of the Company's existing mines, at select greenfield projects, and the holding and maintenance costs associated with the Navidad project.

There were no significant developments that affected the status of the Navidad project in the current quarter.

Foreign exchange losses in Q1 2014 were $5.5 million, compared to a loss of $3.8 million in the comparable period of 2013. The losses were primarily generated on the Company's CAD treasury balances as the Canadian dollar devalued by approximately 4% against the US dollar during the quarter. The losses on CAD positions were partly offset by unrealized gains recognized on net monetary liabilities denominated in Argentine pesos.

Interest and finance expense for Q1 2014 was $2.8 million (Q1 2013 - $1.7 million) and consisted of accretion of the Company's closure liabilities and interest expense associated with short term loans, construction and equipment leases and outstanding convertible notes.

Income taxes for Q1 2014 were $8.7 million, an $11.0 million decrease from the $19.7 million income tax provision recorded in Q1 2013 and were comprised of current and deferred income taxes. The decrease in the provision for income taxes was primarily a consequence of decreased taxable earnings generated at our operations as well as the effects of various temporary and permanent differences as shown in the table below. These result in effective tax rates that vary 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 set out in the table that follows. The main factors which have affected the effective tax rates for the quarter ended March 31, 2014 and the comparable period of 2013 were foreign income tax rate differentials, foreign exchange rate changes, non-recognition of certain deferred tax assets, additional mining taxes paid, and withholding taxes paid on payments from foreign subsidiaries.

Three months ended March 31,		2014		2013
Income before taxes		**15,453**		39,734
Statutory tax rate(2)		**26.00%**		25.00%
Income tax expense based on above rates	**$**	**4,018**	$	9,934
Increase (decrease) due to:				
Non-deductible expenses		**991**		1,706
Change in net deferred tax assets not recognized		**2,289**		(1,646)
Non-taxable unrealized gains on derivative financial instruments - derivatives		**26**		662
Foreign tax rate differences		**999**		1,637
Effect of other taxes paid (mining and withholding)		**1,626**		2,859
Change in net deferred tax assets not recognized for exploration expenses		**183**		772
Non-deductible foreign exchange gain		**(1,765)**		(2,144)
Impairment charge – Esperanza transaction related assets(1)		**-**		4,971
Other		**326**		907
	$	**8,693**	$	19,658
Effective tax rate		**56.25%**		49.47%

(1) During the three months ended March 31, 2013, the Company took a non-cash impairment charge on non-current assets held for sale.
(2) As of April 1, 2013, the applicable statutory income tax rate in Canada was increased from 25% to 26%.
* The 2013 statutory income tax rates in the countries that the Company has operations in are as follows: Argentina – 35%, Bolivia – 25%, Mexico –35.25%, Peru – 30%.

- ***Statement of Cash Flows***

Cash flow from operations generated $36.1 million in Q1 2014, a 12% increase from the $32.3 million generated a year ago. The improvement in operating cash flow generated was primarily a result of paying less income tax than in the comparable period of 2013 and from changes in non-cash operating working capital, partially offset by stronger cash mine operating earning generated in Q1 2013. In Q1 2014, $19.1 million was paid in cash income taxes compared to $45.1 million paid in Q1 2013, largely as a result of higher taxable income generated in 2012 than in 2013. Cash income tax payments have a lagged effect and as such a portion of Q1 2013 taxes paid related to the high operating income of 2012. Changes in non-cash working capital were insignificant in Q1 2014 compared to $13.0 million used in Q1 2013.

Investing activities used $84.7 million in Q1 2014, inclusive of $47.7 million for net purchases of short-term investments. The balance of investing activities consisted primarily of spending $36.8 million on capital at the Company's mines and projects as described in the "Q1 2014 Operational Performance" and "Q1 2014 Project Development Update" sections above.

Investing activities used $88.0 million in Q1 2013, inclusive of $52.8 million used for net purchases of short-term investments and $4.0 million received from the disposition of a certain mineral property. The balance of investing activities consisted of spending $39.7 million on capital investments in property, plant and equipment.

Financing activities in Q1 2014 used $22.7 million, and consisted of $18.9 million paid as dividends to shareholders, and net repayments of short term loans and construction leases of $3.8 million.

Financing activities in Q1 2013 used $45.5 million, comprised of $21.0 million repayment of construction and equipment leases, $19.0 million in dividend payments, and $5.4 million used for the share buy-back program.

INVESTMENTS AND INVESTMENT INCOME

At the end of Q1 2014, cash plus short-term investments were $394.4 million ($422.7 million at December 31, 2013), as described in the "Liquidity Position" section below.

Pan American's investment objectives for its cash balances are to preserve capital, to provide liquidity and to optimize return to shareholders. 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.

Investment income for Q1 2014 totalled $0.6 million (Q1 2013 - $1.8 million) and consisted mainly of interest income and net gains from the sales of securities within the Company's short-term investment portfolio.

LIQUIDITY POSITION

The Company's cash balance at March 31, 2014 was $178.1 million, which was a decrease of $71.8 million from the balance at December 31, 2013, while the balance of the Company's short-term investments at March 31, 2014 was $216.3 million, an increase of $43.5 million from the 2013 year end. The net decrease in liquidity in Q1 2014 of $28.3 million resulted primarily from capital expenditures on property, plant and equipment, the cash utilized for the payment of dividends partially offset by cash generated in operating activities. The Company does not own any asset-backed commercial paper or other similar, known, at-risk investments in its investment portfolio.

Working capital at March 31, 2014 was $680.3 million, a decrease of $8.7 million from the 2013 year end working capital of $689.0 million. The decrease in working capital was mainly due to the decrease in cash and short-term investments described above, together with a decrease in income taxes receivable and inventories of $16.9 million and $8.3 million, respectively, partially offset by a decrease in income taxes payable of $25.9 million, and an increase in trade and other receivables of $21.2 million.

The Company's financial position at March 31, 2014 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 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.

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 March 31, 2014 was $2,170.5 million, a decrease of $11.9 million from December 31, 2013, primarily as a result of the dividends paid, partially offset by the net earnings for the period. As of March 31, 2014, the Company had approximately 151.5 million common shares outstanding for a share capital balance of $2,295.2 million (December 31, 2013 – 151.5 million and $2,295.2 million). The basic weighted average number of common shares outstanding was 151.5 million and 151.8 million for the quarter ended March 31, 2014, and 2013, respectively.

On November 28, 2013, the Company announced that the Toronto Stock Exchange (the "TSX") accepted the Company's notice of its intention to make a normal course issuer bid ("NCIB") to purchase up to 7,570,535 of its common shares, representing up to 5% of Pan American's issued and outstanding shares. The period of the bid began on December 5, 2013 and will continue until December 4, 2014 or an earlier date should the Company complete its purchases. This is the Company's third consecutive NCIB program, however no shares have been repurchased under this program up until the date of this MD&A. Under the Company's previous program that ended on September 3, 2013, the Company acquired a total of 1,012,900 of its common shares at an average price of $17.21, 415,000 of such shares being purchased in the calendar year 2013. Since initiating share buy back programs in 2011, the Company has acquired and cancelled approximately 6.5 million of its shares.

Purchases pursuant to the NCIB are 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 is not obligated to make any further 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.

Pan American maintains the NCIB because, in the opinion of its Board of Directors, the market price of its common shares, from time to time, may not fully reflect the underlying value of its mining operations, properties and future growth prospects. The Company believes that in such circumstances, the outstanding common shares represent an appealing investment for Pan American since a portion of the Company's excess cash generated on an annual basis can be invested for an attractive risk adjusted return on capital through the share buy back program.

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 March 31, 2014, the Company had approximately 1.2 million stock options outstanding, with exercise prices in the range of CAD $11.49 to CAD $40.22 and a weighted average life of 57 months. $0.8 million of the stock options were vested and exercisable at March 31, 2014 with an average weighted exercise price of $23.90 per share.

The Company has 7.8 million share purchase warrants outstanding that were issued as part of the Aquiline acquisition in December of 2009, and expire in December 2014, with an exercise price of CAD $35.00.

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

	Outstanding as at May 8, 2014
Common shares	151,500,294
Warrants	7,814,605
Options	1,183,487
Total	**160,498,386**

Additionally, as described in the March 31, 2014 unaudited condensed interim consolidated financial statements in the note entitled Long Term Debt (Note 14), the Company has outstanding convertible notes associated with the Minefinders acquisition that could result in the issuance of a variable amount of common shares.

FINANCIAL INSTRUMENTS

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. However, at March 31, 2014, the Company had no metal under contract.

A part of the Company's operating and capital expenditures is denominated in local currencies other than the 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 $134.8 million in CAD and $19.6 million in Mexican pesos at the balance sheet date. At March 31, 2014 and at the date of this MD&A, the Company did not have any open foreign currency forward contracts.

In the second and fourth quarters of 2013, the Company entered into short term bank loans in Argentina for proceeds of $18.6 million and $4.7 million, respectively. These loans are denominated in Argentine pesos 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. As of March 31, 2014, the balance on these loans was $14.6 million.

The Company recorded a $nil gain on its commodity and foreign currency contracts of in Q1 2014, compared to a gain of $1.4 million in Q1 2013.

The carrying value of share purchase warrants and the conversion feature on convertible notes are 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's share purchase warrants are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values reported in the income statement as gain/loss on derivatives. The Company used as its assumptions for calculating fair value of the 7.8 million warrants outstanding at March 31, 2014 a risk free interest rate of 0.9%, expected stock price volatility of 41.6%, expected life of 0.69 years (expiry in December 2014), expected dividend yield of 3.5%, a quoted market price of the Company's shares on the TSX of $14.21, an exchange rate of 1 CAD to USD of 0.90, and an exercise price of CAD $35 per share. The change in the valuation of these share purchase warrants creates a permanent difference for tax purposes and results in significant volatility of our effective tax rate.

The conversion feature of the convertible notes acquired in the Minefinders transaction is carried at fair value and is adjusted each period. 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 were recognized initially at their respective fair values. The embedded derivative is now 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 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. Assumptions used in the fair value calculation of the embedded derivative component at March 31, 2014 were expected stock price volatility of 46%, expected life of 1.7 years, and expected dividend yield of 3.9%.

During Q1 2014 and Q1 2013, the Company recorded a loss on the revaluation of the share purchase warrants and the convertible notes of $0.1 million and $2.6 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.

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, other than those disclosed in this MD&A and the Unaudited Consolidated Financial Statements and the related notes.

The Company had the following contractual obligations at the end of Q1 2014:

		Payments due by period			
	Total	Within 1 year[2]	2 - 3 years	4- 5 years	After 5 years
Finance lease obligations[1]	$ 10,835	$ 5,182	$ 4,461	$ 1,192	$ -
Current liabilities	135,124	135,124	-	-	-
Loan Payable	15,378	15,378	-	-	-
Severance indemnity	4,226	1,304	432	1,626	904
Contribution plan obligation[3]	3,031	3,031	-	-	-
Restricted share units ("RSUs") [3]	2,497	1,520	977	-	-
Convertible notes[4]	39,497	1,631	37,866	-	-
Total contractual obligations[5]	**$ 210,628**	**$ 163,170**	**$ 43,736**	**$ 2,818**	**$ 904**

(1) Includes lease obligations in the amount of $10.8 million (December 31, 2013 - $10.9 million) with a net present value of $10.2 million (December 31, 2013 - $10.1 million) and equipment and construction advances in the amount of nil million (December 31, 2013 - nil); both discussed further in Note 13 of the Interim Consolidated Financial Stements.

(2) Includes all current liabilities as per the statement of financial position less 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.

		2014
Total current liabilities per Statements of Financial Position	$	**157,926**
Add:		
Future interest component of:		
- Finance lease		**345**
- Loan Payable		**789**
- Convertible note		**1,631**
Future commitments less portion accrued for:		
- Contribution plan		**1,598**
- Restricted share units		**881**
Total contractual obligations within one year	$	**163,170**

(3) Includes a retention plan obligation in the amount of $3.0 million (December 31, 2013 - $3.4 million) on June 1, 2014 and a RSU obligation in the amount of $2.5 million (December 31, 2013 – $2.3 million) that will be settled in cash. The RSUs vest in two instalments, the first 50% vest in December 2014 and a further 50% vest in December, 2015.

(4) Represents the face value of the replacement convertible note and future interest payments related to the Minefinders acquisition. Refer to Note 14 of the Interim Consolidated Financial Stements for further details.

(5) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation, the deferred credit arising from the Aquiline acquisition discussed in Note 15 of the Interim Consolidated Financial Stements, and deferred tax liabilities.

RELATED PARTY TRANSACTIONS

During the quarter ended March 31, 2014, a company indirectly owned by a trust of which a director of the Company, Robert Pirooz, is a beneficiary, was paid approximately $0.2 million (Q1 2013 - $0.2 million) for consulting services, charged to general and administrative costs. 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.

ALTERNATIVE PERFORMANCE (NON-GAAP) MEASURES

- ***AISCSOS***

We believe that AISCSOS reflects a comprehensive measure of the full cost of operating our consolidated business given 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. 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 March 31,		
			2014		2013
Production costs		$	130,878	$	128,549
Royalties		$	10,420	$	9,580
Smelting, refining and transportation charges[1]		$	24,738	$	23,982
Less by-product credits[1]		$	(95,437)	$	(81,036)
Cash cost of sales net of by-products		$	70,600	$	81,075
Sustaining capital[2]		$	24,698	$	26,433
Exploration and project development		$	2,980	$	6,252
Reclamation cost accretion		$	819	$	757
General & administrative expense		$	5,578	$	5,854
All-in sustaining costs	A	$	104,675	$	120,371
Payable ounces sold (in thousands ozs)	B		6,735		6,184
All-in sustaining cost per silver ounce sold, net of by-products	A/B	$	15.54	$	19.47

(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) Please refer to the table below.
* Totals may not add due to rounding.

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, Navidad 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 March 31,			
		2014		2013
Payments for mineral property, plant and equipment[1]	$	36,811	$	39,693
Add/(Subtract)				
Advances received for leases	$	1,179	$	-
Navidad	$	(2)	$	(113)
La Colorada expansion capital	$	(3,628)	$	-
Dolores leach pads & other expansion projects	$	(9,565)	$	(13,041)
Other non-operating capital	$	(97)	$	(106)
Sustaining Capital	$	24,698	$	26,433

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

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

Pan American produces by-product metals incidentally to our silver mining activities. Sales of silver contributed approximately 59% of our total revenues for Q1 2014 while by-products were responsible for the remaining 41%. 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, net of by-product credits, are 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.

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:

Cash and Total Cost per Ounce Reconciliation		Three months ended March 31,			
			2014		2013
Production costs		$	**130,878**	$	128,549
Add/(Subtract)					
Royalties			**10,420**		9,580
Smelting, refining, and transportation charges			**16,896**		18,555
Worker's participation and voluntary payments			**(144)**		(569)
Change in inventories			**(3,910)**		(2,995)
Other			**(784)**		17
Non-controlling interests[(2)]			**(1,207)**		(1,738)
Metal Inventories write-down			**(2,308)**		-
Cash Operating Costs before by-product credits[(1)]			**149,842**		151,400
Less gold credit			**(58,733)**		(51,618)
Less zinc credit			**(20,161)**		(17,087)
Less lead credit			**(7,298)**		(6,978)
Less copper credit			**(11,946)**		(8,190)
Cash Operating Costs net of by-product credits[(1)]	**A**		**51,703**		67,527
Add/(Subtract)					
Depreciation and amortization			**36,860**		30,067
Closure and decommissioning provision			**819**		757
Change in inventories			**4,615**		5,206
Other			**-**		-
Non-controlling interests[(2)]			**(485)**		(504)
Total Production Costs net of by-product credits[(1)]	**B**	**$**	**93,512**	$	103,053
Payable Silver Production (thousand ozs.)	**C**		**6,264**		5,959
Cash Costs per ounce net of by-product credits	**A/C**	**$**	**8.25**		11.33
Total Production Costs per ounce net of by-product credits	**B/C**	**$**	**14.93**		17.29

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

* Totals may not add due to rounding.

Three months ended March 2014									
		La Colorada	Alamo Dorado	Dolores	Huaron	Morococha	San Vicente	Manantial Espejo	**Consolidated Total**
Cash Costs before by-product credits	A	$ 15,305	$ 14,323	$ 33,222	$ 23,780	$ 19,838	$ 15,553	$ 26,547	**$ 148,568**
Less gold credit	b1	$ (713)	$ (4,562)	$ (21,206)	$ (170)	$ (468)	$ (66)	$ (31,505)	**$ (58,690)**
Less zinc credit	b2	$ (3,257)	$ -	$ -	$ (6,132)	$ (6,912)	$ (3,118)	$ -	**$ (19,418)**
Less lead credit	b3	$ (1,929)	$ -	$ -	$ (2,835)	$ (2,162)	$ (182)	$ -	**$ (7,107)**
Less copper credit	b4	$ -	$ (100)	$ -	$ (8,000)	$ (3,548)	$ -	$ -	**$ (11,649)**
Sub-total by-product credits	B=(b1+ b2+ b3+ b4)	$ (5,898)	$ (4,662)	$ (21,206)	$ (17,137)	$ (13,090)	$ (3,365)	$ (31,505)	**$ (96,865)**
Cash Costs net of by-product credits	C=(A+B)	$ 9,407	$ 9,661	$ 12,016	$ 6,643	$ 6,747	$ 12,187	$ (4,958)	**$ 51,703**
Depreciation, amortization & reclamation	D	$ 2,264	$ 3,486	$ 17,677	$ 2,972	$ 4,550	$ 1,980	$ 8,879	**$ 41,808**
Total production costs net of by-product credits	E=(C+D)	$ 11,671	$ 13,148	$ 29,693	$ 9,615	$ 11,297	$ 14,168	$ 3,920	**$ 93,512**
Payable ounces of silver (thousand)	F	1,155	903	1,008	713	498	958	1,028	**6,264**
Cash cost per Ounce of Silver net of by-product credits									
Cash cost per ounce net of by-products	=C/F	$ 8.14	$ 10.69	$ 11.92	$ 9.31	$ 13.54	$ 12.73	$ (4.82)	**$ 8.25**
Total production cost per ounce net of by-products	=E/F	$ 10.10	$ 14.55	$ 29.45	$ 13.48	$ 22.67	$ 14.79	$ 3.81	**$ 14.93**

Three months ended March 2013									
		La Colorada	Alamo Dorado	Dolores	Huaron	Morococha	San Vicente	Manantial Espejo	**Consolidated Total**
Cash Costs before by-product credits	A	$ 14,964	$ 14,008	$ 29,965	$ 23,230	$ 21,804	$ 19,272	$ 27,030	$ 150,273
Less gold credit	b1	$ (778)	$ (5,066)	$ (23,590)	$ (88)	$ (770)	$ (77)	$ (21,180)	$ (51,549)
Less zinc credit	b2	$ (3,059)	$ -	$ -	$ (5,252)	$ (5,617)	$ (2,548)	$ -	$ (16,476)
Less lead credit	b3	$ (1,781)	$ -	$ -	$ (2,787)	$ (1,996)	$ (232)	$ -	$ (6,796)
Less copper credit	b4	$ -	$ (118)	$ -	$ (4,685)	$ (3,123)	$ -	$ -	$ (7,925)
Sub-total by-product credits	B=(b1+ b2+ b3+ b4)	$ (5,619)	$ (5,184)	$ (23,590)	$ (12,811)	$ (11,505)	$ (2,858)	$ (21,180)	$ (82,747)
Cash Costs net of by-product credits	C=(A+B)	$ 9,346	$ 8,824	$ 6,376	$ 10,419	$ 10,299	$ 16,414	$ 5,850	$ 67,527
Depreciation, amortization & reclamation	D	$ 1,853	$ 4,586	$ 11,274	$ 2,657	$ 4,285	$ 2,675	$ 8,195	$ 35,526
Total production costs net of by-product credits	E=(C+D)	$ 11,199	$ 13,410	$ 17,649	$ 13,076	$ 14,584	$ 19,089	$ 14,045	$ 103,052
Payable ounces of silver (thousand)	F	1,061	1,261	823	661	449	882	823	5,959
Cash cost per Ounce of Silver net of by-product credits									
Cash cost per ounce net of by-products	=C/F	$ 8.81	$ 7.00	$ 7.75	$ 15.76	$ 22.95	$ 18.62	$ 7.11	$ 11.33
Total production cost per ounce net of by-products	=E/F	$ 10.56	$ 10.63	$ 21.46	$ 19.78	$ 32.50	$ 21.65	$ 17.07	$ 17.29

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

Adjusted earnings 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. 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.

The following table shows a reconciliation of adjusted loss and earnings for the first quarter of 2014 and 2013, to the net (loss) earnings for each period.

Adjusted (Loss) Earnings Reconciliation		Three months ended March 31, 2014		2013
Net (loss) earnings for the period	**$**	**6,760**	$	20,076
Adjust derivative losses		**99**		2,649
Adjust unrealized foreign exchange (gains) losses		**1,704**		4,327
Adjust realized and unrealized (gains) losses on commodity contracts		**-**		(1,268)
Adjust gain on sale of mineral properties		**(6)**		(4,068)
Adjust write-down of mining assets		**-**		19,339
Adjust for effect of taxes on above items		**(3)**		(1,083)
Adjusted (loss) earnings for the period	**$**	**8,554**	$	39,972
Basic weighted average shares outstanding		**151,500**		151,760
Basic adjusted (loss) EPS		**0.06**		0.26

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 in Pan American's Annual Information Form (available on SEDAR at www.sedar.com), Form 40-F filed with the SEC, and the Audited Annual Consolidated Financial Statements for the year ended December 31, 2013. 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, 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.

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; economic and regulatory instability; military repression and increased likelihood of international conflicts or aggression; possible need to obtain political risk insurance and the costs and availability of this and other insurance; unreliable or undeveloped infrastructure; labour unrest; lack of availability of skilled labour; difficulty obtaining key equipment and components for equipment; regulations and restrictions with respect to import and export and currency controls; changing fiscal regimes; high rates of inflation; the possible unilateral cancellation or forced renegotiation of contracts; unanticipated changes to royalty and tax regimes; extreme fluctuations in currency exchange rates; volatile local political and economic developments; uncertainty regarding enforceability of contractual rights; 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; violence and more prevalent or stronger organized crime groups; terrorism and hostage taking; difficulties enforcing judgments obtained in Canadian or United States courts against assets and entities located outside of those jurisdictions; and increased public health concerns. In most cases, the effect of these factors cannot be accurately predicted.

The Company's Mexican operations, Alamo Dorado and La Colorada, suffered from armed robberies of doré within the past four years. 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.

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 has not accrued any amounts for the years ended December 31, 2012 or 2013 or the quarter ended March 31, 2014. The Company will continue to monitor developments in Mexico to assess the potential impact of these amendments.

In 2013, the Mexican government introduced various 2014 tax reforms. Amongst other changes, the bill proposed a deductible royalty of 7.5% on mine operating income before certain deductions including amortization and depreciation as well as a 0.5% mining duty on mining companies' precious metal revenue. In addition, the corporate income tax rate is expected to remain at 30% whereas it was previously forecast to be reduced to 28% by 2015. The Company has evaluated the effects of the tax reforms on our future cash flows and future earnings, and recorded a deferred tax charge of $86.0 million in the fourth quarter of 2013, in addition to incorporating the impact of the tax returns in our impairment models for the Company's Mexican mining assets.

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.

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 while; 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.

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. An example of the changing regulations which have affected the Company's activities in Argentina was the Argentinean Ministry of Economy and Public Finance resolution in 2012 that reduced the time within which exporters were required to repatriate net proceeds from export sales from 180 days to 15 days after the date of export. As a result of this change, the Manantial Espejo operation temporarily suspended 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, shortly thereafter the Ministry issued a revised resolution which extended the 15-day limit to 120 days and the effect of the delayed shipments and sales was made up during the remainder of 2012.

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 proven reserves, which has the potential to affect the Manantial Espejo mine as well as other companies operating in the province. The new law came into effect on July 5, 2013. The Company has in place certain contracts that could potentially affect or exempt the Company from having this new tax applicable and as such is evaluating its options with its advisors. The Company and potentially other mining companies in the province are also evaluating options that include challenging the legality and constitutionality of the tax. The Company has estimated that the annual tax impact for the first year of this new law would be $2.7 million.

In Bolivia, a new constitution was enacted in 2009 that further entrenches the government's ability to amend or enact certain laws, including those that may affect mining. On May 1, 2011, Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the mining law and this has caused some concerns amongst foreign companies doing business in Bolivia due to the government's policy objective of nationalizing parts of the resource sector. However, President Morales made no reference to reviewing or terminating agreements with private mining companies. Operations at San Vicente have continued to run normally under Pan American's administration and it is expected that normal operations will continue status quo. Pan American will take every measure available to enforce its rights under its agreement with COMIBOL, but there is no guarantee that governmental actions will not impact the San Vicente operation and its profitability. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts, and threatened expropriation of assets, all of which could have a material adverse impact on the Company's operations or profitability.

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 local personnel, who have expertise in managing risks particular to each jurisdiction in which we operate.

- ***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. 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. The Board of Directors continually assesses the Company's strategy towards its base metal exposure, depending on market conditions.

- ***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").

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 the section "Financial Instruments".

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.

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 consolidated financial statements for the year ended December 31, 2013, for the Company’s summary of significant accounting policies.

CHANGES IN ACCOUNTING STANDARDS

The Company adopted the following new accounting standards along with any consequential amendments, effective January 1, 2014:

IFRIC 21 – *Levies (“IFRIC 21”), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"),* clarifies that the obligating event, as defined by IAS 37, that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company has applied IFRIC 21 on a retrospective basis in compliance with the transitional requirements of IFRIC 21. The application of IFRIC 21 did not result in an adjustment to the Company's condensed interim consolidated financial statements.

a. Accounting Standards Issued But Not Yet Effective

IFRS 9 *Financial Instruments* is intended to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety and some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosure about investments in equity instruments measured at fair value in Other Comprehensive Income (“OCI”), and guidance on financial liabilities and de-recognition of financial instruments. The mandatory effective date will be added when all phases of IFRS 9 are completed with sufficient lead time for implementation. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

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.

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2014 that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

TECHNICAL INFORMATION

Michael Steinmann and Martin Wafforn, 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.

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, “BELIEVES”, “EXPECTS”, “INTENDS”, “PLANS”, “FORECAST”, “OBJECTIVE”, “OUTLOOK”, “POSITIONING”, “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; 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 RECENT AMENDMENTS TO THE LABOUR AND TAX LAWS IN MEXICO AND THE INTRODUCTION OF THE NEW MINING PROPERTY TAX IN SANTA CRUZ, ARGENTINA, 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; FUTURE SUCCESSFUL DEVELOPMENT OF THE NAVIDAD PROJECT AND OTHER DEVELOPMENT PROJECTS OF THE COMPANY; 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 INCLUDING THESE AT OUR LA COLORADA AND DOLORES MINES; 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.

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 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 CORRECT INTERPRETATION OF AND COMPLIANCE WITH LOCAL LAWS AND REGULATIONS, PARTICULARILY IN COMPLEX AREAS SUCH AS TAX; 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 PARAMETERS TO DEAL WITH UNANTICIPATED ECONOMIC OR OTHER FACTORS; INCREASED COMPETITION IN THE MINING INDUSTRY FOR PROPERTIES, EQUIPMENT, QUALIFIED PERSONNEL, AND THEIR COSTS; 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. 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.