Pan American SILVER CORP.

# THIRD QUARTER REPORT TO SHAREHOLDERS

## For the period ending SEPTEMBER 31, 2014

Pan American SILVER CORP.

# PAN AMERICAN SILVER GENERATES $38.3 MILLION IN OPERATING CASH FLOW DURING THE THIRD QUARTER OF 2014 AND DECLARES FOURTH DIVIDEND OF THE YEAR

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

**Vancouver, B.C. November 13, 2014 – Pan American Silver Corp.** (NASDAQ: PAAS; TSX: PAA) (the "Company", or "Pan American") today announced its unaudited financial and operating results for the three and nine months ended September 30, 2014. The Company also announced that its Board of Directors has approved its fourth quarterly cash dividend of 2014 in the amount of $0.125 per common share, which will be payable on or about Monday, December 8, 2014 to holders of record of common shares as of Tuesday, November 25, 2014.

**Third Quarter 2014 Highlights (unaudited)(1)**

- Silver production of 6.19 million ounces
- Gold production of 34,100 ounces
- Cash Costs(2) per ounce of $12.29, net of by-product credits
- AISCSOS(3) of $20.50, including an unfavorable net realizable value ("NRV") adjustment on inventories of $2.47 per ounce
- Revenue of $178.3 million
- Mine operating loss(4) of $12.4 million, including an unfavorable NRV adjustment on inventories of $15.4 million
- Net loss of $20.2 million or $0.13 per share
- Adjusted loss(5) of $14.3 million or $0.09 per share
- Net cash generated from operating activities of $38.3 million, or $0.25 per share
- Total dividends paid to common shareholders of $18.9 million

**Financial Position at September 30, 2014**

- Cash and short term investments of $377.5 million
- Working capital of $606.9 million
- Total debt of $57.3 million

(1) Financial information in this news release is based on International Financial Reporting Standards ("IFRS"); results are unaudited; percentages compare the third quarter of 2014 against the third quarter of 2013.

(2) Cash costs per payable ounce of silver produced, net of by-product credits ("Cash Costs"), is a non-GAAP measure. Cash Costs 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 may differ from the methods used by other entities and, accordingly, the Company's Cash Costs may not be comparable to similarly titled measures used by other entities. This measure is a non-GAAP measure and readers should refer to the information under the heading "Non-GAAP Measure – Cash Costs Per Ounce, Net of By Product Credits" at the end of this news release for more information and to the table in the Alternative Performance (Non-GAAP) Measures section of the MD&A for the period ending September 30, 2014 for a reconciliation of this measure to the unaudited condensed interim consolidated financial statements.

(3) 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 Managements Discussion & Analysis ("MD&A") for the period ending September 30, 2014 for a reconciliation of this measure to the unaudited condensed interim consolidated financial statements.

(4) Mine operating (loss)/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/(loss) and adjusted earnings/(loss) per share attributable to common shareholders are Non-GAAP measures. Adjusted earnings/(loss) is calculated as net earnings/(loss) 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, net realizable value adjustment to long-term heap inventory, 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.

Commenting on the Company's third quarter results, Geoff Burns, President & CEO said, "Considering the heavy rains in Mexico that hampered production from our Dolores mine and the strike we experienced at San Vicente, we had a very respectable production quarter, which has kept us on track to deliver on our full year guidance for both silver production and Cash Costs. I was particularly pleased to see the progress we've made at our Huaron and Morococha mines in Peru where Cash Costs for the third quarter declined to $7.63 per ounce and $6.86 per ounce, respectively, on the strength of increased throughput and higher base metal by-product production." Burns continued, "While our quarterly earnings were hurt by significant non-cash NRV adjustments to our inventories and negative pricing adjustments on concentrates we sold in previous periods as a consequence of the slide in silver and gold prices, we still generated over $38 million in operating cash flow. This was more than sufficient to cover our on-going sustaining capital needs, as well as fund the major part of the third dividend payment of 2014."

## Financial Results

During the third quarter of 2014, Pan American generated $178.3 million in revenue, a 16% decline in comparison to the third quarter of 2013. The lower revenue resulted primarily from less quantities of silver and gold sold, lower realized prices obtained for silver, gold and copper, and a negative price adjustment of $8.2 million on concentrates sold during prior periods. Compared to the third quarter of 2013, during the three months ended September 30, 2014 the prices of silver, gold and copper declined 7%, 3% and 1%, respectively. Conversely, zinc and lead appreciated 24% and 5%, respectively. Average realized prices were $18.82 per ounce of silver and $1,284 per ounce of gold. During the current reporting quarter, silver and gold contributed 56% and 25% respectively to the Company's consolidated revenue, while revenue from base metals rose to 19% from 14% a year ago.

Pan American generated a net loss of $20.2 million, or $0.13 per share, during the third quarter of 2014, compared to earnings of $14.2 million in the same quarter of 2013. The loss was mainly due to a negative non-cash adjustment of $15.4 million on the NRV of inventories, in particular at Dolores and Manantial Espejo, a $9.8 million negative pricing and quantity settlement adjustment on concentrate sales from prior periods, and a $6.7 million foreign exchange loss, mainly on Canadian dollar denominated cash balances.

The Company reported an adjusted loss of $14.3 million, or $0.09 per share, for the third quarter of 2014, after adjusting for an $8.5 million unrealized loss on the value of heap leach inventories and a $2.6 million unrealized loss on foreign exchange, partially offset by a $2.2 million gain on derivatives.

Pan American posted a mine operating loss of $12.4 million during the third quarter of 2014, compared to mine operating earnings of $33.9 million in the same period of 2013. The loss resulted from lower revenues and a $20.8 million increase in production costs, mainly due to the previously discussed NRV adjustments, offset by lower depreciation expense.

The Company's cash flow from operating activities during the third quarter of 2014 was $38.3 million, or $0.25 per share, compared to $40.7 million generated in the third quarter of 2013. The decline was primarily the result of realizing lower prices for silver and gold sales, in addition to selling lower volumes of silver during the current quarter.

AISCSOS for the third quarter of 2014 were $20.50, and $18.02 for the nine months ended September 30, 2014. AISCSOS were negatively affected by the non-cash NRV adjustments previously described. Excluding the NRV adjustments of $2.47 per ounce for the third quarter and $1.45 per ounce for the nine months ended September 30, 2014, AISCSOS were $18.03 for the third quarter and $16.57 year-to-date. For a full reconciliation of the calculation of AISCSOS, please refer to the section "Alternative Performance (Non-GAAP) Measures" of the Company's MD&A for the period ended September 30, 2014.

During the third quarter of 2014, the Company paid a total of $18.9 million in cash dividends to common shareholders. Year-to-date, Pan American's shareholders have received a total of $56.8 million in cash dividends.

At September 30, 2014 the Company had $377.5 million in cash and short term investments and working capital of $606.9 million, a decrease of $4.1 million and $40.6 million from June 30, 2014, respectively. At the end of the reporting quarter, Pan American's total debt was $57.3 million.

## Operating Results

During the third quarter of 2014 Pan American produced 6.19 million ounces of silver, 8% less than in the same period of last year, due to the anticipated decline in silver production at Alamo Dorado as the mine processes a greater quantity of lower grade ores and stockpiles, coupled with the negative effect of a two-week work stoppage at San Vicente, and the diluting effects of heavier than usual rains on the leaching solutions at Dolores. These production declines were partially offset by production gains at La Colorada, Huaron and Manantial Espejo.

The Company also produced 34,100 ounces of gold during the third quarter of 2014, 18% less than in the same period of 2013. Consolidated gold production declined due to 29% less ounces produced at Dolores due to the heavy rains previously mentioned, and 21% less ounces produced at Alamo Dorado on account of expected lower grades and recoveries.

Pan American's quarterly consolidated zinc and lead production for the third quarter of 2014 was similar to the third quarter of 2013; however, copper production rose by 60% to 2,400 tonnes on account of higher grades at the Company's Peruvian operations.

Mexico

During the third quarter of 2014, silver production at La Colorada rose 19% from the same quarter of 2013 to 1.25 million ounces. The increase was due to higher grades and throughput from improved development rates achieved during 2014 as part of the four-year mine expansion effort that is underway.

Silver production at Dolores during the third quarter of 2014 was 0.97 million ounces, 3% less than in the same period of 2013. The decline was due to lower throughput, slightly lower silver grades, as well as the diluting effect of heavier than usual rains on the concentration of the leaching solutions. These losses were offset by higher silver recoveries due to the benefit of the longer leach times on the larger area of heap leach pad 3. The heavy rains had a greater impact on gold production, which declined from 21,600 ounces in the third quarter of 2013 to 15,400 ounces in the third quarter of 2014. With the end of the rainy season, the Company expects that leaching solutions will return to normal concentrations and silver and gold ounces not produced from the heaps during the third quarter will slowly start to be recovered in the fourth quarter.

As planned, Alamo Dorado has increased processing rates of lower grade ores and stockpiles as availability and access to higher grade ores diminishes. During the third quarter of 2014, the mine produced 0.67 million ounces of silver and 3,600 ounces of gold, 46% and 21% less than in the third quarter of 2013, respectively.

Peru

The Company's Peruvian operations had a very good third quarter and continue to benefit from the multi-year mechanization effort that is improving overall productivity. During the three months ended September 30, 2014, Huaron produced 0.93 million ounces of silver, 7% more than in the comparable period of 2013 on account of higher throughput and recoveries. The mine also saw a significant increase in copper production, which rose from 990 tonnes a year ago to 1,550 tonnes in the reporting quarter, on account of mine sequencing into higher copper grade stopes. More importantly, Cash Costs at Huaron declined to $7.63 per ounce during the current quarter as a direct result of increased silver production and increased by-product copper production.

Morococha produced 0.64 million ounces of silver during the third quarter of 2014, 6% less than in the same period of 2013 due to lower silver grades and recoveries. However, the mine saw a significant increase in base metals production, with zinc, lead and copper production up 15%, 31% and 71%, respectively, due to mine sequencing that has shifted focus to ores of higher overall metal value. As a consequence, Cash Costs at Morococha declined to $6.86 per ounce for the current quarter, down more than 50% from the comparable quarter in 2013.

Bolivia

Production at San Vicente was negatively affected by a two-week work stoppage reported in July. During the third quarter of 2014, the mine produced 0.76 million ounces of silver, a 29% decline compared to the third quarter of 2013. Silver production was also affected by a negative adjustment on the reconciliation of final sales to production from prior reporting periods.

Argentina

During the third quarter of 2014, Manantial Espejo's silver production rose 24% from the third quarter of 2013 to 0.97 million ounces. The increase was due to higher throughput, grades and recoveries. As anticipated, lower gold grades mined during the reporting quarter affected gold production, which declined to 13,200 ounces, 5% less than in the comparable quarter of 2013.

Consolidated Cash Costs Per Ounce

During the three months ended September 30, 2014, Pan American reported consolidated Cash Costs of $12.29 per ounce, 18% higher than in the same period of last year. The increase was mainly due to lower by-product gold credits at Dolores and Manantial Espejo, the effects of the production interruptions at San Vicente, and the processing of greater quantities of lower grade ores at Alamo Dorado. These increases were partially offset by lower Cash Costs at La Colorada and the significantly lower Cash Costs at the Company's Peruvian operations, where improved productivities and higher by-product credits helped push costs down. Please refer to the note under the heading "Non-GAAP Measure – Cash Costs per Ounce, Net of By-Product Credits" at the end of this news release and to the section "Alternative Performance (Non-GAAP) Measures" of the Company's MD&A for the period ended September 30, 2014, for a full description of this Non-GAAP measure.

Sustaining Capital

During the third quarter of 2014, Pan American spent $25.8 million in sustaining capital at its seven operating mines. The expenditures were incurred mainly on pre-stripping at Manantial Espejo and Dolores, tailings facility expansions at La Colorada and Huaron, mine development advances and equipment upgrades at Huaron and Morococha and exploration activities at Huaron, Morococha and Dolores. Sustaining capital expenditures remained as expected and on forecast for 2014. The Company also invested a total of $2.9 million on the La Colorada expansion project and $0.1 million for the power line project at Dolores.

| **Third Quarter 2014 Capital Expenditures** | **$ Million** |
|---|---|
| La Colorada | 4.2 |
| Dolores | 6.8 |
| Alamo Dorado | 0.0 |
| Huaron | 4.1 |
| Morococha | 2.2 |
| San Vicente | 0.8 |
| Manantial Espejo | 7.7 |
| **Total Sustaining Capital Expenditures** | **$25.8** |
| La Colorada Expansion Project | 2.9 |
| Dolores Projects | 0.1 |
| **Total Project Capital Expenditures** | **$3.0** |
| **Total Third Quarter 2014 Capital Expenditures** | **$28.8** |

## Project Development

La Colorada Expansion

Year-to-date, the Company has invested $10.4 million on the La Colorada expansion project. During the third quarter of 2014, activities focused on civil works to prepare the future shaft location and the request for detailed proposals and cost estimates for the shaft sinking and infrastructure works, as well as for completion of basic engineering for the new plant site. Management expects to award contracts for key components of the project in the fourth quarter, such as the raise boring for the new shaft, construction of the new hoist, equipment orders for the plant and overall expansion detailed engineering efforts.

Dolores

Year-to date, Pan American has invested $18.7 million on Dolores' projects. During the third quarter of 2014, work on the expansion of leach pad 3 was suspended due to the rainy season with project work concentrating on successfully securing the right of way agreements for the mine's new power line, which will allow filing of the permit applications during the fourth quarter of 2014. During the three months ended September 30, 2014, the Company spent $0.1 million on Dolores' projects.

## 2014 Outlook

Year-to-date, Pan American's consolidated production was 19.4 million ounces of silver and 117,600 ounces of gold, which is within the Company's forecast for the first three quarters of 2014. Management is confident that Pan American will achieve its original annual production guidance of 25.75 to 26.75 million ounces of silver and 155,000 to 165,000 ounces of gold. In addition, year-to-date base metals production is ahead of schedule and as a result, management is increasing its annual production guidance to approximately 44,000 tonnes of zinc, 15,000 tonnes of lead and 8,000 tonnes of copper, which represents increases of 7%, 14% and 47% respectively to the original guidance provided for the year.

Consolidated AISCSOS and Cash Costs per ounce year-to-date were $18.02 and $10.83, respectively. Through September 2014, AISCSOS were slightly ahead of management's full year forecast of $17.00 to $18.00, but include $1.46 per ounce in unexpected NRV adjustments, while Cash Costs were well below management's 2014 full year forecast of $11.70 to $12.70 per ounce. Management remains confident that it will achieve its guidance for 2014 AISCSOS of $17.00 to $18.00 (assuming no further NRV adjustments in the fourth quarter) and that full-year 2014 consolidated Cash Costs are likely to be at the lower end of guidance of $11.70 to $12.70 per ounce.

Year-to-date sustaining capital spending at September 30, 2014, was $75.6 million, in line with Pan American's guidance of $95.5 million for the full year. Project spending for the six months ended September 30, 2014 was $32.0 million and management now estimates that total project spending in 2014 will be approximately $50.0 million, which is $17.0 million less than originally estimated, primarily due to timing differences in mobilizing the La Colorada expansion and Dolores power line projects.

In closing, Geoff Burns added, "Since the end of the third quarter we have seen silver and gold prices continue to decline.  While in the long term I remain staunchly optimistic that precious metal prices will recover to their previous highs and more, we are and we will continue to respond to the current price environment. As we move through our 2015 planning and budgeting process we will again be looking for opportunities to further reduce our costs, increase our productivities, eliminate the processing of uneconomic material and focus on cash generation at each and every one of our mines. Our success in reducing costs in Peru is a clear indicator of what Pan American can accomplish when faced with adversity. While the task ahead is difficult, I am confident we have the experience, the flexibility, the financial strength, and the team to weather and excel during this difficult period."

## Fourth Dividend of 2014 Approved by the Board

The Company's Board of Directors has approved the fourth quarterly cash dividend of 2014 in the amount of $0.125 per common share.

The cash dividend will be distributed on or about Monday, December 8, 2014 to holders of record of common shares as of the close of business on Tuesday, November 25, 2014. Specific distribution dates and amounts of future dividends will be determined by the Company's Board of Directors on an ongoing basis.

Pan American's dividends are designated as eligible dividends for the purposes of the Income Tax Act (Canada).

## 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 located 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, November 14, 2014 at 1:00 pm EST (10:00 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/pan141114.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 OF SILVER 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; STATEMENTS AS TO ANY FUTURE DIVIDENDS; 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 September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| **Consolidated Financial Highlights** | | | | |
| (Unaudited in thousands of U.S. Dollars, except per share amounts) | | | | |
| Net (loss) earnings for the period | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| (Loss) earnings per share attributable to common shareholders (basic) | **$ (0.13)** | $ 0.09 | **$ (0.12)** | $ (1.00) |
| Adjusted (loss) earnings for the period[(1)] | **$ (14,262)** | $ 12,154 | **$ 382** | $ 32,127 |
| Adjusted (loss) earnings per share attributable to common shareholders (basic) [(1)] | **$ (0.09)** | $ 0.08 | **$ 0.00** | $ 0.21 |
| Mine operating (loss) earnings | **$ (12,378)** | $ 33,934 | **$ 29,443** | $ 112,564 |
| Mine operating earnings (Excludes NRV Adj.) [(2)] | **$ 3,036** | $ 25,262 | **$ 57,184** | $ 108,007 |
| Net cash generated from operating activities | **$ 38,345** | $ 40,730 | **$ 123,365** | $ 73,450 |
| Net cash generated from operating activities per share | **$ 0.25** | $ 0.27 | **$ 0.81** | $ 0.48 |
| Capital spending | **$ 27,925** | $ 41,708 | **$ 101,630** | $ 125,732 |
| Dividends paid | **$ 18,939** | $ 18,926 | **$ 56,817** | $ 56,874 |
| Shares repurchased | **$ -** | $ - | **$ -** | $ 6,740 |
| Cash and short-term investments | **$ 377,488** | $ 421,014 | **$ 377,488** | $ 421,014 |
| Working capital[(3)] | **$ 606,923** | $ 699,344 | **$ 606,923** | $ 699,344 |
| **Consolidated Metal Production** | | | | |
| Silver metal – million ounces | **6.19** | 6.70 | **19.37** | 19.16 |
| Gold metal – thousand ounces | **34.1** | 41.6 | **117.6** | 103.6 |
| Zinc metal – thousand tonnes | **10.5** | 10.6 | **33.3** | 30.9 |
| Lead metal – thousand tonnes | **3.5** | 3.4 | **11.1** | 10.0 |
| Copper metal – thousand tonnes | **2.4** | 1.5 | **6.0** | 3.9 |
| **Average Realized Price** | | | | |
| Silver metal ($/oz) | **$ 18.82** | $ 20.52 | **$ 19.47** | $ 24.31 |
| Gold metal ($/oz) | **$ 1,284** | $ 1,319 | **$ 1,286** | $ 1,443 |
| **Consolidated Cost per Ounce of Silver (net of by-product credits)** [(4)] | | | | |
| Cash cost per ounce | **$ 12.29** | $ 10.40 | **$ 10.83** | $ 11.25 |
| Total production cost per ounce | **$ 17.55** | $ 16.85 | **$ 17.05** | $ 17.27 |
| **All-in Sustaining Cost per Silver Ounce Sold (net of by-product credits)** | **$ 20.50** | $ 16.26 | **$ 18.02** | $ 18.86 |
| **All-in Sustaining Cost per Silver Ounce Sold (Excludes NRV Adjustment)** | **$ 18.03** | $ 17.51 | **$ 16.57** | $ 18.62 |
| Payable ounces of silver (used in cost per ounce calculations) – million ounces | **5.84** | 6.35 | 18.33 | 18.17 |

[(1)] Adjusted (loss) earnings and adjusted (loss) earnings per share attributable to common shareholders are Non-GAAP measures. Adjusted (loss) 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, net realizable value adjustment to long term heap inventory, 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 (loss) Earnings Reconciliation | Three months ended September 30, 2014 | Three months ended September 30, 2013 | Nine months ended September 30, 2014 | Nine months ended September 30, 2013 |
|---|---|---|---|---|
| Net (loss) earnings for the period | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| Adjust derivative gain | **(2,242)** | (1,333) | **(1,600)** | (15,466) |
| Adjust impairment of mineral property | **-** | - | **-** | 203,443 |
| Adjust unrealized foreign exchange losses | **2,577** | (7,830) | **4,652** | (266) |
| Adjust net realizable value of inventory | **8,482** | - | **25,596** | - |
| Adjust unrealized gain on commodity contracts | **-** | 388 | **-** | (235) |
| Adjust loss on silver and gold forward contract | **-** | 6,254 | **-** | 6,254 |
| Adjust severance expense | **-** | 617 | **-** | 617 |
| Adjust gain on sale of assets | **129** | (135) | **(200)** | (8,099) |
| Adjust for effect of taxes | **(3,031)** | (43) | **(8,970)** | (1,338) |
| **Adjusted (loss) earnings for the period** | **$ (14,262)** | $ 12,154 | **$ 382** | $ 32,127 |
| **Weighted average shares for the period** | **151,506** | 151,411 | **151,503** | 151,525 |
| **Adjusted (loss) earnings per share for the period** | **$ (0.09)** | $ 0.08 | **$ 0.00** | $ 0.21 |

[(2)] Mine operating (loss) earnings – excluding NRV Adjustment is a Non-GAAP measure. The Company uses this measure to reflect the real cost of production by removing the effects of short term and volatile commodity price fluctuations.

[(3)] 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.

[(4)] Consolidated 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.

UNAUDITED CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS AND NOTES

FOR THE THREE AND NINE MONTHS ENDING SEPTEMBER 30, 2014

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

| | | September 30, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents (Note 18) | **$** | **159,982** | $ | 249,937 |
| Short-term investments (Note 5) | | **217,506** | | 172,785 |
| Trade and other receivables (Note 4a) | | **104,536** | | 114,782 |
| Income taxes receivable | | **43,570** | | 40,685 |
| Inventories (Note 6) | | **250,512** | | 284,352 |
| Prepaid and other current assets | | **5,531** | | 9,123 |
| | | **781,637** | | 871,664 |
| **Non-current assets** | | | | |
| Mineral properties, plant and equipment (Note 7) | | **1,864,487** | | 1,870,678 |
| Long-term refundable tax | | **11,422** | | 9,801 |
| Deferred tax assets | | **249** | | 165 |
| Other assets (Note 9) | | **7,591** | | 8,014 |
| Goodwill (Note 8) | | **7,134** | | 7,134 |
| **Total Assets** | **$** | **2,672,520** | $ | 2,767,456 |
| | | | | |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities (Note 10) | **$** | **121,122** | $ | 125,609 |
| Loan payable (Note 11) | | **14,220** | | 20,095 |
| Share purchase warrants (Note 16) | | **7** | | - |
| Provisions (Note 12) | | **3,102** | | 3,172 |
| Current portion of finance lease (Note 13) | | **4,282** | | 4,437 |
| Current income tax liabilities | | **31,981** | | 29,319 |
| | | **174,714** | | 182,632 |
| **Non-current liabilities** | | | | |
| Provisions (Note 12) | | **46,095** | | 43,817 |
| Deferred tax liabilities | | **273,220** | | 285,947 |
| Share purchase warrants (Note 16) | | **-** | | 207 |
| Long-term portion of finance lease (Note 13) | | **4,658** | | 5,717 |
| Long-term debt (Note 14) | | **34,108** | | 34,302 |
| Other long-term liabilities (Note 15) | | **26,617** | | 26,045 |
| **Total Liabilities** | | **559,412** | | 578,667 |
| | | | | |
| **Equity** | | | | |
| **Capital and reserves** (Note 16) | | | | |
| Issued capital | | **2,295,280** | | 2,295,208 |
| Share option reserve | | **21,827** | | 21,110 |
| Investment revaluation reserve | | **(318)** | | (137) |
| Retained deficit | | **(209,546)** | | (133,847) |
| **Total Equity attributable to equity holders of the Company** | | **2,107,243** | | 2,182,334 |
| Non-controlling interests | | **5,865** | | 6,455 |
| **Total Equity** | | **2,113,108** | | 2,188,789 |
| **Total Liabilities and Equity** | **$** | **2,672,520** | $ | 2,767,456 |

Commitments and Contingencies (Notes 4, 22)
See accompanying notes to the condensed interim consolidated financial statements.

*APPROVED BY THE BOARD ON November 13, 2014*

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

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

| | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Revenue (Note 19) | **$ 178,265** | $ 213,556 | **$ 588,846** | $ 632,144 |
| Cost of sales | | | | |
| Production costs (Note 20) | **(150,754)** | (129,959) | **(427,508)** | (394,390) |
| Depreciation and amortization | **(34,060)** | (41,995) | **(109,217)** | (104,301) |
| Royalties | **(5,829)** | (7,668) | **(22,678)** | (20,889) |
| | **(190,643)** | (179,622) | **(559,403)** | (519,580) |
| **Mine operating (loss) earnings** | **(12,378)** | 33,934 | **29,443** | 112,564 |
| General and administrative | **(3,561)** | (3,939) | **(14,857)** | (14,377) |
| Exploration and project development | **(3,665)** | (2,622) | **(8,947)** | (14,485) |
| Impairment charge (Note 8) | **-** | - | **-** | (203,443) |
| Foreign exchange (loss) gain | **(6,667)** | 4,969 | **(8,789)** | (8,679) |
| Loss on commodity and foreign currency contracts | **-** | (6,566) | **-** | (5,600) |
| (Loss) gain on sale of assets | **(129)** | 135 | **200** | 8,099 |
| Other (expenses) income | **(230)** | 1,078 | **269** | (2,539) |
| **(Loss) Earnings from operations** | **(26,630)** | 26,989 | **(2,681)** | (128,460) |
| Gain on derivatives (Note 4) | **2,242** | 1,333 | **1,600** | 15,466 |
| Investment income | **1,064** | 802 | **2,272** | 3,678 |
| Interest and finance expense | **(1,150)** | (3,203) | **(7,463)** | (7,376) |
| (Loss) earnings before income taxes | **(24,474)** | 25,921 | **(6,272)** | (116,692) |
| Income taxes (Note 21) | **4,297** | (11,685) | **(12,824)** | (36,091) |
| **Net (loss) earnings for the period** | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| **Attributable to:** | | | | |
| Equity holders of the Company | **$ (20,254)** | $ 14,154 | **$ (18,882)** | (152,237) |
| Non-controlling interests | **77** | 82 | **(214)** | (546) |
| | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| **(Loss) earnings per share attributable to common shareholders** (Note 17) | | | | |
| Basic (loss) earnings per share | **$ (0.13)** | $ 0.09 | **$ (0.12)** | $ (1.00) |
| Diluted (loss) earnings per share | **$ (0.15)** | $ 0.09 | **$ (0.13)** | $ (1.04) |
| Weighted average shares outstanding (in 000's) Basic | **151,506** | 151,411 | **151,503** | 151,525 |
| Weighted average shares outstanding (in 000's) Diluted | **153,433** | 153,338 | **153,430** | 153,452 |

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

| | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Net (loss) earnings for the period | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| Items that may be reclassified subsequently to net earnings: | | | | |
| Unrealized net (loss) earnings on available for sale securities (net of zero dollars tax in 2014 and 2013) | **(68)** | 241 | **(943)** | (210) |
| Reclassification adjustment for net gains (loss) included in earnings (net of zero dollars tax in 2014 and 2013) | **81** | (283) | **762** | (1,713) |
| **Total comprehensive (loss) income for the period** | **$ (20,164)** | $ 14,194 | **$ (19,277)** | $ (154,706) |
| **Total comprehensive (loss) income attributable to:** | | | | |
| Equity holders of the Company | **$ (20,241)** | $ 14,112 | **$ (19,063)** | $ (154,160) |
| Non-controlling interests | **77** | 82 | **(214)** | (546) |
| | **$ (20,164)** | $ 14,194 | **$ (19,277)** | $ (154,706) |

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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Cash flow from operating activities** | | | | |
| Net (loss) earnings for the period | **$ (20,177)** | $ 14,236 | **$ (19,096)** | $ (152,783) |
| Current income taxes recovery (expense) (Note 21) | **(252)** | 12,400 | **25,672** | 43,169 |
| Deferred income tax recovery (Note 21) | **(4,045)** | (715) | **(12,848)** | (7,078) |
| Depreciation and amortization | **34,060** | 41,995 | **109,217** | 104,301 |
| Impairment charge (Note 8) | **-** | - | **-** | 203,443 |
| Accretion on closure and decommissioning provision | **809** | 759 | **2,429** | 2,273 |
| Unrealized loss (gain) on foreign exchange | **2,577** | (7,830) | **4,652** | (266) |
| Share-based compensation expense | **672** | 847 | **2,025** | 2,106 |
| Unrealized loss on commodity contracts | | 2,448 | **-** | 1,825 |
| Gain on derivatives (Note 4) | **(2,242)** | (1,333) | **(1,600)** | (15,466) |
| Gain on sale of assets | **129** | (135) | **(200)** | (8,099) |
| Net realizable value adjustment for inventory | **15,414** | (8,672) | **27,741** | (4,557) |
| Changes in non-cash operating working capital (Note 18) | **14,516** | (4,898) | **12,460** | (27,596) |
| **Operating cash flows before interest and income taxes** | **41,461** | 49,102 | **150,452** | 150,386 |
| Interest paid | **(1,802)** | (1,583) | **(3,183)** | (3,116) |
| Interest received | **994** | 849 | **1,543** | 2,058 |
| Income taxes paid | **(2,308)** | (7,638) | **(25,447)** | (75,878) |
| **Net cash generated from operating activities** | **$ 38,345** | $ 40,730 | **$ 123,365** | $ 73,450 |
| **Cash flow used in investing activities** | | | | |
| Payments for mineral property, plant and equipment | **(27,925)** | (41,708) | **(101,630)** | (125,732) |
| Purchase of short term investments | **(19,000)** | (7,480) | **(47,196)** | (21,267) |
| Proceeds from sale of assets | **86** | (1,839) | **474** | 8,205 |
| Net refundable tax and other asset expenditures | **(623)** | 117 | **(1,262)** | 81 |
| **Net cash used in investing activities** | **$ (47,462)** | $ (50,910) | **$ (149,614)** | $ (138,713) |
| **Cash flow from (used in) financing activities** | | | | |
| Shares repurchased and cancelled (Note 16) | **-** | - | **-** | (6,740) |
| Dividends paid | **(18,939)** | (18,926) | **(56,817)** | (56,874) |
| (Payments on) proceeds from short term loans | **12,522** | - | **(1,994)** | 18,624 |
| Payments on construction and equipment leases | **(2,581)** | (1,834) | **(3,803)** | (27,684) |
| Distributions to non-controlling interests | **(376)** | (302) | **(376)** | (302) |
| **Net cash used in financing activities** | **$ (9,374)** | $ (21,062) | **$ (62,990)** | $ (72,976) |
| Effects of exchange rate changes on cash and cash equivalents | **(515)** | 834 | **(716)** | (343) |
| Net decrease in cash and cash equivalents | **(19,006)** | (30,408) | **(89,955)** | (138,582) |
| Cash and cash equivalents at the beginning of the period | **178,988** | 238,034 | **249,937** | 346,208 |
| **Cash and cash equivalents at the end of the period** | **$ 159,982** | $ 207,626 | **$ 159,982** | $ 207,626 |

See accompanying notes to the condensed interim consolidated financial statements.

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

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued shares** | **Issued capital** | **Share option reserve** | **Investment revaluation reserve** | **Retained earnings (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 income | | | | | | | | |
| Net (loss) earnings 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) |
| Shares issued on the exercise of stock options | | | | - | - | | - | |
| Shares issued as compensation | 94,659 | 1,035 | - | - | - | 1,035 | - | 1,035 |
| Shares issued on the exercise of warrants | | | | - | - | | - | |
| 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 loss for the period | - | - | - | - | (18,882) | (18,882) | (214) | (19,096) |
| Other comprehensive loss | - | - | - | (181) | - | (181) | | (181) |
| | - | - | - | (181) | (18,882) | (19,063) | (214) | (19,277) |
| Shares issued as compensation | 5,521 | 72 | - | - | - | 72 | - | 72 |
| Share-based compensation on option grants | - | - | 717 | - | - | 717 | - | 717 |
| Distributions by subsidiaries to non-controlling interests | - | - | - | - | - | - | (376) | (376) |
| Dividends paid | - | - | - | - | (56,817) | (56,817) | - | (56,817) |
| **Balance, September 30, 2014** | **151,505,815** | **$ 2,295,280** | **$ 21,827** | **$ (318)** | **$ (209,546)** | **$ 2,107,243** | **$ 5,865** | **$ 2,113,108** |

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued shares** | **Issued capital** | **Share option reserve** | **Investment revaluation reserve** | **Retained earnings (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 income | | | | | | | | |
| Net loss for the period | - | - | - | - | (152,237) | (152,237) | (546) | (152,783) |
| Other comprehensive loss | - | - | - | (1,923) | - | (1,923) | - | (1,923) |
| | - | - | - | (1,923) | (152,237) | (154,160) | (546) | (154,706) |
| Issued as compensation | 5,077 | 64 | - | - | - | 64 | - | 64 |
| Shares repurchased and cancelled | (415,000) | (6,344) | - | - | (396) | (6,740) | - | (6,740) |
| Distributions by subsidiaries to non-controlling interests | - | - | - | - | - | - | (302) | (302) |
| Stock-based compensation on option grants | - | - | 195 | - | - | 195 | - | 195 |
| Dividends paid | - | - | - | - | (56,874) | (56,874) | - | (56,874) |
| **Balance, September 30, 2013** | **151,410,712** | **$ 2,294,237** | **$ 20,755** | **$ (959)** | **$ 178,695** | **$ 2,492,728** | **$ 6,480** | **$ 2,499,208** |

## 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 and nine months periods ending September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending 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 ("IFRS 9")*** was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard and amendments on its consolidated financial statements.

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

**IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")** In May 2014, the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers, and will replace IAS 18, **Revenue**, IAS 11, **Construction Contracts**, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 1017. The Company will apply IFRS 15 beginning on January 1, 2017. The Company is in the process of analyzing IFRS 15 and determining the effect on our consolidated financial statements as a result of adopting this standard.

### 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 all totaling to $2.1 billion as at September 30, 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:

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Current derivative assets | | |
| Foreign currency and lead and silver contracts | **$ -** | $ - |
| Current derivative liabilities | | |
| Share purchase warrants | **$ (7)** | $ - |
| Non-current derivative liabilities | | |
| Share purchase warrants | **$ -** | $ (207) |
| Conversion feature on convertible notes | **(19)** | (1,419) |
| | **$ (19)** | $ (1,626) |

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

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

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Trade receivables from provisional concentrates sales | **$** | **39,385** | $ | 31,727 |
| Not arising from sale of metal concentrates | | **65,151** | | 83,055 |
| Trade and other receivables | **$** | **104,536** | $ | 114,782 |

The net (losses) gains on derivatives for the three and nine months ended September 30, 2014 and 2013 were comprised of the following:

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2014** | | 2013 | | **2014** | | 2013 |
| Loss on commodity and foreign currency contracts: | | | | | | | | |
| Realized gain on commodity and foreign currency contracts | **$** | **-** | $ | (4,118) | **$** | **-** | $ | (3,775) |
| Unrealized loss on commodity and foreign currency contracts | | **-** | | (2,448) | | **-** | | (1,825) |
| | **$** | **-** | $ | (6,566) | **$** | **-** | $ | (5,600) |
| (Loss) gain on derivatives: | | | | | | | | |
| (Loss) gain on share purchase warrants (Note 16) | **$** | **(2)** | $ | 490 | **$** | **200** | $ | 7,662 |
| Gain on conversion feature of convertible notes (Note 14) | | **2,244** | | 843 | | **1,400** | | 7,804 |
| | | **2,242** | | 1,333 | | **1,600** | | 15,466 |

## 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 and nine months ended September 30 were as follows:

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2014** | | 2013 | | **2014** | | 2013 |
| Unrealized net (loss) gain on available for sale securities (net of zero dollars tax in 2014 and 2013) | **$** | **(68)** | $ | 241 | **$** | **(943)** | $ | (210) |
| Reclassification adjustment for net gains (loss) included in earnings (net of zero dollars tax in 2014 and 2013) | **$** | **81** | $ | (283) | **$** | **762** | $ | (1,713) |
| | **$** | **13** | $ | (42) | **$** | **(181)** | $ | (1,923) |

## c) Fair Value of Financial Instruments

### (i) Fair 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.

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

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

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

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

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

At September 30, 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:

| | **September 30, 2014** | | **December 31, 2013** | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 1** | **Level 2** |
| Assets and Liabilities: | | | | |
| Short-term investments | **$ 217,506** | **$ -** | $ 172,785 | $ - |
| Trade receivable from provisional concentrate sales | **$ -** | **$ 39,385** | $ - | $ 31,727 |
| Share purchase warrants | **$ -** | **$ (7)** | $ - | $ (207) |
| Conversion feature of convertible notes | **$ -** | **$ (19)** | $ - | $ (1,419) |
| | **$ 217,506** | **$ 39,359** | $ 172,785 | $ 30,101 |

There were no transfers between level 1 and level 2 during the three and nine months ended September 30, 2014. For our non-financial assets and liabilities measured at fair value on a non-recurring basis, no fair value measurements were made as at September 30, 2014 or December 31, 2013.

At September 30, 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") price for copper, zinc and lead and the London Bullion Market Association P.M. fix ("London P.M. fix") for gold and silver and as such are classified as level 2 of the fair market value hierarchy.

***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 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. 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.

**(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 September 30, 2014 the Company had receivable balances associated with buyers of its concentrates of $39.4 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 September 30, 2014 the Company had approximately $40.4 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.

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 September 30, 2014, the Company had no outstanding contracts to purchase Peruvian Nuevo soles or Mexican pesos. The Company's net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. At September 30, 2014, the Company's cash and short term investments include $89.7 million in CAD and $21.1 million in MXN (September 30, 2013 - $163.1 million in CAD and $28.9 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 September 30, 2014 have contractual maturities as summarized below:

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

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **Total** | **Within 1 year**[2] | **2 - 3 years** | **4- 5 years** | **After 5 years** |
| Finance lease obligations[1] | $ 9,415 | $ 4,560 | $ 4,557 | $ 298 | $ - |
| Current liabilities | 119,257 | 119,257 | - | - | - |
| Loan payable (Note 11) | 14,220 | 14,220 | - | - | - |
| Severance accrual | 4,556 | 1,113 | 444 | 1,938 | 1,061 |
| Employee compensation plan[3] | - | - | - | - | - |
| Restricted share units ("RSUs")[3] | 2,120 | 1,291 | 829 | - | - |
| Convertible notes [4] | 38,681 | 1,631 | 37,050 | - | - |
| Derivative financial instruments | 7 | 7 | - | - | - |
| Provisions | 5,086 | 3,102 | 1,984 | - | - |
| Income taxes payable | 31,981 | 31,981 | - | - | - |
| **Total contractual obligations**[5] | **$ 225,323** | **$ 177,162** | **$ 44,864** | **$ 2,236** | **$** 1,061 |

(1) Includes lease obligations in the amount of $9.4 million (December 31, 2013 - $10.9 million) with a net present value of $8.9 million (December 31, 2013 - $10.2 million); 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.

| | | Future interest component | **Within 1 year** |
|---|---|---|---|
| Current portion of: | | | |
| Accounts payable and other liabilities | $ 119,257 | $ - | **$ 119,257** |
| Loan obligation | 14,220 | - | **14,220** |
| Current severance liability | 1,113 | - | **1,113** |
| Current portion of finance lease | 4,282 | 278 | **4,560** |
| Employee Compensation &RSU's | 752 | 539 | **1,291** |
| Convertible note | - | 1,631 | **1,631** |
| Derivative financial instruments | 7 | - | **7** |
| Provisions | 3,102 | - | **3,102** |
| Income tax payable | 31,981 | - | **31,981** |
| Total contractual obligations within one year | $ 174,714 | $ 2,448 | **$ 177,162** |

(3) Includes RSU obligation in the amount of $2.1 million (2013 – $1.7 million) that will be settled in cash. The RSUs vest in two instalments, 50% in December 2014 and 50% 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 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

| | **September 30, 2014** | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| Available for sale | **Fair Value** | **Cost** | **Accumulated unrealized holding losses** | Fair Value | Cost | Accumulated unrealized holding losses |
| Short term investments | **$ 217,506** | **$ 217,824** | **$ (318)** | $ 172,785 | $ 172,922 | $ (137) |

## 6. Inventories

Inventories consist of:

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Concentrate inventory | **$ 21,351** | $ 32,189 |
| Stockpile ore[1] | **37,670** | 42,389 |
| Heap inventory[2] | **80,930** | 90,456 |
| Doré and finished inventory[3] | **52,909** | 58,256 |
| Materials and supplies | **57,652** | 61,062 |
| | **$ 250,512** | $ 284,352 |

(1) Includes an impairment charge of $5.0 million to reduce the cost of inventory to NRV at Manantial Espejo and Dolores mines (December 31, 2013 – nil).
(2) Includes an impairment charge of $24.4 million to reduce the cost of inventory to net realizable value at Dolores mine (December 31, 2013 - $10.3 million).
(3) Includes an impairment charge of $11.3 million to reduce the cost of inventory to net realizable value at Dolores, Alamo Dorado and Manantial Espejo mines (December 31, 2013 - $2.7).

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

## 7. Mineral Properties, Plant and Equipment

Mineral properties, plant and equipment consist of:

| | **September 30, 2014** | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Depreciation Impairment** | **Carrying Value** | Cost | Accumulated Depreciation and Impairment | Carrying Value |
| Huaron mine, Peru | **$ 155,897** | $ **(68,352)** | **$ 87,545** | $ 147,391 | $ (62,878) | $ 84,513 |
| Morococha mine, Peru | **210,406** | **(82,122)** | **128,284** | 202,213 | (68,220) | 133,993 |
| Alamo Dorado mine, Mexico | **193,405** | **(152,257)** | **41,148** | 193,035 | (143,330) | 49,705 |
| La Colorada mine, Mexico | **129,214** | **(59,332)** | **69,882** | 107,002 | (52,588) | 54,414 |
| Dolores mine, Mexico | **836,448** | **(336,786)** | **499,662** | 767,194 | (296,751) | 470,443 |
| Manantial Espejo mine, Argentina | **341,498** | **(190,449)** | **151,049** | 321,047 | (162,058) | 158,989 |
| San Vicente mine, Bolivia | **127,073** | **(61,695)** | **65,378** | 124,859 | (55,727) | 69,132 |
| Other | **24,664** | **(4,916)** | **19,748** | 24,735 | (4,476) | 20,259 |
| **Total** | **$ 2,018,605** | $ **(955,909)** | **$1,062,696** | $1,887,476 | $ (846,028) | $ 1,041,448 |
| | | | | | | |
| Land and Exploration and Evaluation: | | | | | | |
| Land | | | **$ 8,530** | | | $ 8,513 |
| Navidad Project, Argentina | | | **462,400** | | | 462,400 |
| Minefinders Group, Mexico | | | **290,215** | | | 317,117 |
| Morococha, Peru | | | **9,674** | | | 10,432 |
| Other | | | **30,972** | | | 30,768 |
| **Total non-producing properties** | | | **$ 801,791** | | | $ 829,230 |
| **Total mineral properties, plant and equipment** | | | **$1,864,487** | | | $ 1,870,678 |

## 8. Impairment of Non-Current Assets and Goodwill

Non-current assets are tested for impairment when events or changes in assumptions indicate that the carrying amount may not be recoverable. The Company performs an impairment test for goodwill at each financial year end and when events or changes in circumstances indicate that the related carrying value may not be recoverable.

Based on the Company's assessment at September 30, 2014 of potential impairments with respect to its mineral properties, the Company has concluded that there are no impairment charges required as at September 30, 2014.

Due to the sensitivity of the recoverable amount to various factors especially long term metal prices as well as unforeseen factors, any significant change in the key assumptions and inputs could result in additional impairment charges or recoveries in future periods.

The total impairment charge for the three and nine months ended September 30, 2014 is nil and nil (2013 - before tax - $nil million and $203.4 million, respectively).

Goodwill consists of:

| | | |
|---|---|---|
| As at December 31, 2012 | **$** | **198,946** |
| Impairment of La Bolsa Property | | **(7,124)** |
| Impairment of Dolores mine | | **(184,688)** |
| **As at December 31, 2013** | | **7,134** |
| Changes 2014 | | **-** |
| **As at September 30, 2014** | **$** | **7,134** |

## 9. Other Assets

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

Other assets consist of:

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Long-term prepaid expense[(1)] | **$** | **5,490** | $ | 5,648 |
| Investments in Associates | | **1,450** | | 1,450 |
| Reclamation bonds | | **91** | | 92 |
| Lease receivable[(2)] | | **524** | | 788 |
| Other assets | | **36** | | 36 |
| | **$** | **7,591** | $ | 8,014 |

[(1)] Includes a prepaid deposit related to the Gas Line Project at the Manantial Espejo mine for $5.2 million.

[(2)] The Company entered into a finance leasing arrangement with employees at the Manantial Espejo mine for certain housing units. The term of the finance lease entered into is 6 years.

## 10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Trade accounts payable | **$** | **45,837** | $ | 51,590 |
| Royalties payable | | **9,577** | | 9,799 |
| Other accounts payable and trade related accruals | | **28,307** | | 28,419 |
| Payroll and related benefits | | **22,913** | | 19,463 |
| Severance accruals | | **1,113** | | 649 |
| Other taxes payable | | **1,447** | | 235 |
| Advances on concentrate | | **1,996** | | 7,810 |
| Other | | **9,932** | | 7,644 |
| | **$** | **121,122** | $ | 125,609 |

## 11. Loan payable

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Loan payable[(1)] | **$** | **14,233** | $ | 23,496 |
| Unrealized gain on foreign exchange | | **(13)** | | (3,401) |
| | **$** | **14,220** | $ | 20,095 |

[(1)] On September 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. The loan term was one year with an interest rate of 25.3%. The loan was repaid in June 2014 for $12.3 million crystalizing a realized foreign exchange gain of $6.3 million. As at September 30, 2014 the Company had received $85.7 million Argentine pesos (equivalent to USD $10.2 million) and $3.6 million USD on the line of credit which was repaid in October 2014.

## 12. Provisions

| | | **Closure and Decommissioning** | | **Litigation** | | **Total** |
|---|---|---|---|---|---|---|
| As at December 31, 2013 | **$** | **41,469** | **$** | **5,520** | **$** | **46,989** |
| Revisions in estimates and obligations incurred | | 867 | | - | | 867 |
| Charged (credited) to earnings: | | | | | | |
| -new provisions | | - | | 228 | | 228 |
| -unused amounts reversed | | - | | 3 | | 3 |
| -exchange gains on provisions | | - | | (212) | | (212) |
| Charged in the period | | (655) | | (453) | | (1,108) |
| Accretion expense | | 2,430 | | - | | 2,430 |
| **As at September 30, 2014** | **$** | **44,111** | **$** | **5,086** | **$** | **49,197** |

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

**Maturity analysis of total provisions:**

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Current | **$** | **3,102** | $ | 3,172 |
| Non-current | | **46,095** | | 43,817 |
| | **$** | **49,197** | $ | 46,989 |

## 13. Finance Lease Obligations

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Maturity analysis of finance leases: | | | | |
| Current | **$** | **4,282** | $ | 4,437 |
| Non-current | | **4,658** | | 5,717 |
| Lease obligations (1) | **$** | **8,940** | $ | 10,154 |

(2) 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.

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Less than a year | **$** | **4,561** | $ | 4,800 |
| 2 years | | **2,769** | | 2,585 |
| 3 years | | **1,788** | | 1,832 |
| 4 years | | **298** | | 1,639 |
| | | **9,416** | | 10,856 |
| Less future finance charges | | **(476)** | | (702) |
| Present value of minimum lease payments | **$** | **8,940** | $ | 10,154 |

## 14. Long Term Debt

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Convertible notes | **$** | **34,089** | $ | 32,883 |
| Conversion feature on the convertible notes | | **19** | | 1,419 |
| Total long-term debt | **$** | **34,108** | $ | 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 bears interest at 4.5% payable semi-annually on September 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 and nine months ended September 30, 2014, $0.4 million and $1.2 million, respectively was capitalized to mineral property, plant and equipment (September 30, 2013 – $0.4 million and $1.3 million, respectively). 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 September 30, 2014 were expected stock price volatility of 41.53%, expected life of 1.25 years, and expected dividend yield of 4.55%.

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

During the three and nine months ended September 30, 2014, the Company recorded a $2.2 million gain and $1.4 million gain on the revaluation of the embedded derivative on the convertible notes (three and nine months ended September 30, 2013 – $0.8 million gain and $7.8 million gain, respectively).

The approximate current fair value of the notes, excluding the conversion feature at September 30, 2014 is $35.7 million (December 31, 2013 - $34.7 million).

## 15. Other Long Term Liabilities

Other long term liabilities consist of:

| | | **September 30, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Deferred credit[(1)] | **$** | **20,788** | $ | 20,788 |
| Long term income tax payable | | **2,385** | | 2,180 |
| Severance accruals | | **3,444** | | 3,077 |
| | **$** | **26,617** | $ | 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.

## 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 will 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:

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

| | **Stock Options** | | **Share Purchase Warrants** | | |
|---|---|---|---|---|---|
| | **Options** | **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 September 30, 2014** | **1,183,487** | **$ 21.22** | **7,814,605** | **$ 35.00** | **8,998,092** |

### Long Term Incentive Plan

During the three months ended September 30, 2014, nil common shares were exercised in connection with the options under the plan (2013 – nil), nil options expired (2013 – nil) and nil options were forfeited (2013 – 56,780).

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.

During the nine months ended September 30, 2014, nil common shares were exercised in connection with the options under the plan (2013 – nil), 195,562 options expired (2013 – 229,327) and 18,321 options were forfeited (2013 – 61,992).

### Replacement Option Awards

During the three and nine months ended September 30, 2014, nil common shares were issued under the Minefinders plans (2013 – nil). Nil options expired (September, 2013 – nil and 693,638, respectively) and nil options were forfeited (September, 2013 – 65,466 and 130,933, respectively).

### Share Option Plan

The following table summarizes information concerning stock options outstanding and options exercisable as at September 30, 2014. The underlying option agreements are specified in Canadian dollar amounts.

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

| | **Options Outstanding** | | | **Options Exercisable** | |
|---|---|---|---|---|---|
| Range of Exercise Prices CAD$ | Number Outstanding as at September 30, 2014 | Weighted Average Remaining Contractual Life (months) | Weighted Average Exercise Price CAD$ | Number Exercisable as at September 30, 2014 | Weighted Average Exercise Price CAD$ |
| $11.49 - $12.70 | **326,047** | 76.31 | $ 11.57 | **20,642** | $ 12.70 |
| $17.02- $18.53 | **226,185** | 63.99 | $ 18.45 | **119,220** | $ 18.37 |
| $18.54 - $24.90 | **349,238** | 49.59 | $ 24.89 | **349,238** | $ 24.89 |
| $25.19 - $40.22 | **282,017** | 14.53 | $ 30.05 | **282,017** | $ 30.05 |
| | **1,183,487** | 51.35 | $ 21.22 | **771,117** | $ 25.44 |

For the three and nine months ended September 30, 2014, the total employee share-based compensation expense for options recognized in the income statement was $0.2 million and $0.7 million, respectively (2013 - $0.3 million and $0.2 million, respectively).

**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 September 30, 2014. The underlying option agreements are specified in Canadian dollar amounts.

| | Warrants Outstanding | | | Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices CAD$ | **Number Outstanding as at September 30, 2014** | Weighted Average Remaining Contractual Life (months) | Weighted Average Exercise Price CAD$ | **Number Exercisable as at September 30, 2014** | Weighted Average Exercise Price CAD$ |
| $35.00 | **7,814,605** | 2.23 | $ 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 and nine months ended September 30, 2014, there was a derivative gain of nil million and $0.2 million, respectively (2013 – $0.5 and $7.7 million respectively).

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

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Warrant strike price (CAD$) | **$ 35.00** | $ 35.00 |
| Exchange rate (1CAD = USD) | **0.89** | 0.94 |
| Risk-free interest rate | **1.0%** | 1.0% |
| Expected dividend yield | **4.1** | 4.0% |
| Expected stock price volatility | **74.7%** | 46.8% |
| Expected warrant life in years | **0.19** | 0.93 |
| Quoted market price at period end (CAD$) | **$ 12.31** | $ 12.41 |

**Convertible note**

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.

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

Compensation expense for RSUs for the three and nine months ended September 30, 2014 was nil and $0.8 million respectively (2013 – $0.1 million and $0.5 million respectively) 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 September 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 is $7.5 million. This program concluded in August 2014. No shares were issued from treasury pursuant to the 2012 Contribution Plan.

### 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 and nine months ended September 30, 2014 (2013 – nil and 415,000 shares, respectively).

### 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 dividend of $0.125 per common share paid to holders of record of its common share as of the close of business on May 21, 2013.

On August 13, 2014, the Company declared a quarterly dividend of $0.125 per common share paid to holders of record of its common shares as of the close of business on August 25, 2014.

On November 13, 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 November 25, 2014. These dividends were not recognized in these condensed interim consolidated financial statements during the period ended September 30, 2014.

## 17. (Loss) Earnings Per Share (Basic and Diluted)

| **Three months ended September 30,** | | **2014** | | | 2013 | |
|---|---|---|---|---|---|---|
| | **Earnings (loss) (Numerator)** | **Shares (Denominator)** | **Per-Share Amount** | Earnings (Numerator) | Shares (Denominator) | Per-Share Amount |
| Net (loss) earnings[(1)] | **$ (20,254)** | | | $ 14,154 | | |
| Basic EPS | **$ (20,254)** | **151,506** | **$ (0.13)** | $ 14,154 | 151,411 | $ 0.09 |
| Effect of Dilutive Securities: | | | | | | |
| Stock Options | **-** | **-** | | - | - | |
| Convertible Notes | **(2,244)** | **1,927** | | (843) | 1,927 | |
| Diluted EPS | **$ (22,498)** | **153,433** | **$ (0.15)** | $ 13,311 | 153,338 | $ 0.09 |

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

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

| **Nine months ended September 30,** | | **2014** | | | 2013 | |
|---|---|---|---|---|---|---|
| | **Earnings (Numerator)** | **Shares (Denominator) (in 000's)** | **Per-Share Amount** | Earnings (Numerator) | Shares (Denominator) (in 000's) | Per-Share Amount |
| Net loss[1] | **$ (18,882)** | | | $ (152,237) | | |
| Basic EPS | **$ (18,882)** | **151,503** | **$ (0.12)** | $ (152,237) | 151,525 | $ (1.00) |
| Effect of Dilutive Securities: | | | | | | |
| Stock Options | **-** | **-** | | - | - | |
| Convertible Notes | **(1,400)** | **1,927** | | (7,804) | 1,927 | |
| Diluted EPS | **$ (20,282)** | **153,430** | **$ (0.13)** | $ (160,041) | 153,452 | $ (1.04) |

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

Potentially dilutive securities excluded in the diluted earnings per share calculation for the three and nine months ended September 30, 2014 were 8,998,092 out-of-money options, and warrants (2013 – 8,915,922 and 8,895,280 respectively).

## 18. Supplemental Cash Flow Information

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

| **Changes in non-cash operating working capital items:** | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Trade and other receivables | **$ 28,005** | $ (11,100) | **$ 6,610** | $ 2,058 |
| Inventories | **(799)** | 9,921 | **10,649** | (18,855) |
| Prepaid expenditures | **2,015** | 2,460 | **3,593** | 3,464 |
| Accounts payable and accrued liabilities | **(14,892)** | (5,195) | **(7,095)** | (12,530) |
| Provisions | **187** | (984) | **(1,297)** | (1,733) |
| | **$ 14,516** | $ (4,898) | **$ 12,460** | $ 27,596 |

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| **Significant Non-Cash Items:** | **2014** | 2013 | **2014** | 2013 |
| Construction and other equipment acquired by leases | **$ 880** | $ 344 | **$ 2,594** | $ 3,010 |
| Share-based compensation issued to directors | **$ -** | $ - | **$ 72** | $ - |

| **Cash and cash equivalents are comprised of:** | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Cash | **$ 154,286** | $ 242,191 |
| Short-term money market investments | **$ 5,696** | $ 7,746 |
| | **$ 159,982** | $ 249,937 |

## 19. Segmented Information

All of the Company's operations are within the mining sector, conducted through operations in nine 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 September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | Mexico | | | Argentina | | Bolivia | | |
| | Huaron | Morococha | Dolores | Alamo Dorado | La Colorada | Manantial Espejo | Navidad | San Vicente | Other | **Total** |
| Revenue from external customers | $ 23,200 | $ 22,431 | $ 43,116 | $ 20,173 | $ 23,436 | $ 26,514 | $ - | $ 19,395 | $ - | **$ 178,265** |
| Depreciation and amortization | $ (2,912) | $ (4,668) | $ (13,289) | $ (2,526) | $ (2,390) | $ (5,546) | $ (41) | $ (2,526) | $ (162) | **$ (34,060)** |
| Exploration and project development | $ (201) | $ (60) | $ (585) | $ (108) | $ (3) | $ (1,100) | $ (985) | $ - | $ (623) | **$ (3,665)** |
| Interest income | $ 107 | $ 8 | $ 5 | $ 84 | $ 67 | $ 640 | $ - | $ - | $ 83 | **$ 994** |
| Interest and financing expenses | $ (189) | $ (180) | $ (89) | $ (60) | $ (63) | $ (72) | $ (11) | $ (56) | $ (430) | **$ (1,150)** |
| Loss on disposition of assets | $ - | $ (94) | $ - | $ - | $ - | $ - | $ - | $ (35) | $ - | **$ (129)** |
| Gain on derivatives | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,242 | **$ 2,242** |
| Foreign exchange gain (loss) | $ 115 | $ (215) | $ 44 | $ (329) | $ (413) | $ 135 | $ (213) | $ 19 | $ (5,810) | **$ (6,667)** |
| Earnings (loss) before income taxes | $ 1,160 | $ (381) | $ (17,018) | $ 941 | $ 761 | $ (14,870) | $ (1,746) | $ 3,389 | $ 3,290 | **$ (24,474)** |
| Income taxes (expense) recovery | $ (1,183) | $ (463) | $ 4,707 | $ (2,787) | $ 490 | $ 5,973 | $ (35) | $ (542) | $ (1,863) | **$ 4,297** |
| Net (loss) earnings for the period | $ (23) | $ (844) | $ (12,311) | $ (1,846) | $ 1,251 | $ (8,897) | $ (1,781) | $ 2,847 | $ 1,427 | **$ (20,177)** |
| Capital expenditures | $ 3,230 | $ 2,140 | $ 6,879 | $ 22 | $ 7,085 | $ 7,706 | $ (19) | $ 828 | $ 54 | **$ 27,925** |
| Total assets | $ 127,650 | $ 173,810 | $ 957,060 | $ 126,202 | $ 122,039 | $ 269,095 | $ 468,810 | $ 97,189 | $ 330,665 | **$ 2,672,520** |
| Total liabilities | $ 38,347 | $ 39,119 | $ 237,647 | $ 18,821 | $ 32,531 | $ 95,330 | $ 1,344 | $ 31,177 | $ 65,096 | **$ 559,412** |

| | Nine months ended September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | Mexico | | | Argentina | | Bolivia | | |
| | Huaron | Morococha | Dolores | Alamo Dorado | La Colorada | Manantial Espejo | Navidad | San Vicente | Other | **Total** |
| Revenue from external customers | $ 72,527 | $ 61,485 | $ 123,981 | $ 71,250 | $ 78,015 | $ 121,657 | $ - | $ 59,931 | $ - | **$ 588,846** |
| Depreciation and amortization | $ (8,792) | $ (14,346) | $ (36,170) | $ (9,535) | $ (6,677) | $ (26,188) | $ (123) | $ (6,894) | $ (492) | **$ (109,217)** |
| Exploration and project development | $ (1,254) | $ (397) | $ (1,073) | $ (201) | $ (8) | $ (1,362) | $ (2,766) | $ - | $ (1,886) | **$ (8,947)** |
| Interest income | $ 241 | $ 19 | $ 7 | $ 208 | $ 199 | $ 666 | $ 15 | $ - | $ 188 | **$ 1,543** |
| Interest and financing expenses | $ (563) | $ (586) | $ (1,099) | $ (181) | $ (191) | $ (3,378) | $ (34) | $ (169) | $ (1,262) | **$ (7,463)** |
| Gain (loss) on disposition of assets | $ 17 | $ 319 | $ - | $ - | $ - | $ (102) | $ - | $ (34) | $ - | **$ 200** |
| Gain on derivatives | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,600 | **$ 1,600** |
| Foreign exchange gain (loss) | $ 97 | $ (227) | $ 77 | $ (269) | $ (167) | $ 4,517 | $ (211) | $ 314 | $ (12,920) | **$ (8,789)** |
| Earnings (loss) before income taxes | $ 5,096 | $ (8,167) | $ (42,159) | $ 11,916 | $ 15,363 | $ (736) | $ (3,965) | $ 12,031 | $ 4,349 | **$ (6,272)** |
| Income taxes (expense) recovery | $ (2,992) | $ 1,109 | $ 12,856 | $ (7,114) | $ (6,801) | $ (223) | $ (79) | $ (5,671) | $ (3,909) | **$ (12,824)** |
| Net (loss) earnings for the period | $ 2,104 | $ (7,058) | $ (29,303) | $ 4,802 | $ 8,562 | $ (959) | $ (4,044) | $ 6,360 | $ 440 | **$ (19,096)** |
| Capital expenditures | $ 9,978 | $ 6,835 | $ 38,386 | $ 226 | $ 22,349 | $ 21,198 | $ 41 | $ 2,423 | $ 194 | **$ 101,630** |
| Total assets | $ 127,650 | $ 173,810 | $ 957,060 | $ 126,202 | $ 122,039 | $ 269,095 | $ 468,810 | $ 97,189 | $ 330,665 | **$ 2,672,520** |
| Total liabilities | $ 38,347 | $ 39,119 | $ 237,647 | $ 18,821 | $ 32,531 | $ 95,330 | $ 1,344 | $ 31,177 | $ 65,096 | **$ 559,412** |

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

| | Three months ended September 30, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | Mexico | | | Argentina | | Bolivia | | |
| | Huaron | Morococha | Dolores | Alamo Dorado | La Colorada | Manantial Espejo | Navidad | San Vicente | Other | Total |
| Revenue from external customers | $ 25,525 | $ 22,186 | $ 41,220 | $ 35,547 | $ 25,926 | $ 36,294 | $ - | $ 26,858 | $ - | **$ 213,556** |
| Depreciation and amortization | $ (3,068) | $ (4,878) | $ (13,663) | $ (4,828) | $ (2,106) | $ (9,942) | $ (44) | $ (3,208) | $ (258) | **$ (41,995)** |
| Exploration and project development | $ (197) | $ (239) | $ (421) | $ (171) | $ (74) | $ (368) | $ 160 | $ - | $ (1,312) | **$ (2,622)** |
| Interest income | $ 59 | $ 1 | $ 1 | $ 179 | $ 69 | $ - | $ - | $ - | $ 220 | **$ 529** |
| Interest and financing expenses | $ (186) | $ (231) | $ (253) | $ (50) | $ (57) | $ (1,919) | $ (12) | $ (71) | $ (424) | **$ (3,203)** |
| (Loss) gain on disposition of assets | $ (4) | $ 92 | $ - | $ - | $ 9 | $ 17 | $ 1 | $ 17 | $ 3 | **$ 135** |
| (Loss) gain on derivatives | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,333 | **$ 1,333** |
| Foreign exchange (loss) gain | $ (29) | $ 18 | $ 336 | $ 477 | $ 957 | $ 2,321 | $ (847) | $ 326 | $ 1,410 | **$ 4,969** |
| Loss on commodity and foreign currency contracts | $ - | $ - | $ (175) | $ (408) | $ (59) | $ - | $ - | $ - | $ (5,924) | **$ (6,566)** |
| Earnings (loss) before income taxes | $ 2,691 | $ (3,072) | $ (3,487) | $ 13,805 | $ 6,877 | $ 1,415 | $ (1,287) | $ 8,048 | $ 931 | **$ 25,921** |
| Income tax (expense) recovery | $ (1,281) | $ 1,103 | $ (603) | $ (4,402) | $ (3,280) | $ 479 | $ (17) | $ (2,952) | $ (732) | **$ (11,685)** |
| Net earnings (loss) for the period | $ 1,410 | $ (1,969) | $ (4,090) | $ 9,403 | $ 3,597 | $ 1,894 | $ (1,304) | $ 5,096 | $ 199 | **$ 14,236** |
| Capital expenditures | $ 2,523 | $ 3,387 | $ 25,925 | $ 2,282 | $ 1,252 | $ 3,385 | $ 41 | $ 3,177 | $ 79 | **$ 42,051** |
| Total assets | $ 120,779 | $ 181,731 | $ 1,309,918 | $ 161,112 | $ 120,196 | $ 282,490 | $ 469,162 | $ 100,427 | $ 341,896 | **$ 3,087,711** |
| Total liabilities | $ 41,260 | $ 44,244 | $ 298,355 | $ 4,102 | $ 19,374 | $ 100,567 | $ 1,647 | $ 25,264 | $ 53,690 | **$ 588,503** |

| | Nine months ended September 30, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Peru | | Mexico | | | | Argentina | Bolivia | | |
| | Huaron | Morococha | Dolores | Alamo Dorado | La Colorada | Manantial Espejo | Navidad | San Vicente | Other | Total |
| Revenue from external customers | $ 70,361 | $ 61,581 | $ 121,084 | $ 124,661 | $ 75,009 | $ 118,603 | $ - | $ 60,845 | $ - | **$ 632,144** |
| Depreciation and amortization | $ (8,299) | $ (14,026) | $ (28,663) | $ (14,055) | $ (5,443) | $ (25,759) | $ (114) | $ (7,297) | $ (645) | **$ (104,301)** |
| Exploration and project development | $ (628) | $ (1,578) | $ (659) | $ (1,254) | $ (194) | $ (483) | $ (3,003) | $ - | $ (6,686) | **$ (14,485)** |
| Interest income | $ 462 | $ 53 | $ 8 | $ 264 | $ 112 | $ 164 | $ - | $ - | $ 995 | **$ 2,058** |
| Interest and financing expenses | $ (550) | $ (770) | $ (770) | $ (151) | $ (170) | $ (3,508) | $ (36) | $ (211) | $ (1,210) | **$ (7,376)** |
| (Loss) gain on disposition of assets | $ (4) | $ 246 | $ 13 | $ 9 | $ 8,011 | $ (194) | $ 1 | $ 17 | $ - | **$ 8,099** |
| Gain on derivatives | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 15,466 | **$ 15,466** |
| Foreign exchange gain (loss) | $ 33 | $ (529) | $ (295) | $ (470) | $ 685 | $ 1,204 | $ (809) | $ 990 | $ (9,488) | **$ (8,679)** |
| Loss on commodity and foreign currency contracts | $ - | $ - | $ (175) | $ (407) | $ (59) | $ - | $ - | $ - | $ (4,959) | **$ (5,600)** |
| Impairment charge | $ - | $ - | $ (188,547) | $ - | $ - | $ - | $ - | $ - | $ (14,896) | **$ (203,443)** |
| Earnings (loss) before income taxes | $ 2,845 | $ (16,592) | $ (190,922) | $ 60,399 | $ 24,629 | $ (8,062) | $ (4,966) | $ 15,999 | $ (22) | **$ (116,692)** |
| Income taxes (expense) recovery | $ (2,954) | $ 3,455 | $ (592) | $ (19,755) | $ (7,901) | $ 964 | $ (44) | $ (6,379) | $ (2,885) | **$ (36,091)** |
| Net (loss) earnings for the period | $ (109) | $ (13,137) | $ (191,514) | $ 40,644 | $ 16,728 | $ (7,098) | $ (5,010) | $ 9,620 | $ (2,907) | **$ (152,783)** |
| Capital expenditures | $ 12,455 | $ 15,829 | $ 67,528 | $ 7,079 | $ 11,324 | $ 7,640 | $ 157 | $ 6,302 | $ 235 | **$ 128,549** |
| Total assets | $ 120,779 | $ 181,731 | $ 1,309,918 | $ 161,112 | $ 120,196 | $ 282,490 | $ 469,162 | $ 100,427 | $ 341,896 | **$ 3,087,711** |
| Total liabilities | $ 41,260 | $ 44,244 | $ 298,355 | $ 4,102 | $ 19,374 | $ 100,567 | $ 1,647 | $ 25,264 | $ 53,690 | **$ 588,503** |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| Product Revenue | **2014** | 2013 | **2014** | 2013 |
| Refined silver and gold | **$ 95,503** | $ 118,455 | **$ 333,835** | $ 384,393 |
| Zinc concentrate | **21,268** | 18,728 | **58,700** | 52,425 |
| Lead concentrate | **23,862** | 29,063 | **80,183** | 75,588 |
| Copper concentrate | **37,632** | 47,310 | **116,128** | 119,738 |
| **Total** | **$ 178,265** | $ 213,556 | **$ 588,846** | $ 632,144 |

(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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Consumption of raw materials and consumables | **$ 58,423** | $ 56,281 | **$ 165,716** | $ 157,593 |
| Employee compensation and benefits expense | **48,575** | 35,777 | **130,039** | 115,917 |
| Contractors and outside services | **23,460** | 20,568 | **64,325** | 68,509 |
| Utilities | **6,427** | 5,628 | **19,178** | 16,903 |
| Other expenses | **797** | 14,572 | **14,176** | 45,259 |
| Changes in inventory[1] | **13,072** | (2,867) | **34,074** | (9,791) |
| | **$ 150,754** | $ 129,959 | **$ 427,508** | $ 394,390 |

(1) Changes in inventory include charges to reduce the cost of inventory to net realizable value for the three and nine months ended September 30, 2014 of $15.4 million and $27.7 million, respectively. (2013 - $8.7 million reversal and a charge of $4.6 million, respectively).

## 21. Income Taxes

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Current income taxes | **$ (252)** | $ 12,400 | **$ 25,672** | $ 43,169 |
| Deferred income taxes | **(4,045)** | (715) | **(12,848)** | (7,078) |
| Provision for income taxes | **$ (4,297)** | $ 11,685 | **$ 12,824** | $ 36,091 |

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 has 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 and nine months ended September 30, 2014 and the comparable period of 2013 were foreign income tax rate differentials, non-deductible expenditures, foreign exchange rate changes, non-recognition of certain deferred tax assets, mining taxes paid and withholding taxes on payments from foreign subsidiaries. In addition, in 2013 the Company recorded a non-cash impairment charges on non-current assets and goodwill related to Compania Minera Dolores, S.A. de C.V.; and Minera Minefinders S.A. de C.V. No tax benefit has been recognized for these transactions. 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Income before taxes | **(24,474)** | 25,921 | **(6,272)** | (116,692) |
| Statutory tax rate | **26.00%** | 25.75% | **26.00%** | 25.75% |
| Income tax expense based on above rates | **$ (6,364)** | $ 6,675 | **$ (1,631)** | $ (30,048) |
| Increase (decrease) due to: | | | | |
| Non-deductible expenses | **1,245** | 687 | **2,981** | 3,624 |
| Foreign tax rate differences | **(3,351)** | 89 | **(3,441)** | (8,420) |
| Change in net deferred tax assets not recognized: | | | | |
| - Argentina exploration expenses | **624** | 451 | **1,400** | 1,736 |
| - Other deferred tax assets not recognized | **10** | 1,124 | **337** | 2,498 |
| Non-taxable unrealized (gains)/losses on derivative financial instruments | **(583)** | (344) | **(416)** | (3,983) |
| Effect of other taxes paid (mining and withholding) | **2,200** | 1,403 | **6,693** | 8,190 |
| Non- deductible foreign exchange (gain)/loss | **469** | 208 | **74** | 1,886 |
| Change to temporary differences on inventory | **-** | - | **2,647** | - |
| Effect of change in deferred tax resulting from prior asset purchase accounting under IAS12 | **411** | 1,107 | **2,200** | 2,587 |
| Impairment charges | **-** | - | **-** | 59,938 |
| Other | **1,042** | 285 | **1,980** | (1,917) |
| | **$ (4,297)** | $ 11,685 | **$ 12,824** | $ 36,091 |
| Effective tax rate | **17.56%** | 45.08% | **(204.46)%** | (30.93)% |

## 22. 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 September 30, 2014 and December 31, 2013, $44.1 million and $41.5 million, respectively, were accrued for reclamation 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.

### e. Finance Leases

The present value of future minimum lease payments classified as finance leases at September 30, 2014 is $8.9 million (December 31, 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 its 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 the application of this new tax, 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. 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. The Company is evaluating these amendments, 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 September 30, 2013. The Company will continue to monitor developments in Mexico and to assess the potential impact of these amendments.

### h. Political changes in Bolivia

Following several years of uncertainty and speculation, on May 28, 2014 the Bolivian government enacted Mining Law No. 535 (the “New Mining Law”) which has significant effects on the mining industry in Bolivia. The New Mining Law is based on the principles of the 2009 Bolivian Constitution which enshrined the concept that all natural resources belong to the Bolivian people and that the state was entrusted with its administration. Thus, the provisions of the New Mining Law have further entrenched the state-driven mining regime in the country, including the creation of a new Bolivian mining authority (“AJAM”) to provide principal mining oversight, varying the role of the Bolivian state mining corporation (“COMIBOL”) to focus exclusively on managing state-involved mining projects, requiring minimum levels of state participation and profit sharing in certain projects and by mandating that a state representative is appointed as president of the board of directors of mining associations formed under the New Mining Law. The New Mining Law has also been formulated to support the Bolivian economy by encouraging local industrial growth, for instance, by requiring mining companies to first seek the sale of their products to Bolivian counterparties before looking to international refiners and markets. Perhaps most important to the Company, under the New Mining Law, all pre-existing contracts must migrate to a new form of agreement, with renegotiated terms, within a 12 or 18 month period. As such, the Company’s current joint venture agreement with COMIBOL in connection with the San Vicente mine will need to be renegotiated in order to conform to the New Mining Law. The Company is assessing the potential impacts of the New Mining Law on its business, but the primary effects on the San Vicente operation and the Company’s interest therein will not be known until such time as the Company has, if compelled to do so, renegotiated its existing contract, and the full impact may only be realized over time. In the meantime, the New Mining Law provides that pre-existing agreements will be respected during the prescribed period of renegotiation and the Company will take every measure available to enforce its rights under its existing agreement with COMIBOL. There is, however, no guarantee that governmental actions, including possible expropriation or additional changes in the law, and the prescribed renegotiation of the Company’s contract will not impact the Company’s involvement in the San Vicente operation in a materially negative way and such actions could have a material adverse impact on the Company and its business.

### 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 operation's cash flow. Once full commercial production of San Vicente began, the Participation was reduced by 75% until the Company recovered its investment in the property. The Company has since recovered its investment and the Participation Fee has reverted back to its original percentage. For the three and nine months ended September 30, 2014 the royalties to COMIBOL amounted to approximately $1.5 million and $9.0 million (2013 - $3.1 million and $8.1 million, respectively).

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 and nine months ended September 30, 2014 the royalties to EMUSA amounted to approximately $0.2 million and $0.8 million, respectively. For the three and nine months ended September 30, 2013 the royalties amounted to $0.3 and $0.7 million, respectively.

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. This royalty is deductible for income tax purposes. For the three and nine months ended September 30, 2014, the royalty amounted to $1.7 million and $5.0 million, respectively (2013-$2.1 million and $5.6 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 and nine months ended September 30, 2014, the royalties to Royal Gold amounted to approximately $1.3 million and $3.8 million, respectively (2013 – $1.3 million and $3.4 million, respectively).

***Navidad project***

In late September 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 three and nine months ended September 30, 2014

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

November 13, 2014

## INTRODUCTION

Management's discussion and analysis ("MD&A") is intended to help the reader understand the significant factors that have affected the performance of Pan American Silver Corp. and its subsidiaries ("Pan American" or the "Company") and 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 interim unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2014 and 2013 ("Q3 2014", "YTD 2014", "Q3 2013" and "YTD 2013", respectively) and the related notes contained therein. All amounts in this MD&A and in the consolidated financial statements are expressed in United States dollars ("USD"), unless identified otherwise. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards 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 for the year ended December 31, 2013.

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" 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 per share, 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 Mexico, Peru, 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 Exchange ("NASDAQ") in New York (Symbol: PAAS).

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

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

To execute this strategy, Pan American has assembled a sector leading team of mining professionals with a depth of exploration, construction, operating, and financing knowledge and experience 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.

# KEY UPDATES FOR Q3 2014

## OPERATIONS & PROJECT DEVELOPMENT

- ***Silver Production Guidance Confirmed and Cash Cost Guidance Lowered***

Silver production for Q3 2014 was 6.19 million ounces, which brought silver production for YTD 2014 to 19.37 million ounces. Q3 2014 gold production was 34.1 thousand ounces ("koz") and brought YTD 2014 gold production to 117.6 koz. Cash costs for Q3 2014 of $12.29 per ounce increased YTD 2014 cash costs to $10.83 per ounce, while all-in sustaining cost per silver ounce sold ("AISCSOS") of $20.50 in Q3 2014 took YTD 2014 AISCSOS to $18.02. Excluding the effects of net realizable value adjustments to inventories (Q3 2014: $2.47 per ounce; YTD 2014: $1.45 per ounce), Q3 2014 AISCSOS were $18.03 per ounce, and $16.57 per ounce for YTD 2014. Based on the Company's YTD 2014 operating results, management is reaffirming guidance of producing 25.75 million to 26.75 million ounces of silver, cash costs of $11.70 and $12.70 per ounce, and AISCSOS between $17 and $18 per ounce. In addition, the Company is confirming production guidance for gold, while increasing base metal production guidance and lowering capital expenditure guidance. Please refer to the "2014 Operating Outlook" section for further details.

- ***La Colorada Expansion Project On Schedule***

Progress was achieved in the following key areas in Q3 2014: (1) civil works at the future shaft location commenced and the area was prepared for construction, (2) detailed proposals and cost estimates for the shaft excavation and construction were solicited and received, (3) basic engineering for the new plant site was completed, with equipment orders, detailed engineering, and fabrication scheduled to commence in Q4 and (4) site infrastructure construction activities continued, including the expansion of the camp facilities and advancement on the community relocation program.

## FINANCIAL

- ***Strong Operating Cash Flows***

Pan American generated strong cash flow from operating activities of $38.3 million in Q3 2014, which was sufficient to fund all of the Company's $27.9 million of sustaining and growth capital expenditures in the period. Operating cash flow for YTD 2014 was $123.4 million, significantly higher than the $73.5 million generated in the comparable period of 2013, and again sufficient to fund YTD 2014 capital requirements of $101.6 million and cover approximately 50% of YTD 2014 dividends paid to shareholders.

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

Strong operating cash flow facilitated the continued return of value to shareholders in Q3 2014 by way of $18.9 million in dividend payments. On November 13, 2014 the Company also declared the next quarterly dividend of $0.125 per common share to shareholders of record as of the close of business on November 25, 2014. The Company's quarterly dividend continues to be one of the highest in the industry at $0.50 per common share on an annual basis. These dividends are considered eligible dividends for the purposes of the Income Tax Act (Canada).

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

The Company had cash and short term investment balances of $377.5 million and a working capital position of $607.0 million at September 30, 2014, a decrease of $4.2 million and $40.5 million, respectively, from June 30, 2014. The Company had total debt outstanding of $57.3 million at the end of Q3 2014.

# Q3 OPERATIONAL PERFORMANCE

- ***Consolidated results***

The following table reflects silver production and cash costs, net of by-product credits, at each of Pan American's operations for Q3 2014 as compared to Q3 2013.

| | Silver Production (koz) | | | | Cash Costs[1] ($ per ounce) | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | Nine months ended September 30, | | Three months ended September 30, | | Nine months ended September 30, | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| La Colorada | **1,253** | 1,056 | **3,693** | 3,320 | **8.58** | 10.19 | **8.33** | 9.89 |
| Alamo Dorado | **674** | 1,252 | **2,608** | 3,840 | **17.04** | 6.76 | **12.50** | 7.01 |
| Dolores | **966** | 997 | **3,028** | 2,580 | **14.57** | 5.70 | **12.92** | 5.22 |
| Huaron | **933** | 872 | **2,683** | 2,418 | **7.63** | 12.85 | **8.45** | 15.21 |
| Morococha[2] | **637** | 675 | **1,767** | 1,754 | **6.86** | 15.89 | **12.10** | 19.59 |
| San Vicente[3] | **755** | 1,061 | **2,776** | 2,974 | **16.05** | 13.14 | **13.71** | 15.84 |
| Manantial Espejo | **972** | 782 | **2,812** | 2,273 | **15.54** | 12.55 | **8.88** | 12.43 |
| **Consolidated Total[4]** | **6,189** | 6,695 | **19,368** | 19,159 | **12.29** | 10.40 | **10.83** | 11.25 |

(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 produced 6.19 million ounces of silver in Q3 2014, a decrease of 0.5 million ounces or 8% from the 6.70 million ounces produced during the third quarter of 2013.

This decreased production was largely attributable to Alamo Dorado and San Vicente producing 0.6 million and 0.3 million ounces less than in Q3 2013, respectively. Alamo Dorado's decreased production was primarily attributable to anticipated lower silver grades and recoveries compared to those realized in Q3 2013. The San Vicente shortfall was primarily attributable to a labor strike, which resulted in a 15-day shutdown in July, 2014 as well as a significant prior period negative settlement adjustment from concentrates sold. These silver production decreases were partially offset by higher production at La Colorada and Manantial Espejo, which each produced 0.2 million ounces more than in Q3 2013, respectively.

Consolidated Cash Costs per payable ounce of silver produced, net of by-product credits for Q3 2014 were $12.29 per ounce, compared to $10.40 per ounce in Q3 2013. The $1.89 or 18% increase from Q3 2013 Cash Costs were largely the result of decreased by-product credits at the Dolores mine which had reduced gold production, increased costs per ounce at Manantial Espejo which were negatively impacted by movements in inventory, and lower payable production from Alamo Dorado. These increases to Cash Costs were partially offset by decreased Cash Costs at La Colorada, Huaron and Morococha, which benefited from higher by-product credits driven by higher base metal production compared to Q3 2013 production levels.

| | Payable Silver Sold (koz) | | | | AISCSOS[1] ($ per ounce) | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | Nine months ended September 30, | | Three months ended September 30, | | Nine months ended September 30, | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| La Colorada | **1,292** | 1,043 | **3,627** | 3,158 | **11.53** | 10.09 | **11.42** | 12.63 |
| Alamo Dorado | **770** | 1,367 | **2,790** | 4,261 | **14.75** | 8.74 | **11.78** | 8.78 |
| Dolores | **1,052** | 916 | **3,030** | 2,406 | **27.49** | 23.02 | **25.80** | 20.21 |
| Huaron | **749** | 791 | **2,237** | 2,147 | **17.09** | 15.75 | **17.91** | 23.97 |
| Morococha[2] | **571** | 658 | **1,588** | 1,638 | **13.84** | 26.71 | **19.12** | 34.22 |
| San Vicente[3] | **1,036** | 1,335 | **3,060** | 2,866 | **15.02** | 17.44 | **16.87** | 18.71 |
| Manantial Espejo | **762** | 810 | **2,747** | 2,566 | **41.00** | 13.49 | **18.22** | 19.66 |
| **Consolidated Total[4]** | **6,230** | 6,921 | **19,078** | 19,042 | **20.50** | 16.26 | **18.02** | 18.86 |

(1) Please refer to the section Alternative Performance (Non-GAAP) Measures for a detailed description of AISCSOS.
(2) Representing 100% of the Morococha silver sold.
(3) Representing 100% of the San Vicente silver sold.
(4) Totals may not add due to rounding.

AISCSOS for the three and nine months ended September 30, 2014 were $20.50 and $18.02 per ounce, respectively, a 26% increase and a 4% decrease from the three and nine months ended September 30, 2013. Q3 2014 and YTD 2014 AISCSOS were negatively impacted by non-cash, net realizable value ("NRV") adjustments to inventory, which added $2.47 per ounce and $1.45 per ounce, respectively. Excluding this NRV adjustment, YTD 2014 AISCSOS of $16.57 per ounce reflects an 11% decrease from the comparable period of 2013, primarily due to higher by-product credits, lower sustaining capital and exploration expenses.

The following table sets out the Company's by-product production for the three and nine months ended September 30, 2014, together with the average price for each by-product metal produced, with comparable quantities and prices for the respective 2013 periods:

| | By-Product Production | | Average By-Product Prices | | By-Product Production | | Average By-Product Prices | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Gold – koz [1] | **34.1** | **41.6** | **$ 1,282** | $ **1,326** | **117.6** | **103.6** | **$ 1,288** | $ **1,456** |
| Zinc – kt[1] | **10.5** | **10.6** | **$ 2,311** | $ **1,859** | **33.3** | **30.9** | **$ 2,140** | $ **1,910** |
| Lead – kt[1] | **3.5** | **3.4** | **$ 2,181** | $ **2,102** | **11.1** | **10.0** | **$ 2,128** | $ **2,151** |
| Copper – kt[1] | **2.4** | **1.5** | **$ 6,994** | $ **7,073** | **6.0** | **3.9** | **$ 6,943** | $ **7,379** |

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

Consolidated gold production in Q3 2014 was 34.1 koz compared to 41.6 koz produced in Q3 2013. This 7.5 koz or 18% decrease was largely attributable to Dolores producing 6.2 koz less gold than in Q3 2013 as a result of expected reduced heap inventory drawdowns and lower grades.

Consolidated copper production increased 0.9 kilotonnes ("kt") from Q3 2013 levels, driven primarily by improved grades achieved at both the Huaron and Morococha mines, which produced 0.6 kt and 0.4 kt more copper than in Q3 2013, respectively. Consolidated zinc and lead production in Q3 2014 was comparable to Q3 2013 production levels.

Consolidated sustaining capital expenditures for Q3 2014 and for the YTD 2014 were $25.8 million and $74.9 million, respectively, in-line with the Company's guidance. The sustaining capital expenditures in both periods were largely comprised of exploration at La Colorada, Dolores, Huaron, Morococha and San Vicente; pre-stripping activities at Dolores and Manantial Espejo; underground infrastructure upgrades at Huaron and San Vicente; a primary underground ramp development at Morococha; and tailings facility expansions at La Colorada and Huaron. The project investment capital expenditures in Q3 2014 and YTD 2014 were $3.0 million and $29.1 million, respectively, and were primarily for the La Colorada expansion and Dolores Leach Pad 3 projects.

- ***La Colorada mine***

| | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Tonnes milled - kt | **118.9** | 113.7 | **351.7** | 331.0 |
| Average silver grade – grams per tonne | **365** | 325 | **363** | 347 |
| Average silver recovery - % | **89.7** | 89.0 | **89.9** | 89.9 |
| Silver[(1)] – koz | **1,253** | 1,056 | **3,693** | 3,320 |
| Gold – koz | **0.54** | 0.60 | **1.85** | 1.90 |
| Zinc – kt | **1.70** | 1.42 | **5.51** | 4.90 |
| Lead – kt | **0.81** | 0.73 | **2.72** | 2.46 |
| **Cash cost per ounces of silver net of by-product credits** | | | | |
| Cash costs per ounce net of by-products[(2)] | **$ 8.58** | $ 10.19 | **$ 8.33** | $ 9.89 |
| Total costs per ounce net of by-products [(2)] | **$ 10.53** | $ 12.04 | **$ 10.28** | $ 11.71 |
| Payable silver – koz | **1,206** | 1,011 | **3,554** | 3,173 |
| Sustaining capital expenditures – thousands[(3)] | **$ 4,173** | $ 1,252 | **$ 11,988** | $ 11,324 |

(1) Reported metal figures in the tables in this section are quantities of metal produced, unless otherwise noted.

(2) 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.

(3) Sustaining capital expenditures excluded $2.9 million and $10.4 million in Q3 2014 and YTD 2014, respectively, related to investment capital incurred on the expansion project as disclosed in the Project Development Update and Alternative Performance (Non-GAAP) Measures sections.

The **La Colorada** mine was the Company's largest silver producer during Q3 2014, with 1.3 million ounces produced in the quarter, up 19% from Q3 2013 silver production. The increase in silver production was primarily the result of improved grades and higher throughput rates.

Q3 2014 Cash Costs decreased 16% from those in Q3 2013, dropping from $10.19 per ounce to $8.58 per ounce. The decrease in Cash Cost was primarily due to higher payable silver production, ongoing cost control initiatives and larger by-product credits, driven by higher lead and zinc production which more than offset lower gold production.

Sustaining capital expenditures at La Colorada during Q3 2014 totalled $4.2 million. The sustaining capital was mainly spent on the tailings dam expansion, exploration drilling, equipment replacements and overhauls, and infrastructure upgrades. This capital excludes $2.9 million spent on the La Colorada expansion project during the quarter which is further described in the Q3 2014 Project Development Update section of this MD&A.

- ***Alamo Dorado mine***

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Tonnes milled– kt | | **476.3** | | 461.2 | | **1,281.6** | | 1,330.3 |
| Average silver grade – grams per tonne | | **62** | | 95 | | **80** | | 103 |
| Average gold grade – grams per tonne | | **0.31** | | 0.42 | | **0.36** | | 0.35 |
| Average silver recovery - % | | **78.7** | | 89.1 | | **80.6** | | 88.1 |
| Silver – koz | | **674** | | 1,252 | | **2,608** | | 3,840 |
| Gold – koz | | **3.61** | | 4.59 | | **11.89** | | 11.66 |
| Copper – tonnes | | **-** | | 30 | | **20** | | 70 |
| **Cash cost per ounces of silver net of by-product credits** | | | | | | | | |
| Cash costs per ounce net of by-products [1] | **$** | **17.04** | $ | 6.76 | **$** | **12.50** | $ | 7.01 |
| Total costs per ounce net of by-products [1] | **$** | **21.48** | $ | 10.43 | **$** | **16.06** | $ | 10.71 |
| Payable silver – koz | | **671** | | 1,243 | | **2,595** | | 3,814 |
| Sustaining capital expenditures – thousands | **$** | **22** | $ | **2,282** | **$** | **226** | $ | **7,079** |

[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 **Alamo Dorado** during Q3 2014 continued to decline as expected relative to production for the same period last year. With relatively consistent throughput, the decreased production was mainly the result of 35% lower silver grades and 12% reduced recoveries.

Cash Costs for Q3 2014 were $17.04 per ounce, a significant increase from the $6.76 Cash Costs in Q3 2013. The increased Cash Costs were primarily the result of a 46% decrease in silver production despite processing slightly higher volumes of ore at increased mining costs. Similarly, gold by-product credits were 26% lower in Q3 2014 than a year earlier, primarily due to expected decreases in gold grades and recovery.

In contrast to Q3 2013 when approximately $2.3 million was capitalized for waste pre-stripping, there were no significant sustaining capital expenditures at Alamo Dorado during Q3 2014.

- ***Dolores mine***

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Tonnes milled – kt | **1,376.0** | 1,433.1 | **4,441.9** | 4,128.7 |
| Average silver grade – grams per tonne | **41** | 54 | **39** | 48 |
| Average gold grade – grams per tonne | **0.49** | 0.52 | **0.42** | 0.47 |
| Average silver recovery - % | **53.0** | 40.2 | **54.8** | 40.2 |
| Average gold recovery - % | **71.7** | 90.1 | **81.8** | 79.9 |
| Silver – koz | **966** | 997 | **3,028** | 2,580 |
| Gold – koz | **15.44** | 21.64 | **48.83** | 49.63 |
| **Cash cost per ounces of silver net of by-product credits** | | | | |
| Cash costs per ounce net of by-products [1] | **$ 14.57** | $ 5.70 | $ **12.92** | **$** 5.22 |
| Total costs per ounce net of by-products [1] | **$ 18.80** | $ 19.37 | $ **26.18** | **$** 18.89 |
| Payable silver – koz | **963** | 994 | **3,018** | 2,574 |
| Sustaining capital expenditures - thousands [2] | $ **6,824** | $ 13,538 | **19,670** | $ 28,314 |

[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] Sustaining capital expenditures excludes $0.1 million and $18.7 million in Q3 2014 and YTD 2014, respectively, related to investment capital incurred on projects discussed below, and in the Project Development Update and Alternative Performance (Non-GAAP) Measures sections.

In Q3 2014 the **Dolores** mine produced 1.0 million ounces of silver and 15.4 koz of gold representing a 3% and 29% decrease from silver and gold production in Q3 2013, respectively. With relatively consistent throughput rates, silver production remained steady with improved silver recoveries compensating for reduced silver grades from those achieved in Q3 2013. Silver recoveries continued to benefit from a multi-stage leach process drawing down heap inventories, as well as the increased heap leach surface area on pad 3, which allows for longer primary leach cycle times. Gold recoveries reduced as expected in Q3 2014 with the drawdown of the gold inventory from the introduction of staged leaching early in 2014 that has been largely realized in the previous quarters.

Cash Costs increased from $5.70 in Q3 2013 to $14.57 in Q3 2014. More than off-setting decreased costs attributable to an inventory gain, the increase in cash cost was almost entirely attributable to decreased by-product credits per payable silver ounce, which in turn was directly correlated to both the 29% decrease in gold production and a 3% decline in gold prices from Q3 2013 levels. The Q3 2014 Cash Costs, although higher than those in Q3 2013, were in-line with both the Company’s guidance and with Cash Costs in recent quarters. The increase in the YTD Cash Costs was similarly attributable to reduced gold by-product credits on significantly lower prices as well as an inventory adjustment made in Q2 2013, which benefited YTD 2013 Cash Costs.

Sustaining capital expenditures at Dolores in Q3 2014 totalled $6.8 million which was mainly spent on stripping activities. This capital excludes $0.1 million in project capital spent during the quarter on Dolores project development, which is further described in the Q3 2014 Project Development Update section of this MD&A.

- ***Huaron mine***

| | Three month ended September 30, 2014 | | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Tonnes milled – kt | **225.9** | 207.2 | **656.1** | 583.6 |
| Average silver grade – grams per tonne | **155** | 162 | **153** | 160 |
| Average zinc grade - % | **2.31** | 2.76 | **2.43** | 2.60 |
| Average silver recovery - % | **83.5** | 81.4 | **83.5** | 81.8 |
| Silver – koz | **933** | 872 | **2,683** | 2,418 |
| Gold – koz | **0.29** | 0.24 | **0.86** | 0.67 |
| Zinc – kt | **3.32** | 3.94 | **10.83** | 10.51 |
| Lead – kt | **1.37** | 1.52 | **4.40** | 4.36 |
| Copper – kt | **1.55** | 0.99 | **4.17** | 2.41 |
| **Cash cost per ounces of silver net of by-product credits** | | | | |
| Cash costs per ounce net of by-products [(1)] | **$ 7.63** | $ 12.85 | **$ 8.45** | $ 15.21 |
| Total costs per ounce net of by-products [(1)] | **$ 11.52** | $ 16.90 | **$ 12.44** | $ 19.24 |
| Payable silver – koz | **800** | 765 | **2,301** | 2,123 |
| Sustaining capital expenditures - thousands | **$ 4,109** | $ 2,523 | $ **12,356** | $ 12,455 |

(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 Q3 2014, **Huaron** produced 0.9 million ounces of silver, 7% ahead of the production level achieved in Q3 2013. Silver production increased due to 9% higher throughput rates and a 3% improvement in recoveries, partially offset by a 4% decline in silver grades.

Cash Costs in Q3 2014 were $7.63, which was 41% lower than the $12.85 per ounce Cash Costs realized in Q3 2013. The majority of the improvement in Cash Costs arose from higher by-product credits, primarily from a 56% increase in copper production as well as from a 10% decrease in smelting and refining costs.

Sustaining capital expenditures during Q3 2014 totaled $4.1 million at the Huaron mine, which was comprised mainly of exploration, tailings dam expansion, equipment rebuilds and overhauls, and upgraded mine water-flow management infrastructure.

- ***Morococha mine***[(1)]

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Tonnes milled – kt | | **145.2** | | 142.4 | | **417.4** | | 430.3 |
| Average silver grade – grams per tonne | | **156** | | 168 | | **154** | | 145 |
| Average zinc grade - % | | **3.82** | | 3.24 | | **3.78** | | 3.03 |
| Average silver recovery - % | | **86.8** | | 89.4 | | **86.3** | | 87.8 |
| Silver – koz | | **637** | | 675 | | **1,767** | | 1,754 |
| Gold – koz | | **0.95** | | 0.54 | | **2.02** | | 1.74 |
| Zinc – kt | | **4.38** | | 3.81 | | **12.51** | | 10.85 |
| Lead – kt | | **1.27** | | 0.97 | | **3.65** | | 2.82 |
| Copper – kt | | **0.87** | | 0.51 | | **1.82** | | 1.38 |
| **Cash cost per ounces of silver net of by-product credits** | | | | | | | | |
| Cash costs per ounce net of by-products [(2)] | **$** | **6.86** | $ | 15.89 | **$** | **12.10** | $ | 19.59 |
| Total costs per ounce net of by-products [(2)] | **$** | **15.27** | $ | 23.31 | **$** | **21.14** | $ | 28.24 |
| Payable silver – koz | | **543** | | 582 | | **1,498** | | 1,506 |
| Sustaining Capital Expenditures - thousands | **$** | **2,140** | $ | 3,387 | $ | **7,050** | $ | 15,829 |

(1) Production and cost figures are for Pan American's 92.3% share only.

(2) 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 0.6 million ounces of silver during Q3 2014, a 6% decrease from the 0.7 million ounces produced in the comparable 2013 quarter. The slight decrease in silver production was attributable to lower silver grades and recoveries.

Cash Costs in Q3 2014 were $6.86, 57% lower than the $15.89 per ounce incurred in the same quarter a year earlier. The decreased Cash Costs were entirely due to improved by-product credits, which were predominantly the result of superior copper, zinc and lead grades.

Sustaining capital expenditures during Q3 2014 totalled $2.1 million at the Morococha mine. The capital spending was primarily on underground development, equipment rebuild and overhauls, and exploration drilling.

- ***San Vicente mine***[(1)]

| | Three months ended September 30, 2014 | | Three months ended September 30, 2013 | | Nine months ended September 30, 2014 | | Nine months ended September 30, 2013 |
|---|---|---|---|---|---|---|---|
| Tonnes milled – kt | | **67.9** | | 80.9 | | **230.9** | 239.7 |
| Average silver grade – grams per tonne | | **373** | | 433 | | **403** | 411 |
| Average zinc grade - % | | **2.13** | | 2.26 | | **2.47** | 2.44 |
| Average silver recovery - % | | **92.3** | | 94.2 | | **92.7** | 94.0 |
| Silver – koz | | **755** | | 1,061 | | **2,776** | 2,974 |
| Zinc – kt | | **1.11** | | 1.40 | | **4.45** | 4.61 |
| Lead – kt | | **0.06** | | 0.16 | | **0.35** | 0.40 |
| **Cash cost per ounces of silver net of by-product credits** | | | | | | | |
| Cash costs per ounce net of by-products (2) | **$** | **16.05** | $ | 13.14 | **$** | **13.71** | $ 15.84 |
| Total costs per ounce net of by-products (2) | **$** | **18.64** | $ | 15.61 | **$** | **16.01** | $ 18.40 |
| Payable silver – koz | | **690** | | 970 | | **2,553** | 2,708 |
| Sustaining capital expenditures - thousands | **$** | **828** | $ | 3,177 | $ | **2,423** | $ 6,302 |

(1) Production and interest figures are for Pan American's 95.0% share only.

(2) 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 Q3 2014 was 0.8 million ounces, a 0.3 million ounce or 29% decrease from silver production in Q3 2013. The production decrease resulted primarily from a two-week long shutdown during a strike in July 2014 as well as an unusually large final settlement adjustment to silver production from concentrate assaying reconciliations related to previous periods.

Cash Costs at San Vicente were $16.05 per ounce, $2.89 higher than the $13.14 Cash Costs incurred in the comparable quarter of 2013. The increase in Cash Costs was primarily driven by a 29% decrease in silver production as previously discussed in the consolidated results section. Although total operating costs, including royalties and smelter costs, declined by 11% from costs incurred in Q3 2013, and by-products credits remained similar to Q3 2013 levels, Cash Costs increased as a consequence of significantly lower silver production.

Sustaining capital expenditures at San Vicente during Q3 2014 totaled $0.8 million and consisted mainly of exploration, equipment replacements and overhauls, and underground mine infrastructure upgrades.

- ***Manantial Espejo mine***

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Tonnes milled – kt | **203.4** | 187.0 | **586.5** | 528.2 |
| Average silver grade – grams per tonne | **164** | 143 | **162** | 147 |
| Average gold grade – grams per tonne | **2.13** | 2.41 | **2.80** | 2.32 |
| Average silver recovery - % | **92.5** | 89.5 | **92.1** | 90.9 |
| Average gold recovery - % | **94.7** | 94.9 | **95.2** | 94.7 |
| Silver – koz | **972** | 782 | **2,812** | 2,273 |
| Gold – koz | **13.23** | 13.95 | **52.19** | 37.99 |
| **Cash cost per ounces of silver net of by-product credits** | | | | |
| Cash costs per ounce net of by-products [1] | **$ 15.54** | $ 12.55 | **$ 8.88** | $ 12.43 |
| Total costs per ounce net of by-products [1] | **$ 27.82** | $ 26.74 | **$ 19.26** | $ 23.76 |
| Payable silver – koz | **970** | 781 | **2,806** | 2,268 |
| Sustaining capital expenditures - thousands | **$ 7,706** | $ 3,385 | **$ 21,198** | $ 7,640 |

(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 Q3 2014 was 1.0 million ounces, a 24% increase from the 0.8 million ounces produced in Q3 2013. The improved silver production was the result of a 9% increase in throughput, a 15% increase in silver grades, and a 3% increase in silver recoveries. Gold production of 13.23 koz was 5% lower than the 13.95 koz produced in Q3 2013 from lower grades partially offset by increased throughput.

Cash Costs increased by $2.99 per ounce from $12.55 in Q3 2013, to $15.54 in Q3 2014. The Cash Cost increase was the result of a $6.67 per ounce reduction in gold by-product credits, which was driven by a 5% decrease in gold production and a 3% decline in gold prices from Q3 2013 as well as significant increases in costs caused by reducing ore stockpile inventories in Q3 2014 as compared to increasing the stockpiles during Q3 2013.

Sustaining capital expenditures at Manantial Espejo during Q3 2014 totalled $7.7 million and consisted mainly of open pit mine pre-stripping.

## 2014 OUTLOOK

Consolidated silver production of 19.4 million ounces for the nine months ended September 30, 2014 was within production rates required to achieve management's full year silver forecast range of 25.75 to 26.75 million ounces as indicated in the Company's MD&A for the year ended December 31, 2013 (the "2013 annual MD&A").

Gold production of 117.6 koz for the nine months ended September 30, 2014 was consistent with management's expected production rates required to achieve annual production of between 155.0 koz and 165.0 koz. Base metal production in the first nine months of 2014 was ahead of management's expectations. Based on the Company's operating plans for the balance of 2014, management remains confident that the full year's gold production will be within guidance ranges provided in the 2013 Annual MD&A, and is increasing guidance for base metal production to approximately 44 kt of zinc, 15kt of lead and 8kt of copper. These represent increases above the mid-point of previous guidance of 7% for zinc, 14% for lead and 47% for copper.

Cash Costs for the nine months ended September 30, 2014 of $10.83 per ounce were lower than management's forecast range of $11.70 to $12.70 per ounce for the full year 2014. Actual AISCSOS for the first nine months of 2014, inclusive of $1.45 per ounce non-cash NRV charge, were $18.02, which was close to management's guidance range of $17.00 to $18.00 per silver ounce for the full 2014 year. At the date of this MD&A, management reaffirms the guidance for Cash Costs and AISCSOS for the full year of 2014 as presented in the 2013 Annual MD&A. Management has not included the potential for further negative NRV adjustment during the fourth quarter of 2014 in our AISCSOS guidance.

Total sustaining capital for the three and nine months ended September 30, 2014 was $25.8 million and $74.9 million, respectively. This level of sustaining capital spending was in line with management's guidance of $95.5 million for the full 2014 year. Project capital expenditures for the three and nine months ended September 30, 2014 totaled $3.0 million and $29.1 million, respectively. Management now expects project capital expenditures for 2014 to be approximately $50.0 million, lower than original guidance of $67.0 million.

The decline in market prices for precious metals experienced up to September 30, 2014 and subsequent will be considered by Management when selecting precious metal prices assumed for the purpose of estimating reserves and resources as of December 31, 2014. A decrease from previously assumed precious metal prices (December 31, 2013: silver, $22.00 per ounce; and, gold $1,200 per ounce) is likely to reduce the Company's estimate for reserves and resources at some of its assets. This along with decreases to forecasted metal prices could have a significant negative effect on valuation models used by the Company to assess asset impairment. The decision on 2014 reserve metal prices is typically determined in the later part of the fourth quarter. A decrease in precious metal prices could also result in significant negative provisional price adjustments and in further inventory write downs in the fourth quarter.

## Q3 2014 PROJECT DEVELOPMENT UPDATE

- ***La Colorada Expansion Project***

The La Colorada expansion project progressed as planned in Q3 2014 with $2.9 million expended in the quarter, bringing the year-to-date expenditure total to $10.4 million. The expansion project remains on schedule and on budget. Civil works to prepare the future shaft location for construction commenced during Q3 2014, and detailed proposals and cost estimates for the shaft sinking and associated surface construction were solicited. Requests for quotes on the new hoist were issued in the quarter in order to be in a position to award a purchase order in the fourth quarter of 2014. Additional Q3 2014 La Colorada project activities included continued site infrastructure construction, and completion of basic engineering for the new plant site, with the equipment orders, detailed engineering, and fabrication scheduled to begin in the fourth quarter of 2014. Negotiations continued with the Mexican power authorities regarding a new 115 kV power line to the site.

- ***Dolores Capital Projects***

The Company spent a total of $0.1 million on Dolores projects during Q3 2014, bringing the year-to-date total Dolores projects expenditure to $18.7 million. Construction on the Leach Pad 3 expansion was minimal during the quarter, as construction activities were suspended due to the arrival of the rainy season. Third quarter Dolores project activities and expenditures were primarily related to the new power line construction project which included: completing negotiations with land owners regarding power line right of way, executing an agreement whereby the state power supply company will take ownership of the power line upon its completion as required in Mexico; and, the progression of environmental impact assessments, which are expected to be completed and submitted for regulatory approvals in the fourth quarter of 2014.

## OVERVIEW OF FINANCIAL RESULTS

- ***Quarterly financial results summary***

The following tables set out selected quarterly results for the past eleven quarters, which are stated in thousands of USD, except for the per share amounts. The dominant factors affecting results in the quarters presented is volatility of realized metal prices, 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 2012 Minefinders acquisition. 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 (In thousands of USD, other than per share amounts)** | | **March 31** | | **June 30** | **Sept 30** |
|---|---|---|---|---|---|
| Revenue | $ | 209,734 | $ | 200,847 | 178,265 |
| Mine operating earnings | $ | 31,576 | $ | 10,245 | (12,378) |
| Attributable earnings for the period | $ | 6,844 | $ | (5,472) | (20,254) |
| Adjusted earnings for the period(1)(2) | $ | 12,827 | $ | 1,817 | (14,262) |
| Basic earnings per share | $ | 0.05 | $ | (0.04) | (0.13) |
| Diluted earnings per share | $ | 0.05 | $ | (0.04) | (0.15) |
| Cash flow from operating activities | $ | 36,125 | $ | 48,737 | 38,345 |
| Cash dividends paid per share | $ | 0.125 | $ | 0.125 | 0.125 |
| *Other financial information* | | | | | |
| Total assets | $ | 2,730,962 | $ | 2,729,388 | 2,672,520 |
| Total long term financial liabilities | $ | 110,351 | $ | 115,406 | 111,478 |
| Total attributable shareholders' equity | $ | 2,170,458 | $ | 2,146,184 | 2,107,243 |

(1) In Q2 2014 the Company began excluding net realizable value adjustments to long term heap inventory from adjusted earnings, and as such certain prior period adjusted earnings have been revised to reflect this treatment. As a result adjusted earnings for the three month period ended March 31, 2014 increased by $4,273 from the $ 8,554 earnings previously reported.

(2) Adjusted attributable 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.

| **Quarters Ended (unaudited) 2013 (In thousands of USD, other than per share amounts)** | | **March 31** | | **June 30** | | **Sept 30** | | **Dec 31** | | **Year Ended Dec 31** |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ | 243,012 | $ | 175,576 | $ | 213,556 | **$** | 192,360 | $ | 824,504 |
| Mine operating earnings | $ | 74,816 | $ | 3,814 | $ | 33,934 | **$** | 18,955 | $ | 131,519 |
| Attributable earnings (loss) for the period | $ | 20,148 | $ | (186,539) | $ | 14,154 | **$** | (293,615) | $ | (445,851) |
| Adjusted earnings (loss) for the period(1)(2) | $ | 38,602 | $ | (18,629) | $ | 12,154 | **$** | (77,648) | $ | (42,844) |
| Basic earnings (loss) per share | $ | 0.13 | $ | (1.23) | $ | 0.09 | **$** | (1.94) | $ | (2.94) |
| Diluted earnings (loss) per share | $ | 0.10 | $ | (1.23) | $ | 0.09 | **$** | (1.94) | $ | (2.96) |
| Cash flow from operating activities | $ | 32,251 | $ | 469 | $ | 40,730 | **$** | 46,156 | $ | 119,606 |
| Cash dividends paid per share | $ | 0.125 | $ | 0.125 | $ | 0.125 | **$** | 0.125 | $ | 0.50 |
| *Other financial information* | | | | | | | | | | |
| Total assets | | | | | | | | | $ | 2,767,456 |
| Total long term financial liabilities | | | | | | | | | $ | 110,088 |
| Total attributable shareholders' equity | | | | | | | | | $ | 2,182,334 |

(1) In Q2 2014 the Company began excluding net realizable value adjustments to long term heap inventory from adjusted earnings, and as such certain prior period adjusted losses have been revised to reflect this treatment. As a result the adjusted losses for the three and twelve month periods ended December 31, 2014 decreased by $6,658 from the $(84,306) and $(49,502) adjusted losses previously reported for these periods, respectively.

(2) Adjusted attributable 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.

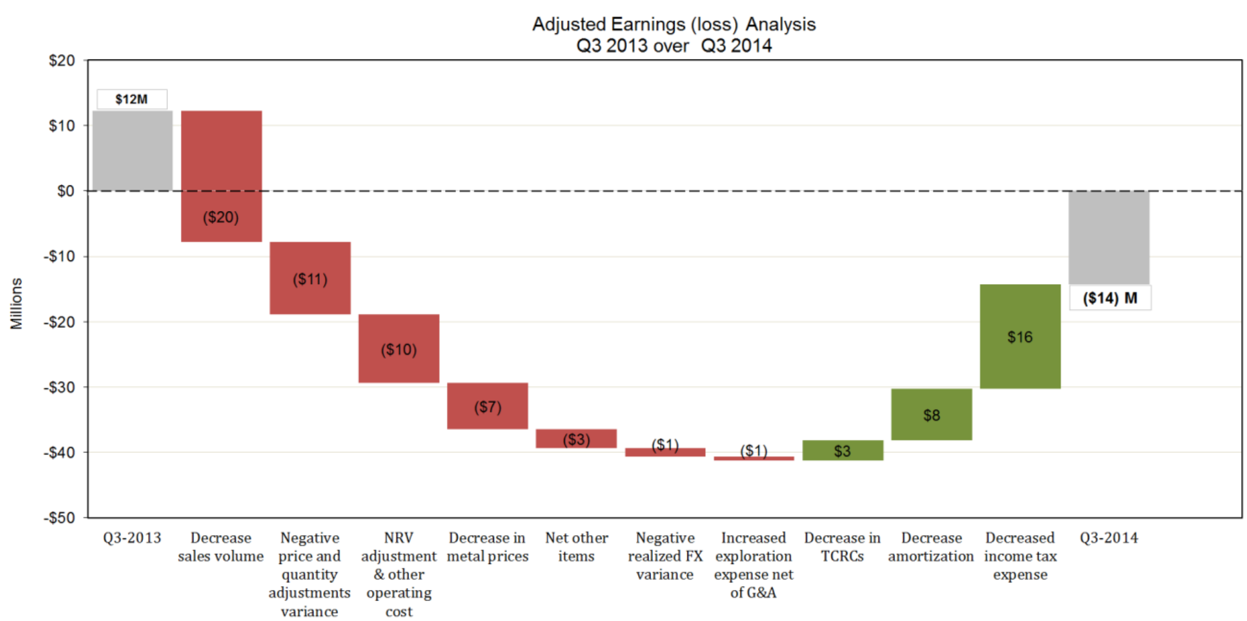
| Quarters Ended (unaudited) 2012 (In thousands of USD, other than per share amounts) | March 31 | June 30 | Sept 30 | Dec 31 | Year Ended Dec 31 |
|---|---|---|---|---|---|
| Revenue | $ 228,819 | $ 200,597 | $ 251,843 | $ 247,335 | $ 928,594 |
| Mine operating earnings[3] | $ 101,896 | $ 51,517 | $ 65,440 | $ 85,091 | $ 303,944 |
| Attributable earnings (loss) for the period[3] | $ 49,883 | $ 36,920 | $ 22,582 | $ (31,185) | $ 78,200 |
| Adjusted attributable earnings for the period[1][2] | $ 68,781 | $ 8,108 | $ 37,548 | $ 54,110 | $ 168,547 |
| Basic earnings (loss) per share[3] | $ 0.47 | $ 0.24 | $ 0.15 | $ (0.20) | $ 0.56 |
| Diluted earnings (loss) per share[3] | $ 0.47 | $ 0.18 | $ 0.15 | $ (0.25) | $ 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) Adjusted attributable 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.

(2) 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 Note 6 of the audited consolidated financial statements for the year ended December 31, 2013 for full details of the recast results.

- ***Adjusted (Loss) Earnings***

The Q3 2014 adjusted loss was $14.3 million compared to an adjusted earnings of $12.2 million in Q3 2013. Adjusted earnings of $0.4 million were generated in the nine months ended September 30, 2014 compared to the adjusted earnings of $34.8 million in same period of 2013. The following graph illustrates the key factors leading to the changes to adjusted earnings from Q3 2013 to Q3 2014.




Please refer to the "Alternative Performance (Non-GAAP) Measures" section of this MD&A for a description and detailed reconciliation of adjusted earnings.

- ***Income Statement Review: Q3 2014 versus Q3 2013, and YTD 2014 versus YTD 2013***

***A net loss*** of $20.2 million was recorded in Q3 2014 compared to net income of $14.2 million recorded in Q3 2013. This translated into a basic (loss)/earnings per share of $(0.13) in Q3 2014, and $0.09 in Q3 2013. The primary differences between these periods which resulted in the decreased net income was a negative $46.3 million mine operating earnings variance, a negative $11.6 million foreign exchange variance, partially offset by $16 million and $6.6 million positive variances for income taxes and commodity contract losses, respectively.

The YTD 2014 net loss was $19.1 million compared to $152.8 million for YTD 2013. These losses translated into basic losses per share of $0.12 and $1.00 for YTD 2014 and YTD 2013, respectively. The significant difference between these periods resulted primarily from a $203.4 million mineral property asset impairment charge incurred in 2013 with no such charge in 2014. Other significant items driving the difference was a negative $83.1 million variance in mine operating earnings, a negative $13.9 million variance in derivative gains recognized, offset by a $23.3 million positive variance in income tax provisions.

***Revenue*** for Q3 2014 was $178.3 million, a 17% decrease from Q3 2013 revenue of $213.6 million. This decrease was driven by a negative $20.0 million volume variance, due to lower quantities of metals sold; a negative $7.1 million price variance, resulting from lower realized silver and gold prices; and, a negative $8.2 million variance in concentrate sales settlement adjustments, comprised largely of price and quantity adjustments.

Revenue for YTD 2014 was $588.8 million compared to the YTD 2013 revenue of $632.1 million. The decrease in YTD revenue was primarily due to a $107.1 million negative price variance from lower realized silver and gold prices, offset by a positive $46.9 variance from increased quantities of metal sold, and a $16.9 million variance attributable to concentrate settlement adjustments.

| | Quantities of Payable Metal Sold | | Realized Metal Prices | | Quantities of Payable Metal Sold | | Realized Metal Prices | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Silver – koz[(1)] | 6,230 | 6,921 | $ 18.82 | $ 20.52 | 19,078 | 19,042 | $ 19.47 | $ 24.31 |
| Gold – koz[(1)] | 32.6 | 39.7 | $ 1,284 | $ 1,319 | 122.4 | 101.6 | $ 1,286 | $ 1,443 |
| Zinc – kt[(1)] | 10.3 | 10.8 | $ 2,299 | $ 1,862 | 29.1 | 28.1 | $ 2,139 | $ 1,907 |
| Lead – kt[(1)] | 3.6 | 3.4 | $ 2,207 | $ 2,100 | 10.6 | 9.6 | $ 2,126 | $ 2,140 |
| Copper – kt[(1)] | 1.9 | 1.4 | $ 6,986 | $ 7,146 | 5.1 | 3.4 | $ 6,918 | $ 7,377 |

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

***Mine operating (loss) earnings*** in Q3 2014 was a loss of $12.4 million compared to Q3 2013 mine operating earnings of $33.9 million. Mine operating earnings are equal to revenue less cost of sales, which is considered to be substantially the same as gross margin. The primary driver of the $46.3 decrease in margin was the previously discussed $35.3 million decrease in third quarter revenues. Further contributing to the decrease in mine operating earnings was a $20.8 million increase in production costs arising mainly from $15.4 million in costs related to non-cash NRV inventory adjustments being recognized in Q3 2014, where Q3 2013 recognized the benefit of a $8.7 million NRV reversal. Offsetting the increase production costs was $7.9 million less in depreciation expense being recognized in Q3 2014 compared to Q3 2013 as a result of lower quantities of metals sold during Q3 2014 compared to Q3 2013.

Mine operating earnings for the YTD 2014 totaled $29.4 million, an $83.1 million decrease from the $112.6 million earned for the same period in 2013. Similar to the quarterly variance, the decreased margin arose primarily from the previously discussed $43.3 decrease in revenue resulting primarily from decreased realized metal prices. Also contributing to the decreased margin was a $34.9 million increase in production costs attributable to the increased quantity of metals sold, and inventory valuation adjustments recognized in 2014.

***General and administrative*** ("G&A") costs including share based compensation in Q3 2014 were $3.6 million comparable to the $3.9 million of G&A incurred in Q3 2013. Similarly, G&A of $14.9 million for the YTD 2014 was comparable to the $14.4 million of G&A in YTD 2013.

***Exploration and project development*** expenses of $3.6 million were incurred in Q3 2014 compared to $2.6 million in Q3 2013, while YTD 2014 expenses were $8.9 million, $5.5 million less than the $14.5 million expensed in YTD 2013. The decreased YTD 2014 exploration compared to YTD 2013 was the result of management determining that exploration expense reduction was appropriate given the decline in metal prices experienced in mid-2013. The relatively comparable Q3 2014 and Q3 2013 expense reflects the expenditure reduction decision in place during both quarters. The expenses recorded in YTD 2014 were incurred in the vicinity of the Company's existing mines, at select greenfield projects, and on holding and maintenance costs associated with the Navidad project and other exploration projects. As with previous quarters in the year there were no significant developments that affected the status of the Navidad project in the current quarter.

***Foreign exchange losses*** of $6.7 million were recognized in Q3 2014, compared to gains of $5.0 million in Q3 2013. The Q3 2014 foreign exchange losses were mainly generated on the Company's Canadian dollar ("CAD") treasury balances, and resulted from the CAD depreciating approximately 5% against the USD during the quarter. Conversely the CAD appreciated 2% against the USD during Q3 2013 which resulted in the foreign exchange gain recognized on CAD treasury balances held during that quarter, which were approximately 45% higher than those held in Q3 2014. The foreign exchange losses of $8.8 million recognized YTD 2014 were comparable to the $8.7 million losses for YTD 2013, and were largely the result of a 5% and 1% depreciation of the CAD against the USD in YTD 2014 and YTD 2013, respectively.

***Interest and finance expense*** for Q3 2014 and YTD 2014 were $1.2 million and $7.4 million, respectively, compared to $3.2 million and $7.4 million incurred Q3 2013 and YTD 2013, respectively. These expenses consist 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 tax,*** which is comprised of both current and deferred income taxes, was a $4.3 million recovery in Q3 2014 compared to $11.7 million income tax expense in Q3 2013. There was a $12.8 million income tax expense for YTD 2014 compared to a $36.1 expense recorded in YTD 2013. The decreases to income tax expense in the 2014 periods compared to 2013 periods was primarily the result of decreased taxable earnings, and from the effects of various temporary and permanent differences as shown in the Canadian statutory income tax rate reconciliation table below.

The main factors that affected the effective tax rates for Q3 2014 and YTD 2014 compared to the corresponding periods of 2013, were: foreign income tax rate differentials, foreign exchange rate changes, the non-recognition of certain deferred tax assets, mining taxes paid, and withholding tax on payments from foreign subsidiaries. Further, in YTD 2013 the Company recorded a non-cash impairment charge on goodwill related to Dolores and other Minefinders' exploration properties, with no such charge in YTD 2014. No tax benefit was recognized for these transactions. The Company continues to expect that these and other factors will continue to cause volatility in effective tax rates in the future.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Income before taxes | **(24,474)** | 25,921 | **(6,272)** | (116,692) |
| Statutory tax rate | **26.00%** | 25.75% | **26.00%** | 25.75% |
| Income tax expense based on above rates | **$ (6,364)** | $ 6,675 | **$ (1,631)** | $ (30,048) |
| Increase (decrease) due to: | | | | |
| Non-deductible expenses | **1,245** | 687 | **2,981** | 3,624 |
| Foreign tax rate differences | **(3,351)** | 89 | **(3,441)** | (8,420) |
| Change in net deferred tax assets not recognized: | | | | |
| - Argentina exploration expenses | **624** | 451 | **1,400** | 1,736 |
| - Other deferred tax assets not recognized | **10** | 1,124 | **337** | 2,498 |
| Non-taxable unrealized (gains)/losses on derivative financial instruments | **(583)** | (344) | **(416)** | (3,983) |
| Effect of other taxes paid (mining and withholding) | **2,200** | 1,403 | **6,693** | 8,190 |
| Non- deductible foreign exchange (gain)/loss | **469** | 208 | **74** | 1,886 |
| Change to temporary differences on inventory | **-** | - | **2,647** | - |
| Effect of change in deferred tax resulting from prior asset purchase accounting under IAS12 | **411** | 1,107 | **2,200** | 2,587 |
| Impairment charges | **-** | - | **-** | 59,938 |
| Other | **1,042** | 285 | **1,980** | (1,917) |
| | **$ (4,297)** | $ 11,685 | **$ 12,824** | $ 36,091 |
| Effective tax rate | **17.56%** | 45.08% | **(204.46)%** | (30.93)% |

- ***Statement of Cash Flows: Q3 2014 versus Q3 2013, and YTD 2014 versus YTD 2013***

***Cash flow from operations*** generated $38.3 million and $123.4 million in Q3 2014 and YTD 2014, respectively. This represents a decrease of $2.4 million and an increase of $49.9 million from the corresponding periods in the prior year. Operating cash flows in Q3 2014 remained similar to the comparable period as lower cash flows from mine operating earnings were largely offset by a positive release of working capital items (including net realizable value inventory adjustments) of $29.9 million, whereas working capital movements used $13.6 million in Q3 2013. The release of working capital in Q3 2014 was primarily comprised of a decrease in trade receivables of $ 28.0 million, partially offset by a decrease in accounts payable of $14.9 million.

For YTD 2014, lower cash flow from mining operations was offset by positive working capital movements and by much lower tax payments relative to the comparable period, resulting in an increase in net cash generated from operating activities. During YTD 2014, $25.4 million was paid in cash income taxes, $50.4 million less than the $75.9 million paid during YTD 2013 as a result of lower taxable income generated in YTD 2014.

***Investing activities*** used $47.5 million and $149.6 million in Q3 2014 and YTD 2014, respectively. In Q3 2013 and YTD 2013 investing activities used $50.9 million, and $138.7 million, respectively. Q3 2014 investing activity cash flows included capital spending on mineral property, plant and equipment of $27.9 million as compared to $41.7 million spent in the comparable quarter of 2013. In addition, $19.0 million of purchases of short term investments were made in Q3 2014, compared to purchases of short term investments of $7.5 million in Q3 2013.

Included in YTD 2014 investing activity cash flow was cash used for capital investment in mineral property, plant and equipment of $101.6 million, which was $24.1 million less than the capital investments in YTD 2013, partially offset by an additional $7.7 million of asset sale proceeds in YTD 2013 that did not occur in YTD 2014. In addition, $47.2 million was used in YTD 2014 on the purchases of short term investments, $25.9 million more than the $21.3 million used for purchases in YTD 2013.

***Financing activities*** used $9.4 million in Q3 2014 and $63.0 million in YTD 2014 inclusive of $18.9 million and $56.8 million of dividend payments, respectively. Dividend payments remained the same as those paid during the comparable periods of 2013. During Q3 2014, net proceeds from short term loans of $9.9 million were drawn, relating primarily to short-term Argentinean debt, which compared to a $1.8 million repayment in Q3 2013. During YTD 2014, $5.8 million of net repayments of loans and leases were made, compared to $9.0 million of net repayments during YTD 2013.

# INVESTMENTS AND INVESTMENT

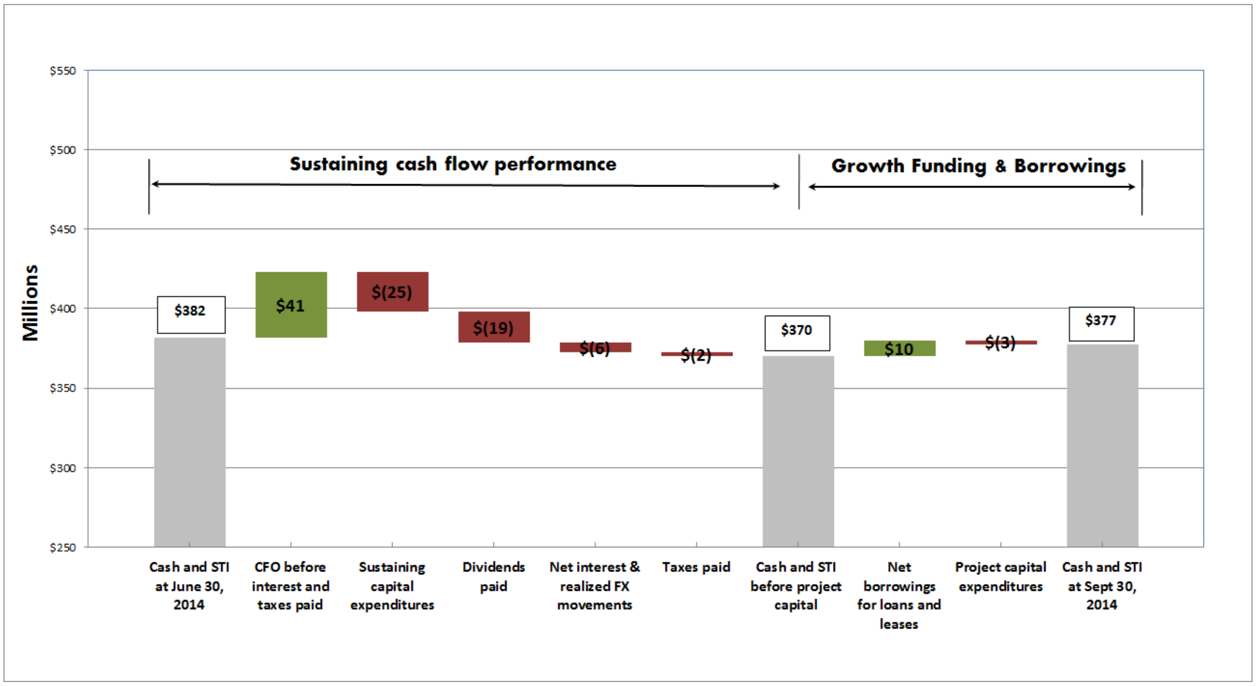
At the end of current quarter, cash plus short-term investments were $377.5 million ($381.6 million at June 30, 2014), as described in the "Liquidity Position" section below.

Pan American's investment objectives for its cash balances are to preserve capital, to provide liquidity and to maximize return. 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 Q3 2014 and YTD 2014 totalled $1.1 million and $2.3 million, respectively, compared to $0.8 million in Q3 2013 and $3.7 million YTD 2013, and consisted mainly of interest income and net gains from the sale of securities within the Company's short-term investment portfolio.

# LIQUIDITY POSITION

The Company's cash balance at September 30, 2014 was $160.0 million, which was a $19.0 million decrease from the balance at June 30, 2014, while the Company's short-term investments balance at September 30, 2014 was $217.5 million, a $14.8 million increase from the prior quarter end. The $4.1 million decrease in cash and short-term investment liquidity during Q3 2014 resulted primarily from the $48.3 million of cash generated from operations plus short term loan proceeds net of repayments, offset by $27.9 million investment in property, plant and equipment, $18.9 million in dividend payments, and $2.6 million in construction and lease payments. The Company does not own any asset-backed commercial paper or other similar, known, at-risk investments in its investment portfolio.




Working capital at September 30, 2014 was $607.0 million, a decrease of $40.5million from the June 30, 2014 working capital of $647.5 million. The decrease in working capital was mainly due to a $31.1 million decrease in receivables, a $12.5 million decrease in inventories, the $4.1 million decrease in cash and short term investments discussed above, offset by $4.9 million increases in net taxes receivable, and a $4.3 million decrease in current liabilities, excluding current income tax liabilities.

The Company's financial position at September 30, 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 shareholders' equity at September 30, 2014 was $2,107.2 million, a decrease of $38.9 million from June 30, 2014, primarily as a result of the dividends paid and the net loss recorded for the period. As of September 30, 2014, the Company had approximately 151.5 million common shares outstanding for a share capital balance of $2,295.3 million, compared to 151.5 million common shares for a share capital balance of $2,295.3 million as of June 30, 2014. The basic weighted average number of common shares outstanding was 151.5 million and 151.4 million for Q3 2014 and Q3 2013, respectively; and was 151.5 million and 151.5 million for the nine months ended September 30, 2014, and 2013.

On November 28, 2013, the Company announced that the Toronto Stock Exchange (the "TSX") had 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 third 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, with 415,000 of such shares being purchased in the calendar year 2013. Since initiating share buyback 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 buyback 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 buyback 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 September 30, 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 51 months, 0.8 million of the stock options were vested and exercisable at September 30, 2014 with an average weighted exercise price of $25.44 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 November 14, 2014 |
|---|---|
| Common shares | 151,501,815 |
| Warrants | 7,814,605 |
| Options | 1,183,487 |
| **Total** | **160,499,907** |

Additionally, as described in the September 30, 2014 unaudited condensed interim consolidated financial statements in the note entitled Long Term Debt (Note 14 of the Unaudited Financial Statements), 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 September 30, 2014, the Company had no metal under price contracts.

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 $89.7 million in CAD and $21.1 million in Mexican pesos at September 30, 2014. At that date and 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 September 30, 2014, the balance on these loans was $14.2 million.

The Company recorded a $nil gain or loss on commodity and foreign currency contracts in Q3 2014 and nine months 2014, compared to a loss of $6.6 million and a $5.6 million gain in Q3 2013 and YTD 2013, respectively.

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 September 30, 2014 a risk-free interest rate of 1.0%, expected stock price volatility of 74.7%, expected life of 0.19 years (expiry in December 2014), expected dividend yield of 4.1%, a quoted market price of the Company's shares on the TSX of $12.31, an exchange rate of $1 CAD to $0.89 USD, 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 September 30, 2014 were expected stock price volatility of 41.5%, expected life of 1.2 years, and expected dividend yield of 4.1%.

During the three and nine months ended September 30, 2014, the Company recorded gains on the revaluation of the share purchase warrants and the convertible notes of $2.2 million and $1.6 million, respectively. In Q3 2013 and YTD 2013 derivative revaluation gains were recognized for $1.3 million and $15.5 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 material 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, other than those disclosed in this MD&A and the unaudited condensed interim consolidated financial statements and the related notes.

The Company had the following contractual obligations at September 30, 2014:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **Total** | **Within 1 year[2]** | **2 - 3 years** | **4- 5 years** | **After 5 years** |
| Finance lease obligations[1] | $ 9,415 | $ 4,560 | $ 4,557 | $ 298 | $ - |
| Current liabilities | 119,257 | 119,257 | - | - | - |
| Loan payable | 14,220 | 14,220 | - | - | - |
| Severance accrual | 4,556 | 1,113 | 444 | 1,938 | 1,061 |
| Employee compensation plan[3] | - | - | - | - | - |
| Restricted share units (“RSUs”)[3] | 2,120 | 1,291 | 829 | - | - |
| Convertible notes [4] | 38,681 | 1,631 | 37,050 | - | - |
| Derivative financial instruments | 7 | 7 | - | - | - |
| Provisions | 5,086 | 3,102 | 1,984 | - | - |
| Income taxes payable | 31,981 | 31,981 | - | - | - |
| **Total contractual obligations[5]** | **$ 225,323** | **$ 177,162** | **$ 44,864** | **$ 2,236** | **$** 1,061 |

(1) Includes lease obligations in the amount of $9.4 million (December 31, 2013 - $10.9 million) with a net present value of $8.9 million (December 31, 2013 - $10.2 million);

(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.

| | | Future interest component | **Within 1 year** |
|---|---|---|---|
| Current portion of: | | | |
| Accounts payable and other liabilities | $ 119,257 | $ - | **$ 119,257** |
| Loan obligation | 14,220 | - | **14,220** |
| Current severance liability | 1,113 | - | **1,113** |
| Current portion of finance lease | 4,282 | 278 | **4,560** |
| Employee Compensation & RSU’s | 752 | 539 | **1,291** |
| Convertible note | - | 1,631 | **1,631** |
| Derivative financial instruments | 7 | - | **7** |
| Provisions | 3,102 | - | **3,102** |
| Income tax payable | 31,981 | - | **31,981** |
| Total contractual obligations within one year | $ 174,714 | $ 2,448 | **$ 177,162** |

(3) Includes RSU obligation in the amount of $2.1 million (2013 – $1.7 million) that will be settled in cash. The RSUs vest in two instalments, 50% in December 2014 and 50% 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 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.

# RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2014, a company indirectly owned by a trust of which a director of the Company, Robert Pirooz, is a beneficiary, was paid approximately $nil million and $0.3 million, respectively (2013 - $0.1 million, $0.3 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.

# SUBSEQUENT EVENTS

There are no material events to disclose subsequent to September 30, 2014 to the date of this MD&A.

# 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 silver ounces through exploration, the cost of ongoing capital investments (sustaining capital), general and administrative expenses, as well as other items that affect the Company's consolidated earnings and cash flow. To facilitate a better understanding of these measures as calculated by the Company, the following table provides the detailed reconciliation of these measures to the cost of sales, as reported in the consolidated income statements for the respective periods.

| | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|---|
| (In thousands of USD , unless stated otherwise) | | | 2014 | | 2013 | | 2014 | | 2013 |
| Production costs | | **$** | **150,754** | $ | 129,959 | **$** | **427,508** | $ | 394,390 |
| Royalties | | **$** | **5,829** | $ | 7,669 | **$** | **22,678** | $ | 20,889 |
| Smelting, refining and transportation charges[1] | | **$** | **24,256** | $ | 27,334 | **$** | **69,662** | $ | 69,850 |
| Less by-product credits[1] | | **$** | **(86,938)** | $ | (89,313) | **$** | **(277,168)** | $ | (246,113) |
| **Cash cost of sales net of by-products[2]** | | **$** | **93,900** | $ | 75,648 | **$** | **242,680** | $ | 239,016 |
| | | | | | | | | | |
| Sustaining capital[3] | | **$** | **25,803** | $ | 29,543 | **$** | **74,912** | $ | 88,944 |
| Exploration and project development | | **$** | **3,665** | $ | 2,622 | **$** | **8,947** | $ | 14,485 |
| Reclamation cost accretion | | **$** | **809** | $ | 758 | **$** | **2,429** | $ | 2,273 |
| General & administrative expense | | **$** | **3,561** | $ | 3,939 | **$** | **14,857** | $ | 14,377 |
| **All-in sustaining costs[2]** | **A** | **$** | **127,740** | $ | 112,510 | **$** | **343,826** | $ | 359,095 |
| **Payable silver ounces sold (in koz)** | **B** | | **6,230** | | 6,921 | | **19,078** | | 19,042 |
| **All-in sustaining cost per silver ounce sold, net of by-products** | **A/B** | **$** | **20.50** | $ | 16.26 | **$** | **18.02** | $ | 18.86 |

(1) Included in the revenue line of the unaudited condensed interim consolidated income statements and are reflective of realized metals prices for the applicable periods.
(2) Totals may not add due to rounding.
(3) Please refer to the table below.

As part of the AISCSOS measure, sustaining capital is included while expansionary or acquisition capital (referred to by the Company as investment capital) is not. Inclusion of sustaining capital only is a better measure of capital costs associated with current silver 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, the 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 | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of USD) | | 2014 | | 2013 | | 2014 | | 2013 |
| Payments for mineral property, plant and equipment[1] | **$** | **27,925** | $ | 41,708 | $ | **101,630** | $ | 125,732 |
| Add/(Subtract) | | | | | | | | |
| Advances received for leases | **$** | **880** | $ | 343 | $ | **2,594** | $ | 2,817 |
| Navidad project capital | **$** | **19** | $ | (41) | $ | **(41)** | $ | (157) |
| La Colorada expansion capital | **$** | **(2,912)** | $ | - | $ | **(10,362)** | $ | - |
| Dolores leach pads & other projects | **$** | **(55)** | $ | (12,387) | $ | **(18,716)** | $ | (39,214) |
| Other non-operating capital | **$** | **(54)** | $ | (80) | $ | **(194)** | $ | (234) |
| **Sustaining Capital[2]** | **$** | **25,803** | **$** | **29,543** | **$** | **74,912** | **$** | **88,944** |

(1) As presented on the unaudited condensed interim consolidated statements of cash flows.
(2) Totals may not add due to rounding.

| Three months ended September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **AISCSOS** | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | PAS CORP | **Consolidated Total** |
| Direct Operating Costs | $ 13,858 | $ 15,142 | $ 35,836 | $ 18,811 | $ 17,247 | $ 9,913 | $ 24,531 | | **$ 135,339** |
| Net Realizable Value Adjustments | - | 699 | 6,448 | - | - | - | 8,267 | | **15,415** |
| Production costs | $ 13,858 | $ 15,841 | $ 42,284 | $ 18,811 | $ 17,247 | $ 9,913 | $ 32,798 | | **$ 150,754** |
| Royalties | 117 | 102 | 1,346 | - | - | 3,341 | 924 | | **5,829** |
| Smelting, refining and other direct selling charges | 2,730 | 141 | 42 | 8,129 | 5,952 | 5,526 | 1,735 | | **24,256** |
| Less by-product credits | (6,043) | (4,915) | (22,349) | (18,607) | (17,601) | (4,106) | (13,317) | | **(86,938)** |
| **Cash cost per ounce of silver net of by-product credits**[(1)] | $ 10,662 | $ 11,169 | $ 21,323 | $ 8,334 | $ 5,598 | $ 14,673 | $ 22,141 | | **$ 93,900** |
| Sustaining capital | 4,173 | 22 | 6,824 | 4,109 | 2,140 | 828 | 7,706 | | **25,803** |
| Exploration | 3 | 108 | 679 | 201 | 60 | - | 1,100 | 1,514 | **3,665** |
| Reclamation cost accretion | 59 | 58 | 90 | 150 | 96 | 56 | 274 | 26 | **809** |
| General & Administrative expense | - | - | - | - | - | - | - | 3,561 | **3,561** |
| **All-in sustaining costs**[(1)] | $ 14,897 | $ 11,358 | $ 28,917 | $ 12,794 | $ 7,894 | $ 15,557 | $ 31,221 | $ 5,101 | **$ 127,740** |
| Payable silver ounces sold (koz) | 1,292 | 770 | 1,052 | 749 | 571 | 1,036 | 762 | | **6,230** |
| **All-in Sustaining Costs per Silver Ounce Sold** | $ 11.53 | $ 14.75 | $ 27.49 | $ 17.09 | $ 13.84 | $ 15.02 | $ 41.00 | N/A | **$ 20.50** |

(1) Totals may not add due to rounding.

| Nine months ended September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **AISCSOS** | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | PAS CORP | **Consolidated Total** |
| Direct Operating Costs | $ 38,315 | $ 47,214 | $ 99,475 | $ 56,428 | $ 52,284 | $ 25,784 | $ 80,266 | | **$ 399,767** |
| Net Realizable Value Adjustments | - | 699 | 16,911 | - | - | - | 10,131 | | **27,741** |
| Production Costs | $ 38,315 | $ 47,912 | $ 116,387 | $ 56,428 | $ 52,284 | $ 25,784 | $ 90,397 | | **$ 427,508** |
| Royalties | 341 | 361 | 3,865 | - | - | 14,788 | 3,322 | | **22,678** |
| Smelting, refining and other direct selling charges | 8,366 | 485 | 130 | 21,783 | 14,635 | 17,517 | 6,746 | | **69,662** |
| Less by-product credits | (17,781) | (16,499) | (63,518) | (52,198) | (44,289) | (9,072) | (73,811) | | **(277,168)** |
| **Cash cost per Ounce of Silver net of by-product credits**[(1)] | $ 29,241 | $ 32,259 | $ 56,864 | $ 26,013 | $ 22,630 | $ 49,018 | $ 26,654 | | **$ 242,680** |
| Sustaining capital | 11,988 | 226 | 19,670 | 12,350 | 7,050 | 2,423 | 21,198 | | **74,912** |
| Exploration | 8 | 201 | 1,339 | 1,254 | 397 | - | 1,362 | 4,386 | **8,947** |
| Reclamation cost accretion | 178 | 174 | 271 | 450 | 288 | 169 | 822 | 77 | **2,429** |
| General & Administrative expense | - | - | - | - | - | - | - | 14,857 | **14,857** |
| **All-in sustaining costs**[(1)] | $ 41,415 | $ 32,861 | $ 78,144 | $ 40,073 | $ 30,366 | $ 51,610 | $ 50,036 | $ 19,320 | **$ 343,826** |
| Payable silver ounces sold (koz) | 3,627 | 2,790 | 3,029 | 2,237 | 1,588 | 3,060 | 2,747 | | **19,078** |
| **All-in Sustaining Costs per Silver Ounce Sold** | $ 11.42 | $ 11.78 | $ 25.80 | $ 17.91 | $ 19.12 | $ 16.87 | $ 18.22 | N/A | **$ 18.02** |

(1) Totals may not add due to rounding.

| AISCSOS | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | PAS CORP | Consolidated Total |
|---|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, 2013 | | | | | | | | |
| Direct Operating Costs | $ 11,826 | $ 16,713 | $ 30,197 | $ 19,257 | $ 18,901 | $ 10,031 | $ 31,706 | | **$ 138,632** |
| Net Realizable Value Adjustments | - | - | (2,069) | - | - | - | (6,603) | | **(8,672)** |
| Production Costs | $ 11,826 | $ 16,713 | $ 28,128 | $ 19,257 | $ 18,901 | $ 10,031 | $ 25,103 | | **$ 129,959** |
| Royalties | - | - | 1,237 | - | - | 5,537 | 894 | | **7,669** |
| Smelting, refining and other direct selling charges | 2,454 | 120 | 28 | 5,770 | 7,383 | 9,522 | 2,056 | | **27,334** |
| Less by-product credits | (5,135) | (7,383) | (22,777) | (15,422) | (12,426) | (5,045) | (21,125) | | **(89,313)** |
| **Cash cost per Ounce of Silver net of by-product credits**[1] | $ 9,144 | $ 9,450 | $ 6,616 | $ 9,606 | $ 13,858 | $ 20,045 | $ 6,928 | | **$ 75,648** |
| Sustaining capital | 1,252 | 2,282 | 13,538 | 2,523 | 3,387 | 3,177 | 3,385 | | **29,543** |
| Exploration | 74 | 171 | 845 | 197 | 239 | - | 367 | 729 | **2,622** |
| Reclamation cost accretion | 53 | 48 | 80 | 137 | 99 | 70 | 244 | 26 | **758** |
| General & Administrative expense | - | - | - | - | - | - | - | 3,939 | **3,939** |
| **All-in sustaining costs**[1] | $ 10,523 | $ 11,951 | $ 21,080 | $ 12,464 | $ 17,584 | $ 23,292 | $ 10,925 | $ 4,694 | **$ 112,511** |
| Payable silver ounces sold (koz) | 1,043 | 1,367 | 916 | 791 | 658 | 1,335 | 810 | | **6,921** |
| **All-in Sustaining Costs per Silver Ounce Sold** | $ 10.09 | $ 8.74 | $ 23.02 | $ 15.75 | $ 26.71 | $ 17.44 | $ 13.49 | N/A | **$ 16.26** |

(1) Totals may not add due to rounding.

| AISCSOS | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | PAS CORP | Consolidated Total |
|---|---|---|---|---|---|---|---|---|---|
| | Nine months ended September 30, 2013 | | | | | | | | |
| Direct Operating Costs | $ 36,957 | $ 47,694 | $ 76,791 | $ 58,117 | $ 59,849 | $ 22,413 | $ 88,013 | | **$ 389,834** |
| Net Realizable Value Adjustments | - | - | - | - | - | - | 4,557 | | **4,557** |
| Production Costs | $ 36,957 | $ 47,694 | $ 76,791 | $ 58,117 | $ 59,849 | $ 22,413 | $ 92,570 | | **$ 394,390** |
| Royalties | - | - | 3,378 | - | - | 14,398 | 3,113 | | **20,889** |
| Smelting, refining and other direct selling charges | 7,403 | 383 | 70 | 20,715 | 15,017 | 20,576 | 5,686 | | **69,850** |
| Less by-product credits | (16,146) | (19,135) | (63,403) | (40,848) | (36,523) | (10,281) | (59,775) | | **(246,113)** |
| **Cash cost per Ounce of Silver net of by-product credits**[1] | $ 28,214 | $ 28,942 | $ 16,836 | $ 37,984 | $ 38,343 | $ 47,105 | $ 41,594 | | **$ 239,016** |
| Sustaining capital | 11,324 | 7,079 | 28,314 | 12,455 | 15,829 | 6,302 | 7,640 | | **88,944** |
| Exploration | 194 | 1,254 | 3,231 | 628 | 1,578 | - | 483 | 7,117 | **14,485** |
| Reclamation cost accretion | 158 | 144 | 241 | 412 | 298 | 210 | 733 | 77 | **2,273** |
| General & Administrative expense | - | - | - | - | - | - | - | 14,377 | **14,377** |
| **All-in sustaining costs**[1] | $ 39,890 | $ 37,419 | $ 48,621 | $ 51,478 | $ 56,048 | $ 53,617 | $ 50,450 | $ 21,571 | **$ 359,095** |
| Payable silver ounces sold (koz) | 3,158 | 4,261 | 2,406 | 2,147 | 1,638 | 2,866 | 2,566 | | **19,042** |
| **All-in Sustaining Costs per Silver Ounce Sold** | $ 12.63 | $ 8.78 | $ 20.21 | $ 23.97 | $ 34.22 | $ 18.71 | $ 19.66 | N/A | **$ 18.86** |

(1) Totals may not add due to rounding.

- ***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 57% of our total revenues for Q3 2014, compared to 61% in Q3 2013 while by-products were responsible for the remaining 43%, compared to 39% in Q3 2013. As a performance measure, 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 this metric is useful to investors as it these metrics facilitates comparison, on a mine by mine basis, notwithstanding the unique mix of incidental by-product production at each mine, the relative performance of each of our operations' relative performance on a period by period basis, and that performance relative to 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 (In thousands of USD, unless stated otherwise) | | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|---|
| **Production costs** | | **$ 150,754** | $ 129,959 | **$ 427,508** | $ 394,390 |
| Add / (Subtract) | | | | | |
| Royalties | | **5,829** | 7,669 | **22,678** | 20,889 |
| Smelting, refining, and transportation charges | | **18,440** | 19,300 | **52,655** | 56,935 |
| Worker's participation and voluntary payments | | **(262)** | (93) | **(596)** | (536) |
| Change in inventories | | **3,219** | (5,664) | **6,878** | (4,674) |
| Other | | **(1,634)** | (3,868) | **(4,192)** | (6,719) |
| Non-controlling interests[2] | | **(895)** | (1,459) | **(3,360)** | (4,760) |
| Metal Inventories write-down | | **(15,415)** | 8,672 | **(27,741)** | (4,557) |
| **Cash Operating Costs before by-product credits[1]** | | **$ 160,037** | $ 154,515 | **$ 473,828** | $ 450,969 |
| Less gold credit | | **(42,988)** | (54,335) | **(149,706)** | (147,327) |
| Less zinc credit | | **(21,109)** | (16,978) | **(61,759)** | (51,090) |
| Less lead credit | | **(7,319)** | (6,626) | **(22,547)** | (20,668) |
| Less copper credit | | **(16,822)** | (10,576) | **(41,305)** | (27,487) |
| **Cash Operating Costs net of by-product credits[1]** | **A** | **$ 71,798** | $ 66,001 | **$ 198,511** | $ 204,397 |
| Add / (Subtract) | | | | | |
| Depreciation and amortization | | **34,060** | 41,995 | **109,217** | 104,301 |
| Closure and decommissioning provision | | **810** | 758 | **2,429** | 2,273 |
| Change in inventories | | **(3,651)** | (1,100) | **3,710** | 4,926 |
| Other | | **-** | (248) | **-** | (723) |
| Non-controlling interests[2] | | **(476)** | (493) | **(1,445)** | (1,470) |
| **Total Production Costs net of by-product credits[1]** | **B** | **$ 102,542** | $ 106,913 | **$ 312,422** | $ 313,704 |
| **Payable Silver Production (koz.)** | **C** | **5,843** | 6,346 | **18,325** | 18,165 |
| **Cash Costs per ounce net of by-product credits** | **A/C** | **$ 12.29** | **$** 10.40 | **$ 10.83** | $ 11.25 |
| **Total Production Costs per ounce net of by-product credits** | **B/C** | **$ 17.55** | **$** 16.85 | **$ 17.05** | $ 17.27 |

(1) Totals 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.

| Three months ended September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Cash Costs** | | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | **Consolidated Total** |
| **Cash Costs before by-product credits** | A | $ 15,882 | $ 16,040 | $ 33,792 | $ 25,896 | $ 21,526 | $ 13,326 | $ 31,965 | **$ 158,426** |
| Less gold credit | b1 | (537) | (4,591) | (19,755) | (130) | (940) | (57) | (16,896) | **(42,906)** |
| Less zinc credit | b2 | (3,342) | - | - | (6,393) | (8,409) | (2,147) | - | **(20,292)** |
| Less lead credit | b3 | (1,649) | - | - | (2,803) | (2,600) | (48) | - | **(7,099)** |
| Less copper credit | b4 | - | (14) | - | (10,465) | (5,853) | - | - | **(16,332)** |
| Sub-total by-product credits (1) | B=( b1+ b2+ b3+ b4) | $ (5,529) | $ (4,605) | $ (19,755) | $ (19,790) | $ (17,802) | $ (2,252) | $ (16,896) | **$ (86,629)** |
| Cash Costs net of by-product credits (1) | C=(A+B) | $ 10,353 | $ 11,435 | $ 14,037 | $ 6,106 | $ 3,724 | $ 11,074 | $ 15,068 | **$ 71,797** |
| Depreciation, amortization & reclamation | D | 2,342 | 2,981 | 4,071 | 3,107 | 4,563 | 1,787 | 11,913 | **30,763** |
| Total production costs net of by-product credits (1) | E=(C+D) | $ 12,696 | $ 14,416 | $ 18,108 | $ 9,213 | $ 8,286 | $ 12,861 | $ 26,981 | **$ 102,560** |
| Payable ounces of silver (koz) | F | 1,206 | 671 | 963 | 800 | 543 | 690 | 970 | **5,843** |
| **Cash cost per ounce of silver net of by-product credits** | | | | | | | | | |
| Cash cost per ounce net of by-products | =C/F | $ 8.58 | $ 17.04 | $ 14.57 | $ 7.63 | $ 6.86 | $ 16.05 | $ 15.54 | **$ 12.29** |
| Total production cost per ounce net of by-products | =E/F | $ 10.53 | $ 21.48 | $ 18.80 | $ 11.52 | $ 15.27 | $ 18.64 | $ 27.82 | **$ 17.55** |

(1) Totals may not add due to rounding.

| Nine months ended September 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Cash Costs** | | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | **Consolidated Total** |
| **Cash Costs before by-product credits** | A | $ 46,811 | $ 47,831 | $ 101,755 | $ 75,839 | $ 61,921 | $ 43,551 | $ 92,000 | **$ 469,709** |
| Less gold credit | b1 | (1,853) | (15,273) | (62,762) | (440) | (1,937) | (185) | (67,086) | **(149,534)** |
| Less zinc credit | b2 | (9,974) | - | - | (19,271) | (22,311) | (7,918) | - | **(59,473)** |
| Less lead credit | b3 | (5,369) | - | - | (8,796) | (7,293) | (454) | - | **(21,912)** |
| Less copper credit | b4 | - | (132) | - | (27,894) | (12,253) | - | - | **(40,279)** |
| Sub-total by-product credits (1) | B=( b1+ b2+ b3+ b4) | $ (17,195) | $ (15,404) | $ (62,762) | $ (56,400) | $ (43,795) | $ (8,556) | $ (67,086) | **$ (271,198)** |
| Cash Costs net of by-product credits (1) | C=(A+B) | $ 29,616 | $ 32,427 | $ 38,993 | $ 19,439 | $ 18,126 | $ 34,995 | $ 24,914 | **$ 198,511** |
| Depreciation, amortization & reclamation | D | 6,907 | 9,231 | 40,016 | 9,194 | 13,552 | 5,875 | 29,137 | **113,912** |
| Total production costs net of by-product credits (1) | E=(C+D) | $ 36,523 | $ 41,659 | $ 79,009 | $ 28,633 | $ 31,678 | $ 40,869 | $ 54,051 | **$ 312,422** |
| Payable ounces of silver (koz) | F | 3,554 | 2,595 | 3,018 | 2,301 | 1,498 | 2,553 | 2,806 | **18,325** |
| **Cash cost per ounce of silver net of by-product credits** | | | | | | | | | |
| Cash cost per ounce net of by-products | =C/F | $ 8.33 | $ 12.50 | $ 12.92 | $ 8.45 | $ 12.10 | $ 13.71 | $ 8.88 | **$ 10.83** |
| Total production cost per ounce net of by-products | =E/F | $ 10.28 | $ 16.06 | $ 26.18 | $ 12.44 | $ 21.14 | $ 16.01 | $ 19.26 | **$ 17.05** |

(1) Totals may not add due to rounding.

| Three months ended September 30, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Cash Costs** | | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | **Consolidated Total** |
| **Cash Costs before by-product credits** | A | $ 14,495 | $ 14,624 | $ 34,344 | $ 25,687 | $ 20,928 | $ 15,035 | $ 28,292 | **$ 153,406** |
| Less gold credit | b1 | (620) | (6,072) | (28,676) | - | (438) | (70) | (18,493) | **(54,368)** |
| Less zinc credit | b2 | (2,163) | - | - | (6,118) | (5,911) | (2,170) | - | **(16,362)** |
| Less lead credit | b3 | (1,413) | - | - | (3,005) | (1,921) | (48) | - | **(6,387)** |
| Less copper credit | b4 | - | (157) | - | (6,727) | (3,403) | - | - | **(10,287)** |
| Sub-total by-product credits (1) | B=( b1+ b2+ b3+ b4) | $ (4,196) | $ (6,228) | $ (28,676) | $ (15,850) | $ (11,673) | (2,288) | $ (18,493) | **$ (87,404)** |
| Cash Costs net of by-product credits (1) | C=(A+B) | $ 10,299 | $ 8,396 | $ 5,668 | $ 9,837 | $ 9,256 | $ 12,747 | $ 9,799 | **$ 66,002** |
| Depreciation, amortization & reclamation | D | 1,868 | 4,567 | 13,590 | 3,098 | 4,322 | 2,394 | 11,073 | **40,912** |
| Total production costs net of by-product credits (1) | E=(C+D) | $ 12,168 | $ 12,963 | $ 19,258 | $ 12,936 | $ 13,577 | $ 15,141 | $ 20,872 | **$ 106,914** |
| Payable ounces of silver (koz) | F | 1,011 | 1,243 | 994 | 765 | 582 | 970 | 781 | **6,346** |
| **Cash cost per ounce of silver net of by-product credits** | | | | | | | | | |
| Cash cost per ounce net of by-products | =C/F | $ 10.19 | $ 6.76 | $ 5.70 | $ 12.85 | $ 15.89 | $ 13.14 | $ 12.55 | **$ 10.40** |
| Total production cost per ounce net of by-products | =E/F | $ 12.04 | $ 10.43 | $ 19.37 | $ 16.90 | $ 23.31 | $ 15.61 | $ 26.74 | **$ 16.85** |

(1) Totals may not add due to rounding.

| Nine months ended September 30, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Cash Costs** | | La Colorada | Alamo Dorado | Dolores | Huaron | Morococha | San Vicente | Manantial Espejo | **Consolidated Total** |
| **Cash Costs before by-product credits** | A | $ 46,393 | $ 43,820 | $ 84,719 | $ 74,643 | $ 63,711 | $ 51,007 | $ 83,347 | **$ 447,640** |
| Less gold credit | b1 | (2,204) | (16,668) | (71,295) | (92) | (1,758) | (215) | (55,160) | **(147,392)** |
| Less zinc credit | b2 | (7,895) | - | - | (16,690) | (17,291) | (7,362) | - | **(49,236)** |
| Less lead credit | b3 | (4,908) | - | - | (8,779) | (5,703) | (541) | - | **(19,930)** |
| Less copper credit | b4 | - | (432) | - | (16,789) | (9,464) | - | - | **(26,684)** |
| Sub-total by-product credits (1) | B=( b1+ b2+ b3+ b4) | $ (15,006) | $ (17,099) | (71,295) | $ (42,349) | $ (34,216) | $ (8,117) | $ (55,160) | **$ (243,243)** |
| Cash Costs net of by-product credits (1) | C=(A+B) | $ 31,387 | $ 26,721 | $ 13,424 | $ 32,294 | $ 29,496 | $ 42,890 | $ 28,187 | **$ 204,397** |
| Depreciation, amortization & reclamation | D | 5,765 | 14,137 | 35,189 | 8,536 | 13,026 | 6,942 | 25,712 | **109,307** |
| Total production costs net of by-product credits (1) | E=(C+D) | $ 37,152 | $ 40,857 | $ 48,613 | $ 40,830 | $ 42,522 | $ 49,831 | $ 53,899 | **$ 313,704** |
| Payable ounces of silver (koz) | F | 3,173 | 3,814 | 2,574 | 2,123 | 1,506 | 2,708 | 2,268 | **18,165** |
| **Cash cost per ounce of silver net of by-product credits** | | | | | | | | | |
| Cash cost per ounce net of by-products | =C/F | $ 9.89 | $ 7.01 | $ 5.22 | $ 15.21 | $ 19.59 | $ 15.84 | $ 12.43 | **$ 11.25** |
| Total production cost per ounce net of by-products | =E/F | $ 11.71 | $ 10.71 | $ 18.89 | $ 19.24 | $ 28.24 | $ 18.40 | $ 23.76 | **$ 17.27** |

(1) Totals may not add due to rounding.

- ***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 to the net (loss) earnings for the third quarter of 2014 and 2013.

| | | Three months ended September 30, | | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|
| **Adjusted (loss) Earnings Reconciliation** | | **2014** | | 2013 | | **2014** | | 2013 |
| Net (loss) earnings for the period | **$** | **(20,177)** | $ | 14,236 | **$** | **(19,096)** | $ | (152,783) |
| Adjust derivative gain | | **(2,242)** | | (1,333) | | **(1,600)** | | (15,466) |
| Adjust impairment of mineral property | | **-** | | - | | **-** | | 203,443 |
| Adjust unrealized foreign exchange losses | | **2,577** | | (7,830) | | **4,652** | | (266) |
| Adjust net realizable value of inventory [(1)] | | **8,482** | | - | | **25,596** | | - |
| Adjust unrealized gain on commodity contracts | | **-** | | 388 | | **-** | | (235) |
| Adjust loss on silver and gold forward contract | | **-** | | 6,254 | | **-** | | 6,254 |
| Adjust severance expense | | **-** | | 617 | | **-** | | 617 |
| Adjust gain on sale of assets | | **129** | | (135) | | **(200)** | | (8,099) |
| Adjust for effect of taxes | | **(3,031)** | | (43) | | **(8,970)** | | (1,338) |
| **Adjusted (loss) earnings for the period** | **$** | **(14,262)** | $ | 12,154 | **$** | **382** | $ | 32,127 |
| **Weighted average shares for the period** | | **151,506** | | 151,411 | | **151,503** | | 151,525 |
| **Adjusted (loss) earnings per share for the period** | **$** | **(0.09)** | $ | 0.08 | **$** | **0.00** | $ | 0.21 |

(1) In Q3 2014 the Company began excluding from adjusted earnings net realizable value adjustments to gold and silver heap leach inventory with a multiple-year recovery process.

# 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, gold, zinc, lead and copper; 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; 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 in Pan American's business.

- ***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. From time to time, Pan American mitigates the price risk associated with its metal production by committing some of its future production under forward sales or option contracts as discussed in the section Financial

Instruments of this MD&A. If metal prices remain at these levels for an extended period of time, the Company may need to reassess its long-term price assumptions, and a significant decrease in the long-term price assumptions would be an indicator of potential impairment. If these conditions exist at the end of our next reporting period, we will be required to consider if they represent indicators of impairment and if we conclude they do, and then we will perform an impairment assessment on related assets.

- ***Foreign Jurisdiction Risk***

All of Pan American's current production and revenue is derived from its operations in Mexico, Peru, Argentina and Bolivia, where the majority of Pan American's operations are conducted. All of these jurisdictions are potentially subject to a number of political and economic 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; inability to obtain fair dispute resolution or judicial determinations because of bias, corruption or abuse of power; 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 environmental and operational 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 and we are unable to determine the impact of these risks on our future financial position or results of operations. Our exploration, development and production activities may be substantially affected by such risks and uncertainties which are, in many cases, outside of our control. The Company has no political risk insurance coverage against these risks.

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

Local opposition to mine development projects has arisen in Peru in the past, and such opposition has at times been violent. In particular, in November 2004, approximately 200 farmers attacked and damaged the La Zanja exploration camp located in Santa Cruz province, Peru, which was owned by Compañía de Minas Buenaventura and Newmont Mining Corporation. One person was killed and three injured during the protest.

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; 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 two 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 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 earlier this year 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 quarter ended September 30, 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 on published reserves which has the potential to significantly affect the Manantial Espejo mine as well as other companies operating in the province. Regulations for the application and calculation of this tax have not been issued as of the date of this MD&A. The Company has in place certain contracts that could potentially affect or exempt the Company from the application of this new tax and as such is evaluating its options with its advisors. The Company and potentially other mining companies in the province are also evaluating further options that include challenging the legality and constitutionality of the tax.

Following several years of uncertainty and speculation, on May 28, 2014 the Bolivian government enacted Mining Law No. 535 (the “New Mining Law”) which may have significant effects on the mining industry in Bolivia. The New Mining Law is based on the principles of the 2009 Bolivian

Constitution which enshrined the concept that all natural resources belong to the Bolivian people and that the state was entrusted with its administration. Thus, the provisions of the New Mining Law have further entrenched the state-driven mining regime in the country, including the creation of a new Bolivian mining authority ("AJAM") to provide principal mining oversight, varying the role of the Bolivian state mining corporation ("COMIBOL") to focus exclusively on managing state-involved mining projects, requiring minimum levels of state participation and profit sharing in certain projects and by mandating that a state representative is appointed as president of the board of directors of mining associations formed under the New Mining Law. The New Mining Law has also been formulated to support the Bolivian economy by encouraging local industrial growth, for instance, by requiring mining companies to first seek the sale of their products to Bolivian counterparties before looking to international refiners and markets. Perhaps most important to the Company, under the New Mining Law, all pre-existing contracts must migrate to a new form of agreement, with renegotiated terms, within a 12 or 18 month period. As such, the Company's current joint venture agreement with COMIBOL in connection with the San Vicente mine will need to be renegotiated in order to conform to the New Mining Law. The Company is assessing the potential impacts of the New Mining Law on its business, but the primary effects on the San Vicente operation and the Company's interest therein will not be known until such time as the Company has, if compelled to do so, renegotiated its existing contract, and the full impact may only be realized over time. In the meantime, the New Mining Law provides that pre-existing agreements will be respected during the prescribed period of renegotiation and the Company will take every measure available to enforce its rights under its existing agreement with COMIBOL. There is, however, no guarantee that governmental actions, including possible expropriation or additional changes in the law, and the prescribed renegotiation of the Company's contract will not impact the Company's involvement in the San Vicente operation in a materially negative way and such actions could have a material adverse impact on the Company and its business.

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 year ended December 31, 2013 or for the quarter ended September 30, 2014. During 2014, the Company will continue to monitor developments in Mexico and to assess the potential impact of these amendments.

Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempts to mitigate these risks where practical through a range of risk management strategies, including employing qualified and experienced personnel.

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

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") In May 2014, the IASB and the Financial Accounting Standards Board ("FASB") completed its joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. As a result of the joint project, the IASB issued IFRS 15, Revenue from Contracts with Customers, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 1017. The Company will apply IFRS 15 beginning on January 1, 2017. The Company is in the process of analyzing IFRS 15 and determining the effect on our consolidated financial statements as a result of adopting this standard.

# 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 September 30, 2014 that has materially affected or is reasonably likely to materially affect, its internal control over financial reporting.

#### TECHNICAL INFORMATION

Technical information contained in this MD&A 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.

**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, AMENDMENTS TO THE LABOUR LAWS IN MEXICO WHICH COULD PLACE ADDITIONAL FINANCIAL OBLIGATIONS ON OUR MEXICAN SUSBSIDIARIES, NEW AND UNDEFINED TAXATION LAWS SUCH AS THOSE ENACTED IN THE PROVINCE OF SANTA CRUZ, ARGENTINA, WHICH COULD HAVE SIGNIFICANT EFFECTS ON THE COMPANY'S MANANTIAL ESPEJO MINE OPERATION; AND THE ENACTMENT OF THE NEW MINING LAW IN BOLIVIA WHICH COULD HAVE SIGNIFICANT IMPACT ON THE SAN VICENTE MINE AND THE COMPANY'S INTEREST IN AND BENEFIT FROM THE MINE; THE CONTINUING NATURE OF HIGH INFLATION, RISING CAPITAL AND OPERATING COSTS, CAPITAL RESTRICTIONS PARTICULARLY IN ARGENTINA; RISKS OF EXPROPRIATION RELATIVE TO CERTAIN OF OUR OPERATIONS, PARTICULARLY IN ARGENTINA AND BOLIVIA, AND THEIR POSSIBLE EFFECTS ON OUR BUSINESS; FUTURE SUCCESSFUL DEVELOPMENT OF THE NAVIDAD PROJECT AND OTHER DEVELOPMENT PROJECTS OF THE COMPANY; THE COMPANY'S ELECTION WHETHER OR NOT TO PROCEED WITH ANY PARTICULAR PROJECT, THE ABILITY OF THE COMPANY TO SUCCESSFULLY COMPLETE ANY EXPANSION OR OTHER PROJECTS AND THE ACHIEVMENT OF ANY ESTIMATED ECONOMIC OR OTHER RESULTS OR BENEFITS FROM SUCH PROJECTS. 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; ONGOING OR FUTURE DEVELOPMENT PLANS AND CAPITAL REPLACEMENT, IMPROVEMENT OR REMEDIATION PROGRAMS; FORECAST CAPITAL AND NON-OPERATING SPENDING; FUTURE SALES OF THE METALS, CONCENTRATES OR OTHER PRODUCTS PRODUCED BY THE COMPANY; AND THE COMPANY'S PLANS AND EXPECTATIONS FOR ITS PROPERTIES AND OPERATIONS.

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; 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.

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