

PAN AMERICAN SILVER CORP
Form 6-K
March 30, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March
Commission File Number 000-13727

2015

Pan American Silver Corp.
(Translation of registrant's name into English)

1500-625 Howe Street, Vancouver BC Canada V6C 2T6
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

DOCUMENTS INCLUDED AS PART OF THIS REPORT

Document

- 1 Audited comparative consolidated financial statements of the Registrant and the notes thereto for the financial year ended December 31, 2014, together with the report of the auditors thereon.
- 2 Management's discussion and analysis of the financial condition and results of operations of the Registrant for the fiscal year ended December 31, 2014.
- 3 Consent of Deloitte LLP, Independent Registered Accountants.

This report on Form 6-K is incorporated by reference into the Registrant's registration statements on Form F-10 (No. 333-195220) and on Form S-8 (Nos. 333-149580, 333-180494 and 333-180495) that have been filed with the Securities and Exchange Commission.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013

Management's Responsibility For Financial Reporting

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

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

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

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

"signed"
Geoff Burns
Chief Executive Officer

"signed"
A. Robert Doyle
Chief Financial Officer

March 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated financial statements of Pan American Silver Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, and the consolidated income statements, statements of comprehensive loss, cash flows and changes in equity for each of the years in the two year period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pan American Silver Corp. and subsidiaries as at December 31, 2014 and December 31, 2013, and their financial performance and their cash flows for each of the years in the two year period ended December 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 26, 2015 expressed an unmodified opinion on the Company's internal control over financial reporting.

/s/ Deloitte LLP
Chartered Accountants
Vancouver, Canada

March 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Pan American Silver Corp. and subsidiaries (the "Company") as of December 31, 2014, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated March 26, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte LLP
Chartered Accountants
Vancouver, Canada

March 26, 2015

Pan American Silver Corp.
Consolidated Statements of Financial Position
As at December 31, 2014 and 2013
(in thousands of U.S. dollars)

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents (Note 24)	\$ 146,193	\$ 249,937
Short-term investments (Note 8)	184,220	172,785
Trade and other receivables (Note 7)	105,644	114,782
Income taxes receivable	37,626	40,685
Inventories (Note 9)	252,549	284,352
Prepays and other current assets	4,464	9,123
	730,696	871,664
Non-current assets		
Mineral properties, plant and equipment (Note 10)	1,266,391	1,870,678
Long-term refundable tax (Note 7)	7,698	9,801
Deferred tax assets (Note 27)	2,584	165
Other assets (Note 12)	7,447	8,014
Goodwill (Note 11)	3,057	7,134
Total Assets	\$ 2,017,873	\$ 2,767,456
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	\$ 126,209	\$ 125,609
Loan payable (Note 14)	17,600	20,095
Current portion of long term debt (Note 17)	34,797	-
Provisions (Note 15)	3,121	3,172
Current portion of finance lease (Note 16)	3,993	4,437
Current income tax liabilities	22,321	29,319
	208,041	182,632
Non-current liabilities		
Provisions (Note 15)	45,063	43,817
Deferred tax liabilities (Note 27)	160,072	285,947
Share purchase warrants (Note 7, 19)	-	207
Long-term portion of finance lease (Note 16)	4,044	5,717
Long-term debt (Note 17)	-	34,302
Other long-term liabilities (Note 18)	30,716	26,045
Total Liabilities	447,936	578,667
Equity		
Capital and reserves (Note 19)		
Issued capital	2,296,672	2,295,208
Share option reserve	22,091	21,110

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Investment revaluation reserve	(485)	(137)
Retained deficit	(755,186)	(133,847)
Total Equity attributable to equity holders of the Company	1,563,092	2,182,334
Non-controlling interests	6,845	6,455
Total Equity	1,569,937	2,188,789
Total Liabilities and Equity	\$2,017,873	\$2,767,456

Commitments and Contingencies (Notes 7, 28)

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD ON MARCH 26, 2015

Ross Beaty,
 “signed” Director “signed” Geoff A. Burns, Director

Pan American Silver Corp.
Consolidated Income Statements
For the years ended December 31, 2014 and 2013
(in thousands of U.S. dollars)

	2014	2013
Revenue (Note 25)	\$751,942	\$824,504
Cost of sales		
Production costs (Note 20)	(568,204)	(530,613)
Depreciation and amortization (Note 10)	(147,710)	(135,913)
Royalties	(27,955)	(26,459)
	(743,869)	(692,985)
Mine operating earnings	\$8,073	\$131,519
General and administrative	(17,908)	(17,596)
Exploration and project development	(13,225)	(15,475)
Impairment charge (Note 11)	(596,262)	(540,228)
Foreign exchange losses	(13,275)	(14,637)
Losses on commodity and foreign currency contracts	-	(4,551)
Gain on sale of mineral properties, plant and equipment	1,145	14,068
Other (expenses) income (Note 26)	(1,314)	8,287
Loss from operations	(632,766)	(438,613)
Gain on derivatives (Note 19)	1,348	16,715
Investment income	2,840	3,086
Interest and finance expense (Note 22)	(8,739)	(10,277)
Loss before income taxes	(637,317)	(429,089)
Income taxes recovery (expense) (Note 27)	92,494	(16,757)
Net loss for the year	\$(544,823)	\$(445,846)
Attributable to:		
Equity holders of the Company	\$(545,588)	\$(445,851)
Non-controlling interests	765	5
	\$(544,823)	\$(445,846)
Loss per share attributable to common shareholders (Note 23)		
Basic loss per share	\$(3.60)	\$(2.94)
Diluted loss per share	\$(3.60)	\$(2.96)
Weighted average shares outstanding (in 000's) Basic	151,511	151,501
Weighted average shares outstanding (in 000's) Diluted	151,511	153,430
Consolidated Statements of Comprehensive loss		
For the years ended December 31, 2014 and 2013		
(in thousands of U.S. dollars)		
	2014	2013
Net loss for the year	\$(544,823)	\$(445,846)
Items that may be reclassified subsequently to net earnings:		
Unrealized net losses on available for sale securities	(1,429)	(2,163)

(net of zero dollars tax in 2014 and 2013)

Reclassification adjustment for net losses on available for sale securities included in earnings

(net of zero dollars tax in 2014 and 2013)

	1,081	1,062
Total comprehensive loss for the year	\$(545,171)	\$(446,947)

Total comprehensive loss attributable to:

Equity holders of the Company	\$(545,936)	\$(446,952)
Non-controlling interests	765	5
	\$(545,171)	\$(446,947)

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Pan American Silver Corp.
 Consolidated Statements of Cash Flows
 For the years ended December 31, 2014 and 2013
 (in thousands of U.S. dollars)

	2014	2013 As adjusted (Note 24)
Cash flow from operating activities		
Net loss for the year	\$(544,823)	\$(445,846)
Current income tax expense (Note 27)	35,807	55,691
Deferred income tax recovery (Note 27)	(128,301)	(38,934)
Interest expense (Note 22)	5,072	6,664
Depreciation and amortization (Note 10)	147,710	135,913
Impairment of mineral properties and goodwill (Note 11)	596,262	540,228
Accretion on closure and decommissioning provision (Note 15)	3,238	3,030
Unrealized losses (gains) on foreign exchange	4,034	(922)
Share-based compensation expense	2,529	2,173
Unrealized losses on commodity contracts (Note 7)	-	25
Gain on derivatives (Note 19)	(1,348)	(16,715)
Gain on sale of mineral properties, plant and equipment	(1,145)	(14,068)
Net realizable value adjustment for inventory	29,953	12,967
Changes in non-cash operating working capital (Note 24)	11,597	(21,304)
Operating cash flows before interest and income taxes	160,585	218,902
Interest paid	(5,051)	(3,425)
Interest received	1,792	2,138
Income taxes paid	(33,138)	(98,009)
Net cash generated from operating activities	\$124,188	\$119,606
Cash flow from investing activities		
Payments for mineral properties, plant and equipment	(131,761)	(159,401)
(Purchase of) proceeds from sale of short term investments	(13,524)	19,920
Proceeds from sale of mineral properties, plant and equipment	1,852	13,681
Net refundable tax and other asset expenditures	187	452
Net cash used in investing activities	\$(143,246)	\$(125,348)
Cash flow from financing activities		
Proceeds from issue of equity shares	\$3	\$-
Shares repurchased and cancelled (Note 19)	-	(6,740)
Dividends paid	(75,751)	(75,755)
(Payment) proceeds from short term loan (Note 14)	(2,438)	23,496
Payment of equipment leases	(5,347)	(30,238)
Distributions to non-controlling interests	(375)	(925)
Net cash used in financing activities	\$(83,908)	\$(90,162)
Effects of exchange rate changes on cash and cash equivalents	(778)	(367)
Net decrease in cash and cash equivalents	(103,744)	(96,271)
Cash at the beginning of the year	249,937	346,208

Cash and cash equivalents at the end of the year	\$ 146,193	\$ 249,937
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See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(in thousands of U.S. dollars, except for number of shares)

	Attributable to equity holders of the Company					Total	Non-controlling interests	Total equity
	Issued shares	Issued capital	Share option reserve	Investment revaluation reserve	Retained deficit			
Balance, December 31, 2012	151,820,635	\$2,300,517	\$20,560	\$ 964	\$388,202	\$2,710,243	\$ 7,328	\$2,717,571
Total comprehensive loss								
Net loss for the year	-	-	-	-	(445,851)	(445,851)	5	(445,846)
Other comprehensive loss	-	-	-	(1,101)	-	(1,101)	-	(1,101)
	-	-	-	(1,101)	(445,851)	(446,952)	5	(446,947)
Shares issued as compensation	94,659	1,035	-	-	-	1,035	-	1,035
Shares repurchased and cancelled	(415,000)	(6,344)	-	-	(396)	(6,740)	-	(6,740)
Distributions by subsidiaries to non-controlling interests	-	-	-	-	(47)	(47)	(878)	(925)
Share-based compensation on option grants	-	-	550	-	-	550	-	550
Dividends paid	-	-	-	-	(75,755)	(75,755)	-	(75,755)
Balance, December 31, 2013	151,500,294	\$2,295,208	\$21,110	\$ (137)	\$(133,847)	\$2,182,334	\$ 6,455	\$2,188,789
Total comprehensive loss	-	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	(545,588)	(545,588)	765	(544,823)
Other comprehensive loss	-	-	-	(348)	-	(348)	-	(348)
	-	-	-	(348)	(545,588)	(545,936)	765	(545,171)
Shares issued as compensation	142,986	1,461	-	-	-	1,461	-	1,461
Shares issued on the exercise of	92	3	-	-	-	3	-	3

warrants

Distributions by
subsidiaries to
non-controlling
interests

-	-	-	-	-	-	(375)	(375)
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Stock-based
compensation on
option grants

-	-	981	-	-	981	-	981
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Dividends paid

-	-	-	-	(75,751)	(75,751)	-	(75,751)
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Balance,

December 31,

2014

151,643,372	2,296,672	22,091	(485)	(755,186)	1,563,092	6,845	1,569,937
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See accompanying notes to the consolidated financial statements.

Pan American Silver Corp.

Notes to the Consolidated Financial Statements

As at December 31, 2014 and 2013

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

1. Nature of Operations

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

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

At December 31, 2014 the Company’s principal producing properties were comprised of the Huaron and Morococha mines located in Peru, the Alamo Dorado, La Colorada and Dolores mines located in Mexico, the San Vicente mine located in Bolivia and the Manantial Espejo mine located in Argentina.

The Company’s significant development project at December 31, 2014 was the Navidad project in Argentina.

2. Summary of Significant Accounting Policies

a. Statement of Compliance

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

These consolidated financial statements were approved for issuance by the Board of Directors on March 26, 2015.

b. Basis of Preparation

The Company’s accounting policies have been applied consistently in preparing these consolidated annual financial statements for the year ended December 31, 2014, and the comparative information as at December 31, 2013.

c. Significant Accounting Policies

Principles of Consolidation: The financial statements consolidate the financial statements of Pan American and its subsidiaries. All intercompany balances, transactions, unrealized profits and losses arising from intra-company transactions, have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. This occurs when the Company has existing rights that give it the current ability to direct the relevant activities, is exposed, or has rights, to variable returns from its involvement with the investee when the investor’s

returns from its involvement have the potential to vary as a result of the investee's performance and the ability to use its power over the investee to affect the amount of the investor's returns. Where there is a loss of control of a subsidiary, the financial statements include the results for the part of the reporting period during which the Company has control. Subsidiaries use the same reporting period and same accounting policies as the Company.

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

Pan American Silver Corp.

Notes to the Consolidated Financial Statements

As at December 31, 2014 and 2013

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

The consolidated financial statements include the wholly-owned and partially-owned subsidiaries of the Company; the most significant at December 31, 2014 and 2013 are presented in the following table:

Subsidiary	Location	Ownership Interest	Status	Operations and Development Projects Owned
Pan American Silver Huaron S.A.	Peru	100%	Consolidated	Huaron mine
Compañía Minera Argentum S.A.	Peru	92%	Consolidated	Morococha mine
Minera Corner Bay S.A. de C.V.	Mexico	100%	Consolidated	Alamo Dorado mine
Plata Panamericana S.A. de C.V.	Mexico	100%	Consolidated	La Colorada mine
Compañía Minera Dolores S.A. de C.V.	Mexico	100%	Consolidated	Dolores mine
Minera Tritón Argentina S.A.	Argentina	100%	Consolidated	Manantial Espejo mine
Pan American Silver (Bolivia) S.A.	Bolivia	95%	Consolidated	San Vicente mine
Minera Argenta S.A.	Argentina	100%	Consolidated	Navidad Project

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

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

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

Business combinations: Upon the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) acquired on the basis of fair value at the date of acquisition. When the cost of the acquisition exceeds the fair value attributable to the Company's share of the identifiable net assets, the difference is treated as purchased goodwill, which is not amortized and is reviewed for impairment annually or more frequently when there is an indication of

impairment. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the income statement. Acquisition related costs, other than costs to issue debt or equity securities of the acquirer, including investment banking fees, legal fees, accounting fees, valuation fees, and other professional or consulting fees are expensed as incurred. The costs to issue equity securities of the Company as consideration for the acquisition are reduced from share capital as share issuance costs. The costs to issue debt securities are capitalized and amortized using the effective interest method.

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

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

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

Pan American Silver Corp.

Notes to the Consolidated Financial Statements

As at December 31, 2014 and 2013

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

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

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

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

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

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

(i) Financial assets

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

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

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

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(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

(d) Held-to-maturity investments

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

ii) Financial liabilities

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

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

(iii) Derivative financial instruments

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

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

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(iv) Fair value

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

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

(v) Impairment of financial assets

Available-for-sale financial assets

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

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

(vi) De-recognition of financial assets and liabilities

Financial assets

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

Financial liabilities

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

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

(vii) Trade receivables

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

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against the provision for impairment. Subsequent recoveries of amounts previously written off are credited against 'doubtful accounts provision' in the income statement.

(viii) Accounts payable and accrued liabilities

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

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

Derivatives, including certain conversion options and warrants with exercise prices in a currency other than the functional currency, are recognized at fair value with changes in fair value recognized in profit or loss.

Normal purchase or sale exemption: Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the Company's expected purchase, sale or usage requirements fall in the exemption from IAS 32 and IAS 39, which is known as the "normal purchase or sale exemption" (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative. Refer to note 8b for more information). For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognizes such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

Convertible Notes: The Company has the right to pay all or part of the liability associated with the Company's outstanding convertible notes in cash on the conversion date. Accordingly, the Company classifies the convertible notes as a financial liability with an embedded derivative. The financial liability and embedded derivative are recognized initially at their respective fair values. The embedded derivative is subsequently recognized at fair value with changes in fair value reflected in profit or loss and the debt liability component is recognized at amortized cost using the effective interest method. Interest gains and losses related to the debt liability component or embedded derivatives are recognized in profit or loss. On conversion, the equity instrument is measured at the carrying value of the liability component and the fair value of the derivative component on the conversion date.

Cash and cash equivalents: Cash and cash equivalents include cash on hand and cash in banks. It also includes short-term money market investments that are readily convertible to cash with original terms of three months or less.

Cash and cash equivalents are classified as loans and receivables and therefore are stated at amortized cost, less any impairment.

Short-term investments: Short-term investments are classified as “available-for-sale”, and consist of highly-liquid debt securities with original maturities in excess of three months and equity securities. These debt and equity securities are initially recorded at fair value, which upon their initial measurement is equal to their cost. Subsequent measurements and changes in the market value of these debt and equity securities are recorded as changes to other comprehensive income. Investments are assessed quarterly for potential impairment.

Inventories: Inventories include work in progress, concentrate ore, doré, processed silver and gold, heap leach inventory, and operating materials, and supplies. Work in progress inventory includes ore stockpiles and other partly processed material. Stockpiles represent ore that has been extracted and is available for further processing. The classification of inventory is determined by the stage at which the ore is in the

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

The costs incurred in the construction of the heap leach pad are capitalized. Heap leach inventory represents silver and gold contained in ore that has been placed on the leach pad for cyanide irrigation. The heap leach process is a process of extracting silver and gold by placing ore on an impermeable pad and applying a diluted cyanide solution that dissolves a portion of the contained silver and gold, which are then recovered during the metallurgical process. When the ore is placed on the pad, an estimate of the recoverable ounces is made based on tonnage, ore grade and estimated recoveries of the ore type placed on the pad. The estimated recoverable ounces on the pad are used to compile the inventory cost.

The Company uses several integrated steps to scientifically measure the metal content of the ore placed on the leach pads. The tonnage, grade, and ore type to be mined in a period is first estimated using the Mineral Reserve model. As the ore body is drilled in preparation for the blasting process, samples are taken of the drill residue which is assayed to determine their metal content and quantities of contained metal. The estimated recoverable ounces carried in the leach pad inventory are adjusted based on actual recoveries being experienced. Actual and estimated recoveries achieved are measured to the extent possible using various indicators including, but not limited to, individual cell recoveries, the use of leach curve recovery, trends in the levels of carried ounces depending on the circumstances or cumulative pad recoveries.

The Company then processes the ore through the crushing facility where the output is again weighed and sampled for assaying. A metallurgical reconciliation with the data collected from the mining operation is completed with appropriate adjustments made to previous estimates. The crushed ore is then transported to the leach pad for application of the leaching solution. The samples from the automated sampler are assayed each shift and used for process control. The quantity of leach solution is measured by flow meters throughout the leaching and precipitation process. The pregnant solution from the heap leach is collected and passed through the processing circuit to produce precipitate which is retorted and then smelted to produce doré bars.

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

The inventory is stated at lower of cost or net realizable value, with cost being determined using a weighted average cost method. The ending inventory value of ounces associated with the leach pad is equal to opening recoverable ounces plus recoverable ounces placed less ounces produced plus or minus ounce adjustments.

The estimate of both the ultimate recovery expected over time and the quantity of metal that may be extracted relative to the time the leach process occurs requires the use of estimates which rely upon laboratory test work and estimated models of the leaching kinetics in the heap leach pads. Test work consists of leach columns of up to 400 day duration with 150 days being the average, from which the Company projects metal recoveries up to three years in the future. The quantities of metal contained in the ore are based upon actual weights and assay analysis. The rate at which the leach process extracts gold and silver from the crushed ore is based upon laboratory column tests and actual experience. The assumptions used by the Company to measure metal content during each stage of the inventory conversion process includes estimated recovery rates based on laboratory testing and assaying. The Company periodically reviews its estimates compared to actual experience and revises its estimates when appropriate. The ultimate recovery will not be known until the leaching operations cease.

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

Mineral Property, Plant, and Equipment: On initial acquisition, mineral property, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. When provisions for closure and decommissioning are recognized, the corresponding cost is capitalized as part of the cost of the related assets, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in mineral property, plant and equipment and depreciated accordingly.

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

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

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

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

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

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

gain or loss included in the financial year in which the item is derecognized.

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

Costs associated with commissioning activities on constructed plants are deferred from the date of mechanical completion of the facilities until the date the Company is ready to commence commercial service. Any revenues earned during this period are recorded as a reduction in deferred commissioning costs. These

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costs are amortized using the units-of-production method (described below) over the life of the mine, commencing on the date of commercial service.

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

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

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

Units of production basis

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

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

Straight line basis

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

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

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

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

Expenditures on exploration activity are not capitalized.

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

Evaluation expenditures, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that such costs are expected to be recovered in full through successful development and exploration of the area of interest or alternatively, by its sale.

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

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

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

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

the project, taking into consideration the exploration and technical evaluation activities and work undertaken in relation to the project. If the asset demonstrates technical feasibility and commercial viability, the asset is reclassified to mineral properties, plant and equipment. Assessment for impairment is conducted before reclassification.

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

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

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

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

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

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

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

than goodwill that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Closure and Decommissioning Costs: The mining, extraction and processing activities of the Company normally give rise to obligations for site closure or rehabilitation. Closure and decommissioning works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognized at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and decommissioning activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine

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operating costs that may impact the ultimate closure and decommissioning activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognized as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation. The timing of the actual closure and decommissioning expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating license conditions, and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and decommissioning requirements. Closure and decommissioning provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the underlying obligation. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements which give rise to a constructive or legal obligation.

When provisions for closure and decommissioning are initially recognized, the corresponding cost is capitalized as a component of the cost of the related asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in Property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognized in finance expenses. Closure and decommissioning provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the un-depreciated capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in the income statement. In the case of closed sites, changes to estimated costs are recognized immediately in the income statement. Changes to the capitalized cost result in an adjustment to future depreciation and finance charges. Adjustments to the estimated amount and timing of future closure and decommissioning cash flows are a normal occurrence in light of the significant judgements and estimates involved.

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

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

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

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

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

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The fair value is determined by using option pricing models. At each statement of financial position date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed (after adjusting for non-market performance conditions). The movement in cumulative expense is recognized in the income statement with a corresponding entry within equity. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The diluted earnings per share calculation is based on the earnings attributable to ordinary equity holders and the weighted average number of shares outstanding after adjusting for the effects of all potential ordinary shares. This

method requires that the number of shares used in the calculation be the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. This method assumes that the potential ordinary shares converted into ordinary shares at the beginning of the period (or at the time of issuance, if not in existence at beginning of the period). The number of dilutive potential ordinary shares is determined independently for each period presented.

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

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Borrowing Costs: Borrowing costs that are directly attributable to the acquisition, construction or production of qualified assets are capitalized. Qualifying assets are assets that require a substantial amount of time to prepare for their intended use, including mineral properties in the evaluation stage where there is a high likelihood of commercial exploitation. Qualifying assets also include significant expansion projects at the operating mines. Borrowing costs are considered an element of the historical cost of the qualifying asset. Capitalization ceases when the asset is substantially complete or if construction is interrupted for an extended period. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the period. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalized represents the borrowing costs specific to those borrowings. Where surplus funds available out of money borrowed specifically to finance a project are temporarily invested, the total borrowing cost is reduced by income generated from short-term investments of such funds.

3. Changes in Accounting Standards

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”) is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. In IAS 37, the criterion for recognizing a liability includes the requirement for an entity to have a present obligation resulting from a past event. IFRIC 21 provides clarification on the past event that gives rise to the obligation to pay a levy as the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The application of IFRIC 21 did not result in an adjustment to the Company’s consolidated financial statements.

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, 2017. 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.

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4. Significant Judgements in Applying Accounting Policies

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

- **Capitalization of evaluation costs:** The Company has determined that evaluation costs capitalized during the year relating to the operating mines and certain other exploration interests have potential future economic benefits and are potentially economically recoverable, subject to impairment analysis as discussed in Note 11. In making this judgement, the Company has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity to existing ore bodies, operating management expertise and required environmental, operating and other permits.
- **Commencement of commercial production:** During the determination of whether a mine has reached an operating level that is consistent with the use intended by management, costs incurred are capitalized as mineral property, plant and equipment and any consideration from commissioning sales are offset against costs capitalized. The Company defines commencement of commercial production as the date that a mine has achieved a sustainable level of production based on a percentage of design capacity along with various qualitative factors including but not limited to the achievement of mechanical completion, continuous nominated level of production, the working effectiveness of the plant and equipment at or near expected levels and whether there is a sustainable level of production input available including power, water and diesel.
- **Assets' carrying values and impairment charges:** In determining carrying values and impairment charges the Company looks at recoverable amounts, defined as the higher of value in use or fair value less cost to sell in the case of assets, and at objective evidence that identifies significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- **Functional currency:** The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which each operates. The Company has determined that its functional currency and that of its subsidiaries is the USD. The determination of functional currency may require certain judgements to determine the primary economic environment. The Company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.
- **Business combinations:** Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.
- **Deferral of stripping costs:** In determining whether stripping costs incurred during the production phase of a mining property relate to mineral reserves that will be mined in a future period and therefore should be capitalized, the Company treats the costs of removal of the waste material during a mine's production phase as deferred, where it

gives rise to future benefits. These capitalized costs are subsequently amortized on a unit of production basis over the reserves that directly benefit from the specific stripping activity. As at December 31, 2014, the carrying amount of stripping costs capitalized was \$46.2 million comprised of Manantial - \$13.0 million, Dolores - \$28.4 million and Alamo Dorado - \$4.8 million (2013 - \$59.2 million was capitalized comprised of \$13.8, \$32.8, and \$12.6 million, respectively).

- Replacement convertible debenture: As part of the 2009 Aquiline transaction the Company issued a replacement convertible debenture that allowed the holder to convert the debenture into either 363,854 Pan American shares or a Silver Stream contract. The holder subsequently selected the Silver Stream contract. The convertible debenture is classified and accounted for as a deferred credit. In determining the

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appropriate classification of the convertible debenture as a deferred credit, the Company evaluated the economics underlying the contract as of the date the Company assumed the obligation. As at December 31, 2014, the carrying amount of the deferred credit arising from the Aquiline acquisition was \$20.8 million (2013 - \$20.8 million).

- **Convertible Notes:** The Company has the right to pay all or part of the liability associated with the Company's outstanding convertible notes in cash on the conversion date. Accordingly, the Company classifies the convertible notes as a financial liability with an embedded derivative. The financial liability and embedded derivative are recognized initially at their respective fair values. The embedded derivative is subsequently recognized at fair value with changes in fair value reflected in profit or loss and the debt liability component is recognized at amortized cost using the effective interest method. Interest gains and losses related to the debt liability component or embedded derivatives are recognized in profit or loss. On conversion, the equity instrument is measured at the carrying value of the liability component and the fair value of the derivative component on the conversion date.

5. Key Sources of Estimation Uncertainty in the Application of Accounting Policies

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

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

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

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

future on the Company's financial position and results of operation.

- Valuation of Inventory: In determining mine production costs recognized in the consolidated income statement, the Company makes estimates of quantities of ore stacked in stockpiles, placed on the heap leach pad and in process and the recoverable silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. Refer to Note 9 for details.
- Depreciation and amortization rates for mineral property, plant and equipment and mineral interests: Depreciation and amortization expenses are allocated based on assumed asset lives and depreciation and amortization rates. Should the asset life or depreciation rate differ from the initial estimate, an

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adjustment would be made in the consolidated income statement prospectively. A change in the mineral reserve estimate for assets depreciated using the units of production method would impact depreciation expense prospectively.

- **Impairment of mining interests:** While assessing whether any indications of impairment exist for mining interests, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mining interests. Internal sources of information include the manner in which mineral property, plant and equipment are being used or are expected to be used and indications of the economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interests. Impairments of mining interests are discussed in Note 11.
- **Estimation of decommissioning and restoration costs and the timing of expenditures:** The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at the best estimate of expenditure required to settle the present obligation of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine at the end of the reporting period. The carrying amount is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. Refer to Note 15 for details on decommissioning and restoration costs.
- **Income taxes and recoverability of deferred tax assets:** In assessing the probability of realizing income tax assets recognized, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.
- **Accounting for acquisitions:** The provisional fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires that management make certain judgments and estimates taking into account information

available at the time of acquisition about future events, including, but not restricted to, estimates of mineral reserves and resources required, exploration potential, future operating costs and capital expenditures, future metal prices, long-term foreign exchange rates and discount rates. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, are retrospectively adjusted when the final measurements are determined (within one year of the acquisition date).

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

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6. Management of Capital

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time maximizing growth of its business and providing returns to its shareholders. The Company's capital structure consists of shareholders' equity (comprising issued capital plus share option reserve plus retained deficit, plus investment revaluation reserve) with a balance of \$1.6 billion as at December 31, 2014 (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.

7. Financial Instruments

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

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

	December 31, 2014	December 31, 2013
Current derivative liability		
Conversion feature on convertible notes	\$(278)	\$-
	\$(278)	\$-
Non-current derivative liabilities		
Share purchase warrants	\$-	\$(207)
Conversion feature on convertible notes	-	(1,419)
	\$-	\$(1,626)

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

	December 31, 2014	December 31, 2013
Trade receivables from provisional concentrates sales	\$29,288	\$31,727
Not arising from sale of metal concentrates	76,356	83,055
Trade and other receivables	\$105,644	\$114,782

b) Normal purchase or sale exemption

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

c) Financial assets designated as available-for-sale

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

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	Twelve months ended December 31,	
	2014	2013
Unrealized loss on equity securities	\$(1,429)	\$(2,163)
Reclassification adjustment for net losses on available for sale securities included in earnings	1,081	1,062
	\$(348)	\$(1,101)

d) Risk

Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, interest rate risk, foreign exchange rate risk, and liquidity risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments. The Company derives its revenue from the sale of silver, gold, lead, copper, and zinc. The Company's sales are directly dependent on metal prices that have shown significant volatility and are beyond the Company's control. Consistent with the Company's mission to provide equity investors with exposure to changes in silver prices, the Company's current policy is to not hedge the price of silver. A 10% increase in all metal prices for the year ended December 31, 2014, would result in an increase of approximately \$79.4 million (2013 – \$88.7 million) in the Company's revenues. A 10% decrease in all metal prices for the same period would result in a decrease of approximately \$83.8 million (2013 - \$90.7 million) in the Company's revenues. The Company also enters into provisional concentrate contracts to sell the zinc, lead and copper concentrates produced by the Huaron, Morococha, San Vicente and La Colorada mines. A 10% increase in metal prices (zinc, lead, copper and silver) on open positions for provisional concentrate contracts for the year ended December 31, 2014 would result in an increase of approximately \$6.3 million (2013 - \$19.4 million) in the Company's before tax earnings which would be reflected in 2014 results. A 10% decrease in metal prices for the same period would result in a decrease of approximately \$6.5 million (2013 - \$19.7 million) in the Company's before tax earnings.

The Company mitigates the price risk associated with its base metal production by committing some of its forecasted base metal production from time to time under forward sales and option contracts. The Board of Directors continually assess the Company's strategy towards its base metal exposure, depending on market conditions. At December 31, 2014, the Company did not have outstanding contracts to sell any of its base metals production.

Credit Risk

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

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

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\$29.3 million (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 December 31, 2014 the Company had approximately \$44.7 million (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.

At December 31, 2014, the Company has recorded an allowance for doubtful accounts provision in the amount of \$7.6 million (2013 - \$7.6 million). \$7.6 million relates to amounts owing from Doe Run Peru ("DRP"), one of the buyers of concentrates from the Company's Peruvian operations, for deliveries of concentrates that occurred in early 2009. The Company will continue to pursue every possible avenue to recover the amounts owed by DRP. At December 31, 2014, no additional provision for doubtful accounts were recorded other than those described above.

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

	December 31,	
	2014	2013
Cash and cash equivalents	\$146,193	\$249,937
Trade accounts receivable	29,288	31,727
Advances to suppliers and contractors	22,766	24,265
Export tax receivable	-	3,803

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Insurance receivable	4,447	3,855
Royalty receivable	4,274	2,370
Employee loans	1,107	1,768
Other	8,913	8,769
Total accounts receivable	61,795	76,557
Total cash and cash equivalents, and accounts receivable	\$207,988	\$326,494

The Company invests its cash which also has credit risk, with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

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Interest Rate Risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. At December 31, 2014, the Company has \$8.0 million in lease obligations (2013 - \$10.2 million), that are subject to an annualized interest rate of 2.2% and unsecured convertible notes with a principal amount of \$36.2 million (2013 - \$36.2 million) that bear interest at 4.5%, payable semi-annually on June 15 and December 15. The interest paid by the Company for the year ended December 31, 2014 on its lease obligations was \$0.4 million (2013 - \$0.2 million). The Company has received short term loans in Argentina totaling \$60 million Argentinean Pesos (USD \$7.0 million) at an annual interest rate of 32.9% and USD \$4.7 million at an annual interest rate of 3.2%. In addition the Company has also drawn on an available line of credit in Argentina for \$49.5 million Argentinean Pesos (USD \$6.0 million) at an interest rate of 25.0%. \$49.5 million Argentinean Pesos are due in January 2015, \$60 million Argentinean Pesos are due in October 2015 and USD \$4.7 million are due in November 2015. The interest paid by the Company for the year ended December 31, 2014 on the convertible notes was \$1.6 million (2013 - \$1.6 million). The Company is not subjected to variable market interest rate changes as all debt included above have stated interest rates.

The average interest rate earned by the Company during the year ended December 31, 2014 on its cash and short term investments was 0.54%. A 10% increase or decrease in the interest earned from financial institutions on cash and short term investments would result in a \$0.3 million increase or decrease in the Company's before tax earnings (2013 - \$0.3 million).

Foreign Exchange Rate Risk

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

In order to mitigate this exposure, from time to time the Company has purchased Peruvian Nuevo Sol ("PEN"), Mexican Peso ("MXN") and CAD to match anticipated spending. At December 31, 2014 the Company had no outstanding contracts to purchase in PEN, MXN or CAD. The Company's net earnings are affected by the revaluation of its monetary assets and monetary liabilities at each balance sheet date. The Company has reviewed its monetary assets and monetary liabilities and is exposed to foreign exchange risk through the following financial assets and liabilities and deferred income tax liabilities denominated in currencies other than USD as shown in the table below. The Company estimates that a 10% change in the exchange rate of the foreign currencies in which its December 31, 2014 non-USD net monetary liabilities were denominated would result in an income before taxes change of about \$5.3 million (2013 - \$38.3 million).

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

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

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

	Cash and short-term investments	Other current and non-current assets	Income taxes receivable (payable), current and non-current	Accounts payable and accrued liabilities and non-current liabilities	Deferred tax assets and liabilities
At December 31, 2013					
Canadian Dollar	\$ 156,610	\$ 1,769	\$ 4	\$(5,143)	\$ -
Mexican Peso	6,149	34,105	8,776	(39,067)	(235,513)
Argentinian Peso	4,178	36,315	3,075	(47,055)	(26,720)
Bolivian Boliviano	1,635	1,187	(3,104)	(7,017)	(217)
Peruvian Nuevo Sol	3,279	13,838	3,359	(27,832)	(23,332)
	\$ 171,851	\$ 87,214	\$ 12,110	\$(126,114)	\$ (285,782)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and short-term investments, and its committed loan facilities.

e) Commitments

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

	Payments due by period 2014				
	Total	Within 1 year(2)	2 - 3 years	4- 5 years	After 5 years
Current liabilities	\$ 125,031	\$ 125,031	\$-	\$-	\$-
Loan obligation (Note 15)	17,600	17,600	-	-	-
Finance lease obligations(1)	8,425	4,238	4,187	-	-
Severance accrual	4,135	749	469	2,053	864
Provisions	3,121	3,121	-	-	-
Income taxes payable	22,321	22,321	-	-	-
Restricted share units ("RSUs")	2,261	1,498	763	-	-
Preferred share units ("PSUs")	281	-	281	-	-
Current portion of long term debt (4)	37,867	37,867	-	-	-
Total contractual obligations(5)	\$ 221,042	\$ 212,425	\$ 5,700	\$ 2,053	\$ 864

Payments due by period 2013

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	Total	Within 1 year(2)	2 - 3 years	4- 5 years	After 5 years
Current liabilities	\$ 156,241	\$ 156,241	\$-	\$-	\$-
Loan obligation (Note 15)	20,095	20,095	-	-	-
Finance lease obligations(1)	10,856	4,800	4,417	1,639	-
Severance accrual	3,726	649	412	2,138	527
Employee compensation plan(3)	3,228	3,228	-	-	-
Restricted share units (“RSUs”)(3)	2,288	1,393	895	-	-
Long term debt (4)	39,497	1,631	37,866	-	-
Total contractual obligations(5)	\$235,931	\$ 188,037	\$43,590	\$3,777	\$527

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(1) Includes lease obligations in the amount of \$8.4 million (December 31, 2013 - \$10.9 million) with a net present value of \$8.0 million (December 31, 2013 - \$10.2 million) discussed further in Note 16.

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

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

December 31, 2013		Future interest component	Within 1 year
Current portion of:			
Accounts payable and other liabilities	\$ 123,750	\$-	\$ 123,750
Loan obligation	20,095	-	20,095
Current severance liability	649	-	649
Current portion of finance lease	4,437	363	4,800
Employee Compensation & RSU's	1,210	3,411	4,621
Convertible note	-	1,631	1,631
Provisions	3,172	-	3,172
Income tax payable	29,319	-	29,319
Total contractual obligations within one year	\$ 182,632	\$ 5,405	\$ 188,037

(3) Includes RSU obligation in the amount of \$2.2 million (2013 - \$2.3 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 17 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 18, and deferred tax liabilities.

Fair Value of Financial Instruments

The carrying value of share purchase warrants and the conversion feature on the convertible notes are stated at fair value and the carrying value of cash, short-term investments, trade and other receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these financial instruments. Share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency are classified and accounted for as financial liabilities and, as such, are measured at their fair values with changes in fair values included in net earnings.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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).

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At December 31, 2014, the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized on the Consolidated Statements of Financial Position at fair value are categorized as follows:

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

	Fair Value at December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets and Liabilities:				
Short-term investments	\$172,785	\$172,785	\$-	\$-
Trade receivable from provisional concentrate sales	\$31,727	\$-	\$31,727	\$-
Share purchase warrants	\$(207)	\$-	\$(207)	\$-
Conversion feature of convertible notes	\$(1,419)	\$-	\$(1,419)	\$-
	\$202,886	\$172,785	\$30,101	\$-

The methodology and assessment of inputs for determining the fair value of financial assets and liabilities as well as the levels of hierarchy for the Company's financial assets and liabilities measured at fair value remains unchanged from that at December 31, 2013.

Valuation Techniques

Short-term investments and other investments

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

Derivative Financial Instruments

The Company's unrealized gains and losses on commodity and foreign currency contracts are valued using observable market prices and as such are classified as Level 2 of the fair market value hierarchy. As of December 31, 2014, the unrealized gains and losses on commodity and foreign currency contracts was \$nil (2013 - \$nil).

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. These warrants expired December 7th, 2014, see further discussion in Note 19. During the year ended December 31, 2014, the unrealized gain on share purchase warrants was \$0.2 million (2013 - \$8.4 million).

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 re-measured at fair value each reporting period. The fair value of the conversion feature of the convertible notes is determined using a model that includes the volatility and price of the Company's common shares and a credit spread structure with reference to the corresponding fair value of the debt component of the convertible notes. During the year ended December 31, 2014, the unrealized gain on the convertible note was \$1.1 million (2013 - \$8.3million). The approximate current fair value of the notes, excluding the conversion feature at December 31, 2014 is \$35.6 million (2013 - \$34.7 million).

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Receivables from Provisional Concentrate Sales

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

8. Short Term Investments

	December 31, 2014			December 31, 2013		
	Fair Value	Cost	Accumulated unrealized holding losses	Fair Value	Cost	Accumulated unrealized holding losses
Available for Sale						
Short term investments	\$184,220	\$184,705	\$ (485)	\$172,785	\$172,922	\$ (137)

9. Inventories

Inventories consist of:

	December 31, 2014	December 31, 2013
Concentrate inventory	\$16,679	\$17,024
Stockpile ore(1)	44,236	55,356
Heap leach inventory and in process (2)	78,564	94,820
Doré and finished inventory (3)	57,175	56,090
Materials and supplies	55,895	61,062
	\$252,549	\$284,352

(1) Includes an impairment charge of \$0.9 million to reduce the cost of inventory to NRV at Manantial Espejo mine (December 31, 2013 – nil).

(2) Includes an impairment charge of \$32.3 million to reduce the cost of inventory to NRV at Dolores and Alamo Dorado mines (December 31, 2013 - \$10.3 million).

(3) Includes an impairment charge of \$9.7 million to reduce the cost of inventory to NRV at Dolores, Alamo Dorado and Manantial Espejo mines (December 31, 2013 - \$2.7).

Production costs, including depreciation and amortization and royalties for the year ended December 31, 2014 were \$743.9 million (2013 - \$693.0 million). Production costs represent cost of inventories sold during the year. During 2014, \$30.0 million (2013 - \$13.0 million) net realizable value adjustment was recognized and included in production costs (Note 20). The Stockpile ore of \$32.7 million (2013 – \$42.4 million) and a portion of the heap leach inventory amounting to \$54.0 million (2013 - \$49.3 million) are expected to be recovered or settled after more than twelve months.

10. Mineral Properties, Plant and Equipment

Acquisition costs of investment and non-producing properties together with costs directly related to mine development expenditures are capitalized. Exploration expenditures on investment and non-producing properties are charged to expense in the period they are incurred.

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

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

Mineral properties, plant and equipment consist of:

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

	Mining Properties				Total
	Depletable Reserves and Resources	Non-depletable Reserves and Resources	Exploration and Evaluation	Plant and Equipment	
Carrying value					
As at January 1, 2013	\$867,381	\$341,362	\$618,221	\$378,288	\$2,205,252
Additions	113,918	16	61	48,738	162,733
Disposals	-	-	-	(2,371)	(2,371)
Depreciation	(67,450)	-	-	(68,463)	(135,913)
Depreciation charge captured in inventory	(5,581)	-	-	-	(5,581)
Impairment charges	(197,044)	(109,921)	(15,387)	(26,065)	(348,417)
Transfers	(293)	(5,042)	846	4,489	-

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Capitalized borrowing costs	1,658	-	-	-	1,658
Closure and decommissioning – changes in estimate	(5,758)	-	(925)	-	(6,683)
As at December 31, 2013	\$706,831	\$226,415	\$602,816	\$334,616	\$1,870,678
Cost as at December 31, 2013	\$1,221,767	\$336,336	\$718,212	\$665,710	\$2,942,025
Accumulated depreciation and impairments	(514,936)	(109,921)	(115,396)	(331,094)	(1,071,347)
Carrying value – December 31, 2013	\$706,831	\$226,415	\$602,816	\$334,616	\$1,870,678

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	December 31, 2014			December 31, 2013		
	Cost	Accumulated Depreciation and Impairment	Carrying Value	Cost	Accumulated Depreciation and Impairment	Carrying Value
Huaron mine, Peru	\$ 158,750	\$ (71,351)	\$ 87,399	\$ 147,391	\$ (62,878)	\$ 84,513
Morococha mine, Peru	211,545	(86,936)	124,609	202,213	(68,220)	133,993
Alamo Dorado mine, Mexico	193,715	(179,274)	14,441	193,035	(143,330)	49,705
La Colorada mine, Mexico	140,784	(61,650)	79,134	107,002	(52,588)	54,414
Dolores mine, Mexico	859,655	(452,645)	407,010	767,194	(296,751)	470,443
Manantial Espejo mine, Argentina	346,498	(277,296)	69,202	321,047	(162,058)	158,989
San Vicente mine, Bolivia	128,014	(63,812)	64,202	124,859	(55,727)	69,132
Other	24,745	(15,696)	9,049	24,735	(4,476)	20,259
Total	\$ 2,063,706	\$ (1,208,660)	\$ 855,046	\$ 1,887,476	\$ (846,028)	\$ 1,041,448

Land and Exploration and
Evaluation:

Land	\$4,977	\$ 8,513
Navidad project, Argentina	190,471	462,400
Minefinders exploration projects, Mexico	180,074	317,117
Morococha, Peru	9,674	10,432
Other	26,149	30,768
Total non-producing properties	\$411,345	\$ 829,230
Total mineral properties, plant and equipment	\$1,266,391	\$ 1,870,678

Navidad Project, Argentina

During the year ended December 31, 2014 the Company capitalized \$nil of evaluation costs and mineral property, plant and equipment at the Navidad Project in Argentina (2013 - \$nil).

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

Morococha Mine, Peru

During the second quarter of 2010, the Company's subsidiary Compañía Minera Argentum S.A. ("Argentum"), reached an agreement with Minera Chinalco Perú ("MCP" or "Chinalco"), a subsidiary of the Aluminum Corporation of China which clearly defines each party's long term surface rights in the area of the Morococha mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP's Toromocho copper project. MCP requires certain lands and concessions in order to proceed with the development of Toromocho, including the surface lands within the planned open pit mining area of the Toromocho project. While Argentum does not own this land, much of the Morococha mine infrastructure and facilities are located on this ground.

Under the terms of the agreement, Argentum would relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP. In exchange, Argentum will receive a package of surface rights, easements and other rights that are sufficient to relocate the facilities and to continue uninterrupted operations. Lastly, Argentum will receive periodic cash payments from MCP totaling \$40.0 million, of which, to December 31, 2014, the Company received \$23.8 million (2013 - \$23.8 million) which has been recognized as other income.

Dolores Mine, Mexico

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

During the year ended December 31, 2014 the Company capitalized \$49.7 million of mineral property, plant and equipment (2013 - \$86.6 million) which included pad 3 construction additions of \$17.5 million (2013 - \$27.2 million). For the year ended December 31, 2014, the Company capitalized \$2.3 million in interest related to the capital expenditures (2013 - \$1.7 million) at a capitalization rate of 10% (2013: 10%).

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At June 30, 2013, it was determined that the estimated realizable value of the Dolores mine was below its carrying value and an impairment charge of \$187.5 million (net of tax of \$1.1 million) was recorded which included \$184.7 million of goodwill. Refer to Note 11 for further details.

At December 31, 2013, it was determined that the estimated realizable value of the Dolores mine was below its carrying value and a further impairment charge of \$218.1 million (net of tax of \$118.7 million) was recorded. Refer to Note 11 for further details.

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

11. Impairment of Non-Current Assets and Goodwill

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

Impairment at December 31, 2014

Due to a sustained decrease in metal prices that began during the third quarter of 2014 and carried on through the remainder of the year, during the fourth quarter of 2014 the Company lowered the silver and gold prices used in its long term reserve prices and updated the metal prices used in the near-term and mid-term periods (up to 2018) in its life of mine cash flow models, and concluded that these changes constituted an indication of impairment in the fourth quarter.

Based on the Company’s assessment at December 31, 2014 of potential impairments with respect to its mineral properties, the Company concluded that impairment charges were required for the Dolores mine, the Alamo Dorado Mine, the Manantial Espejo mine, the Navidad Project, and certain non-core exploration properties.

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

At its Dolores property, the Company determined that the carrying value of approximately \$516.1 million, net of associated deferred tax liabilities was greater than its recoverable amount of \$405.3 million when using a 5% risk adjusted discount rate. Based on the above assessment at December 31, 2014, the Company recorded a further impairment charge related to the Dolores mine of \$170.6 million, before tax (\$110.8 million net of tax) comprised of mineral property of \$88.6 million, exploration and evaluation property of \$72.0 million, and property, plant and equipment assets of \$10.0 million.

At its Manantial Espejo property, the Company determined that the carrying value of approximately \$142.1 million, net of associated deferred tax liabilities was greater than its recoverable amount of \$86.2 million when using a 9% risk adjusted discount rate. Based on the above assessment at December 31, 2014, the Company recorded an impairment charge related to the Manantial Espejo mine of \$76.7 million, before tax (\$55.9 million net of tax) comprised of mineral property of \$46.3 million, and property, plant and equipment assets of \$30.4 million.

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

At its Alamo Dorado property, the Company determined that the carrying value of approximately \$45.6 million, net of associated deferred tax liabilities was greater than its recoverable amount of \$27.6 million when using a 5% risk adjusted discount rate. Based on the above assessment at December 31, 2014, the Company recorded an impairment charge related to the Alamo Dorado mine of \$23.7 million, before tax (\$17.7 million net of tax) comprised of mineral property of \$7.4 million, and property, plant and equipment assets of \$16.3 million.

Furthermore, the Company determined that its La Bolsa, La Virginia, Pico Machay, and Navidad properties at December 31, 2014, all had recoverable values on a fair value less cost of sales basis below their carrying values. For the La Bolsa property, an impairment of \$10.3 million, before tax (\$6.4 million net of tax) was warranted to reduce the carrying value of \$25.2 million. The La Virginia property was written off completely, including related goodwill of \$4.1 million, resulting in a \$24.1 million, before tax (\$17.0 million net of tax) impairment. At the Pico Machay property, the Company determined that a \$4.8 million, before tax (\$4.8 million net of tax) impairment was appropriate to reduce the carrying value of approximately \$22.2 million down to \$17.4 million.

Lastly, at its Navidad property, the company found that at December 31, 2014 a further impairment was warranted given the deteriorating economic environment in Argentina, and the precious metals market. The Company used a range of expected FX assumptions, and a risk adjusted project specific discount rate of 11.25% to develop a discounted cash flow model. Additionally, the Company compiled market data to develop an in-situ based valuation of the property. The result warranted an impairment charge of \$286.1 million, before tax (\$286.1 million net of tax) comprised of \$271.9 million exploration and evaluation property, \$3.6 million of land, and \$10.6 million of equipment to reduce the approximate carrying value of \$486.1 million to the estimated recoverable value of \$200.3 million comprised of exploration and evaluation property of \$190.5 million, land of \$2.4 million and equipment of \$7.4 million.

Impairment at June 30, 2013

At June 30, 2013, the Company determined that the carrying value of the Dolores mine was greater than its recoverable amount of \$872.5 million. Based on the above assessment at June 30, 2013, the Company recorded an impairment charge related to the Dolores mine of \$187.5 million, net of tax (\$188.6 million before tax) comprised of goodwill of \$184.7 million and non-current assets of \$3.9 million.

At June 30 2013, it was determined that the estimated recoverable value of certain exploration assets was greater than their recoverable amount on a fair value less costs to sell basis. Based on this assessment the Company recorded an impairment charge of approximately \$14.9 million as at June 30, 2013, for these properties.

Impairment at December 31, 2013

Based on the Company's assessment at December 31, 2013 of potential impairments with respect to its mineral properties, the Company concluded that further impairment charges were required for the Dolores mine from those recorded at June 30, 2013.

At December 31, 2013, the Company determined that the carrying value related to the Dolores mine of approximately \$723.1 million, net of associated deferred tax liabilities was greater than its recoverable amount of \$505.1 million. Based on the above assessment at December 31, 2013, the Company recorded a further charge related to the Dolores mine of \$218.1 million, net of tax (\$336.8 million before tax) comprised of mineral property of \$194.6 million, exploration and evaluation property of \$116.1 million, and property, plant and equipment assets of \$26.1 million.

The total impairment charge for the year ended December 31, 2013 is \$420.4 million, net of tax of \$119.8 million (before tax - \$540.2 million).

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Key assumptions and sensitivity

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

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

Metal prices used at December 31, 2013:

Commodity Prices	2014-2017 average	Long term
Silver price - \$/oz.	\$22.43	\$22.00
Gold price - \$/oz.	\$1,338	\$1,300
Zinc price - \$/tonne	\$2,184	\$1,850
Copper price - \$/tonne	\$7,001	\$6,800
Lead price - \$/tonne	\$2,205	\$1,950

Metal prices used at June 30, 2013:

Commodity Prices	2013-2016 average	Long term
Silver price - \$/oz.	\$26.79	\$25.00
Gold price - \$/oz.	\$1,508	\$1,350
Zinc price - \$/tonne	\$2,238	\$1,750
Copper price - \$/tonne	\$7,436	\$6,500
Lead price - \$/tonne	\$2,221	\$1,850

The Company assesses impairment, when events or changes in circumstances indicate that the related carrying value may not be recoverable, at the cash-generating unit level, which is considered to be individual mine sites or development properties. The discount rates used to present value the Company's life of mine cash flows are derived from the Company's weighted average cost of capital which was calculated as 7.5% for 2014 (2013 – 8%), with rates applied to the various mines and projects ranging from 4.75% to 11.25% depending on the Company's assessment of country risk, project risk, and other potential risks specific to each CGU.

The key assumptions in determining the recoverable value of the Company's mineral properties are metal prices, operating and capital costs, foreign exchange rates and discount rates. At December 31, 2014, the Company performed a sensitivity analysis on all key assumptions that assumed a negative 10% change for each individual assumption while holding the other assumptions constant. Under certain of such scenarios, the carrying value of the Company's mineral properties associated with the Huaron mine and the Morococha mine may exceed their recoverable amount for the purposes of the impairment test.

For the Huaron mine, either of a decrease in the long term silver price of 2%, a decrease in the long term zinc price of 4%, a decrease in the long term lead price of 6%, a decrease in the long term copper price of 9%, an increase in operating costs of 1%, an appreciation of the Peruvian sol of 2%, or an increase in capital expenditures of 8% would in isolation cause the estimated recoverable amount to be equal to the CGU carrying value of \$72.0 million (2013-\$65.8 million). At December 31, 2013, none of these factors, if negatively affected by 10%, would have caused the carrying value to equal or exceed the recoverable value.

For the Morococha mine, either of a decrease in the long term silver price of 8%, or an increase in operating costs of 7% would in isolation, cause the estimated recoverable amount to be equal to the CGU carrying value of \$121.4 million (2013-\$125.6 million). At December 31, 2013, none of these factors, if negatively affected by 10%, would have caused the carrying value to equal or exceed the recoverable value.

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

Goodwill consists of:

As at December 31, 2012	\$ 198,946
Impairments (1) (2)	(191,812)
As at December 31, 2013	7,134
Impairments(3)	(4,077)
As at December 31, 2014	\$3,057

(1) Impairment Exploration property La Bolsa. March, 2013

(2) Impairment Dolores mine. December, 2013

(3) Impairment Exploration properties La Virginia and other. December, 2014

12. Other Assets

Other assets consist of:

	December 31, 2014	December 31, 2013
Long-term receivable(1)	\$5,461	\$5,648
Investments in Associates	1,450	1,450
Reclamation bonds	91	92
Lease receivable	408	788
Other assets	37	36
	\$7,447	\$8,014

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

13. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	December 31, 2014	December 31, 2013
Trade accounts payable(1)	\$52,985	\$51,590
Royalties payable	6,019	9,799
Other accounts payable and trade related accruals	33,780	28,419
Payroll and related benefits	18,808	19,463

Severance accruals	749	649
Other taxes payable	1,541	235
Advances on concentrate inventory	2,345	7,810
Other	9,982	7,644
	\$ 126,209	\$ 125,609

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

14. Loan payable

	December 31, 2014	December 31, 2013
Loan payable(1)	\$ 17,658	\$ 23,496
Unrealized gain on foreign exchange	(58)	(3,401)
Net loan payable	\$ 17,600	\$ 20,095

(1) On October 31, 2014, one of the Company's subsidiaries (Minera Triton Argentina S.A.) received an unsecured bank loan for \$60.0 million Argentine pesos (equivalent to USD\$7.0 million) in order to meet its short term obligations. On November 13, 2014 an additional loan was received for USD\$4.7 million. The loan terms are one year from October 31, 2014 and 90 days from November 13, 2014 with interest rates of 32.9% and 3.2% respectively. In addition to the loans the subsidiary had drawn on an available line of credit for an additional \$49.5 million Argentine pesos (equivalent to USD\$6.0 million) at an interest rate of 25.0% due January 2, 2015. At December 31, 2014, the combined fair values of the loans payable were \$17.6 million.

On June 25, 2013, one of the Company's subsidiaries (Minera Triton Argentina S.A.) received an unsecured bank loan for \$100.0 million Argentine pesos (equivalent to USD\$18.6 million) in order to meet its short term obligations. On November 27, 2013 an additional loan was received for \$30.0 million Argentine pesos (USD\$4.7 million) for a total cumulative of \$130.0 million Argentine pesos (US\$23.3 million). The loan terms are one year from June 25, 2013 and 90 days from November 27, 2013 with interest rates of 25.3% and 27.25% respectively. At December 31, 2013, the combined fair values of the loans payable were \$20.1 million.

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15. Provisions

	Closure and Decommissioning	Litigation	Total
December 31, 2012	\$ 45,640	\$7,043	\$52,683
Revisions in estimates and obligations incurred	\$ (6,789)	-	(6,789)
Charged (credited) to earnings:			
-new provisions	-	1,238	1,238
-unused amounts reversed	-	(1,166)	(1,166)
-exchange gains on provisions	-	(341)	(341)
Charged in the year	(412)	(1,254)	(1,666)
Accretion expense (Note 22)	3,030	-	3,030
December 31, 2013	\$ 41,469	\$5,520	\$46,989
Revisions in estimates and obligations incurred	421		421
Charged (credited) to earnings:			
-new provisions	-	375	375
-unused amounts reversed	-	(91)	(91)
-exchange gains on provisions	-	(284)	(284)
Charged in the year	(1,955)	(509)	(2,464)
Accretion expense (Note 22)	3,238	-	3,238
December 31, 2014	\$ 43,173	\$5,011	\$48,184
Maturity analysis of total provisions:		December 31, 2014	December 31, 2013
Current		\$3,121	\$3,172
Non-Current		45,063	43,817
		\$48,184	\$46,989

Closure and Decommissioning Cost Provision

The total inflated and undiscounted amount of estimated cash flows required to settle the Company's closure and decommissioning provision is \$99.7 million (2013 - \$107.5 million) which has been discounted using discount rates between 1% and 21% (2013 - 4% and 11%). Revisions made to the reclamation obligations in 2014 were primarily a result of increased site disturbance at the mines as well as revisions to the estimate based on periodic reviews of closure plans, actual expenditures incurred and concurrent closure activities completed. These obligations will be funded from operating cash flows, reclamation deposits and cash on hand.

The accretion expense charged to 2014 earnings as finance expense was \$3.2 million compared to \$3.0 million in 2013. Reclamation expenditures paid during the current year were \$2.0 million compared to \$0.4 million in 2013.

Litigation Provision

The litigation provision consists of amounts accrued for labour claims at several of the Company's mine operations. The balance of \$5.0 million at December 31, 2014 (2013 - \$5.5 million) represents the Company's best estimate for all known and anticipated future obligations related to the above claims. The amount and timing of any expected payments are uncertain as their determination is outside the control of the Company.

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16. Finance Lease Obligations

	December 31, 2014	December 31, 2013
Lease obligations(1)	\$8,037	\$10,154
	December 31, 2014	December 31, 2013
Maturity analysis of finance leases:		
Current	\$3,993	\$4,437
Non-Current	4,044	5,717
	\$8,037	\$10,154

(1) Represents equipment lease obligations at several of the Company's subsidiaries. A reconciliation of the total future minimum lease payments at December 31 to their present value is presented in the table below.

	December 31, 2014	December 31, 2013
Less than a year	\$4,238	\$4,800
2 years	2,697	2,585
3 years	1,490	1,832
4 years	-	1,639
5 years	-	-
	8,425	10,856
Less future finance charges	(388)	(702)
Present value of minimum lease payments	\$8,037	\$10,154

17. Long Term Debt

	December 31, 2014	December 31, 2013
Convertible notes	\$34,519	\$32,883
Conversion feature on the convertible notes	278	1,419
Total long-term debt	\$34,797	\$34,302

	December 31, 2014	December 31, 2013
Maturity analysis of Long Term Debt:		
Current	\$34,797	\$-
Non-Current	-	34,302
	\$34,797	\$34,302

As part of the Minefinders acquisition and pursuant to the First Supplemental Indenture Agreement, the Company issued replacement unsecured convertible senior notes with an aggregate principal amount of \$36.2 million (the "Notes"). Until such time as the earlier of December 15, 2015 and the date the Notes are converted, each Note shall bear interest at 4.5% payable semi-annually on June 15 and December 15 of each year. The principal outstanding on the Notes 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.

On April 19, 2012, the Company entered into a Second Supplemental Indenture Agreement (the "Agreement") as part of the Minefinders acquisition. The terms of the Agreement stipulate the following:

If a Note holder elects to convert all or part of its principal amounts of Notes on or prior to November 4, 2015, for each \$1,000 principal amount of converted Notes, such Notes shall be converted at the discretion of Pan American, into:

- a) 96.670 Preferred Shares (the "Conversion Rate") upon conversion by a holder of Notes, the Company may issue Class A voting, participating, 6.5% cumulative convertible preferred shares in the capital of Minefinders (the "Preferred Shares");
- b) an amount of cash equal to the Conversion Rate multiplied by CAD\$1.84 plus the market value of 0.55 of a Pan American common share (the "Market Value of the Consideration") at the time of such conversion; or
- c) a combination of Preferred Shares and cash having a combined value equal to the Cash Equivalent Conversion Consideration which is the amount of cash equal to the Conversion Rate multiplied by the Market Value of the Consideration at the time of such conversion.

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On November 4, 2015 each holder of Preferred Shares shall receive in exchange for each Preferred Share at the discretion of Pan American:

- a) CAD\$1.84 and 0.55 of Pan American common shares;
- b) an amount of cash equal to the Market Value of the Consideration; or
- c) a combination of Pan American Shares and cash having a combined value equal to the Market Value of the Consideration at November 4, 2015.

If the Noteholder elects to convert all or part of the principal amount of Notes held by such Noteholder after November 4, 2015, for each \$1,000 principal amount of converted Notes, the Notes shall be converted, at the option of Pan American into:

- a) the number of Preferred Shares equal to the Conversion Rate;
- b) an amount of cash equal to the Cash Equivalent Conversion Consideration that is 1.84 plus 0.55 Pan American shares multiplied by the average of the daily volume weighted average price ("VWAP") of Pan American shares for the 10 consecutive Pan American trading days commencing on the first Pan American trading day after the date of the Company's notice of election to deliver the conversion consideration in cash or a combination of Preferred shares and cash if the Noteholder has not given a notice of redemption pursuant to the terms of the Agreement; or
- c) such combination of Preferred Shares and cash having a combined value equal to the Cash Equivalent Conversion Consideration. For purposes of this clause each Preferred Share shall be deemed to have a value equal to the Market Value of the Consideration at the time of conversion, and immediately there upon, each preferred share so issued, shall be automatically exchanged for a Consideration Unit of CAD\$1.84 plus the market value of 0.55 of a Pan American common share.

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 year ended December 31, 2014, \$2.3 million was capitalized to mineral property, plant and equipment (2013 – \$1.7 million). The Company has the right to pay all or part of the liability associated with the Company's outstanding convertible notes in cash on the conversion date. Accordingly, the conversion feature on the convertible notes is considered an embedded derivative and re-measured at fair value each reporting period. The fair value of the conversion feature of the convertible notes is determined using a model that includes the volatility and price of the Company's common shares and a credit spread structure with reference to the corresponding fair value of the debt component of the convertible notes. Assumptions used in the fair value calculation of the embedded derivative component at December 31, 2014 were expected stock price volatility of 53.57%, expected life of 1.0 years, and expected dividend yield of 5.44%.

During the year ended December 31, 2014, the Company recorded a \$1.1 million gain on the revaluation of the embedded derivative on the convertible notes (2013 – \$8.3 million).

18. Other Long Term Liabilities

Other long term liabilities consist of:

	December 31, 2014	December 31, 2013
Deferred credit(1)	\$20,788	\$20,788
Other income tax payable	6,542	2,180
Severance accruals	3,386	3,077
	\$30,716	\$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 to the replacement debenture selected the silver stream alternative. The final contract for the alternative is being discussed and pending the final resolution of this discussion, the Company continues to classify the fair value calculated at the acquisition of this alternative, as a deferred credit.

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19. Share Capital and Employee Compensation Plans

The Company has a comprehensive stock option and compensation share plan for its employees, directors and officers (the “Compensation Plan”). The Compensation Plan provides for the issuance of common shares and stock options, as incentives. The maximum number of shares which may be issued pursuant to options granted or bonus shares issued under the Compensation Plan may be equal to, but will not exceed 6,461,470 shares. The exercise price of each option shall be the weighted average trading price of the Company’s stock for the five trading days prior to the award date. The options can be granted for a maximum term of 10 years with vesting provisions determined by the Company’s Board of Directors. Subject to certain exceptions, any modifications to the Compensation Plan require shareholders’ approval.

The Board has developed long term incentive plan (“LTIP”) guidelines, which provide annual compensation to the senior managers of the Company based on the long term performance of both the Company and the individuals that participate in the plan. The LTIP consists of an annual grant of options to buy shares of the Company and a grant of the Company’s common shares with a two year no trading legend. The options are seven year options which vest evenly in two annual instalments. Options and common shares granted under the LTIP plan are based on employee salary levels, individual performance and their future potential. In addition, the restricted share units (“RSUs”) plan described below is part of the LTIP plan. In early 2014, the Board approved the adding of performance share units (“PSUs”) to the Company’s LTIP, plan described below.

The Compensation Committee oversees the LTIP on behalf of the Board of Directors. The LTIP plan guidelines can be modified or suspended, at the discretion of the Board of Directors. Additionally, from time to time, the Company issues replacement awards and warrants related to acquisitions.

Transactions concerning stock options and share purchase warrants are summarized as follows in CAD:

	Stock Options		Share Purchase Warrants		
		Weighted Average Exercise Price		Weighted Average Exercise Price	
	Shares	CAD\$	Warrants	CAD\$	Total
As at December 31, 2012	2,196,565	\$24.07	7,814,605	\$35.00	10,011,170
Granted(1)	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	212,869	\$11.58	-	\$-	212,869
Exercised	-	\$-	(92)	\$35.00	(92)
Expired	(195,562)	\$17.73	(7,814,513)	\$35.00	(8,010,075)
Forfeited	(20,162)	\$23.02	-	\$-	(20,162)

As at December 31, 2014	1,394,515	\$19.74	-	\$-	1,394,515
(1)	Includes 20,642 options granted in lieu of director fees during 2013.				

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Long Term Incentive Plan

During the year ended December 31, 2014, the Company awarded 137,465 (2013 – 94,659) shares of common stock with a two year holding period and granted 212,869 (2013 – 326,047) options under this plan. During 2014, 5,521 common shares were issued to directors in lieu of directors fees. The Company used as its assumptions for calculating the fair value a risk free interest rate of 1.2% (2013 – 1.46%), weighted average volatility of 50% using a historical share price (2013 – 47%), expected lives ranging from 3.5 to 4.5 (2013 – 4 to 5) years, historical expected dividend yield of 3.4%, and an exercise price of CAD \$11.58 (2013 – CAD \$11.49) per share. The weighted average fair value of each option was determined to be CAD \$3.51 (2013 – CAD \$3.38).

During the year end December 31, 2014, nil common shares were issued in connection with the exercise of options under the plan (December 31, 2013 – nil common shares) 195,562 options expired (2013 - 922,965) and 20,162 options were forfeited (2013 – 202,277).

During the year ended December 31, 2014, 92 common shares were issued in connection with the exercise of warrants (2013, - nil common shares) the remaining 7,814,513 warrants expired (2013 – nil).

Performance Shares Units

In early 2014, the Board approved the adding of performance share units (“PSUs”) to the Company’s LTIP. PSUs are notional share units that mirror the market value of the Company’s common shares (the “Shares”). Each vested PSU entitles the participant to a cash payment equal to the value of an underlying share, less applicable taxes, at the end of the term, plus the cash equivalent of any dividends distributed by the Company during the three-year performance period. PSU grants will vest on the date that is three years from the date of grant subject to certain exceptions. Performance results at the end of the performance period relative to predetermined performance criteria and the application of the corresponding performance multiplier determine how many PSUs vest for each participant. The Board approved the issuance of 30,408 PSUs with a share price of CAD \$11.51 as of December 31, 2014. Compensation expense for PSUs was \$0.005 million in 2014 and is presented as a component of general and administrative expense.

	Number	Fair Value
	Outstanding	
PSU		
As at December 31, 2013	-	-
Granted	30,408	\$305
Paid out	-	-
Forfeited	-	-
Change in value	-	(24)
As at December 31, 2014	30,408	\$281

Share Option Plan

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

Range of Exercise Prices CAD\$	Options Outstanding			Options Exercisable	
	Number Outstanding as at December 31, 2014	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price CAD\$	Number Exercisable as at December 31, 2014	Weighted Average Exercise Price CAD\$
11.49 - \$11.57	305,405	71.43	\$11.49	152,706	\$11.49
11.58 - \$12.60	212,869	83.38	\$11.58	-	\$-
12.61 - \$18.53	246,827	64.30	\$17.97	246,827	\$17.97
18.54 - \$24.90	347,964	46.57	\$24.89	347,964	\$24.89
24.91 - \$40.22	281,450	11.46	\$30.03	281,450	\$30.03
	1,394,515	53.68	\$19.74	1,028,947	\$22.65

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For the year ended December 31, 2014, the total employee stock-based compensation expense recognized in the income statement was \$2.5 million (2013 - \$2.2 million).

Share Purchase Warrants

As part of the acquisition of Aquiline Resources Inc. in 2009 the Company issued share purchase warrants. During 2014, 92 warrants were exercised for common shares for proceeds of \$0.003 million. The outstanding warrants of 7,814,513 expired on December 7, 2014 as per the agreement.

The Company's share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. During the year ended December 31, 2014, there was a derivative gain of \$0.2 million (2013 – gain of \$8.4 million). The following table provides detail on the movement of the share purchase warrant liability between December 31, 2012 and December 31, 2014:

Share Purchase Warrant Liability

December 31, 2012	\$8,594
Warrants exercised during the year	-
Mark-to-market gain on the revaluation of warrants	(8,387)
December 31, 2013	\$207
Warrants exercised during the year	-
Mark-to-market gain on the revaluation of warrants	(207)
December 31, 2014	\$-

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

	December 31, 2013
Warrant strike price	\$35.00
Exchange rate (CAD 1:USD 0.94)	0.94
Risk-free interest rate	1.0%
Expected dividend yield	4.0%
Expected stock price volatility	46.8%
Expected warrant life in years	0.93
Quoted market price at period end	\$12.41

The conversion feature on the convertible note, further discussed in Note 17, 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. At December 31, 2014, the total unrealized derivative gain attributable to both the warrants and convertible notes was \$1.3 million (2013 - \$16.7 million).

Restricted Share Units

Under the Company's RSU plan, selected employees are granted RSUs where each RSU has a value equivalent to one Pan American common share. The RSUs are settled in cash or Common Shares at the discretion of the Board and vest in two instalments, the first 50% vest on the first anniversary date of the grant and a further 50% vest on the second anniversary date of the grant. Additionally RSU value is adjusted to reflect dividends paid on Pan American common share over the vesting period.

Compensation expense for RSU's was \$0.9 million in 2014 (2013 – \$0.6 million) and is presented as a component of general and administrative expense.

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At December 31, 2014, the following RSU's were outstanding:

RSU	Number	
	Outstanding	Fair Value
As at December 31, 2012	91,226	\$1,709
Granted	153,393	1,662
Paid out	(42,709)	(497)
Forfeited	(5,808)	(67)
Change in value	-	(519)
As at December 31, 2013	196,102	\$2,288
Granted	165,240	1,670
Paid out	(116,381)	(1,224)
Forfeited	(4,204)	(44)
Change in value	-	(429)
As at December 31, 2014	240,757	\$2,261

Key Employee Long Term Contribution Plan

An additional element of the Company's compensation structure is a retention program known as the Key Employee Long Term Contribution Plan (the "Contribution Plan"). The Contribution Plan was approved by the directors of the Company on June 2, 2008 in response to a heated labour market situation in the mining sector, and was 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 was 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 consisted of three bonus levels that were commensurate with various levels of responsibility, and provided for a specified annual payment for two years starting in June 2012. Each year, the annual contribution award was paid in the form of cash. The minimum aggregate value that was paid in cash over the 2-year period of the plan was \$7.2 million. As of December 31, 2014, this plan has been terminated and \$nil remains to be paid.

Issued share capital

The Company is authorized to issue 200,000,000 common shares of no par value.

Normal Course Issuer Bid

On November 28, 2013, the Company received regulatory approval for a 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.

On December 17, 2014 the Company received regulatory approval for a normal course issuer bid to purchase up to 7,575,290 of its common shares, during one year period from December 22, 2014 and December 21, 2015.

No common shares were purchased during the year ended December 31, 2014 (2013 – 415,000 common shares were purchased).

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 17, 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 June 3, 2014.

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 September 5, 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 December 8, 2014.

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On February 19, 2015, the Company declared dividends payable of \$0.125 per common share payable to holders of record of its common shares as of the close of business day on March 2, 2015. These dividends were declared subsequent to the year end and have not been recognized as distributions to owners during the period presented.

20. Production Costs

Production costs are comprised of the following:

	2014	2013
Consumption of raw materials and consumables	\$223,238	\$214,638
Employee compensation and benefits expense (Note 21)	172,558	152,417
Contractors and outside services	87,023	89,564
Utilities	25,229	22,781
Other expenses	25,360	58,124
Changes in inventories (1)	34,796	(6,911)
	\$568,204	\$530,613

(1) Includes NRV charge \$30.0 million (2013-\$13.0 million)

21. Employee Compensation and Benefit Expenses

	2014	2013
Wages, salaries and bonuses	\$189,656	\$170,127
Share-based payments	2,529	2,173
Total employee compensation and benefit expenses	192,185	172,300
Less: Expensed within General and Administrative expenses	(16,086)	(14,712)
Less: Expensed Exploration expenses	(3,541)	(5,171)
Employee compensation and benefits expenses included in production costs (Note 20)	\$172,558	\$152,417

22. Interest and Finance Expense

	2014	2013
Interest expense	\$5,072	\$6,664
Finance fees	429	583
Accretion expense (Note 15)	3,238	3,030
	\$8,739	\$10,277

23. Loss Per Share ("LPS") (Basic and Diluted)

For the year ended December

31,	2014			2013		
	Earnings (Numerator)	Shares (000's) (Denominator)	Per-Share Amount	Earnings (Numerator)	Shares (000's) (Denominator)	Per-Share Amount

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Net loss(1)	\$ (545,588)			\$ (445,851)		
Basic LPS	\$ (545,588)	151,511	\$ (3.60)	\$ (445,851)	151,501	\$ (2.94)
Effect of Dilutive Securities:						
Stock Options	-	-		-	-	
Convertible notes	-	-		(8,327)	1,929	
Diluted LPS	\$ (545,588)	151,511	\$ (3.60)	\$ (454,178)	153,430	\$ (2.96)

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

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Potentially dilutive securities excluded in the diluted earnings per share calculation for the twelve months ended December 31, 2014 were 1,394,515 out-of-money options and warrants (2013 – 9,211,975).

24. Supplemental Cash Flow Information

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

Changes in non-cash operating working capital items:	2014	2013
Trade and other receivables	\$7,373	\$15,903
Inventories	11,267	(25,012)
Prepaid expenditures	4,659	423
Accounts payable and accrued liabilities	(8,398)	(10,959)
Provisions	(3,304)	(1,659)
	\$11,597	\$(21,304)

(1)The disclosure for Consolidated Statements of Cash Flows for 2013 has been changed from prior year audited amounts to reflect interest expense of \$6.7 million and net realizable value adjustments of \$13.0 million as individual lines on the Consolidated Statements of Cash Flows for the year ended December 31, 2013 in order to correct an immaterial error. There is no net impact on the Consolidated Income Statements or Loss or diluted loss per share. Details of the change are reflected in the following table:

	Previously Reported	Current Report	Difference
Inventories	\$(12,045)	\$(25,012)	\$(12,967)
Accounts payable and Accrued liabilities	\$(4,295)	\$(10,959)	\$(6,664)
Changes in non-cash operating working capital Items	\$(1,673)	\$(21,304)	\$(19,631)

Significant non-cash items:	2014	2013
Advances received for construction and equipment leases	\$3,230	\$3,331
Share-based compensation issued to employees and directors	\$1,461	\$1,035

Cash and Cash Equivalents	2014	2013
Cash in banks	\$118,099	\$242,191
Short term money markets	28,094	7,746
Cash and cash equivalents	\$146,193	\$249,937

25. Segmented Information

All of the Company's operations are within the mining sector, conducted through operations in six countries. Due to geographic and political diversity, the Company's mining operations are decentralized in nature whereby Mine General Managers are responsible for achieving specified business results within a framework of global policies and standards. Country corporate offices provide support infrastructure to the mines in addressing local and country issues including financial, human resources, and exploration support. The Company has a separate budgeting process and measures the

results of operations and exploration activities independently. Operating results of operating segments are reviewed by the Company's operating decision maker to make decisions about resources to be allocated to the segments and assess their performance. The Corporate office provides support to the mining and exploration activities with respect to financial, human resources and technical support. Major products are silver, gold, zinc, lead and copper produced from mines located in Mexico, Peru, Argentina and Bolivia. Significant information relating to the Company's reportable operating segments is summarized in the table below:

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

	Twelve months ended December 31, 2014									
	Peru		Mexico		Argentina		Bolivia		Other	Total
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente		
Revenue from external customers	\$ 94,985	\$ 79,070	\$ 156,559	\$ 90,477	\$ 98,024	\$ 156,076		\$ 76,751		-\$ 751,942
Depreciation and amortization	\$(11,877)	\$(18,745)	\$(47,776)	\$(12,693)	\$(8,784)	\$(38,031)		\$(8,986)	\$(652)	\$(147,710)
Exploration and project development	\$(1,312)	\$(1,453)	\$(1,242)	\$(336)	\$(9)	\$(1,657)			\$(2,779)	\$(13,225)
Interest income	\$ 291	\$ 22	\$ 9	\$ 29	\$ 251	\$ 723		\$ 15	-\$ 182	\$ 1,792
Interest and financing expenses	\$(751)	\$(778)	\$(1,353)	\$(241)	\$(256)	\$(4,087)		\$(226)	\$(1,002)	\$(8,739)
Gain (loss) on disposition of assets	\$ 17	\$ 404	\$ 2	\$	\$ -	\$(102)		\$(6)	\$ 830	\$ 1,145
Gain on derivatives	-\$	-\$	-\$	\$	-\$	-\$		-\$	\$ 1,348	\$ 1,348
Foreign exchange gain (loss)	\$ 190	\$(364)	\$ 1,322	\$(1,494)	\$(1,143)	\$ 4,818		\$ 290	\$(16,506)	\$(13,275)
Impairment charge	-\$	-\$	\$(170,579)	\$(23,721)	-\$	\$(76,697)		-\$	\$(39,189)	\$(596,262)
Earnings (loss) before income taxes	\$ 3,631	\$(13,345)	\$(251,621)	\$(17,517)	\$ 14,611	\$(87,183)		\$ 15,091	\$(8,587)	\$(637,317)
Income tax (expense) recovery	\$(1,494)	\$ 3,565	\$ 87,350	\$(1,566)	\$(4,477)	\$ 23,078		\$(7,544)	\$(6,341)	\$ 92,494
Net earnings (loss) for the period	\$ 2,137	\$(9,780)	\$(164,271)	\$(19,083)	\$ 10,134	\$(64,105)		\$ 7,547	\$(14,928)	\$(544,823)
Capital expenditures	\$ 14,948	\$ 9,348	\$ 44,887	\$ 29	\$ 31,400	\$ 26,741		\$ 3,415	\$ 679	\$ 131,761
Total assets	\$ 125,071	\$ 167,862	\$ 744,498	\$ 99,333	\$ 117,219	\$ 183,402	\$ 192,651	\$ 91,712	\$ 296,124	\$ 2,017,873
	\$ 34,162	\$ 35,954	\$ 175,195	\$ 15,596	\$ 30,382	\$ 79,648	\$ 1,632	\$ 24,589	\$ 50,778	\$ 447,936

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Total liabilities	Twelve months ended December 31, 2013									Total
	Peru		Mexico		Argentina		Bolivia		Other	
	Huaron	Morococha	Dolores	Alamo Dorado	La Colorada	Manantial Espejo	Navidad	San Vicente		
Revenue from external customers	\$ 92,887	\$ 82,260	\$ 164,016	\$ 160,129	\$ 101,458	\$ 149,718		\$ 74,036	-\$	\$ 824,504
Depreciation and amortization	\$(11,176)	\$(18,976)	\$(37,114)	\$(18,769)	\$(7,395)	\$(32,333)		\$(9,156)	\$(824)	\$(135,913)
Exploration and project development	\$(936)	\$(1,722)	\$(1,278)	\$(1,296)	\$(225)	\$(608)			-\$	\$(6,895)
Interest income	\$ 487	\$ 55	\$ 14	\$ 37	\$ 142	\$ 164			-\$	\$ 906
Interest and financing expenses	\$(722)	\$(1,004)	\$(1,071)	\$(202)	\$(227)	\$(5,194)		\$(281)	-\$	\$(10,277)
Gain (loss) on disposition of assets	\$ 4,963	\$ 1,477	\$ 13	\$(216)	\$ 8,011	\$(194)		\$ 17	\$(4)	\$ 14,068
Gain on derivatives	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	-\$	\$ 16,715
Foreign exchange (loss) gain	\$ 48	\$(561)	\$(150)	\$(565)	\$ 634	\$ 4,559		\$ 1,176	-\$	\$(18,102)
Gain on commodity and foreign currency contracts	\$ -	\$ -	\$(561)	\$(852)	\$(85)	\$ -		\$ -	-\$	\$(3,053)
Impairment charge	\$ -	-\$	\$(525,332)	\$ -	\$ -	\$ -		\$ -	-\$	\$(14,896)
Earnings (loss) before income taxes	\$ 8,015	\$(7,987)	\$(540,067)	\$ 71,164	\$ 28,434	\$(1,379)		\$ 18,097	\$ 489	\$(429,089)
Income tax (expense) recovery	\$(4,770)	\$ 645	\$ 46,029	\$(27,223)	\$(16,969)	\$(1,068)		\$(5,452)	\$(7,882)	\$(16,757)
Net earnings (loss) for the period	\$ 3,245	\$(7,342)	\$(494,038)	\$ 43,941	\$ 11,465	\$(2,447)		\$ 12,645	\$(7,393)	\$(445,846)
Capital expenditures	\$ 13,687	\$ 17,109	\$ 86,641	\$ 7,621	\$ 13,574	\$ 12,002		\$ 8,165	\$ 356	\$ 159,401
Total assets	\$ 129,134	\$ 181,798	\$ 973,078	\$ 112,866	\$ 99,523	\$ 298,544	\$ 470,240	\$ 97,001	\$ 405,277	\$ 2,767,456

Total							\$ 1,471			
liabilities	\$ 41,104	\$ 43,828	\$ 260,120	\$ 10,688	\$ 25,870	\$ 111,160		\$ 30,259	\$ 54,166	\$ 578,667

Product Revenue	Twelve months ended	
	2014	2013
Refined silver and gold	\$424,591	\$500,928
Zinc concentrate	73,487	68,094
Lead concentrate	163,854	162,601
Copper concentrate	90,010	92,881
Total	\$751,942	\$824,504

The Company has 15 customers that account for 100% of the concentrate and silver and gold sales revenue. The Company has 7 customers that accounted for 30%, 16%, 13%, 10%, 9%, 8%, and 6% of total sales in 2014, and 4 customers that accounted for 33%, 22%, 13% and 10% of total sales in 2013. The loss of certain of these customers or curtailment of purchases by such customers could have a material adverse effect on the Company's results of operations, financial condition, and cash flows.

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

26. Other Income and (expenses)

	2014	2013
Royalties income	\$144	\$355
Chinalco grants	-	10,000
Other (expenses)	(1,458)	(2,068)
Total	\$(1,314)	\$8,287

27. Income Taxes

	2014	2013
Current tax expense		
Current tax expense in respect of the current year	\$35,763	\$54,365
Adjustments recognized in the current year with respect to prior years	44	1,326
	35,807	55,691
Deferred tax expense (recovery)		
Deferred tax recovery recognized in the current year	(20,199)	(865)
Adjustments recognized in the current year with respect to prior years	2,862	(523)
Adjustments to deferred tax attributable to changes in tax rates and laws	(2,876)	86,825
Reduction in deferred tax liabilities due to tax impact of impairment of mineral property, plant, and equipment (Note 10,11)	(97,541)	(119,800)
Reduction in deferred tax liabilities due to tax impact of net realizable value charge to inventory (Note 20)	(10,547)	(4,571)
	(128,301)	(38,934)
Provision for income tax (recovery) expense	\$(92,494)	\$16,757

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 amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the items shown on the following table which results in an effective tax rate that varies considerably from the comparable period. The main factors which have affected the effective tax rate for the year ended December 31, 2014 and the comparable period of 2013 were the non-deductible foreign exchange (gains)/losses, foreign tax rate differences, mining taxes paid, and withholding tax on payments from foreign subsidiaries.

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

In 2013, the Company recorded a non-cash impairment charge on goodwill related to Dolores and other Minefinders' exploration properties. 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.

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	2014	2013
Loss taxes	\$(637,317)	\$(429,089)
Statutory tax rate	26.00 %	25.75 %
Income tax recovery based on above rates	\$(165,702)	\$(110,490)
Increase (decrease) due to:		
Non-deductible expenses	4,902	5,198
Foreign tax rate differences	(61,445)	(22,164)
Change in net deferred tax assets not recognized:		
-Argentina exploration expenses	847	3,598
-Other deferred tax assets not recognized		