

PAN AMERICAN SILVER CORP

Form 40-F

March 30, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

þ ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission File Number 0-13727

Pan American Silver Corp.

(Exact name of Registrant as specified in its charter)

British Columbia

(Province or other Jurisdiction of Incorporation or Organization)

1044

(Primary Standard Industrial Classification Code Number)

Not Applicable

(I.R.S. Employer Identification No..)

1500 625 Howe Street

Vancouver, British Columbia

V6C 2T6

(604) 684-1175

(Address and telephone number of Registrants principal executive offices)

CT Corporation System

111 Eighth Avenue, 13th Floor

New York, NY 10011

(212) 894-8940

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class
Common Shares, No Par Value

Name of each exchange on which registered
The NASDAQ Stock Market
Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by this annual report.

**The Registrant had 76,195,426 Common Shares
outstanding as at December 31, 2006**

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Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the filing number assigned to the registrant in connection with such Rule.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

DOCUMENTS FILED UNDER COVER OF THIS FORM

- Document No. 1: Annual Information Form for the year ended December 31, 2006, dated March 21, 2007.
- Document No. 2: Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006.
- Document No. 3: Audited Consolidated Financial Statements for the financial year ended December 31, 2006, prepared in accordance with Canadian generally accepted accounting principles, and reconciled to United States generally accepted accounting principles in accordance with Item 18 of Form 20-F.
-

**Annual
Information
Form
For the Year
Ended December 31, 2006**
*Dated: March 21, 2007
1500-625 Howe Street
Vancouver, British Columbia
V6C 2T6
Web Site: www.panamericansilver.com*

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated by reference herein, contain certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act* of 1995 and applicable Canadian provincial securities laws relating to Pan American and its operations. All statements, other than statements of historical fact, are forward-looking statements. When used in this Annual Information Form, the words anticipate, believe, estimate, expect, target, plan, forecast, budget, may, schedule and other similar expressions, forward-looking statements. These forward-looking statements relate to, among other things:

the sufficiency of Pan American's current working capital and anticipated operating cash flow;

the accuracy of mineral reserve and resource estimates and estimates of future production and future cash and total costs of production at Quiruvilca, Huaron, Morococha, La Colorada, San Vicente, Alamo Dorado, Manantial Espejo, the stockpiles or other properties;

estimated production rates for silver and other payable metals produced by Pan American, timing of production and the cash and total costs of production at each of the Company's properties;

the estimated cost of and availability of funding for ongoing capital replacement or improvement programs;

the estimated cost of construction, development and ramp-up of Alamo Dorado, Manantial Espejo or other projects;

the estimates of expected or anticipated economic returns from a mining project, as reflected in feasibility studies prepared in relation to development of projects;

estimated exploration expenditures to be incurred on the Company's various silver exploration properties;

compliance with environmental regulations;

the effects of laws, regulations and government policies affecting the Company's operations;

forecast capital and non-operating spending; and

future sales of the metals produced by Pan American.

These statements reflect the Company's current views with respect to future events and are necessarily based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this Annual Information Form including, without limitation, risks related to technological and operational nature of the Company's business, changes in local government legislation, taxation or the political or economic environment, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters to deal with unanticipated economic factors, future prices of silver, gold and base metals, increased competition in the mining industry for properties, equipment, qualified personnel, and their rising costs, unpredictable risks and hazards relating to the operation and development of our mines or properties, the speculative nature of exploration and development, as well as those factors identified under the captions *Outlook for 2007* and *Competitive Conditions and Risks Related to Pan American's Business* in this Annual Information Form. Investors are cautioned against attributing undue certainty to forward-looking statements. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be anticipated, estimated or intended. The Company does not intend, and does not assume any obligation, to update these forward-looking statements to reflect changes in assumptions or changes in circumstances

or any other events affecting such statements, other than as required by applicable law.

Please see Cautionary Note to U.S. investors Concerning Estimates of Measured, Indicated and Inferred Resources on page 2 of this Annual Information Form.

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INTRODUCTION

In this Annual Information Form, the term "Company" refers to Pan American Silver Corp. and the term "Pan American" refers to the Company and its direct and indirect subsidiaries.

Reporting Currency

Pan American's reporting currency is the United States dollar. Unless otherwise indicated, all currency amounts in this Annual Information Form are stated in United States dollars. References to "C\$" are to Canadian dollars.

Accounting Policies and Financial Information

Financial information is presented in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Unless otherwise indicated, financial information contained in this Annual Information Form is presented in accordance with Canadian GAAP. Differences between accounting principles generally accepted in Canada and those generally accepted in the United States, as applicable to Pan American, are explained in Note 20 to the Consolidated Financial Statements of the Company for the year ended December 31, 2006. The Consolidated Financial Statements of the Company for the year ended December 31, 2006 are incorporated by reference herein and are available on SEDAR at www.sedar.com.

This Annual Information Form refers to various non-GAAP measures, such as "cash and total cost per ounce of silver", which are used by the Company to manage and evaluate operating performance at each of the Company's mines and are widely reported in the silver mining industry as benchmarks for performance, but do not have standardized meaning. To facilitate a better understanding of these measures as calculated by the Company, please refer to the Company's Management's Discussion and Analysis where detailed descriptions and reconciliations, where applicable, have been provided.

Conversion Table

In this Annual Information Form, metric units are used with respect to mineral properties located in Peru, Mexico, Bolivia, Argentina and elsewhere, unless otherwise indicated. Conversion rates from imperial measures to metric units and from metric units to imperial measures are provided in the table set out below.

| Imperial Measure | = | Metric Unit | Metric Unit | = | Imperial Measure |
|-------------------------|----------|--------------------|--------------------|----------|-------------------------|
| 2.47 acres | | 1 hectare | 0.4047 hectares | | 1 acre |
| 3.28 feet | | 1 metre | 0.3048 metres | | 1 foot |
| 0.62 miles | | 1 kilometre | 1.609 kilometres | | 1 mile |
| 0.032 ounces (troy) | | 1 gram | 31.1 grams | | 1 ounce (troy) |
| 1.102 tons (short) | | 1 tonne | 0.907 tonnes | | 1 ton |
| 0.029 ounces (troy)/ton | | 1 gram/tonne | 34.28 grams/tonne | | 1 ounce (troy)/ton |

Glossary of Terms

The glossary of terms set forth under the heading "Glossary of Terms" of this Annual Information Form contains definitions of certain terms used herein.

Scientific and Technical Information

Scientific or technical information in this Annual Information Form relating to mineral reserves or mineral resources is based on information prepared under the supervision of, or has been reviewed by, Michael Steinmann, Senior Vice President, Geology and Exploration of Pan American and Martin Wafforn, Vice President, Mine Engineering of Pan American. Scientific or technical information relating to the geology of particular properties, and the exploration programs described in this Annual Information Form, are prepared and/or designed and carried out under the supervision of Michael Steinmann, Senior Vice President, Geology and Exploration of Pan American.

Each of Michael Steinmann and Martin Wafforn is a **Qualified Person** as defined in National Instrument 43-101. A **Qualified Person** means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these, has experience relevant to the subject matter of the mineral project, and is a member in good standing of a professional association.

Classification of Mineral Reserves and Resources

In this Annual Information Form, the definitions of proven and probable mineral reserves and measured, indicated and inferred resources are those used by Canadian provincial securities regulatory authorities and conform to the definitions utilized by the Canadian Institute of Mining, Metallurgy and Petroleum (**CIM**) in the **CIM Standards on Mineral Resources and Reserves - Definitions and Guidelines** adopted on August 20, 2000 and amended December 11, 2005.

Cautionary Note to U.S. Investors Concerning Estimates of Measured, Indicated and Inferred Resources

In this Annual Information Form, the terms **measured resources** and **indicated resources** are used. The Company advises U.S. investors that while such terms are recognized and permitted under Canadian securities rules, the U.S. Securities and Exchange Commission does not recognize them. **U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into proven or probable reserves.**

This Annual Information Form also uses the term **inferred resources**. The Company advises U.S. investors that while such term is recognized and permitted under Canadian securities rules, the U.S. Securities and Exchange Commission does not recognize it. **Inferred resources** have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian securities rules, estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. **U.S. investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.**

CORPORATE STRUCTURE

Incorporation

The Company is the continuing corporation of Pan American Energy Corporation, which was incorporated under the *Company Act* (British Columbia) on March 7, 1979. The Company underwent two name changes by way of amendment to its memorandum, the last occurring on April 11, 1995, when the present name of the Company was adopted. Amendments to the memorandum of the Company to date have been limited to name changes and capital alterations. In May of 2006, the Company obtained shareholder approval to amend its memorandum and articles

including the increase in the authorized share capital of the Company from 100,000,000 to 200,000,000 common shares in connection with the Company's required transition under the *Business Corporations Act* (British Columbia).

The Company's head office is situated at 1500 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6 and its registered and records offices are situated at 1200 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, Canada, V7X 1T2. The Company's web site can be found at www.panamericansilver.com.

Capital Structure

The Company's authorized share capital consists of 200,000,000 common shares without par value. The holders of common shares are entitled to: (i) one vote per common share at all meetings of shareholders; (ii) receive dividends as and when declared by the directors of the Company; and (iii) receive a pro rata share of the assets of the Company available for distribution to the shareholders in the event of the liquidation, dissolution or winding-up of the Company. There are no pre-emptive, conversion or redemption rights attached to the common shares.

Subsidiaries

A significant portion of the Company's business is carried on through its various subsidiaries. The following table shows, as at December 31, 2006, the significant subsidiaries, joint ventures and associated companies of the Company, including their respective jurisdictions of incorporation and the percentage of voting securities in each that are held by the Company directly or indirectly:

| Name | Jurisdiction | Ownership (%) |
|--|--------------|--------------------|
| Pan American Silver (Barbados) Corp. (Pan American Barbados) | Barbados | 100 |
| Pan American Silver Peru S.A.C. (Pan American Peru) | Peru | 100 |
| Pan American Silver S.A. Mina Quiruvilca (Mina Quiruvilca) | Peru | 99.93 |
| Compania Minera Argentum (Argentum ²) | Peru | 92.01 ² |
| Corner Bay Silver Inc. (Corner Bay) | Canada | 100 |
| Minera Corner Bay S.A. de C.V. (MCB) | Mexico | 100 |
| Plata Panamericana S.A. de C.V. (Pan American Mexico) | Mexico | 100 |
| Pan American Minerals, Inc. (Pan American U.S.) | Nevada | 100 |
| Pan American Silver (Bolivia) S.A. (Pan American Bolivia) | Bolivia | 55 ³ |
| Compania Minera Alto Valle S.A. (Alto Valle) | Argentina | 100 ⁴ |
| Minera Triton Argentina S.A. (MTA) | Argentina | 100 ⁴ |

¹ As of January 2006, Mina Quiruvilca merged with Cia. Minera Huaron S.A., a Peruvian company in which Pan American previously held a 99.85% interest.

In April 2005, Argentum amalgamated with Compania Minera Natividad (Natividad), a company in which Pan American previously held a 100% interest. The Company is the indirect owner of 92.01% of the voting shares of Argentum and 63.46% of the non-voting investment shares for a total ownership interest of 88.5%.

³ Pursuant to a shareholders agreement entered into in January 2006, the remaining 45% interest in the capital of Pan American Bolivia is held by Empresa Minera Unificoda S.A. (EMUSA), a Bolivian mining company, and Trafigura Beheer B.V., a Dutch company involved in the purchase and sale of mineral concentrates, with 40% and 5%,

respectively.

- 4 In March 2006, Pan American negotiated and entered into a purchase agreement with Silver Standard Resources (SSR) to acquire SSR's 50% interest in MTA and Alto Valle, respectively, thus becoming a 100% indirect owner of the Manantial Espejo project.

GENERAL DEVELOPMENT OF THE BUSINESS

Business of Pan American

Pan American is principally engaged in the exploration for, and the acquisition, development and operation of, silver producing properties and assets. The Company's principal product is silver, although copper, zinc, lead and gold are also produced and sold. At present, the Company carries on mining operations and is developing mining projects in Mexico, Peru, Argentina and Bolivia, and has control over non-producing silver resources in the United States and Argentina. Exploration work is carried out in all of the aforementioned countries, as well as elsewhere throughout the world.

Corporate Strategy and Financial Objectives

Pan American's corporate strategy is to continuously strengthen its position as one of the world's largest and lowest cost primary silver mining companies by acquiring or discovering silver resources that have the potential to be developed economically and add meaningfully to Pan American's production profile while lowering consolidated unit costs of production.

The key elements of Pan American's strategy are to:

Increase silver production During its twelve year history, Pan American has increased its annual silver production each year, including a 16% increase from 11.2 million ounces in 2004 to 13.0 million ounces in 2006. This has been accomplished through a combination of acquisition and development and expansion efforts. During the most recent year, Pan American (i) completed mine construction of its Alamo Dorado mine in Mexico; (ii) purchased the remaining 50% of the silver-gold Manantial Espejo project in Argentina and began construction of the mine; and (iii) increased its exploration efforts focussed on areas around its existing mines and early stage exploration activities in Peru, Mexico, Argentina and Ecuador.

Silver production increased during the year ended December 31, 2006, to 13.0 million ounces, which was a 4% increase over 2005. Silver production as at December 31, 2005 was approximately 12.5 million ounces, which was a 12% increase over 2004.

Increase Reserves and Resources At December 31, 2006 proven and probable silver mineral reserves for Pan American were 213.4 million ounces which represents a 20% increase over the year earlier. At the Company's operating and development properties, measured and indicated resources increased 12.1 million ounces, while inferred resources grew by 9.9 million ounces.

Continue to be a Low Cost Producer Together with increased production, Pan American has been successful at reducing its cash costs of production. Full year 2006 cash costs to produce an ounce of silver were \$1.89. Although low cash costs experienced in 2006 were attributable to higher realized by-product base metal prices, Pan American's growth strategy includes focusing on reducing overall unit production costs. To keep production costs down, the Company is adding newer more mechanized mines (such as Alamo Dorado and Manantial Espejo) to its portfolio of assets, and will continue to review mining plans at its operating mines in order to find greater productivities and efficiencies as well as develop financial strategies to reduce exposure to foreign currency exchange fluctuations and base metal price fluctuations.

Acquire additional silver exploration properties Pan American is seeking to acquire a portfolio of promising silver exploration properties. Pan American's exploration and acquisition focus is on silver properties with bulk mineable targets that have the possibility of possessing over 50 million ounces of silver mineralization to supplement Pan American's existing base of silver exploration properties.

Generate sustainable profits from mining operations Financial performance is monitored annually against targets for operating earnings and cash flow from operations, as well as against operating measures such as production. Pan American continuously develops and implements tax planning strategies, and seeks to organize its corporate structure and activities to optimize its overall tax position.

Developments over the Last Three Financial Years

During the last three financial years the Company has undertaken the following:

2004 (i) completed an expansion of and commenced commercial production at the La Colorada mine in Mexico; (ii) assumed the operator role in respect of the Manantial Espejo development project in Argentina; (iii) reached two agreements, one to purchase an 81% interest in Argentum for approximately \$33.8 million and the other to purchase all of the issued and outstanding shares of Natividad for \$1.5 million in cash, together resulting in Pan American obtaining concessions and mining operations referred to as the Morococha mine (subsequently, Pan American acquired an additional 5% interest in Argentum for \$1.5 million); (iv) made an offering of 3,333,333 common shares at a price of \$16.50 per share for proceeds of \$55 million; (v) sold 6,839 hectares of mining concessions and surface rights in the vicinity of the Quiruvilca mine to Barrick Gold Corporation (Barrick) for \$3,582,575 and for the assumption of \$67,425 of payments owing in respect of these mining concessions; (vi) made a formal offer (the Conversion Offer) to encourage conversion by holders of the Company's \$86.25 million outstanding principal amount of Debentures (as at December 31, 2004 holders of approximately \$717,000 principal amount of Debentures remained unconverted, and the Company issued 9,145,700 million common shares, and made cash payments of approximately \$11.5 million, in respect of such conversions); and (vii) sold its 20% interest in the Dukat silver mine in Magadan State, Russia to OAO MNPO Polimetall, the mine's owner and operator, for \$20.5 million in cash and the right to receive up to \$22.5 million in contingent future payments.

2005 (i) completed the feasibility study for, and commenced construction of, an open pit silver mine at the Alamo Dorado silver project in Mexico; (ii) entered into a consignment agreement with Northwest Territorial Mint to produce a new line of silver bullion products; (iii) completed 14,000 metres of exploration and infill drilling at Morococha, resulting in an increase in proven and probable reserves and an extension of the life of the mine; (iv) completed, and submitted to the Argentine authorities, an environmental impact statement for the development of the Manantial Espejo joint venture silver project; (v) resumed commercial production at the San Vicente mine under a toll milling agreement with a nearby mill and renegotiated an agreement with EMUSA, a Bolivian mining company, to increase Pan American's interest in the San Vicente mine from 50% to 55%; (vi) conducted extensive exploration activity which replaced all ounces mined and increased total proven and probable reserves by 30.5 million ounces; and (vii) the Company issued 255,781 warrants to the International Finance Corporation in exchange for the termination of past and future obligations relating to production from the La Colorada mine.

2006 (i) completed construction of the Alamo Dorado mine; (ii) acquired the remaining 50% interest in the Manantial Espejo project from Silver Standard Resources Inc. for 1.95 million common shares of the Company; (iii) obtained approval of the environmental impact statement necessary to begin

development of the Manantial Espejo silver-gold mine and commenced construction of the mine; (iv) completed an equity financing, the gross proceeds of which totalled \$150 million earmarked primarily for the development of the Manantial Espejo mine; (v) conducted over 90,000 metres of exploration drilling on the Company's existing mine site properties, largely contributing to a 20% increase in the Company's proven and probable reserves and an increase in reserves and resources at each of the company's operating and development properties; (vi) redeemed or converted the outstanding principal amount of the Company's 5.25% convertible debentures remaining after the Conversion Offer made in 2004; (vi) completed the first phase of the sulphide plant refurbishment at La Colorada; and (vii) increased overall Company consolidated silver production to 13.0 million ounces.

Outlook for 2007

In 2007, Pan American expects to: (i) increase annual consolidated silver production largely from production at Pan American's newest mine, Alamo Dorado; (ii) maintain close to the current level of production at the Quiruvilca, Huaron, Morococha and La Colorada mines; (iii) substantially advance construction of the underground ramp system and the open pit at the Manantial Espejo project; (iv) reach sustained commercial production levels at Alamo Dorado; (v) undertake a 100,000 metre diamond drill program at Pan American's existing sites and exploration properties; (vi) begin underground development work at Morococha; and (vii) complete ramp up of production from the Amolillo oxide zone at La Colorada.

Pan American will continue to investigate, evaluate and, where appropriate, acquire additional silver production, exploration and development properties.

NARRATIVE DESCRIPTION OF THE BUSINESS

PRINCIPAL PRODUCTS AND OPERATIONS

Pan American's principal products and sources of sales are silver bullion, zinc, lead and copper concentrates in addition to gold bullion. In 2006, the Quiruvilca, Huaron, Morococha, San Vicente and La Colorada mines and the Stockpiles accounted for all of Pan American's production of concentrates and doré. Information related to Pan American's segmented information is set forth in Note 15 to the Consolidated Financial Statements and is referred to in the Management's Discussion and Analysis of the Company for the year ended December 31, 2006 (the "MD&A") under the heading "Operating Performance".

Consolidated production for the year ended December 31, 2006 was as follows:

| | Quiruvilca | Huaron | La Colorada¹ | Morococha² | San Vicente³ | Consolidated |
|--------------------|-------------------|---------------|------------------------------------|------------------------------|------------------------------------|-------------------------|
| Tonnes milled | 370,115 | 693,285 | 233,743 | 577,201 | 29,618 | 1,903,963 |
| Grade | | | | | | |
| Silver grams/tonne | 209 | 200 | 540 | 186 | 326 | N/A |
| Gold grams/tonne | 0.91 | 0.32 | 0.60 | | | N/A |
| % Zinc | 2.79 | 2.59 | 2.10 | 3.73 | 3.44 | N/A |
| % Lead | 0.86 | 1.31 | 1.07 | 1.33 | | N/A |
| % Copper | 0.51 | 0.37 | | 0.41 | 0.22 | N/A |
| Production | | | | | | |
| Ounces silver | 2,105,475 | 3,664,660 | 3,493,995 | 2,923,267 | 264,573 | 13,018,354 ⁴ |
| Ounces gold | 1,106 | 1,832 | 3,501 | | | 6,438 |
| Tonnes zinc | 8,712 | 11,735 | | 18,115 | 805 | 39,366 |
| Tonnes lead | 2,574 | 6,858 | 153 | 5,722 | | 15,307 |
| Tonnes copper | 1,345 | 1,603 | | 1,546 | 52 | 4,546 |

¹ La Colorada zinc and lead grades are for sulphide ore only.

² Morococha data represents Pan American's 88.5% interest in the mine's production.

³ San Vicente data represents Pan American's 55% interest in the mine's production.

⁴ Includes 566,383 ounces of silver

produced from
the Stockpiles in
Peru.

Pan American's principal buyers of refined silver and gold are International bullion banks. Silver and gold doré is delivered truck to refineries in Mexico and the USA, and subsequently transferred to the account of the appropriate buyer.

Pan American's principal market for copper concentrates and ore from the Stockpiles is Peru. The majority of the copper concentrates and all of the Stockpiles are sold to Doe Run Peru's metallurgical complex in La Oroya, Peru. Copper concentrates and Stockpiles are delivered to La Oroya by truck.

Pan American's principal markets for zinc concentrates are Peru, Japan, Brazil and Spain. Zinc concentrate is delivered to Peruvian customers by truck. Zinc concentrates are delivered to customers in Japan, Brazil, and Spain by truck to the port of Callao, Peru and from there by ship.

Pan American's principal markets for lead concentrates from the Peruvian mines are Peru, Russia, China and Belgium. Lead concentrate is distributed to the Peruvian customers by truck. Lead concentrates that are exported are delivered by truck to the port of Callao, Peru and from there by ship.

Lead concentrates produced from the La Colorada mine are sold to a customer in Mexico. Lead concentrates are distributed to the Mexican customer by truck.

COMPETITIVE CONDITIONS

The mining industry is intensely competitive particularly in the acquisition of additional reserves and resources in all of its phases of operation and Pan American competes with many companies possessing similar or greater financial and technical resources.

Pan American's competitive position is largely determined by its costs compared to other producers throughout the world and its ability to maintain its financial integrity through the lows of the metal price cycles. Costs are governed to a large extent by the location, grade and nature of Pan American's mineral reserves as well as by operating and management skills. In contrast with diversified mining companies, Pan American focuses on silver production, development and exploration, and is therefore subject to unique competitive advantages and disadvantages related to the price of silver and to a lesser extent, the price of base metal by-products. If silver prices substantially increase, Pan American will be in a relatively stronger competitive position than diversified mining companies that produce, develop and explore for other minerals in addition to silver. Conversely, if silver prices substantially decrease, Pan American will be at a competitive disadvantage to diversified mining companies.

EMPLOYEES

The Company has 18 full-time employees and four part-time employees at its head office in Vancouver, including the executive chairman, a chief executive officer, chief financial officer, controller, two geologists, a metallurgical engineer, two mining engineers, one safety specialist, one environmental specialist, two certified general accountants, two lawyers, one treasury specialist, one human resource specialist, and one corporate/investor relations specialist and support staff.

As at December 31, 2006, Mina Quiruvilca employed 890 persons (375 permanent and 515 temporary) in connection with the operation of the Quiruvilca mine. Approximately 278 of the workers employed by Mina Quiruvilca are members of either the Sindicato de Trabajadores de Pan American Silver S.A.C. (the Quiruvilca Union) or the Sindicato de Trabajadores de Shorey y Anexos (the Shorey Union).

Minera Huaron directly employs 625 full time employees (208 permanent and 417 temporary) and indirectly employs 940 persons through agreements with Peruvian mining contractors.

Argentum directly employs 556 full time employees (49 permanent and 507 temporary) and indirectly employs 1,142 persons through agreements with Peruvian mining contractors.

Pan American Silver Peru employs 38 full-time employees and three contractors.

Throughout Mexico, Pan American Silver Corporation's subsidiaries employ 10 geologists, 20 process engineers, 20 mining engineers, and 21 administrative professionals in the supervision and management of exploration and production activities. Plata Panamericana employs 550 employees at the La Colorada mine and Minera Corner Bay employs 220 employees at the Alamo Dorado mine.

Pan American Bolivia has 40 full time employees, including three metallurgists, four mining engineers, three geologists, one civil engineer, two mechanical engineers, one environmental engineer and one safety specialist. Pan American Bolivia also employs approximately 230 unionized employees, 30 temporary workers and 15 trainers.

MTA employs 76 full time employees, including two geologists, four mine engineers, two metallurgists, one environmental specialist, and one community relations professional.

RESEARCH AND DEVELOPMENT

Pan American conducts research and development activities through its feasibility work in order to develop improved production processes and exploration techniques. Costs associated with this work are expensed as incurred. Pan American undertook research and development at Alamo Dorado and in connection with the Stockpiles, but did not incur any significant research and development costs during 2004, 2005, or 2006 and has not budgeted for any significant costs during 2007.

WORKING CAPITAL

Management of Pan American believes that its working capital of \$204.6 million as at December 31, 2006, plus its expected operating cash flows in the future and its liquid assets are sufficient to sustain funding for projects currently underway, and capital expenditures in connection thereto, and to discharge liabilities as they come due in the foreseeable future.

ENVIRONMENTAL PROTECTION

All phases of Pan American's operations are subject to environmental regulation in the various jurisdictions in which it operates. To the best of management's knowledge, Pan American's activities in 2006 were, and continue to be, in compliance in all material respects with such environmental regulations applicable to its mining operations, development and exploration activities. The Company has implemented an environmental policy and a health and safety policy in which the Company accepts its corporate responsibility to practice environmental protection and provide a safe and healthy workplace for its employees, and commits to comply with all relevant industry standards, environmental legislation and regulations in the countries where it carries on business.

In the financial year-end dated December 31, 2006, Pan American's environmental costs were approximately \$1.2 million. Operating costs were incurred principally for the acid water treatment plant at Quiruvilca and project costs were principally for reclamation of historic mining activities at Huaron and Quiruvilca and to the expansion of the tailings dam at Morococha.

As at December 31, 2006, the Company has estimated the present value of expenditures required for closure and reclamation costs in respect of the Quiruvilca, Morococha, Huaron, La Colorada and Alamo Dorado mines and the Manantial Espejo project to be approximately \$44.3 million. This was an increase from the estimate of \$39.4 million at December 31, 2005. Other than specific environmental concerns discussed in this Annual Information Form, the Company is not aware of any material environmental matter requiring significant capital outlays in the immediate future.

ENVIRONMENT

During 2006, a review of the environmental performance of the Quiruvilca, Huaron, Morococha, La Colorada and San Vicente mines was conducted by the Corporate Director of Environmental Affairs. The review included an inspection of the mine sites with key operations personnel, a review of environmental monitoring program procedures and results and review of principal environmental issues related to each of these operations. The key observations and recommendations from the reviews are reported monthly to senior management and quarterly to the Board of Directors. The reclamation and closure cost estimates for each of the operating mines and development projects were updated to reflect the conditions as of December 31, 2006 and the estimate line item composition was standardized throughout all of the mines and projects.

Key accomplishments during 2006 related to the environmental management of the mines and development projects and include: (i) preparation and submittal of closure plans for the Quiruvilca, Morococha and Huaron mines in accordance with the requirement of the Peruvian Ministry of Energy and Mines (MEM) guidelines; (ii)

initiation of the final reclamation of the La Codiciada wasterock pile at the Quiruvilca Mine; (iii) ongoing treatment of acid mine water effluent at the Quiruvilca mine; (iv) reclamation of small wasterock and tailings areas at the Quiruvilca mine (v) expansion and upgrade of the mine water collection and treatment system at the Huaron mine; (vi) initiation of the reclamation of the tailings areas at the Huaron mine; (vii) planning for the expansion of the La Colorada tailings facility; (viii) expansion of the Morococha tailings facility; and (ix) initiation of the update of the environmental license for the San Vicente mine.

HEALTH AND SAFETY

During 2006, a formal Corporate Health and Safety Audit was conducted at Quiruvilca, Huaron, La Colorada, and the San Vicente mines. The audits consisted of a week long audit of the safety and health aspects of each of the mines and focused on a review of the health, and safety systems, safety training, and general condition of each mine. Participating in the audit was a third party consultant as well as safety managers from other Pan American operations. Audit findings were recorded and a schedule for mitigation was developed. All of the aforementioned mines are aggressively addressing the Health and Safety findings and mitigation progress is reported to the Company's board of directors on a quarterly basis.

During 2006 Pan American experienced a significant improvement in its safety record, with an overall 47% reduction in lost time accidents (LTA) at our wholly owned operating mines (70 LTAs in 2005 compared to 37 LTAs in 2006). These achievements are directly related to the time and attention focussed throughout 2005 and 2006 on health and safety by management of the Company. In 2005, Pan American introduced complete safety audits at all of its operations, increased the frequency of, and requirements for, training programs, and purchased advanced mine rescue equipment. Pan American will continue to make substantial investments in its safety programs throughout 2007, particularly through the implementation of more training programs and systems to streamline the aforementioned safety audits of each mine.

MATERIAL PROPERTIES

Pursuant to Canadian Securities Administrators' *National Instrument 51-102*, the following properties and projects have been identified by Pan American as being material: the Quiruvilca Mine, Huaron Mine, La Colorada Mine, Alamo Dorado Mine, and the Morococha Mine. The Company does not consider the San Vicente Mine, the Silver Stockpiles, or any of the Company's development or investment properties to be material properties for the purposes of this Annual Information Form.

Mineral Reserve and Mineral Resource estimate information

The process for economic assessment of the ore reserves and resources at Pan American Silver Corp's operating mines, and those development projects that have previously been the subject of a positive feasibility study and NI 43-101 Technical Report is as follows:

Each resource block at each mine or project are assigned a resource confidence rating based on CIM standards, as well as tonnes and metal grades typically using Minesight, Datamine, Autocad, database and/or Excel Spreadsheet software.

Mining parameters such as dilution and losses due to pillars or mining are applied to the resource blocks based on experience with the expected mining method for the block at the particular mine or, in the case of projects, on the basis of engineering studies. These factors are reviewed and adjusted on at least an annual basis using information from a number of geologic and engineering observations including reconciliation data to the tonnes and grades measured in the process plant.

For the Huaron, Quiruvilca, Morococha, San Vicente and La Colorada mines metal price factors are calculated for each mine using a Microsoft Excel spreadsheet. A separate factor is calculated for each of the metals

of economic significance at the particular mine. These metals (not necessarily in order of overall economic significance) are: silver, zinc, lead, copper and gold. The key inputs used in order to calculate the factors are: metal prices established for ore reserve and resource calculation each year, metallurgical recovery for each metal, the weight of each concentrate produced for each tonne of ore at a particular grade, expected grade of concentrate, any elements that are present that detract from the value, current terms for smelting each of the concentrates produced at a mine or project, refinery terms for treatment of doré, the costs of smelting and or refining, the percentage of each metal payable by the smelter or the refinery, the cost of transporting concentrate or doré to the smelter or refinery including insurance and other costs that may be incurred in the process of selling the product like port fees and cost of concentrate storage and handling. In the case of the Huaron mine, individual factors are calculated separately for the main ore veins or structures in order to account for variances in metallurgical recovery. The La Colorada mine has separate calculations for oxide and sulphide ores as these two types of ore are processed in separate plants.

The factors are applied to the metal grades in each of the resource blocks and summated in order to calculate a Net smelter return (NSR) value per tonne for each of the blocks in the resource model.

In order to determine if a block can be deemed economic, the expected mine operating costs are used to calculate the value per tonne that is required from each block in each area of the mine. Blocks that are in the Measured and Indicated category that fit into a previously created mine plan are then converted to Proven and Probable reserves. Measured resource blocks are converted into either Proven or Probable reserves, and Indicated resource blocks are converted into Probable reserves all at the discretion of Pan American's Qualified Persons. Measured and Indicated resource blocks that do not fit into a mine plan; are in an area of the mine where a development decision has not been taken, or are in an area where more information is required to determine mineability remain as Measured and Indicated Resource blocks as long as they are potentially economic. Inferred resource blocks remain as inferred resources as long as the estimated grade is such that they will be potentially economic. A cut off value per tonne is established each year for each mine or project.

The metal prices used for the December 31, 2006 ore reserve and resource calculations are as follows:

| | |
|-------------------|---------|
| Silver US\$/Ounce | \$ 9.00 |
| Zinc US\$/Tonne | \$2,100 |
| Lead US\$/Tonne | \$1,000 |
| Copper US\$/Tonne | \$5,000 |
| Gold US\$/Ounce | \$ 525 |

The cut off (in \$/Tonne) for reserve and resource calculations at the Huaron, Quiruvilca, Morococha, San Vicente and La Colorada mines are shown in the following table:

| | Ore Reserves Cut Off (\$/Tonne) | Ore Resource Cut Off (\$/Tonne) |
|-------------|--|--|
| Huaron | 32.00 | 25.00 |
| Quiruvilca | 27.00 | 20.00 |
| Morococha | 34.00 | 27.00 |
| San Vicente | 34.00 | 17.00 |
| La Colorada | 56.18 | 56.18 |

The cut off values per tonne for Huaron, Quiruvilca, Morococha and La Colorada are the averages applied for each mine. These are all values that pay at a minimum the variable costs of production (incremental ore). As the average value per tonne of the ore reserve is higher than these minimum values, the mine plans at each operation are designed to ensure that the fixed costs of the operation are paid by the higher grade ore. At each of the operations shown in the table, the current throughput capacity of the process plant(s) is either greater than the capacity of the mine, or the mine would not be able to produce enough ore to keep the mill operating at full capacity without the addition of incremental ore.

Mineral reserve and mineral resource estimates for the Company's development projects are prepared on the following basis:

The Alamo Dorado mine uses a cut off grade that varies by each block, primarily as a function of the copper grade and expected cyanide consumption during the treatment process. The lowest value for cut off grade used at Alamo Dorado is 54 g/t silver equivalent grade. The metallurgical recoveries for gold and silver are calculated for each block using the following formulae:

Silver recovery = $0.95 \left(5 / \text{silver grade (g/t)} - 0.0005 * \text{Copper grade (ppm)} \right)$

Gold recovery = $0.95 \left(0.001 / \text{gold grade (g/t)} - 0.0005 * \text{Copper grade (ppm)} \right)$

For all ores at Manantial Espejo the metallurgical recovery of the plant was assumed to be 93.57% for silver and 94.25% for gold. Payable amounts in the doré product of the mine are assumed to be 99.75% for silver and 98.87% for gold. The cut off grade applied for all open pit ores was 73 g/t. The nominal cutoff used to define underground Maria longhole stoping ore was 160gpt AgEq. The nominal cutoff used to define underground Maria and Melissa shrinkage stoping ore was 194gpt AgEq. The nominal cutoff used to define underground Concepcion cut and fill stoping ore was 210gpt AgEq. In all underground reserves, stoping blocks were visually defined using the cited cutoffs with a long section display of silver equivalent grade. However, once the stopes were defined, all recovered material inside of the stopes was defined as ore, regardless of grade. In all cases, the value ratio used to determine silver equivalency was 59.787. This ratio and the cutoffs were determined by the same method as in the feasibility study, using feasibility costs, payables, taxes, royalties, and metallurgical recoveries. However, all of the input values were revised to match the final results of the feasibility, with the exception of gold and silver sales prices, which were \$525 and \$9.00 respectively.

Although Pan American believes that its reserve and resource estimates will not be materially impacted by external factors such as metallurgical, safety and environmental, permitting, legal, taxation and other factors disclosed in this Annual Information Form, there can be no assurance that they will not be impacted. There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgment. Results from drillings, testing and production, as well as a material change in metals prices or a change in the planned mining method, subsequent to the date of the estimate, may justify revision of such estimates.

A. OPERATING MINES

(i) Quiruvilca Mine

Ownership and Property Description

The Quiruvilca mine is owned and operated by Pan American Silver S.A. Mina Quiruvilca, a company in which the Company, indirectly through its subsidiaries, owns 100% of the outstanding voting shares and 99.93% of the total outstanding equity. Pan American Silver S.A.C. Mina Quiruvilca and Cia Minera Huaron merged to form the new Pan American Silver S.A. Mina Quiruvilca effective January 2006.

The Quiruvilca mine is an underground mine located in the District of Quiruvilca, Province of Santiago de Chuco, Department of La Libertad in northwest Peru. The Quiruvilca mineral property consists of 152 mining concessions covering 1,287 hectares. On March 25, 2004, Mina Quiruvilca sold 6,839 hectares of mining concessions and surface rights in the vicinity of Quiruvilca mine to Barrick for \$3,582,575 and for the assumption of \$67,425 of payments owing in respect of these mining concessions. All issued permits and licences required for the conduct of Quiruvilca mining operations are currently in good standing, however the mine is awaiting an Industrial Water Discharge Authorization to be granted by the General Health Division of the Health Ministry.

Location, Access, Climate and Infrastructure

The Quiruvilca mine lies in the Andes mountain range above the tree line located 76 kilometres east of the coastal city of Trujillo. Elevations in the immediate area of the mine range from 3,450 metres to 4,075 metres above

sea level. Access to the Quiruvilca mine is by a 137 kilometre all weather road east from the city of Trujillo. The first 65 kilometres of the road are paved and the remaining 72 kilometres consist of a gravel road. The gravel portion of the road is currently being upgraded and asphalted working from the mine down towards the presently paved portion of the road. Pan American paid for a small portion of the road upgrade costs near the Quiruvilca mine with the rest of the road work upgrade being paid for by Barrick. Trujillo is connected to Lima by a paved all-weather highway.

The relief at the mine site is hilly and uneven with local slopes of more than sixty degrees, typical of the Peruvian Andes. Natural vegetation is mainly grasses which form meadows. These meadows have permitted development of varied livestock operations. The climate at the mine site is classified as cold climate or boreal. Average minimum and maximum temperatures in the region range from 5.7 to 14.8 degrees Celsius. One of the characteristics of this climate is wet summers (highest rainfall occurs from January to April) and dry winters. The Quiruvilca mine operates throughout the entire year.

The primary source of power for the Quiruvilca mine is the Peruvian national power grid via a 138kV line from the city of Trujillo to the Motil substation. A 33kV line connects the mine site to the Motil substation. Pan American owns and operates a diesel generating system, which provides a back up source of power for the Quiruvilca mine.

Pan American is permitted to pump water from the Los Angeles Lake, to the east of the Andean divide to two dams east of the town of Quiruvilca as well as from other local rivers and streams in the area. Process water is drawn from these dams.

Peru's economy is dependent on mining and there is a sufficient local source of mining personnel and related infrastructure.

Royalties and Encumbrances

To the best of Pan American's knowledge, the Quiruvilca property is not subject to any royalties or encumbrances other than the mining royalty tax described under Quiruvilca Mine - Taxation below.

In October 2003, the Peruvian government passed legislation requiring active mining operations to file closure plans within twelve months of the date of passage of the legislation. Administrative rules associated with this legislation which lay out detailed closure requirements, including bonding and tax deductibility of reclamation and rehabilitation expenses, were promulgated in October 2005. Pursuant to these rules detailed closure plans and cost estimates for each of Pan American's Peruvian operations were compiled by a certified third party consultant and submitted by October 2006, and are awaiting review by the relevant Peruvian authority.

Quiruvilca's largest liability relates to its future closure and remediation. In connection therewith, the Company has estimated the present value of expenditures required for future reclamation and asset retirement at the Quiruvilca mine to be \$15.6 million. In each of 2005 and 2006, \$0.8 million was spent on reclamation activities.

Taxation

The principal taxes applicable in Peru affecting Pan American include income tax, employee profit sharing taxes, annual fees for holding mineral properties, various payroll and social security taxes and a refundable value added tax.

In June 2004, Peru's Congress approved a new bill that allows royalties to be charged on mining projects. These royalties are payable on Peruvian mine production at the following progressive rates: (i) 1.0% for companies with sales up to \$60 million; (ii) 2.0% for companies with sales between \$60 million and \$120 million; and (iii)

3.0% for companies with sales greater than \$120 million. This royalty is a net smelter returns royalty, which cost is deductible for income tax purposes. The 1% royalty on Quiruvilca's production amounted to approximately \$0.7 million in 2006, \$0.2 million in 2005 and \$0.1 million in 2004.

The Quiruvilca operation generated income tax provisions of approximately \$7.6 million, \$0.9 million and \$nil in 2006, 2005 and 2004 respectively. In addition, employee profit sharing taxes of \$2.2 million, \$0.03 million and \$nil were generated in 2006, 2005 and 2004, respectively.

History

Mineralization was first reported in the area of the Quiruvilca mine in 1789. Small-scale silver mining in the area was carried on from the 1870's until 1924. Between 1924 and 1925, Northern Peru Mining and Smelting Co. (NPMS), the predecessor to Mina Quiruvilca, which was formed by ASARCO, acquired certain mining concessions in the area and began mining operations. The operation was shut down in 1931. The Quiruvilca mine was re-opened in 1940 and has been in operation since that time. Since 1940 NPMS claimed additional mineral concessions in the area and purchased several adjacent mining concessions as well as surface and water rights in the area.

Initially, mining by NPMS focused on the copper bearing veins in the Enargite Zone (as defined below) but gradually focus was shifted to veins in the Zinc-Lead Zone (as defined below). In March 1967, the mill started to treat complex ores producing copper, lead and zinc concentrates.

In August 1995, Pan American acquired 80% of the outstanding voting shares (representing a 53.3% total equity interest) in Mina Quiruvilca from NPMS, and between September 1995 and March 1996, it increased its interest in Mina Quiruvilca to 100% of the outstanding voting shares and 99.7% of the total outstanding equity.

Geology and Mineralization

The Quiruvilca mine is located at the west side of the Western Cordillera within the eastern edge of a major sequence of volcanic rocks, interpreted as part of the Calipuy Volcanic Formation of Mid-Miocene age. This volcanic formation, with a thickness of about 2,000 metres, consists of andesite flows and flow breccias inter-layered with thin basalt flows and occasional tuffaceous lacustrine sediments.

The mineralization at Quiruvilca is contained in a series of narrow veins filling fractures and faults. Over 130 veins have been identified in the mine area. At least three-quarters of these veins have been in production at some point in time. Although narrow, the veins at Quiruvilca tend to have an extensive lateral and vertical continuity with abundant splits, cymoid loops, pinch and swell structures. In some places, the veins show some thick ore shoots connected to thinner sub-economic to non-economic zones. The width varies from up to two metres in the central zone to stringers. The average width of veins currently being mined is 0.56 metres and the average dip of the veins is 70°.

The mineralization exhibits strong metal zoning. The central copper zone, some 700 metres by 2,800 metres in area, consists of predominately enargite-pyrite, with lesser chalcopyrite, tennantite, tetrahedrite, sphalerite and galena (the Enargite Zone). The Enargite Zone is surrounded by a relatively narrow transition zone of tennantite, tetrahedrite, sphalerite and galena (the Transition Zone). The Transition Zone is in turn surrounded by a zinc-lead zone of predominately sphalerite and galena, which extends