ITERIS, INC.
Form 10-K
June 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-08762

ITERIS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-2588496**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1515 South Manchester Avenue, Anaheim, California 92802

(Address of Principal Executive Offices) (Zip Code)

Registrant s Telephone Number, Including Area Code: **(714) 774-5000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**

Common Stock, $0.10 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 x No o

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

Based on the closing sale price of the registrant s common stock on September 30, 2005, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the voting common stock held by nonaffiliates of the registrant was $55,322,000. For the purposes of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of June 28, 2006, there were 28,790,767 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant s definitive proxy statement for the 2006 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended March 31, 2006. Except with respect to information specifically incorporated by reference in this report, the registrant s proxy statement is not deemed to be filed as part hereof.

ITERIS, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED MARCH 31, 2006

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Unless otherwise indicated in this report, the registrant, we, us and our collectively refers to Iteris, Inc. (formerly known as Iteris Holdings, Inc. and Odetics, Inc.) and its former subsidiary, Meyer, Mohaddes Associates, Inc., which was dissolved effective April 3, 2006.

AutoVue®, Iteris® and Vantage® are among the registered trademarks of Iteris, Inc. Any other trademarks or trade names mentioned herein are the property of their respective owners.

Cautionary Statement

This report, including the following discussion and analysis, contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on our current expectations, estimates and projections about our business and our industry, and reflect management s beliefs and certain assumptions made by us based upon information available to us as of the date of this report. When used in this report and the information incorporated herein by reference, the words expect(s), feel(s), believe(s), should, will, may, anticipate(s), estimate(s) and similar expressions or variations of these words are intended to identify forward-looking statements. These forward-looking statements include but are not limited to statements regarding our anticipated sales, revenue, expenses, profits, capital needs, competition, backlog and manufacturing capabilities, the practical market applications, future applications and acceptance of our products and services, the status of our facilities and product development. These statements are not guarantees of future performance and are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. You should not place undue reliance on these forward-looking statements that speak only as of the date hereof. We undertake no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We encourage you to carefully review and consider the various disclosures made by us which describe certain factors which could affect our business, including those in *Risk Factors in Item 1A of this report, before deciding to invest in our company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.*

PART I

ITEM 1. BUSINESS

Overview

Iteris, Inc., formerly known as Iteris Holdings, Inc., is a leading provider of outdoor machine vision systems and sensors that optimize the flow of traffic and enhance driver safety. Using proprietary software and Intelligent Transportation Systems (ITS) industry expertise, we provide video sensor systems, transportation management and traveler information systems and other engineering and consulting services to the ITS industry. The ITS industry is comprised of companies applying a variety of technologies to enable the safe and efficient movement of people and goods. We use our outdoor image recognition software expertise to develop proprietary algorithms for video sensor systems that improve vehicle safety and the flow of traffic. Using our knowledge of the ITS industry, we design and implement transportation management systems that help public agencies reduce traffic congestion and provide greater access to traveler information.

We were originally incorporated in Delaware in 1987 as Odetics, Inc. and in September 2003 changed our name to Iteris Holdings, Inc. to reflect our focus on the ITS industry and our capital structure at that time. On October 22, 2004, we completed a merger with our majority-owned subsidiary, Iteris, Inc. (the Iteris Subsidiary), and officially changed our corporate name from Iteris Holdings, Inc. to Iteris, Inc.

Our proprietary image recognition systems include Vantage and AutoVue. Vantage is a video vehicle detection system that detects the presence of vehicles on roadways. Vantage systems are used at signalized intersections to enable a more efficient allocation of green signal time and are also used for incident detection and highway traffic data collection applications. AutoVue Lane Departure Warning (LDW) systems consist of a small windshield mounted sensor that uses proprietary software to detect and warn drivers of unintended lane departures. To date, we and our strategic partner have sold over 50,000 production AutoVue LDW systems for use on car and truck platforms in the North American and European markets. We believe that our AutoVue LDW technology is a broad sensor platform that, through additional software development, may be expanded to incorporate additional safety and convenience features.

Our transportation management systems business includes transportation engineering and consulting services focused on the planning, design, development and implementation of software-based systems that integrate sensors, video surveillance, computers and advanced communications equipment to enable public agencies to monitor, control and direct traffic flow, assist in the quick dispatch of emergency crews and distribute real-time information about traffic conditions. Our services include planning and other engineering for the implementation of transportation infrastructure and related communications systems, analysis and study related to goods movement and commercial vehicle operations, and parking systems designs.

We currently operate in three reportable segments: Roadway Sensors, Automotive Sensors and Transportation Systems. The Roadway Sensors segment includes our Vantage vehicle detection systems for traffic intersection control, incident detection and certain highway traffic data collection applications. The Automotive Sensors segment is comprised of all activities related to our AutoVue LDW systems for vehicle safety. The Transportation Systems segment includes transportation engineering and consulting services and the development of transportation management and traveler

information systems for the ITS industry. See Note 13 to the accompanying consolidated financial statements for further discussion of our operating segments.

Sales, Marketing and Principal Customers

We sell our Vantage vehicle detection systems primarily through indirect sales channels comprised of independent dealers in the United States and Canada who sell integrated systems and related products to the traffic management market. Our independent dealers are primarily responsible for sales, installation and support of Vantage systems. These dealers maintain an inventory of demonstration traffic products from various manufacturers including our Vantage vehicle detection systems and sell directly to government agencies and installation contractors. These dealers often have long-term arrangements with the government agencies in their territory for the supply of various products for the construction and renovation of traffic intersections. We hold technical training classes for dealers and end users and maintain a full-time staff of customer support technicians to provide technical assistance when needed.

Our marketing strategy for AutoVue is to establish it as the leading platform for in-vehicle video sensing for heavy trucks and passenger cars. We sell AutoVue LDW systems directly to heavy truck manufacturers and to U.S. truck fleets, and our AutoVue LDW system is currently offered as an option on certain Mercedes, MAN, Freightliner and International trucks. We market the licensing of our LDW technology to manufacturers of passenger automobiles through a strategic relationship with Valeo Schalter and Sensuren GmbH (Valeo), an independent automotive supplier. In connection with this marketing effort, we provide specific contract engineering services, technical marketing and sales support to Valeo which to date has enabled the launch of our LDW technology on three Infiniti platforms, the FX, M and Q, where our LDW system is offered as part of the technology option package. We plan to continue to provide technical marketing and sales support to Valeo in our efforts to win new OEM customers for the passenger car market as well as contract engineering services related to the possible launch of new Infiniti platforms that include our AutoVue LDW system.

We market and sell our transportation management systems and traveler information services directly to government agencies pursuant to negotiated contracts that involve competitive bidding and specific qualification requirements. Most of our contracts with federal, state and municipal customers provide for cancellation or renegotiation at the option of the customer upon reasonable notice and fees paid for modification. We use selected members of our engineering team divided on a regional basis to serve in sales and business development functions. We do not engage in sales of transportation management systems and traveler information services outside of the U.S. Sales of our transportation management systems contracts generally involve long lead times and require extensive specification development, evaluation and price negotiations.

Our largest customer accounted for 11.5% of total net sales and contract revenues in the fiscal year ended March 31, 2006 (Fiscal 2006).

Manufacturing and Materials

We use contract manufacturers to build subassemblies that are used in our Vantage products. Additionally, we procure certain components from qualified suppliers, both globally and locally, and use multi-sourcing strategies when technically and economically feasible to mitigate supply risk. These subassemblies and components are delivered to our Anaheim facility where they go through final assembly and testing prior to shipment to our customers. Our manufacturing activities are conducted in approximately 8,000 square feet of space at our Anaheim facility. Production volume at our subcontractors is based upon quarterly forecasts that we adjust on a monthly basis to control inventory. For sales of AutoVue LDW systems to the truck market, we subcontract the manufacture of our AutoVue LDW systems to two manufacturers, and our internal processes are limited primarily to testing and final verification. For AutoVue LDW sales to the passenger car market, we anticipate that all manufacturing will be done by Valeo; however, we plan to continue to provide engineering support to Valeo. We currently do not manufacture any of the hardware used in the transportation management and traveler information systems that we design and implement. Our production facility is currently ISO 9001 certified.

Customer Support and Services

We provide warranty service and support for our Vantage and AutoVue products as well as follow-up service and support for which we charge separately. Service revenue accounted for less than 1.0% of total net sales and contract revenues for Fiscal 2006. We believe customer support is a key competitive factor.

Backlog

Our backlog of unfulfilled firm orders was approximately $20.3 million as of March 31, 2006, which was comprised of $1.5 million related to Roadway Sensors, $3.0 million related to Automotive Sensors and $15.8 million related to Transportation Systems. The backlog for Roadway Sensors and Automotive Sensors is expected to be recognized as revenue in the fiscal year ending March 31, 2007 (Fiscal 2007) while approximately 84.0% of Transportation Systems backlog is expected to be recognized as revenue in Fiscal 2007. At March 31, 2005, we had backlog of approximately $18.9 million, which was comprised of $1.7 million related to Roadway Sensors, $3.4 million related to Automotive Sensors and $13.8

million related to Transportation Systems. All March 31, 2005 backlog for Roadway Sensors and Automotive Sensors was recognized as revenue in Fiscal 2006 while 71.0% of Transportation Systems March 31, 2005 backlog was recognized as revenue in Fiscal 2006. Pursuant to the customary terms of our agreements with government contractors and other customers, customers can generally cancel or reschedule orders with little or no penalties. Lead times for the release of purchase orders often depend upon the scheduling and forecasting practices of our individual customers, which also can affect the timing of the conversion of our backlog into revenues. For these reasons, among others, our backlog at a particular date may not be indicative of our future revenues.

Product Development

Most of our development activities are conducted at our principal facilities in Anaheim, California. Our company-sponsored research and development costs and expenses were approximately $5.1 million for Fiscal 2006, $4.2 million for the fiscal year ended March 31, 2005 (Fiscal 2005), and $3.9 million for the fiscal year ended March 31, 2004 (Fiscal 2004). We expect to continue to pursue significant product development programs and incur significant research and development expenditures.

Competition

We generally face significant competition in each of our target markets. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. We believe that AutoVue is the only established commercially-available lane departure warning system used in the U.S. and in Europe in the heavy truck market. Potential competitors of AutoVue include Delphi Automotive Systems Corporation domestically, NEC Corporation and Hitachi Ltd. in Japan and Robert Bosch GmbH in Europe, as well as Siemens, Continental Tavis, Visteon and Cognex, which could be currently developing video sensor technologies for the vehicle industry that could be used for lane departure warning systems. In the market for our Vantage vehicle detection systems, we compete with manufacturers of other above ground video camera detection systems such as Econolite Control Products, Inc., Traficon, N.V., Quixote, and other non-intrusive detection devices including microwave, infrared, ultrasonic and magnetic detectors, as well as manufacturers and installers of in-pavement inductive loop products.

The transportation management and traveler information systems market is highly fragmented and is subject to evolving national and regional quality and safety standards. Our competitors vary in number, scope and breadth of the products and services they offer. Our competitors in advanced transportation management and traveler information systems include national corporations such as Transcore, Siemens, PB Farradyne, Inc., Kimley-Horn and Associates, Inc. and National Engineering Technology, Inc. Our competitors in transportation engineering, planning and design include major firms such as Parsons Brinkerhoff, Inc., URS, HNTB and Parsons Transportation Group, Inc., as well as many smaller regional engineering firms.

In general, the markets for the products and services offered by our businesses are highly competitive and are characterized by rapidly changing technology and evolving standards. Many of our current and prospective competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, technical, manufacturing, distribution and marketing resources than us. As a result, they may be able to adapt more quickly to new or emerging standards or technologies or to devote greater resources to the promotion and sale of their products. It is also possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We believe that our ability to compete effectively in our target markets will depend on a number of factors, including the success and timing of our new product development, the compatibility of our products with a broad range of computing systems, product quality and performance, reliability, functionality, price, and service and technical support. Our failure to provide services and develop and market products that compete successfully with those of other suppliers and consultants in our target markets would have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete effectively depends in part on our ability to develop and maintain the proprietary aspects of our technology. Our policy is to obtain appropriate proprietary rights protection for any potentially significant new technology acquired or developed by us. We currently hold ten U.S. patents, which expire commencing in 2008, and have two U.S. patent applications pending relating to our outdoor image processing techniques used in our AutoVue systems. Nine of our patents relate specifically to our AutoVue technology and provide a basis for enhanced functionality for rain sensing and improved performance. We believe that our other patents, while important for our technology platforms, are less critical to our near term product strategy. We cannot assure you that any new patents will be granted pursuant to any outstanding or subsequent applications.

In addition to patent laws, we rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with customers and suppliers, proprietary information agreements with our employees and consultants, and other similar measures. We do not have any material licenses or trademarks other than those relating to product names. We cannot be certain that we will be successful in protecting our proprietary rights. While we believe our patents, patent applications, software and other proprietary know-how have value, changing technology makes our future success dependent principally upon our employees technical competence and creative skills for continuing innovation.

Litigation may be necessary in the future to enforce our proprietary rights, to determine the validity and scope of the proprietary rights of others, or to defend us against claims of infringement or invalidity by others. An adverse outcome in such litigation or similar proceedings could subject us to significant liabilities to third parties, require disputed rights to be licensed from others or require us to cease marketing or using certain products, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, the cost of addressing any intellectual property litigation claim, both in legal fees and expenses, as well as from the diversion of management s resources, regardless of whether the claim is valid, could be significant and could have a material adverse effect on our business, financial condition and results of operations.

Employees

We refer to our employees as associates. As of June 6, 2006, we employed an aggregate of 219 associates, including 45 associates in general management, administration and finance; 23 associates in sales and marketing; 117 associates in engineering and product development; 24 associates in operations, manufacturing and quality; and 10 associates in customer service. None of our associates are represented by a labor union, and we have never experienced a work stoppage.

Government Regulation

Our manufacturing operations are subject to various federal, state and local laws and regulations, including those restricting the discharge of materials into the environment. We are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would require curtailment of our operations because of such laws and regulations. We continue to expend funds in connection with our compliance with applicable environmental regulations. These expenditures have not, however, been significant in the past, and we do not expect any significant expenditure in the near future. Currently, compliance with foreign laws has not had a material impact on our business and is not expected to have a material impact in the near future.

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, some of which are discussed below. Other risks are presented elsewhere in this report and in the information incorporated by reference into this report. You should consider the following risks carefully in addition to the other information contained in this report and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K, before deciding to buy, sell or hold our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occurs, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We Have Experienced Substantial Losses And May Continue To Experience Losses For The Foreseeable Future. Although we had net income of $80,000 from continuing operations in the year ended March 31, 2006, we experienced net losses from continuing operations of $11.3 million and $1.9 million in the years ended March 31, 2005 and 2004, respectively. While we have divested other business units, we cannot assure you that our efforts to downsize our operations or reduce our operating expenses will improve our financial performance, or that we will be able to achieve profitability on a quarterly or annual basis in the future. Most of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short-term to compensate for any unexpected delay or decrease in anticipated revenues. As a result, we may continue to experience operating losses and net losses, which would make it difficult to fund our operations and achieve our business plan, and could cause the market price of our common stock to decline.

We May Need To Raise Additional Capital In The Future, Which May Not Be Available On Terms Acceptable To Us, Or At All. We have generated significant net losses and operating losses in recent periods, and have experienced volatility in our cash flows from operations ranging from positive cash flows from operations of $590,000 in the year ended March 31, 2005 to negative cash flows from operations of $718,000 in the year ended March 31, 2004. Additionally, we failed to meet certain debt covenants under our credit agreement with our bank in two of our last four fiscal quarters. Our line of credit under this credit agreement expires on July 31, 2006; and we cannot assure you that we will be able to renew this line of credit facility on acceptable terms, in a timely manner or at all.

Although we completed a $10.1 million convertible debenture financing and our Iteris Subsidiary closed a $5.0 million term loan in May 2004, the majority of the proceeds from such financings were used to purchase the Series A preferred stock of our Iteris Subsidiary which were held by outside investors. At March 31, 2006, we had $131,000 of cash and cash equivalents and an outstanding balance of $2.7 million on our line of credit, which is used to fund our operations. We may need to raise additional capital in the near future to fund our operations or to repay indebtedness. Such additional capital may be raised through bank borrowings, or other debt or equity financings. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

Our capital requirements will depend on many factors, including, but not limited to:

- market acceptance of our products and product enhancements, and the overall level of sales of our products;
- our ability to control costs;
- the supply of key components for our products;
- our ability to generate net income;
- increased research and development expenses;
- increased sales and marketing expenses;

- technological advancements and our competitors response to our products;
- capital improvements to new and existing facilities and enhancements to our infrastructure and systems;
- potential acquisitions of businesses and product lines;
- our relationships with customers and suppliers;

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- government budgets, political agendas and other funding issues;
- our ability to successfully negotiate credit arrangements with our bank; and
- general economic conditions, including the effects of the current economic slowdown and international conflicts.

If our capital requirements are materially different from those currently planned, we may need additional capital sooner than anticipated. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced and such securities may have rights, preferences and privileges senior to our common stock. Additional financing may not be available on favorable terms, on a timely basis, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to continue our operations as planned, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures.

If Our Internal Controls Over Financial Reporting Do Not Comply With The Requirements Of The Sarbanes-Oxley Act, Our Business And Stock Price Could Be Adversely Affected. Along with our independent registered public accounting firm, we will be evaluating the effectiveness of our internal controls over financial reporting to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 currently requires us to evaluate the effectiveness of our internal controls over financial reporting at the end of each fiscal year beginning in our fiscal year ending March 31, 2008 at the earliest, and to include a management report assessing the effectiveness of our internal controls over financial reporting in all annual reports beginning with our Annual Report on Form 10-K for the fiscal year ending March 31, 2008 at the earliest. Section 404 also requires our independent accountant to attest to, and report on, management s assessment of our internal controls over financial reporting. We may not be able to complete our Section 404 compliance on a timely basis and even if we timely complete our compliance requirements, our independent auditors may still conclude that our internal controls over financial reporting are not effective.

Our management, including our CEO and CFO, does not expect that our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been, or will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of March 31, 2005, we became aware of a material weakness in our internal controls related to the accounting for the consolidation of our deferred compensation savings plan and certain contract administration. We cannot assure you that we or our independent registered public accounting firm will not identify additional material weaknesses in our internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on our evaluation, our management concluded that, as of March 31, 2004, our internal control over financial reporting was not effective due to the existence of one material weakness. We may experience additional material weaknesses in the future. If our internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price.

We May Experience Production Gaps Or Delays In The Transition To Our Next Generation LDW System And Have Exhausted Component Supplies For Our Legacy AutoVue LDW Systems, Which Could Materially And Adversely Impact Our Sales And Financial Results And The Ultimate Acceptance Of AutoVue. We are in the process of transitioning to production of a next generation LDW system and experienced a significant decline in orders from our largest AutoVue OEM customer for the heavy truck market as a result of this transition. Although we have qualified our next generation system with our largest customer, we must continue to qualify the new system with our other customers. We cannot assure you that such qualifications will be successful or that we will not experience a decline in demand as a result of this transition. As a result, we could experience a gap or delay in production as we transition to this next generation system. In some cases, such gaps or delays may be driven by customer transition issues. In addition, we have run out of certain components used in the manufacture of our legacy AutoVue LDW system for the heavy truck market. As such, a timely

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completion of these qualifications and the successful transition will be critical to our future success. Additionally, it is possible that we could experience unforeseen quality control issues as we ramp up to full production of our next generation LDW system. Should any such delay or disruption occur in transitioning to production of our next generation LDW system, our future sales will likely be materially and adversely affected.

We Depend On Government Contracts And Subcontracts, And Because Many Of Our Government Contracts Are Fixed Price Contracts, Higher Than Anticipated Costs Will Reduce Our Profit And Could Adversely Impact Our Operating Results. A significant portion of our sales were derived from contracts with governmental agencies, either as a general contractor, subcontractor or supplier. Government contracts represented approximately 38.3%, 37.4% and 48.2% of our total net sales and contract revenues for the years ended March 31, 2006, 2005 and 2004, respectively. We anticipate that revenue from government contracts will continue to increase in the near future. Government business is, in general, subject to special risks and challenges, including:

- long purchase cycles or approval processes;
- competitive bidding and qualification requirements;
- the impact of international conflicts;
- performance bond requirements;
- changes in government policies and political agendas;
- delays in funding, including the delays in the allocation of funds to state and local agencies from the U.S. transportation bill;
- other government budgetary constraints and cut-backs; and
- milestone requirements and liquidated damage provisions for failure to meet contract milestones

In addition, a large number of our government contracts are fixed price contracts. As a result, we may not be able to recover any cost overruns we may incur. These fixed price contracts require us to estimate the total project cost based on preliminary projections of the project s requirements. The financial viability of any given project depends in large part on our ability to estimate these costs accurately and complete the project on a timely basis. In the event our costs on these projects exceed the fixed contractual amount, we will be required to bear the excess costs. Such additional costs would adversely affect our financial condition and results of operations. Moreover, certain of our government contracts are subject to termination or renegotiation at the convenience of the government, which could result in a large decline in our net sales in any given quarter. Our inability to address any of the foregoing concerns or the loss or renegotiation of any material government contract could seriously harm our business, financial condition and results of operations.

We Depend Upon Valeo To Market Our AutoVue Technologies For The OEM Passenger Car Market. We have granted Valeo the exclusive right to sell and manufacture our AutoVue LDW system to the worldwide passenger car market in exchange for royalty payments for each AutoVue unit sold. As such, the future success and broad market acceptance of our AutoVue technologies in the passenger car market will depend upon Valeo s ability to manufacture, market and sell our technologies, and to convince more OEM passenger car manufacturers to adopt our technologies. If Valeo does not devote considerable resources and aggressively pursue opportunities, our expansion into the passenger car market could be adversely affected.

We May Be Unable To Attract And Retain Key Personnel, Which Could Seriously Harm Our Business. Due to the specialized nature of our business, we are highly dependent on the continued service of our executive officers and other key management, engineering and technical personnel. The loss of any of our executive officers or key members of management could adversely affect our business, financial condition or results of operations. Our success will also depend in large part upon our ability to continue to attract, retain and motivate qualified engineering and other highly skilled technical personnel. In particular, the future success of our Transportation Systems business will depend on our ability to hire additional qualified engineers and planners. Competition for qualified employees, particularly development engineers, is intense. We may not be able to continue to attract and retain sufficient numbers of such highly skilled employees. Our inability to attract and retain additional key employees or the loss of one or more of our current key employees could adversely affect our business, financial condition and results of operations.

We Have Experienced Growth In Recent Periods. If We Fail To Manage Our Growth Effectively, We May Be Unable To Execute Our Business Plan And May Experience Future Weaknesses In Our Internal Controls. We have expanded our overall business, particularly in our Vantage and AutoVue product lines. In order to achieve our business objectives, we will need to continue to expand our business and add additional qualified personnel. Such expansion has placed and is expected to continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to successfully manage our growth, our business, financial condition and results of operations will be adversely affected.

To accommodate this growth, we launched a new ERP system in April 2006. Accordingly, we may experience problems commonly experienced by other companies in connection with such implementations, including but not limited to, potential bugs in the system, component or supply delays, training requirements and other integration challenges and delays. Any difficulties we might experience in connection with our new ERP system could have a material adverse effect on our financial reporting system and internal controls.

If We Are Unable To Develop And Introduce New Products And Product Enhancements Successfully And In A Cost-Effective And Timely Manner, Or Are Unable To Achieve Market Acceptance Of Our New Products, Our Operating Results Would Be Adversely Affected. We believe our revenue growth and future operating results will depend on our ability to complete development of new products and enhancements, introduce these products in a timely, cost-effective manner, achieve broad market acceptance of these products and enhancements, and reduce our product costs. We cannot guarantee the success of these products and we may not be able to introduce any new products or any enhancements to our existing products on a timely basis, or at all. In addition, the introduction of any new products could adversely affect the sales of certain of our existing products.

We believe that we must continue to make substantial investments to support ongoing research and development in order to remain competitive. We need to continue to develop and introduce new products that incorporate the latest technological advancements in outdoor image processing hardware, software and camera technologies in response to evolving customer requirements. Our business and results of operations could be adversely affected if we do not anticipate or respond adequately to technological developments or changing customer requirements. We cannot assure you that any such investments in research and development will lead to any corresponding increase in revenue.

Market acceptance of our new products depends upon many factors, including our ability to accurately predict market requirements and evolving industry standards, our ability to resolve technical challenges in a timely and cost-effective manner and achieve manufacturing efficiencies, the perceived advantages of our new products over traditional products and the marketing capabilities of our independent distributors and strategic partners, including Valeo s ability to expand sales of AutoVue in the passenger car market. The success of our AutoVue system will also depend in part on the success of the automotive vehicles that incorporate our technology, as well as the success of optional equipment that OEMs bundle with our technologies.

Certain of the components used in our Vantage and AutoVue products may need to be re-engineered in the next 18 months as the industry is moving towards a standard of using lead-free components. We cannot assure you as to the timing of the adoption of this new standard or our ability to successfully redesign our products to incorporate compliant components. In addition, if the standard is adopted earlier than anticipated we may experience a shortage of Vantage and AutoVue products as a result of potential scarcity of lead-free components.

Our business and results of operations could also be seriously harmed by any significant delays in our new product development. Certain of our new products could contain undetected design faults and software errors or bugs when first released by us, despite our testing. We may not discover these faults or errors until after a product has been installed and used by our customers. Any faults or errors in our existing products or in any new products may cause delays in product introduction and shipments, require design modifications or harm customer relationships, any of which could adversely affect our business and competitive position.

The Markets In Which We Operate Are Highly Competitive And Have Many More Established Competitors, Which Could Adversely Affect Our Sales Or The Market Acceptance Of Our Products. We compete with numerous other companies in our target markets including, but not limited to, large, multinational corporations, which include tier one automotive suppliers, and many smaller regional engineering firms. We expect such competition to increase due to technological advancements, industry consolidations and reduced barriers to entry. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any of which could seriously harm our business, financial condition and results of operations. We may experience more competition in our Vantage business in Fiscal 2007 as the department of transportation in one of our largest sales territories is moving to a multisource contracting environment from one in which Iteris is the preferred supplier. In addition, one of the other developers of LDW systems was recently acquired by a larger company. While this developer has not been a material competitor to date, we may experience more competition from this provider as a result of its greater access to resources from its acquirer, and additional competitors may enter this market in the future.

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Many of our competitors have far greater name recognition and greater financial, technological, marketing and customer service resources than we do. This may allow them to respond more quickly to new or emerging technologies and .5%;">

	Year Ended December 31,		
	2011 (Cdn$)	**2010 (Cdn$)**	**2009 (Cdn$)**
High	1.0604	1.0778	1.3000
Low	0.9449	0.9946	

	1.0292
Average	
	0.9891
	1.0299
	1.1420
End of Period	
	1.0170
	0.9946
	1.0466

On March 22, 2012, the noon buying rate as reported by the Bank of Canada was US$1.00 = Cdn$1.0003.

THE COMPANY

The Company is a corporation existing under the *Business Corporations Act* (British Columbia). The Company s head office is located at 1500 - 625 Howe Street, Vancouver, British Columbia, V6C 2T6 and its registered and records office is located at 900 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, V7X 1T2.

BUSINESS OF THE COMPANY

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

RECENT DEVELOPMENTS

On January 23, 2012, Pan American announced that it had entered into an arrangement agreement with Minefinders pursuant to which Pan American would acquire all of the issued and outstanding common shares of Minefinders by way of a plan of arrangement. Further details regarding the transaction are contained in Pan American s information circular dated February 20, 2012, which is incorporated by reference into this Prospectus.

The audited annual financial statements of Minefinders for the years ended December 31, 2011 and 2010, which are available on Minefinders SEDAR profile at www.sedar.com and EDGAR at www.sec.gov, are hereby incorporated by reference.

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Unaudited pro forma financial consolidated financial statements in relation to the above transaction are appended hereto as Appendix A.

USE OF PROCEEDS

The Company will realize proceeds from the exercise of the Consideration Warrants only if and to the extent any of the Consideration Warrants are exercised. If all the Consideration Warrants are exercised, the Company will realize gross proceeds in the amount of Cdn$273,523,600 based on an exercise price for the Consideration Warrants of Cdn$35.00 per Share. The proceeds from any exercise of the Consideration Warrants will be used for working capital and general corporate purposes.

DESCRIPTION OF COMMON SHARES

The Company is authorized to issue 200,000,000 Common Shares, without par value, of which 104,497,191 are issued and outstanding as at the date of this Prospectus. There are options outstanding to purchase up to 1,222,013 Common Shares at prices ranging from Cdn$17.73 to Cdn$40.22. There are Consideration Warrants outstanding to purchase up to 7,814,960 Common Shares at a price of Cdn$35.00. Holders of Common Shares are entitled to one vote per Common Share at all meetings of shareholders, to receive dividends as and when declared by the directors of the Company and to 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.

PRICE RANGE AND TRADING VOLUME

The Company s Common Shares are listed for trading on Nasdaq under the trading symbol PAAS and on the TSX under the trading symbol PAA . The following tables set out the market price range and trading volumes of the Company s common shares on Nasdaq and the TSX for the periods indicated.

Nasdaq Stock Market

	High (US$)	Low (US$)	Volume (no. of Common Shares)
2012			
March 1-22	25.45	21.23	31,859,343
February	26.24	23.61	37,170,781
January	24.79	21.85	37,020,486
2011			
December	25.48	20.40	22,663,383
November	30.27	23.46	22,751,871

October	29.74	25.28	24,468,270
September	34.15	26.54	26,521,549
August	32.79	27.66	34,698,071
July	33.96	30.18	23,940,669
June	33.16	27.95	30,967,766
May	34.53	32.07	40,641,817
April	42.65	35.59	65,761,836
March	39.90	33.64	44,669,043

On March 22, 2012, the closing price of the Common Shares on Nasdaq was US$21.23 per Common Share.

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Toronto Stock Exchange

	High (Cdn$)	Low (Cdn$)	Volume (no. of Common Shares)
2012			
March 1-22	25.20	20.83	9,599,666
February	26.78	22.88	11,404,432
January	25.80	21.27	14,126,792
2011			
December	26.82	20.44	6,239,916
November	31.20	23.93	5,503,968
October	30.83	25.78	5,641,213
September	34.26	27.00	6,678,057
August	32.73	26.23	7,870,681
July	32.71	28.82	3,961,374
June	33.08	27.08	4,895,796
May	34.07	30.33	5,896,900
April	41.20	33.33	9,767,317
March	39.39	32.50	7,867,391

On March 22, 2012, the closing price of the Common Shares on the TSX was Cdn.$21.30 per Common Share.

DESCRIPTION OF CONSIDERATION WARRANTS

The Consideration Warrants were issued in registered form under, and are governed by the Warrant Indenture and were issued in connection with the Company s takeover bids for the outstanding securities of Aquiline Resources Inc. in 2009. The Company has appointed the principal offices of the Trustee in Vancouver and Toronto as the locations at which Consideration Warrants, each represented by a certificate (a Consideration Warrant Certificate), may be surrendered for exercise or transfer. The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture. A copy of the Warrant Indenture is available on www.sedar.com and www.sec.gov.

Each whole Consideration Warrant will entitle the holder to purchase one Share at an exercise price of Cdn.$35.00 per Share. The exercise price per Share and the number of Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below. Consideration Warrants will be exercisable at any time prior to 4:30 p.m. (Eastern time) on December 7, 2014, after which the Consideration Warrants will expire and become null and void. Under the Warrant Indenture, the Company is entitled to purchase in the market, by private contract or otherwise, all or any of the Consideration Warrants then outstanding, and any Consideration Warrants so purchased will be cancelled.

Upon receipt of the required payment and the Consideration Warrant Certificate representing the Consideration Warrants held by such holder that are to be exercised, together with a duly completed and executed exercise form in the form attached as an appendix to the Consideration Warrant Certificate, at either of the principal offices of the Trustee in Vancouver or Toronto, the Company will issue and deliver the Shares purchasable upon such exercise. If fewer than all of the Consideration Warrants represented by the Consideration Warrant Certificate are exercised, then the Company will issue a new Consideration Warrant Certificate for the remaining amount of Consideration Warrants. If at any time of exercise of the Consideration Warrants, there remain restrictions on resale under applicable securities laws on the Shares acquired, the Corporation may on the advice of counsel endorse the certificates representing the Shares and Consideration Warrants.

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The Warrant Indenture provides for adjustment in the number of Shares issuable upon the exercise of the Consideration Warrants and adjustment in the exercise price of the Consideration Warrants in certain circumstances, including:

(a) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all the holders of the Common Shares as a stock dividend or other distribution other than: (i) the issue of Common Shares or convertible securities by way of a stock dividend to shareholders who elect to receive Common Shares or convertible securities in lieu of cash dividends in the ordinary course or pursuant to a dividend reinvestment plan; or (ii) as dividends paid in the ordinary course;

(b) the subdivision, redivision or change of the Common Shares into a greater number of shares;

(c) the combination, consolidation or reduction of the Common Shares into a smaller number of shares;

(d) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the current market price , as defined in the Warrant Indenture, for the Common Shares on such record date; and

(e) the issuance or distribution to all or substantially all of the holders of the Common Shares of:

(i) shares of any class other than the Common Shares;

(ii) rights, options or warrants to acquire Common Shares or convertible securities other than rights, options, warrants exercisable within 45 days from the date of issuance thereof at a price, or at a conversion price, of at least 95% of the current market price , as defined in the Warrant Indenture at the record date for such distribution;

(iii) evidences of indebtedness; or

(iv) any other cash, securities or other property or other assets.

The Warrant Indenture provides for adjustment in the class and/or number of securities issuable upon the exercise of the Consideration Warrants in the event of the following additional events:

(1) reorganization of the Company not otherwise provided for in paragraphs (a), (b) or (c) above;

(2) consolidations, mergers, plans of arrangement or amalgamations of the Company by, with or into another body corporate, trust, partnership or other entity; or

(3) a transaction whereby all or substantially all of the Company s undertakings and assets become the property of any other body corporate, trust, partnership or other entity through sale, lease, exchange or otherwise.

If any adjustment is made to the number of Shares issuable upon the exercise of the Consideration Warrants, then the exercise price shall under certain circumstances be simultaneously adjusted accordingly.

No adjustment in the number of Shares purchasable upon the exercise of the Consideration Warrants or adjustment in the exercise price of the Consideration Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the number of Shares purchasable upon the exercise of the Consideration Warrants or change the exercise price of the Consideration Warrants by at least 2%, provided, however, that any adjustments (except for the provisions of paragraph (d) above) would otherwise have been required to be made, are carried forward and taken into account in any subsequent adjustment.

The Company covenants in the Warrant Indenture that, during the period in which the Consideration Warrants are exercisable, it will give notice to the holders of Consideration Warrants of certain stated events, including events that would result in an adjustment to the number of Shares issuable upon exercise of the Consideration Warrants or an adjustment to the exercise price of the Consideration Warrants.

No fractional Shares will be issuable upon the exercise of any Consideration Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Consideration Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

No adjustments to the number of Shares issuable upon the exercise of the Consideration Warrants shall be made in respect of the issuance of Shares, rights, options or warrants pursuant to the Warrant Indenture, the granting or exercise of options or the granting of bonus shares under the Company s stock option and bonus plan, the exercise of special rights to acquire Common Shares of the Company issued to employees of a subsidiary of the Company as part of the acquisition by the Company of options to acquire securities of such subsidiary held by such employees, the exercise of Consideration Warrants and the issuance of Common Shares pursuant to agreements in place as of the date of the Warrant Indenture.

From time to time, the Company and the Trustee, without the consent of the holders of Consideration Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Consideration Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Consideration Warrants may only be made by extraordinary resolution , which is defined in the Warrant Indenture as a resolution either: (1) passed at a meeting of the holders of Consideration Warrants at which there are one or more holders of Consideration Warrants present in person or represented by proxy representing at least 51% of all the then outstanding Consideration Warrants and passed by the affirmative vote of holders of Consideration Warrants entitled to acquire not less than 66 2/3% of all the then outstanding Consideration Warrants represented at the meeting and which voted on the poll upon the resolution; or (2) instruments in writing signed by the holders of Consideration Warrants representing not less than 66 2/3% of all the then outstanding Consideration Warrants.

The Consideration Warrants are not and will not be listed on any stock exchange.

PLAN OF DISTRIBUTION

The Company will issue the Shares from time to time upon exercise of the Consideration Warrants. The Company will receive from the holders of the Consideration Warrants the exercise price of the Consideration Warrants upon exercise. See Use of Proceeds.

No underwriter has been involved in the preparation of, or has performed any review of, this Prospectus.

This Prospectus is being filed with the British Columbia Securities Commission and as part of a registration statement filed with the SEC pursuant to the MJDS solely for the purpose of registering the issuance and sale, from time to time, of the Shares under the U.S. Securities Act. This Prospectus has not been filed in respect of, and will not qualify, any distribution of the Shares in British Columbia or in any other province or territory of Canada. No supplements to this Prospectus will be filed in relation to the Shares.

This Prospectus is being filed pursuant to a contractual obligation of the Company to file with the SEC a registration statement registering the issuance, offer and sale of the Shares under the support agreement between the Company and Aquiline Resources Inc. dated October 14, 2009.

The Toronto Stock Exchange has approved the listing of the Shares.

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CHANGES TO CONSOLIDATED CAPITALIZATION

There have been no material changes in the Company s share and loan capital since its most recently filed financial statements.

RISK FACTORS

Investing in the Shares involves a high degree of risk. Prospective investors of Shares should carefully consider the following risks, as well as the other information contained in this Prospectus and the documents incorporated by reference herein before investing in the Shares. If any of the following risks actually occurs, the Company s business could be materially harmed. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties, including those of which the Company is currently unaware or that the Company deems immaterial, may also adversely affect the Company s business.

Risks Relating to the Company s Business

Metal Price Fluctuations

The majority of Pan American s revenue is derived from the sale of silver, zinc, gold, and, to a lesser degree, copper and lead, and therefore fluctuations in the price of these commodities represents one of the most significant factors affecting Pan American s operations and profitability. In addition, since base metal and gold sales are treated as a by-product credit for the purposes of calculating cash costs per ounce of silver, this non-IFRS measure is highly sensitive to base metal and gold prices. From time to time, Pan American mitigates the risk associated with its base metal production by committing some of its forecast base metal production to forward sales and options contracts. The Board of Directors of the Company continually assesses the Company s strategy towards its base metal exposure, depending on market conditions.

The price of silver and other metals are affected by numerous factors beyond Pan American s control, including:

- global and regional levels of supply and demand;
- sales by government holders and other third parties;
- metal stock levels maintained by producers and others;

- increased production due to new mine developments and improved mining and production methods;
- speculative activities;
- inventory carrying costs;
- availability, demand and costs of metal substitutes;
- international economic and political conditions;
- interest rates, inflation and currency values; and
- reduced demand resulting from obsolescence of technologies and processes utilizing silver.

A decrease in the market price of silver, gold and other metals could affect the commercial viability of Pan American s mines and its production assumptions. Lower prices could also adversely affect Pan American s ability to finance future exploration and development of its mineral properties and mines, including the development of capital intensive projects such as Navidad, all of which would have a material adverse effect on Pan American s financial condition, results of operations and future prospects. There can be no assurance that the market prices will remain at current levels or that such prices will improve. Declining market prices for these metals could materially adversely affect Pan American s operations and profitability.

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Foreign Operations

All of Pan American s current production and revenue is derived from its operations in Peru, Mexico, Argentina and Bolivia, where the majority of Pan American s operations are conducted. As Pan American s business is carried on in a number of developing countries, it is exposed to a number of risks and uncertainties, including:

- expropriation or nationalization without adequate compensation;
- economic and regulatory instability;
- military repression and increased likelihood of international conflicts or aggression;
- possible need to obtain political risk insurance and the costs and availability of this and other insurance;
- unreliable or undeveloped infrastructure;
- labour unrest;
- lack of availability of skilled labour;
- difficulty obtaining key equipment and components for equipment;
- regulations and restrictions with respect to import and export and currency controls;
- changing fiscal regimes;
- high rates of inflation;
- the possible unilateral cancellation or forced re-negotiation of contracts;
- unanticipated changes to royalty and tax regimes;
- extreme fluctuations in currency exchange rates;
- volatile local political and economic developments;
- uncertainty regarding enforceability of contractual rights;
- difficulty understanding and complying with the regulatory and legal framework respecting the ownership and maintenance of mineral properties, mines and mining operations, and with respect to permitting;
- violence and more prevalent or stronger organized crime groups;

- terrorism and hostage taking;
- difficulties enforcing judgments obtained in Canadian or United States courts against assets located outside of those jurisdictions; and
- increased public health concerns.

In most cases, the effect of these factors cannot be accurately predicted.

Local opposition to mine development projects has arisen in Peru in the past, and such opposition has at times been violent. In particular, in November 2004, approximately 200 farmers attacked and damaged the La Zanja exploration camp located in Santa Cruz province, Peru, which was owned by Compañía de Minas Buenaventura and Newmont Mining Corporation. One person was killed and three injured during the protest. There can be no assurance that similar local opposition will not arise in the future with respect to Pan American s foreign operations. If Pan American were to experience resistance or unrest in connection with its foreign operations, it could have a material adverse effect on Pan American s operations or profitability.

In September 2011, Peru s Parliament approved new laws to change the scheme for royalty payments and to introduce a new special mining tax, which are effective from October 1, 2011. Under the previous tax scheme, royalties were based on net revenue. Under the current law, royalties are based on operating profit and royalty rates that vary depending on operating margins. In the case that the calculated royalty payments are less than 1% of net revenue, then Pan American will pay a minimum royalty of 1% of net revenue. Additionally, a new special mining tax has been introduced which is also based on operating profits and a tax rate that also varies depending on operating margins.

In late 2005, a national election in Bolivia resulted in the emergence of a left-wing government. This has caused some concerns amongst foreign companies doing business in Bolivia due to the government s policy objective of nationalizing the oil and gas industries. There is no certainty the government of Bolivia will not take steps to implement such measures targeting the mining industry, and in early 2009, a new constitution was enacted that further entrenches the government s ability to amend or enact such laws, including those that may affect mining. Risks of doing business in Bolivia include being subject to new higher taxes and mining royalties (some of which have already been proposed or threatened), revision of contracts and threatened expropriation of assets, all of which could have a material adverse impact on Pan American s operations or profitability.

In early 2011, media reports from Bolivia indicated that the Bolivian government was considering unilaterally terminating contracts and taking control of several privately-operated mines (formerly operated by the government). On May 1, 2011 Bolivian President Evo Morales announced the formation of a multi-disciplinary committee to re-evaluate several pieces of legislation, including the mining law. However, Mr. Morales made no reference to reviewing or terminating agreements with private mining companies. Operations at San Vicente have continued to run normally under Pan American s administration and it is expected that normal operations will continue status quo. Pan American will take every measure available to enforce its rights under its agreement with COMIBOL, but there is no guarantee that governmental actions will not impact the San Vicente operation and its profitability.

On October 26, 2011, the Federal Government of Argentina promulgated an economic emergency decree requiring all oil, gas and mining exporters to repatriate 100% of revenue receipts, in an attempt to stem ongoing capital flight. Pan American is currently assessing the implications the new regulation will have on its Manantial Espejo mine and its development projects in Chubut and Rio Negro. Currently, Pan American believes that the likely impact would come in the form of additional transaction fees associated with the repatriation of funds; however, the precise methods of application of the decree are still being formulated by the Government and are being analyzed by the Company as further details are determined. The Government of Argentina has also instituted certain other currency and import and export controls which will likely have a negative impact on Pan American s operations in Argentina. Such governmental actions may have a material adverse impact on Pan American s operations and profitability.

Restrictions on Mining

Many of the jurisdictions in which Pan American operates have certain laws or policies that impose restrictions on mining. For example, there are currently laws in the Province of Chubut, Argentina which, among other things, prohibit open pit mining and the use of cyanide in mineral processing across the entire Province. As currently enacted, these laws in the Province of Chubut would likely render any future construction and development of the Navidad project uneconomic or not possible at all.

There is no guarantee that the present restrictions on mining will be removed or that they will not become more restrictive, or that new constraints will not be imposed. Such restrictions, particularly those affecting the development of the Navidad project, could have a material adverse impact on Pan American s future profitability, growth and value.

Governmental Regulation

In addition to restrictions on mining, Pan American s operations, exploration and development activities are subject to extensive Canadian, United States, Peruvian, Mexican, Argentinean, Bolivian, and other foreign federal, state, provincial, territorial, and local laws and regulations governing various matters, including:

- environmental protection;
- permitting;
- management and use of toxic substances and explosives;
- management of natural resources;
- exploration, development, production, and post-closure reclamation of mines;
- imports and exports;

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- transportation;
- price controls;
- taxation;
- mining royalties;
- labour standards, employee profit-sharing and occupational health and safety, including mine safety; and
- historic and cultural preservation.

The costs associated with compliance with these laws and regulations can be substantial, and future laws and regulations, changes to existing laws and regulations (including the imposition of higher taxes and mining royalties which have been implemented or threatened in the countries in which Pan American does business) or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of Pan American s operations and delays in the development of its properties. Moreover, these laws and regulations may allow or encourage governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of Pan American s past and current operations, or possibly even those actions of parties from whom Pan American acquired its mines or properties, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. It is difficult understanding and complying with the regulatory and legal framework in some jurisdictions in which Pan American operates due to their arcane, inconsistent and sometimes unsophisticated nature. Pan American may inadvertently fail to comply with such laws. This non compliance can lead to financial restatements, fines, penalties, loss, reduction or expropriation of entitlements, the imposition of additional local or foreign parties as joint venture partners with carried or other interests and other material negative impacts on Pan American. Pan American may also be required to compensate private parties suffering loss or damage by reason of a breach of any such laws, regulations or permitting requirements.

Obtaining and Renewing of Permits

In the ordinary course of business, Pan American is required to obtain and renew governmental permits for the operation and expansion of existing operations or for the development, construction and commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions and often involving public hearings and costly undertakings on Pan American s part. The duration and success of Pan American s efforts to obtain and renew permits are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting authority. Pan American may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what Pan American believes it can recover from a given property once in production. Any unexpected delays, failure to obtain such permits, a failure to comply with the terms of the permit or costs associated with the permitting process could delay the development or impede the operation of a mine, which could adversely impact Pan American s operations and profitability.

Ownership and Operating Hazards and Risks

The ownership, operation and development of a mine or mineral property involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include:

- environmental and health hazards;
- industrial accidents, explosions and third party accidents;
- the encountering of unusual or unexpected geological formations;
- ground falls and cave-ins;
- flooding;
- labour disruptions;

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- mechanical equipment and facility performance problems;
- earthquakes; and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in:

- environmental damage and liabilities;
- work stoppages, delayed production and resultant losses;
- increased production costs;
- damage to, or destruction of, mineral properties or production facilities and resultant losses;
- personal injury or death and resultant losses;
- asset write downs;
- abandonment of assets;
- monetary losses;

- claims for compensation of loss of life and/or damages by third parties in connection with accidents (for loss of life and/or damages and related pain and suffering) that occur on Pan American property, and punitive awards in connection with those claims; and

- other liabilities.

These risks could result in damage to, or destruction of, mineral properties, production facilities and other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. Advancements in science and technology and in mine design, methods, equipment and training have created the possibility of reducing some of these risks, but there can be no assurances that such occurrences will not take place and that they will not negatively impact Pan American, its operations and its personnel.

In addition to those other risks identified above, mining operations are also subject to ownership and operating risks relating to the valuable nature of the product being produced. Pan American s Mexican operations have both suffered from armed robberies of doré within the past two years. Pan American has instituted a number of additional security measures and a more frequent shipping schedule in response to these incidents. Pan American has subsequently renewed its insurance policy to mitigate some of the financial loss that would result from such criminal activities in the future, however a substantial deductible amount would apply to any such losses in Mexico.

Liabilities that Pan American incurs may exceed the policy limits of its insurance coverage or may not be insurable, in which case Pan American could incur significant costs that could adversely impact its business, operations, profitability or value.

Exploration and Development Risks

The long-term operation of Pan American s business and its profitability is dependent, in part, on the cost and success of its exploration and development programs. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that Pan American s mineral exploration and development programs will result in any discoveries of bodies of commercial mineralization. There is also no assurance that even if commercial quantities of mineralization are discovered that a mineral property will be brought into commercial production. Development of Pan American s mineral properties will follow only upon obtaining satisfactory exploration results. Discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal

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prices and government regulations, including regulations relating to royalties, allowable development and production, importing and exporting of minerals and environmental protection. Most of the above factors are beyond the control of Pan American. As a result, there can be no assurance that Pan American s acquisition, exploration and development programs will yield new Mineral Reserves to replace or expand current Mineral Reserves or that they will result in additional production. Unsuccessful exploration or development programs could have a material adverse impact on Pan American s operations and profitability.

Replacement of Reserves

The Quiruvilca, Huaron, Morococha, La Colorada, Alamo Dorado, Manantial Espejo and San Vicente mines are Pan American s current sources of metals production. In 2009, procedures were initiated at the Quiruvilca mine to suspend operations. Current life-of-mine plans provide for a defined production life for mining at the remainder of Pan American s mines. If Pan American s Mineral Reserves are not replaced either by the development or discovery of additional reserves and/or extension of the life-of-mine at its current operating mines or through the acquisition or development of additional producing mines, this could have an adverse impact on Pan American s future cash flows, earnings, results of operations and financial condition, and this may be compounded by requirements to expend funds for reclamation and decommissioning.

Imprecision in Mineral Reserve and Mineral Resource Estimates

There is a degree of uncertainty attributable to the estimation of Mineral Reserves and Mineral Resources. Until Mineral Reserves or Mineral Resources are actually mined and processed, the quantity of Mineral Resources and Mineral Reserve grades must be considered as estimates only and no assurances can be given that the indicated levels of metals will be produced or that Pan American will receive the price assumed in determining its reserves. These estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. By their nature Mineral Reserve and Mineral Resource estimates are imprecise and depend, to a certain extent, upon analysis of drilling results and statistical inferences that may ultimately prove unreliable.

Furthermore, fluctuations in the market price of metals, as well as increased capital or production costs or reduced recovery rates may render Mineral Reserves uneconomic and may ultimately result in a reduction of Mineral Reserves. The extent to which Resources may ultimately be reclassified as Proven or Probable Mineral Reserves is dependent upon the demonstration of their profitable recovery. The evaluation of Mineral Reserves or Mineral Resources is always influenced by economic and technological factors, which may change over time. No assurances can be given that any resource estimate will ultimately be reclassified as Proven or Probable Mineral Reserves or that mineralization can be mined or processed profitably. If Pan American s Mineral Reserve or Mineral Resource figures are inaccurate or are reduced in the future, this could have an adverse impact on Pan American s future cash flows, earnings, results of operations and financial condition.

Inaccuracies in Production and Cost Estimates

Pan American prepares estimates of future production and future production costs for particular operations. No assurance can be given that production and cost estimates will be achieved. These production and cost estimates are based on, among other things, the following factors: the accuracy of Mineral Reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; equipment and mechanical availability; labour availability; access to the mine; facilities and infrastructure; sufficient materials and supplies on hand; and the accuracy of estimated rates and costs of mining and processing, including the cost of human and physical resources required to carry out Pan American s activities. Failure to achieve production or cost estimates, or increases in costs, could have an adverse impact on Pan American s future cash flows, earnings, results of operations and financial condition.

Actual production and costs may vary from estimates for a variety of reasons, including actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the Mineral Reserves**,** such as the need for sequential development of orebodies and the processing of new or different ore grades; risks and hazards associated with mining described above under Ownership and Operating Hazards and Risks . In addition, there can be no assurance that silver recoveries or other

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metal recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production, or that the existing known and experienced recoveries will continue. Costs of production may also be affected by a variety of factors, including: changing stripping ratios, ore grade metallurgy, labour costs, costs of supplies and services (such as, for example, fuel and power), general inflationary pressures and currency exchange rates. Failure to achieve production estimates could have an adverse impact on the Pan American s future cash flows, earnings, results of operations and financial condition.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants for capital and operating costs. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploitation or development of Pan American s projects. If adequate infrastructure is not available in a timely manner, there can be no assurance that the exploitation or development of Pan American s projects will be commenced or completed on a timely basis, if at all; the resulting operations will achieve the anticipated production volume; or the construction costs and ongoing operating costs associated with the exploitation and/or development of Pan American s advanced projects will not be higher than anticipated. In addition, unusual weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect Pan American s operations and profitability.

The equipment on site at the Morococha property, particularly the Amistad plant, is old and may require higher capital investment than Pan American has estimated.

Environmental Hazards

All phases of Pan American s operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation in almost all jurisdictions are evolving in a manner which will require stricter standards and will be subject to increased enforcement, fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of Pan American and may cause material changes or delays in Pan American s intended activities. Changes in environmental regulation, if any, may adversely impact Pan American s operations and profitability. In addition, environmental hazards may exist on Pan American s properties which are currently unknown to Pan American. Pan American may be liable for losses associated with such hazards, or may be forced to undertake extensive remedial cleanup action or to pay for governmental remedial cleanup actions, even in cases where such hazards have been caused by previous or existing owners or operators of the property, or by the past or present owners of adjacent properties or natural conditions. The costs of such cleanup actions may have a material adverse impact on Pan American s operations and profitability.

Future operations of Pan American may involve heap leaching. Heap leaching often employs sodium cyanide, a hazardous material, to leach metal-bearing ore and then collect the resulting metal-bearing solution. There is an inherent risk of unintended discharge of hazardous materials in the operation of leach pads. Should sodium cyanide escape from a leach pad and collection infrastructure or otherwise be detected in the downstream surface and ground water points, Pan American could become subject to liability for remediation costs, which could be significant and may not be insured against. In addition, metal production could be delayed or halted to prevent further discharges and to allow for remediation. Such delays or cessations in production could be long-term or, in some cases, permanent and any interference with production could result in a significant reduction in, or loss of, cash flow and value for Pan American. While appropriate steps may be taken to prevent discharges of sodium cyanide and other hazardous materials into the ground water, surface water and the downstream environment, there is inherent risk in the operation of leach pads and there can be no assurance that a release of hazardous materials would not occur.

Responsibility for the operation of a water treatment plant for the Kingsmill Tunnel and the tailings mitigation program at Huascacocha Lake, near the Morococha mine, have been apportioned by Water Management Consultants Inc. in environmental studies among the Morococha mine and mining companies operating neighbouring projects. The continued development of the Toromocho Project by Minera Chinalco Peru (MCP)

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may alleviate some of Pan American s funding requirements. There can be no guarantee, however, that Pan American s proportionate share of the costs of such environmental projects will not change and this may affect cash flow from the Morococha mine operations.

Reclamation Obligations

Reclamation requirements vary depending on the location of the property and the managing governmental agency, but they are similar in that they aim to minimize long-term effects of mining exploitation and exploration disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree pre-disturbance land forms and vegetation. Pan American is actively providing for or has carried out any required reclamation activities on its properties. Any significant environmental issues that may arise, however, could lead to increased reclamation expenditures and have a material adverse impact on Pan American s financial resources.

Trading Activities and Credit Risk

Pan American s current policy is to not hedge the price of silver and therefore it is fully exposed to fluctuations in the price of silver. This strategy may have a material adverse effect upon our financial performance, financial position and results of operations.

The zinc, lead and copper concentrates produced by Pan American are sold through long-term supply arrangements to metal traders or integrated mining and smelting companies. The terms of the concentrate contracts may require Pan American to deliver concentrate that has a value greater than the payment received at the time of delivery, thereby introducing Pan American to credit risk of the buyers of Pan American s concentrates. Should any of these counterparties not honour supply arrangements, or should any of them become insolvent, Pan American may incur losses for products already shipped and be forced to sell its concentrates in the spot market or it may not have a market for its concentrates and therefore its future operating results may be materially adversely impacted. For example, the Doe Run Peru smelter, a significant buyer of Pan American s production in Peru, experienced financial difficulties in the first quarter of 2009 and closed. Pan American continued to sell copper concentrates to other buyers but on inferior terms. The Doe Run Peru smelter remains closed and Pan American is owed approximately $8.8 million under the terms of its contract with Doe Run Peru. Pan American continues to pursue all legal and commercial avenues to collect the amount outstanding.

At December 31, 2011, the Pan American had receivable balances associated with buyers of Pan American s concentrates of $40.5 million (2010 - $51.0 million). All of this receivable balance is owed by eight well known concentrate buyers and the vast majority of Pan American s concentrate is sold to those same counterparts.

Silver doré production is refined under long term agreements with fixed refining terms at three separate refineries worldwide. Pan American 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 Pan American may not be able to fully recover its precious metals in such circumstances. At December 31, 2011 Pan American had approximately $35.9 million of value contained in precious metal inventory at refineries (2010 - $50.4 million). Pan American maintains insurance coverage against the loss of precious metals at Pan American s mine sites, in-transit to refineries and while at the refineries.

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

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

Management constantly monitors and assesses the credit risk resulting from its concentrate sales, refining arrangements and commodity contracts. Furthermore, management carefully considers credit risk when allocating

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prospective sales and refining business to counterparties. In making allocation decisions, Management attempts to avoid unacceptable concentration of credit risk to any single counterparty.

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

Exchange Rate Risk

The Company reports its financial statements in United States Dollars (USD); however Pan American operates in jurisdictions that utilize other currencies. As a consequence, the financial results of Pan American 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 Pan American s operating costs and capital spending are in local currencies, Pan American is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse. The local currencies that Pan American has the most exposure to are the Peruvian sol (PEN), Mexican pesos (MXN) and Argentine pesos (ARS).

In order to mitigate this exposure, the Company maintains a portion of its cash balances in PEN, MXN and Canadian dollars and, from time to time, enters into forward currency positions to match anticipated spending. At December 31, 2011, the Company did not have any open currency forward positions, but was holding approximately 51% of its cash balances in currencies other than USD.

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

Liquidity Risk

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

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

The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous reporting, planning and budgeting process to help determine the funds required to support its normal operating requirements on an ongoing basis and its expansion plans. The Company continually evaluates and reviews capital and operating expenditures in order to identify, decrease and limit all non-essential expenditures.

Employee Recruitment, Retention and Human Error

Recruiting and retaining qualified personnel is critical to Pan American s success. Pan American is dependent on the services of key executives including the Company s President and Chief Executive Officer and other highly skilled and experienced executives and personnel focused on managing Pan American s interests. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Pan American s business activity grows, Pan American will require additional key financial, administrative and mining personnel as well as additional operations staff. There can be no assurance that Pan American will be successful in attracting, training and retaining qualified personnel as competition for persons with these skill sets increases. If Pan American is not successful in attracting, training and retaining qualified personnel, the efficiency of its operations could be impaired, which could have an adverse impact on Pan American s future cash flows, earnings, results of operations and financial condition.

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Despite efforts to attract and retain qualified personnel, as well as the retention of qualified consultants, to manage Pan American s interests, even when those efforts are successful, people are fallible and human error could result in significant uninsured losses to Pan American. These could include loss or forfeiture of mineral claims or other assets for non-payment of fees or taxes, significant tax liabilities in connection with any tax planning effort Pan American might undertake and legal claims for errors or mistakes by Pan American personnel.

Employee Relations

Certain of Pan American s employees and the employees of Peruvian mining contractors indirectly employed by Pan American are represented by unions. Pan American has experienced labour strikes and work stoppages in the past. There can be no assurance that Pan American will not experience future labour strikes or work stoppages.

Title to Assets

The validity of mining or exploration titles or claims or rights, which constitute most of Pan American s property holdings, can be uncertain and may be contested. No assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining titles or claims and that such exploration and mining titles or claims will not be challenged or impugned by third parties. Pan American operates in countries with developing mining laws and changes in such laws could materially impact Pan American s rights to its various properties or interests therein.

Although Pan American has received title opinions for those material properties in which it has a material interest (or if it has not been able to obtain such opinions, has made a determination, which Pan American believes is reasonable in the circumstances, to accept the risks associated with the subject property), there is no guarantee that title to such properties will not be challenged or impugned. Pan American has not conducted surveys of all the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. Pan American s properties may be subject to prior unregistered liens, agreements or transfers, native land claims or undetected title defects. Although Pan American may update its title opinions from time to time in connection with corporate activities such as financings or acquisitions, it does not update all of its title opinions regularly. As such, circumstances and facts may change such that some or all of Pan American s previously obtained title opinions may be inaccurate or outdated.

In many jurisdictions in which Pan American operates, legal rights applicable to mining concessions are different and separate from legal rights applicable to surface lands; accordingly, title holders of mining concessions in many jurisdictions must agree with surface land owners on compensation in respect of mining activities conducted on such land. Pan American has not held ownership title to most of the surface lands in the areas that overlie its mining concessions comprising the Morococha property, nor in the areas where administration and operations are taking place therein, but were used by Pan American pursuant to a usufruct agreement. In May 2008, MCP (promoter of the Toromocho disseminated copper system) acquired certain surface rights from Centromin (currently, Activos Mineros S.A.) covering the main Morococha area that had been reserved for the Toromocho project by the Government of Peru. In addition, MCP acquired rights including surface lands in the Morococha area where the Morococha mine administration and operations are taking place, as well as certain underground areas. Certain of the underground areas acquired by MCP would also provide Pan American with easier and less costly underground access to some areas of the Morococha concessions.

Beginning in 2005, Pan American, with the opposition of Centromin, engaged in a number of administrative and judicial proceedings to obtain legal title to surface lands and underground access that comprise part of the rights that were acquired by Peru Copper from Centromin.

In June 2010, Pan American reached an agreement with MCP which clearly defines each party s long term surface rights and therefore provides certainty to the land situation for Pan American s Morococha mine. The primary focus of the agreement is on the lands and concessions around the Morococha mine and MCP s Toromocho copper project. Under the terms of the agreement, Compañía Minera Argentum S.A., a partially owned subsidiary of Pan American (Argentum) will relocate the core Morococha facilities over a 5 year period and transfer certain mineral concessions and access rights to MCP that it needs in order to proceed with the development of the

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Toromocho project, including the surface lands within the planned open pit mining area of the Toromocho project. In exchange, Argentum will receive a package of surface rights, easements and other rights to relocate the facilities and to continue uninterrupted operations, and will also obtain rights to a number of mineral concessions outside the planned Toromocho pit area where high-grade silver veins have been identified. Lastly, Argentum will receive periodic cash payments from MCP totalling $40 million, which will off-set a portion of the capital required for the facility relocation. The transfer of lands and rights and the cash payments will occur over a period of time in accordance with meeting certain milestones. In addition to the foregoing, the parties agreed to dismiss the judicial and administrative claims between them. Although this agreement has diminished the risks associated with the Morococha land situation, there is no certainty that the required milestones will be met, that the relationship will continue in an amicable fashion and that the future relocation and other costs associated with the commitments in the agreement will not render continued operations at the Morococha mine uneconomic.

Pan American acquired its interest in the Manantial Espejo project on the understanding that while strict compliance with the mining law had not occurred, prior owners had reached an agreement with the mining authorities to bring the property, to the extent possible under existing law, into compliance. With respect to the required minimum expenditure threshold originally applicable to Barrick Gold Corp. s operations at Manantial Espejo, Pan American was able to secure a different expenditure threshold with the Argentine government. Until recently, although Pan American had always complied with the terms of this agreement, it could never be certain that the original non-compliance of previous owners would not impair title to the properties. On March 23, 2006 the Argentine government approved the Environmental Impact Statement submitted to it by Pan American, effectively authorizing construction of the mine. There can be no guarantee that this approval waives a significant amount of uncertainty and confirms that the government recognizes and will abide by Pan American s title to the properties.

Acquisitions

An element of Pan American s business strategy is to make selected acquisitions. For example, Pan American completed the acquisition of Corner Bay Silver Inc. and with it, the Alamo Dorado mine, in February 2003, the acquisition of Argentum and the Morococha mine in August 2004, the acquisition from Silver Standard Resources Inc. in 2006 of a 50% interest in the Manantial Espejo project, in May 2007 an additional 40% interest in respect of the San Vicente mine, and the acquisition of Aquiline and the Navidad and Calcatreu properties in January 2010. Pan American has also recently made a proposal to acquire Minefinders pursuant to a plan of arrangement. Pan American expects to continue to evaluate acquisition opportunities on a regular basis and intends to pursue those opportunities that it believes are in its long-term best interests. The success of Pan American s acquisitions will depend upon Pan American s ability to effectively manage the integration and operations of entities it acquires and to realize other anticipated benefits. The process of managing acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of management resources. There can be no assurance that Pan American will be able to successfully manage the integration and operations of businesses it acquires or that the anticipated benefits of its acquisitions will be realized.

Competition for New Properties

The mining industry is exceptionally competitive, particularly with respect to properties that produce, or are capable of producing, silver, gold and other metals. Mines have limited lives and, as a result, Pan American continually seeks to replace and expand reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where Pan American would consider conducting exploration and/or production activities. Because the Company faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does, Pan American may be unable to acquire attractive new mining properties on terms that it considers acceptable. Competition for resources at all levels is intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Competition in the mining business for limited sources of capital could adversely impact Pan American s ability to acquire and develop suitable silver mines, silver developmental projects, silver producing companies or properties having significant exploration potential. As a result, there can be no assurance that Pan American s acquisition and exploration programs will yield new Mineral Reserves to replace or expand current Mineral Reserves.

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Shortages of Critical Parts, Equipment and Skilled Labour

Pan American s ability to acquire critical resources such as input commodities, drilling equipment, tires and skilled labour due to increased worldwide demand, may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and production schedules.

Developments regarding Aboriginal and Indigenous Peoples

Pan American operates in areas inhabited by aboriginal and indigenous peoples and by local community. Developing laws and movements respecting the acquisition of lands and other rights from such people and communities may alter decades old arrangements or agreements made by prior owners of Pan American s mines and properties or even those made by Pan American in more recent years. There can be no guarantee that Pan American has entered into all agreements with aboriginal and indigenous people and with local communities in accordance with the laws governing aboriginal and indigenous peoples and local communities or that future laws and actions will not have a material adverse effect on Pan American s rights to explore or mine, or its financial position, cash flow and results of operations. Furthermore, it is not uncommon for local communities and aboriginal and indigenous peoples to challenge agreements or arrangements previously entered into for various reasons. If Pan American cannot maintain an agreement with aboriginal or indigenous peoples or with the communities within which it operates, there may be significant disruptions in its operations and activities, or it may be unable to operate at all in such areas.

Community Action

In recent years communities and non-governmental organizations (NGOs) have become more vocal and active with respect to mining activities at or near their communities. These communities and NGOs have taken such actions as road closures, work stoppages, and law suits for damages. These actions relate not only to current activities but often in respect of decades old mining activities by prior owners of mining properties. Such actions by communities and NGOs may have a material adverse effect on Pan American s financial position, cash flow and results of operations or may force the cessation of mining activities altogether.

Internal Control over Financial Reporting

The Company documented and tested during its most recent fiscal year its internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act (SOX). SOX requires an annual assessment by management and an independent assessment by the Company s independent auditors of the effectiveness of the Company s internal control over financial reporting. The Company may fail to achieve and maintain the adequacy of its internal control over financial reporting as such standards are modified, supplemented, or amended from time to time, and the Company may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of SOX. The Company s failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Company s business and negatively impact the trading price of its common shares or market value of its other securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company s operating results or cause it to fail to meet its reporting obligations. There can be no assurance that the Company will be able to remediate material weaknesses, if any, identified in future periods, or maintain all of the controls necessary for continued compliance, and there can be no assurance that the

Company will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies. Future acquisitions of companies may provide the Company with challenges in implementing the required processes, procedures and controls in its acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities laws currently applicable to the Company.

No evaluation can provide complete assurance that the Company s internal control over financial reporting will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be reported. The effectiveness of the Company s control and procedures could also be limited by simple errors or faulty judgments. In addition, as the Company continues to expand, the challenges involved in implementing

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appropriate internal control over financial reporting will increase and will require that the Company continue to improve its internal control over financial reporting. Although the Company intends to devote substantial time and incur costs, as necessary, to ensure ongoing compliance, the Company cannot be certain that it will be successful in complying with Section 404 of SOX.

Claims and Legal Proceedings

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

Risks Relating to Securities Offerings

Enforcing Civil Liabilities in the United States

The Company is organized under the laws of the Province of British Columbia, and its principal executive office is located in British Columbia. Many of the Company s directors, officers and the experts named in this Prospectus are residents of Canada and a substantial portion of their assets and a majority of the Company s assets are located outside the United States. As a result, it may be difficult for United States investors to effect service of process within the United States upon the directors, officers and the experts who are not residents of the United States or to enforce against them judgments of United States courts based upon civil liability under the federal securities laws of the United States. There is doubt as to the enforceability in Canada against the Company or against any of its directors, officers or experts who are not residents of the United States, of original actions or actions for enforcement of judgments of United States courts of liabilities based solely upon the federal securities laws of the United States.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of the Company is Deloitte & Touche LLP, Four Bentall Centre, 2800 - 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1P4.

The transfer agent and registrar for the Common Shares of the Company is Computershare Investor Services Inc. at its principal offices in Vancouver and Toronto.

EXPERTS

Scientific and technical information relating to Pan American s mineral properties in this Prospectus and the documents incorporated by reference herein is based on information and reports prepared by or under the supervision of Michael Steinmann, Pan American s Executive Vice President, Geology and Exploration, Martin Wafforn, Pan American s Vice President, Technical Services, and Pamela De Mark, Pan American s Director of Resources, and has been included in reliance on such persons expertise. Each of Michael Steinmann, Martin Wafforn and Pamela De Mark is a qualified person as such term is defined in NI 43-101, and have approved the disclosure of the information included and incorporated by reference in this Prospectus.

None of Michael Steinmann, Martin Wafforn and Pamela De Mark, each being persons who have prepared or supervised the preparation of reports relating to Pan American s mineral properties, or any director, officer, employee or partner thereof, as applicable, received or has received a direct or indirect interest in the property of the

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Company or of any associate or affiliate of the Company. As at the date hereof, the aforementioned persons and persons at the companies specified above who participated in the preparation of such reports, as a group, beneficially own, directly or indirectly, less than 1% of the Company s outstanding common shares.

The scientific and technical information relating to Minefinders contained in this Prospectus, together with the documents incorporated by reference herein, is based on information and reports prepared by or under the supervision of the following individuals and companies: Mark H. Bailey, M.Sc., P.Geo., a director and President and Chief Executive Officer of Minefinders, Robert L. Sandefur, P.E. of Chlumsky, Armbrust and Meyer, LLC, Ralph R. Sacrison, P.E. and David Linebarger of Sacrison Engineering, Anthony E.W. Crews, Joel Primitivo Sanchez Campos, Juan Rafael Sanchez Campos, Kenneth L. Myers and Lawrence J. O Connor. Each of the foregoing individuals is a qualified person in accordance with NI 43-101.

To the best of the Company s knowledge, the foregoing persons and companies held no interest, directly or indirectly, in the securities or properties of the Company, or its associates and affiliates, as at the date of the report prepared by such person or company.

The independent auditor of the Company is Deloitte & Touche LLP, Chartered Accountants, of Vancouver, British Columbia. Deloitte & Touche LLP, Chartered Accountants, report that it is independent of the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and in accordance with the applicable rules and regulations of the SEC. Deloitte & Touche LLP is registered with the Public Company Accounting Oversight Board.

The auditor of Minefinders is KPMG LLP, Chartered Accountants, of Vancouver, British Columbia. KPMG LLP, Chartered Accountants, report that it is independent of Minefinders in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and in accordance with the applicable rules and regulations of the SEC. KPMG LLP is registered with the Public Company Accounting Oversight Board.

As of the date hereof, the partners and associates of each of CIBC World Markets Inc. and Scotia Capital Inc. beneficially own, directly or indirectly, less than 1% of the securities of Pan American and Minefinders and their associates and affiliates.

LEGAL MATTERS

Certain legal matters related to the Shares offered by this Prospectus will be passed upon on the Company s behalf by Borden Ladner Gervais LLP, with respect to matters of Canadian law, and Skadden, Arps, Slate, Meagher & Flom LLP, with respect to matters of United States law.

DOCUMENTS FILED AS PART OF THE U.S. REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the Registration Statement of which this Prospectus forms a part: (1) the documents referred to under the heading Documents Incorporated by Reference , (2) the consent of Deloitte & Touche LLP, independent auditor to the Company; (3) the consent of KPMG LLP, auditors to Minefinders; (4) powers of attorney from certain directors and officers of the Company (included on the signature pages of the registration statement), and (5) the consents of certain qualified persons under NI 43-101 and other experts, being Michael Steinmann, Martin Wafforn, Pamela De Mark, Mark H. Bailey, Chlumsky, Armbrust and Meyer, LLC, Sacrison Engineering, Anthony E. W. Crews, Joel Primitivo Sanchez Campos, Juan Rafael Sanchez Campos, Kenneth L. Meyers, Lawrence J. O Connor, CIBC World Markets Inc. and Scotia Capital Inc.

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APPENDIX A

UNAUDITED PRO FORMA FINANCIAL STATEMENTS

(see attached)

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PAN AMERICAN SILVER CORP.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2011

(unaudited)

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Pan American Silver Corp.

Pro forma condensed consolidated statement of financial position

As at December 31, 2011

(Unaudited)

(Expressed in thousands of United States dollars)

	Pan American Silver Corp.	Minefinders Corporation Ltd.	Pro forma adjustments	Note 4	Pan American pro forma consolidated
Assets					