

HARMONY GOLD MINING CO LTD

Form 6-K

May 08, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13a-16 OR 15d-16 UNDER THE SECURITIES
EXCHANGE ACT OF 1934**

May 8, 2009

Harmony Gold Mining Company Limited

Randfontein Office Park
CNR Ward Avenue and Main Reef Road
Randfontein, 1760
South Africa

(Address of principal executive offices)

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

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this
form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under
the Securities Exchange Act of 1934.)

Yes No

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SIGNATURES

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 8, 2009

Harmony Gold Mining Company Limited

By: /s/ Graham Briggs

Name: Graham Briggs

Title: Chief Executive Officer

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Incorporated in the Republic of South Africa

Registration Number 1950/038232/06

(Harmony or Company)

JSE Share code: HAR

NYSE Share code: HMY

ISIN Code: ZAE 000015228

Financial review for the third quarter and nine months ended 31 March 2009

Quarter at a glance

* Continue to be safety conscious

* Achieved zero net debt

* Headline earnings up by 5%

* Strong cash flow, with cash operating profit at R1.2 billion

* Five years of accumulated losses reversed

* Capital expenditure reduced, as predicted

* Elandsrand: both production and cash operating cost (R/kg) results have improved

* Target: improved production and cash operating cost (R/kg) results

* 3% decline in total gold production

* 2% increase in cash operating costs (R/kg)

Financial summary for the third quarter ended 31 March 2009

		Quarter March 2009	Quarter December 2008	Q-on-Q variance	Quarter March 2008
Gold produced	- kg	10 880	11 267	(3,4%)	10 133
	- oz	349 801	362 242	(3,4%)	325 783
Cash costs	- R/kg	171 361	168 299	(1,8%)	147 097
	- \$/oz	537	527	(1,9%)	624
Gold sold	- kg	10 247	12 415	(17,5%)	10 347
	- oz	329 447	399 150	(17,5%)	332 663
Cash operating profit	- Rm	1 176	1 113	5,7%	817
	-	118	112	5,4%	110
	US\$m				
	-	231	324	(28,7%)	86
Basic profit	SAc/s				
	-	23	33	(30,3%)	12
	USc/s				
	-	123	121	1,7%	63
Headline profit	SAc/s				
	-	12	12		8

-
USc/s

Harmony's Annual Report, Notice of Meeting, Sustainable Development Report and its Annual Report filed on a Form 20F with the United States Securities and Exchange Commission for the year ended 30 June 2008 are available on our website at www.harmony.co.za.

Chief Executive Officer's Review

Harmony is financially healthy. We have delivered on our promise to reduce our debt, preserve cash and position the company to become net debt-free. Our shareholders have invested in an uncomplicated, safety-conscious company with a strong cash flow, growing pipeline, a steady margin, completely unhedged and geared for gold bulls.

Graham Briggs, Chief Executive Officer

Overview

A number of initiatives have been implemented to address safety, throughput,

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grade, production, costs and Harmony's financial position.

We have made excellent progress with safety, achieving improved safety rates and receiving safety awards. We continue to drive our behaviour-based safety programme, which is aimed at changing the attitudes and mindsets of all within the company on and off the mines.

We have taken cognisance of the Presidential Mine Safety Audit report that was released in February 2009 and will continue to address safety in a pro-active manner. Only safe production within Harmony is rewarded.

Strategic planning for the financial year 2009/2010 began during the past quarter. Harmony's executive management met in February 2009 to address how to further improve safety, how production targets would be achieved and maintained, and how sustainable profits would be generated. Planning parameters have been agreed and shaft strategic plans will be signed off in July 2009. Our planning has been done at a gold price of R225 000/kg, leaving Harmony with a reasonably strong margin.

Safety

We are deeply saddened by the deaths of three of our colleagues. We extend our heartfelt condolences to their families, friends and team members.

Those who died were: Mziwabantu Bondlani, a driller at Elandsrand; Zolane Maboza, a miner at Tshepong, and Patrick Mabitsoa, a loco driver at Masimong.

Year on year, the Fatality Injury Frequency Rate (FIFR) deteriorated by 30% quarter on quarter (from 0.10 to 0.13) as a result of the three fatalities. Despite the deterioration, all our other rates have improved and we have seen significant safety achievements from most of our operations. Quarter on quarter the Lost Time Injury Frequency Rate (LTIFR) and the Reportable Injury Frequency Rate improved.

The aforementioned deterioration in our FIFR is, of course, a cause of considerable concern to us. Detailed investigation of recent fatalities indicates that falls of ground (FOG) - both gravity and seismicity induced - and trucks and tramming are the primary causes.

This finding has prompted a number of interventions. A safety workshop on 2 April 2009 focused on FOG prevention and on safer trucks and tramming operations, amongst other safety- and health- related matters.

In respect of FOG prevention, it has been decided to: adopt the Mine Occupational Safety and Health entry examination process in terms of which entire crews sign safe work declarations; introduce FOG committees at all operations; investigate the use of netting and/or mesh in development ends; enforce effective use of rock bolting; and investigate mechanisation prospects - specifically remote drilling - to remove workers from potential hazard situations.

To effect safer trucks and tramming operations, we are: investigating the implementation an anti-collision warning system; completing and implementing the Department of Minerals and Energy's Rail-bound Equipment Code of Practice.

Production and costs

In the past quarter, most of the shafts experienced a slow start-up after the Christmas break. While underground volumes decreased, grade remained static, resulting in a marginal decrease in gold production.

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Quality training, development programmes, a motivating climate, disciplined mining, team-building initiatives to improve team work, pro-active human resources policies and practices, and improved logistics have all been implemented to address productivity. We believe that improved productivity will result in increased production and lower costs. Some mines have already shown improvement, but it will take some time before all our mines are performing at the desired levels.

Harmony's operating costs for the quarter declined due mainly to lower production and, to a limited extent, the drop in prices of consumables. The R/kg costs were slightly higher due to lower production.

Gold market

The past quarter saw the gold price at record highs, at levels above R300 000/kg and US\$900/oz. Gold has become a currency rather than a commodity - a good reason for us to remain bullish about the gold price. We believe that the uncertainty in world-wide markets will support a stronger gold price. Gold remains a safe investment, as can be seen with ETF funds continuing to increase their gold stockpile and from China's recent announcement that it has increased its gold reserves by 75%.

We have been a gold producer for the past 60 years and we believe that we have the correct mix of assets to benefit from stronger gold prices. Harmony is well-leveraged against the gold price with no hedging and an uncomplicated structure, and we are working towards increasing gold production to benefit from the higher gold prices.

Debt position

Harmony sold 60% of certain uranium and gold assets of Randfontein Estates Limited (a wholly-owned subsidiary of Harmony) to Pamodzi Resources Fund 1 LLP (PRF). The uranium and gold assets were sold into a company, Rand Uranium (Proprietary) Limited (Rand Uranium), for a purchase consideration of US\$348 million. Harmony retains 40% of Rand Uranium's shareholding and in exchange for 60% of the issued share capital of Rand Uranium, Harmony would receive US\$209 million. PRF paid the first tranche of US\$40 million in November 2008. The second tranche of US\$169 million, plus interest thereon at 5% per annum, was payable in April 2009. Shareholders' attention is drawn to various announcements made relating to the transaction on 19 December 2007, 24 October 2008 and 21 November 2008.

On 20 April 2009 PRF paid approximately US\$172 million to Harmony as final payment in terms of the Rand Uranium transaction. We are excited about the future of Rand Uranium and look forward to sharing in Rand Uranium's success, together with PRF and its investors, First Reserve Corporation and AMCI Capital.

We have completed our planned capital raising, exploiting favourable market conditions by issuing a second tranche of shares for cash in the open market, pursuant to our mandate given by shareholders at the Annual General Meeting. In the capital raising, 7 540 646 shares were placed between 10 February 2009 and 6 March 2009 at an average subscription price of R124.45, raising R938 million before costs. The average issue price compares favourably with the weighted average share price on the JSE over the same period of R122.75 per share. The number of shares issued is equivalent to 1,9% of Harmony's issued share capital as at 30 September 2008. Combined with the share issue announced in December 2008, the cumulative shares issued amounts to R1.9 billion or 4,5% of the issued share capital. To date, the total number of shares in issue is 425 763 329. The cost of the second placement was approximately R15 million or

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1,6% of the value of the shares issued.

JP Morgan Equities Limited acted as transaction advisor.

The combined effect of the above is that Harmony is net debt free.

The proceeds from the capital raising and the Rand Uranium transaction, totalling R2.7 billion, will be used to repay Harmony's convertible bond due in May 2009 and its short-term debt, leaving a positive cash balance of approximately R1.6 billion.

Class action

During January 2009, the Plaintiff filed with the Court an Amended Complaint. The company has filed a Motion to Dismiss that Amended Complaint, and the Plaintiff has filed an opposition to that Motion. The company will be filing a Reply Memorandum in further support of its Motion. It is not possible to predict with certainty when the Court will rule on the Motion, but we would estimate that such a decision will be made within the next six months.

Mergers and acquisitions

We continue conducting due diligences but have not identified available assets which could potentially increase the quality of our own asset base.

Royalty payment delayed

In February 2009 the National Treasury announced that the implementation of a mining royalty would be delayed by 10 months, taking into account the potential impact of the economic slowdown on the mining industry.

Looking forward

Harmony is in excellent financial health with a strong balance sheet, reflecting the benefits of the various remedial measures taken in the past 18 months.

Our strategic plans support our target of achieving 2.2 million ounces in 2012. Phakisa, Doornkop and Elandsrand will be in full production in 2012 and higher grades from the Tshepong Decline, the Bambanani shaft pillar and the Evander 8 Decline are expected. We continue to focus on creating a better understanding of Harmony's orebodies through exploration drilling and development, our interpretation of the geology, building credible geological models and formulating clear development strategies.

Construction of the Hidden Valley gold mine in Papua New Guinea has progressed well and the mine will be commissioned mid-2009. Final commissioning of the overland conveyor in September 2009 will mean that both Hidden Valley ore and ore from the Hamata pit will be processed through the metallurgical plant, adding to production volumes.

The Evander South project and the St Helena tailings project in the Free State provide us with exciting organic growth opportunities to take us to greater levels of production post-2012.

We have positioned the company in such a way that we are able to deliver on our promise of paying a dividend in future. Our focus now remains on achieving our overall targets and delivering consistent results.

Chief Executive Officer

Graham Briggs

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CONDENSED CONSOLIDATED INCOME STATEMENT (Rand)(Unaudited)

		March 2009 R million	Quarter ended December 2008 R million	March 2008 R million
Continuing operations				
Revenue		3 005	3 146	2 334
Cost of sales	2	(2 206)	(2 383)	(1 820)
Production cost		(1 830)	(2 033)	(1 517)
Amortisation and depreciation		(303)	(310)	(189)
Employment termination and restructuring costs		(11)	(16)	(86)
Other items		(62)	(24)	(28)
Gross profit		799	763	514
Corporate, administration and other expenditure		(80)	(92)	(55)
Exploration expenditure		(71)	(75)	(55)
Other income/(expenses) - net	3	326	78	(16)
Operating profit		974	674	388
Profit/(loss) from associates		14	(52)	(10)
Profit on sale of investment in associate				
Impairment of investment in associate				
Profit on sale of investment in subsidiary		6		
Mark-to-market of listed investments				
Loss on sale of listed investments				
Investment income		152	107	54
Finance cost		(40)	(61)	(123)
Profit/(loss) before taxation		1 106	668	309
Taxation		(125)	(220)	(156)
Net profit/(loss) from continuing operations		981	448	153
Discontinued operations	4			
(Loss)/profit from discontinued operations		(9)	868	192
Net profit/(loss)		972	1 316	345
Earnings/(loss) per ordinary share (cents)	5			
- Earnings/(loss) from continuing operations		233	110	38
- (Loss)/earnings from discontinued operations		(2)	214	48
Total earnings/(loss) per ordinary share (cents)		231	324	86
Diluted earnings/(loss) per ordinary share (cents)	5			
- Earnings/(loss) from continuing operations		232	110	38

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		Quarter ended	
	Notes	March 2009 R million	December 2008 R million
			March 2008 R million
- (Loss)/earnings from discontinued operations		(2)	48
Total diluted earnings/(loss) per ordinary share (cents)		230	86
			Nine months ended
			March 2009 R million
			March 2008 R million
Continuing operations			
Revenue			8 833 6 590
Cost of sales			(6 814) (5 893)
Production cost			(5 737) (5 048)
Amortisation and depreciation			(921) (618)
Employment termination and restructuring costs			(39) (162)
Other items			(117) (65)
Gross profit			2 019 697
Corporate, administration and other expenditure			(263) (196)
Exploration expenditure			(191) (141)
Other income/(expenses) - net			910 (127)
Operating profit			2 475 233
Profit/(loss) from associates			(37) (10)
Profit on sale of investment in associate			1
Impairment of investment in associate			(112)
Profit on sale of investment in subsidiary			6
Mark-to-market of listed investments			33
Loss on sale of listed investments			(459)
Investment income			337 194
Finance cost			(186) (383)
Profit/(loss) before taxation			2 484 (392)
Taxation			(580) (207)
Net profit/(loss) from continuing operations			1 904 (599)
Discontinued operations			
(Loss)/profit from discontinued operations			785 424
Net profit/(loss)			2 689 (175)
Earnings/(loss) per ordinary share (cents)			
- Earnings/(loss) from continuing operations			464 (150)
- (Loss)/earnings from discontinued operations			191 106
Total earnings/(loss) per ordinary share (cents)			655 (44)
Diluted earnings/(loss) per ordinary share (cents)			
- Earnings/(loss) from continuing operations			462 (150)

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- (Loss)/earnings from discontinued operations	190	106
Total diluted earnings/(loss) per ordinary share (cents)	652	(44)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (Rand)(Unaudited)

	March 2009 R million	Quarter ended December 2008 R million	March 2008 R million
Net profit/(loss) for the period	972	1 316	345
Attributable to:			
Owners of the parent	972	1 316	345
Non-controlling interest			
Other comprehensive (loss)/income for the period, net of income tax	(220)	(115)	643

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	March 2009 R million	Quarter ended December 2008 R million	March 2008 R million
Foreign exchange translation (loss)/profit	(203)	(208)	696
Mark-to-market of available-for-sale investments	(17)	93	(53)
Total comprehensive income for the period	752	1 201	988
Attributable to:			
Owners of the parent	752	1 201	988
Non-controlling interest			
		Nine months ended	
		March 2009 R million	March 2008 R million
Net profit/(loss) for the period		2 689	(175)
Attributable to:			
Owners of the parent		2 689	(175)
Non-controlling interest			
Other comprehensive (loss)/income for the period, net of income tax		(247)	1 057
Foreign exchange translation (loss)/profit		(292)	623
Mark-to-market of available-for-sale investments		45	434
Total comprehensive income for the period		2 442	882
Attributable to:			
Owners of the parent		2 442	882
Non-controlling interest			

CONDENSED CONSOLIDATED BALANCE SHEET (Rand)

	Notes	At March 2009 (Unaudited) R million	At December 2008 R million	At June 2008 (Audited) R million
ASSETS				
Non-current assets				
Property, plant and equipment		28 103	27 786	27 556
Intangible assets		2 223	2 223	2 209
Restricted cash		167	169	78
Restricted investments		1 608	1 567	1 465
Investments in financial assets		17	28	67
Investments in associates	6	242	228	145
Trade and other receivables		73	56	137
		32 433	32 057	31 657
Current assets				
Inventories		914	898	693

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Trade and other receivables		2 871	2 732	875
Income and mining taxes		58	108	82
Cash and cash equivalents		2 839	1 645	413
		6 682	5 383	2 063
Non-current assets classified as held for sale	4	425	407	1 537
		7 107	5 790	3 600
Total assets		39 540	37 847	35 257

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	Notes	At March 2009 (Unaudited) R million	At December 2008 R million	At June 2008 (Audited) R million
EQUITY AND LIABILITIES				
Share capital and reserves				
Share capital	7	28 081	27 126	25 895
Other reserves		503	671	676
Retained earnings/(accumulated loss)		857	(114)	(1 832)
		29 441	27 683	24 739
Non-current liabilities				
Borrowings	8	159	188	242
Deferred income tax		3 796	3 699	2 990
Provisions for other liabilities and charges		1 366	1 342	1 273
		5 321	5 229	4 505
Current liabilities				
Trade and other payables		1 489	1 613	1 372
Provisions and accrued liabilities		268	273	287
Borrowings	8	2 681	2 671	3 857
		4 438	4 557	5 516
Liabilities directly associated with non-current assets classified as held for sale	4	340	378	497
		4 778	4 935	6 013
Total equity and liabilities		39 540	37 847	35 257
		425 763	417 637	403 253
Number of ordinary shares in issue		329	697	756
Net asset value per share (cents)		6 915	6 628	6 135

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Rand)(Unaudited)

Note	Issued share capital R million	Other reserves R million	Retained earnings/ (accumulated loss) R million	Total R million
7				
Balance - 30 June 2008	25 895	676	(1 832)	24 739
Issue of share capital	2 186			2 186
Deferred share-based payments		74		74
Comprehensive (loss)/income for the period		(247)	2 689	2 442
Balance as at 31 March 2009	28 081	503	857	29 441
Balance - 30 June 2007	25 636	(349)	(1 581)	23 706

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	Issued share capital R million	Other reserves R million	Retained earnings/ (accumulated loss) R million	Total R million
Issue of share capital	230			230
Deferred share-based payments		23		23
Comprehensive income/(loss) for the period		1 057	(175)	882
Balance as at 31 March 2008	25 866	731	(1 756)	24 841

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Rand)(Unaudited)

		Three months ended		
		March 2009 R million	December 2008 (Restated) R million	March 2008 R million
	Notes			
Cash flow from operating activities				
Cash generated by operations	13	985	623	794
Interest and dividends received		156	112	64
Interest paid		(41)	(62)	(123)
Income and mining taxes paid		(133)	(142)	(41)
Cash generated by operating activities		967	531	694
Cash flow from investing activities				
Decrease/(increase) in restricted cash		1	13	20
Net proceeds on disposal of listed investments				
Net additions to property, plant and equipment	13	(645)	(308)	(884)
Other investing activities		(163)	64	6
Cash utilised by investing activities		(807)	(231)	(858)
Cash flow from financing activities				
Long-term loans raised				
Long-term loans repaid		(20)	(698)	(6)
Ordinary shares issued - net of expenses		955	980	40
Cash generated by financing activities		935	282	34
Foreign currency translation adjustments		99	(122)	43
Net increase/(decrease) in cash and cash equivalents		1 194	460	(87)
Cash and cash equivalents - beginning of period		1 646	1 186	435
Cash and cash equivalents - end of period		2 840	1 646	348
Cash and cash equivalents comprises:				
Continuing operations		2 839	1 645	346
Discontinued operations		1	1	2
Total cash and cash equivalents		2 840	1 646	348

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	Nine months ended	
	March 2009	March 2008
	R million	R million
Cash flow from operating activities		
Cash generated by operations	1 871	472
Interest and dividends received	350	209
Interest paid	(215)	(300)
Income and mining taxes paid	(276)	(62)
Cash generated by operating activities	1 730	319
Cash flow from investing activities		
Decrease/(increase) in restricted cash	(89)	223
Net proceeds on disposal of listed investments		1 310
Net additions to property, plant and equipment	7	(2 451)
Other investing activities	(89)	20
Cash utilised by investing activities	(171)	(898)
Cash flow from financing activities		
Long-term loans raised		2 098
	(1	
Long-term loans repaid	306)	(1 808)
Ordinary shares issued - net of expenses	1 943	64
Cash generated by financing activities	637	354
Foreign currency translation adjustments	229	79
Net increase/(decrease) in cash and cash equivalents	2 425	(146)
Cash and cash equivalents - beginning of period	415	494
Cash and cash equivalents - end of period	2 840	348
Cash and cash equivalents comprises:		
Continuing operations	2 839	346
Discontinued operations	1	2
Total cash and cash equivalents	2 840	348

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2009

1. Accounting policies

(a) Basis of accounting

The condensed consolidated interim financial statements for the period ended 31 March 2009 have been prepared using accounting policies that comply with International Financial Reporting Standards (IFRS), which are consistent with the accounting policies used in the audited annual financial statements for the year ended 30 June 2008. These condensed consolidated interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting, and should be read in conjunction with the financial statements for the year ended 30 June 2008.

2. Cost of sales

	Quarter ended		
	March 2009	December 2008	March 2008
	(Unaudited)	(Unaudited)	(Unaudited)
	R million	R million	R million

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Production costs	1 830	2 033	1 517
Amortisation and depreciation	303	310	189
(Reversal of provision)/provision for rehabilitation costs	(1)	4	

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	Quarter ended		
	March 2009 (Unaudited) R million	December 2008 (Unaudited) R million	March 2008 (Unaudited) R million
Care and maintenance cost of restructured shafts	11	10	24
Employment termination and restructuring costs	11	16	86
Share-based compensation	52	9	4
Provision for post-retirement benefits		1	
Total cost of sales	2 206	2 383	1 820

	Nine months ended	
	March 2009 (Unaudited) R million	March 2008 (Unaudited) R million
Production costs	5 737	5 048
Amortisation and depreciation	921	618
(Reversal of provision)/provision for rehabilitation costs	9	
Care and maintenance cost of restructured shafts	33	42
Employment termination and restructuring costs	39	162
Share-based compensation	74	23
Provision for post-retirement benefits	1	
Total cost of sales	6 814	5 893

3. Other income/(expenses) - net

Included in other income in the March 2009 quarter is R437 million profit on sale of 10% of Harmony's Papua New Guinea gold and copper assets to Newcrest Mining Limited in terms of the farm-in agreement. The total included for the year to date relating to the Newcrest transaction is R852 million.

4. Non-current assets held for sale and discontinued operations

The assets and liabilities related to Mount Magnet (operations in Australia) have been presented as held for sale following approval of the intention to dispose of the assets by the Group's management on 20 April 2007. Management is still intent on the disposal of Mount Magnet despite the asset being classified as held for sale for more than 12 months.

The assets and liabilities relating to the Cooke 1, Cooke 2, Cooke 3 and Cooke plant and relating surface operations (operations in the Gauteng area) have been presented as held for sale following the approval of the intention to dispose of the assets by the Group's management on 16 October 2007. These operations were also deemed to be discontinued operations.

The conditions precedent on the sale of Randfontein's Cooke assets to Rand Uranium have been fulfilled and the transaction became effective on 21 November 2008. In exchange for 60% of the issued share capital of Rand Uranium, Harmony received US\$40 million out of the total purchase consideration of US\$209 million on the effective date of the transaction. The balance of the consideration, amounting to US\$172 million including interest, was received on 20 April 2009.

As a result of the transaction, the Group recognised a profit on sale of assets of R1 722 million before tax in the income statement in the December 2008 quarter.

5. Earnings/(loss) per ordinary share

Earnings/(loss) per ordinary share is calculated on the weighted average number of ordinary shares in issue for the quarter ended 31 March 2009: 421.0 million

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(31 December 2008: 406.8 million, 31 March 2008: 400.7 million) and the nine months ended 31 March 2009: 410.3 million (31 March 2008: 400.0 million).

The fully diluted earnings/(loss) per ordinary share is calculated on weighted average number of diluted ordinary shares in issue for the quarter ended 31 March 2009: 423.6 million (31 December 2008: 409.1 million, 31 March 2008: 403.5 million) and the nine months ended 31 March 2009: 412.4 million (31 March 2008: 402.5 million).

	March 2009 (Unaudited)	Quarter ended December 2008 (Unaudited)	March 2008 (Unaudited)
Total earnings/(loss) per ordinary share (cents):			
Basic earnings/(loss)	231	324	86
Fully diluted earnings/(loss)	229	323	86
Headline earnings	123	121	63
- Continuing operations	131	129	39
- Discontinued operations	(8)	(8)	24
	R million	R million	R million
Reconciliation of headline earnings/(loss):			
Continuing operations			
Net profit/(loss)	981	448	153
Adjusted for (net of tax):			
(Profit)/loss on sale of property, plant and equipment	(431)	78	(1)
Loss on sale of listed investment			
Impairment of investment in associates			
Provision for doubtful debt			4
Headline profit/(loss)	550	526	156
Discontinued operations			
Net (loss)/profit	(9)	868	192
Adjusted for (net of tax):			
Profit on sale of property, plant and equipment	(28)	(901)	(100)
Impairment of property, plant and equipment	3	(1)	4
Headline (loss)/profit	(34)	(34)	96
Total headline profit	516	492	252
		Nine months ended	
		March 2009 (Unaudited)	March 2008 (Unaudited)
Total earnings/(loss) per ordinary share (cents):			
Basic earnings/(loss)		655	(44)
Fully diluted earnings/(loss)		652	(44)
Headline earnings		275	34
- Continuing operations		271	(45)
- Discontinued operations		4	79
		R million	R million

Reconciliation of headline earnings/(loss):

Continuing operations

Net profit/(loss)

1 904

(599)

Adjusted for (net of tax):

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	R million	R million
(Profit)/loss on sale of property, plant and equipment	(904)	(28)
Loss on sale of listed investment		392
Impairment of investment in associates	112	
Provision for doubtful debt		57
Headline profit/(loss)	1 112	(178)
Discontinued operations		
Net (loss)/profit	785	424
Adjusted for (net of tax):		
Profit on sale of property, plant and equipment	(921)	(49)
Impairment of property, plant and equipment	154	(55)
Headline (loss)/profit	18	320
Total headline profit	1 130	142

6. Investment in associates

Harmony Gold Mining Company owns 32,4% of Pamodzi Gold Limited. During the December 2008 quarter the Group recognised a loss of R34 million, its share of the associate loss, resulting in a carrying value of R0.

On 21 November 2008, Harmony Group sold 60% of the issued share capital of Rand Uranium to PRF. Refer to note 4 for details. This resulted in the Group owning 40% of Rand Uranium. The book value of the investment at 31 March 2009 was R242 million (December 2008: R228 million).

7. Share capital

Wafi-Golpu royalty

On 1 December 2008, Harmony issued 3 364 675 shares to Rio Tinto Limited. The Harmony shares were issued to cancel the Rio Tinto royalty rights over Wafi-Golpu in Papua New Guinea. The value of issued shares was R242 million (US\$24 million) at R71.98 per share.

Capital raising

Harmony engaged in capital raising by issuing two tranches of shares following the resolution passed by shareholders at the Annual General Meeting held on 24 November 2008. The first tranche was issued into the open market between 25 November 2008 and 19 December 2008. In this tranche, 10 504 795 Harmony shares were issued at an average subscription price of R93.20, resulting in R979 million before costs being raised. The cost of the issue was R15 million or 1,5% of the value of shares issued.

A second tranche of shares was issued for cash into the open market between 10 February 2009 and 6 March 2009. This tranche consisted of 7 540 646 Harmony shares issued at an average subscription price of R124.45, resulting in R938 million before costs being raised. The cost of the issue was R15 million or 1,6% of the value of shares issued. The combined share issue amounts to R1.9 billion or 4,5% of the issued share capital as at 30 September 2008.

8. Borrowings

	March 2009 (Unaudited)	December 2008	June 2008 (Audited)
	R million	R million	R million
Total long-term borrowings	159	188	242
Total current portion of borrowings	2 681	2 671	3 857
Total borrowings*	2 840	2 859	4 099

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* Included in the borrowings is R168 million (December 2008: R198 million) owed to Wespac Bank Limited in terms of a finance lease agreement. The future minimum lease payments to the loan are as follows:

	March 2009 (Unaudited)	December 2008	June 2008 (Audited)
	R million	R million	R million
Due within one year	45	63	57
Due between one and five years	133	156	228
	178	219	285
Future finance charges	(10)	(21)	(27)
Total future minimum lease payments	168	198	258

9. Commitments and contingencies

	March 2009 (Unaudited)	December 2008	June 2008 (Audited)
	R million	R million	R million
Capital expenditure commitments			
Contracts for capital expenditure	790	692	1 164
Authorised by the directors but not contracted for	1 478	1 689	1 720
	2 268	2 381	2 884

This expenditure will be financed from existing resources.

Contingent liability

Class action

During January 2009, the Plaintiff filed with the Court an Amended Complaint. The company has filed a Motion to Dismiss that Amended Complaint and the Plaintiff has filed an opposition to that Motion. The company will be filing a Reply Memorandum in further support of its Motion. It is not possible to predict with certainty when the Court will rule on the Motion, but we would estimate that such a decision will be made within the next six months.

10. Subsequent events

On 17 April 2009, the Group entered into an agreement with Avoca Resources Limited (Avoca), in which Avoca purchased the Group's Dioro Exploration NL shares, totalling 11 428 572 shares, in exchange for 3 809 524 Avoca shares. The total consideration received by the Group was A\$5.7 million.

On 20 April 2009, Harmony received approximately US\$172 million from PRF as a final payment in terms of the Rand Uranium transaction (for details refer to note 4).

On 21 April 2009, the Nedbank loan of R750 million was settled.

11. Segment report

The segment report follows after note 13.

12. Reconciliation of segment information to consolidated income statements and balance sheets

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	Nine months ended	
	March	March
	2009	2008
	(Unaudited)	(Unaudited)
	R	R
	million	million
The reconciliation of segment data to consolidated financials line item in the segment reports are broken down in the following elements, to give a better understanding of the differences between the income statement, balance sheet and segment report:		
Revenue from:		
Discontinued operations	614	1 913
Production costs from:		
Discontinued operations	447	1 472
Reconciliation of cash operating profit to gross profit:		
Total segment revenue	9 447	8 503
	(6	
Total segment production costs	184)	(6 520)
Cash operating profit as per segment report	3 263	1 983
Less: Discontinued operations	(167)	(441)
Cash operating profit as per segment report	3 096	1 542
	(1	
Cost of sales items other than production costs	077)	(845)
Amortisation and depreciation	(921)	(618)
Employment termination and restructuring costs	(39)	(162)
Share-based compensation	(74)	(23)
Rehabilitation costs	(9)	
Care and maintenance costs of restructured shafts	(33)	(42)
Provision for former employees post-retirement benefits	(1)	
Gross profit as per income statements *	2 019	697
Reconciliation of total segment mining assets to consolidated property, plant and equipment:		
Property, plant and equipment not allocated to a segment:		
Mining assets	496	416
Undeveloped property	4 809	4 809
Other non-mining assets	53	78
Less: Discontinued operations	(268)	(1 125)
	5 090	4 179

* The reconciliation was done up to the first identifiable line item on the income statement. The reconciliation to profit before taxation and

discontinued
operations
would comprise
of the income
statement line
items after that.

13. Adjustments to previously issued cash flow statements

Included as capital expenditure in the cash flow statements for the quarter ended 31 December 2008, was an amount of R532 million contributed by Newcrest in terms of the Papua New Guinea (PNG) farm-in agreement. The group only accounts for its interest in capital expenditures by Newcrest, together with the additional interest in the PNG joint venture to be transferred to Newcrest in exchange for such capital expenditures, upon completion of the relevant milestones in terms of the PNG farm-in agreement. Therefore, as the relevant milestone of US\$150 million was not yet met on 31 December 2008, the capital expenditure incurred by Newcrest was correctly excluded from the balance sheets and income statements, but not from the cash flow statements. The adjustments, which decrease cash generated from operations and additions to property, plant and equipment, offset each other and therefore have no impact on the net increase in the cash balance, net profit or shareholders' equity for any of the periods presented.

The adjustments are as follows:

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	Previously shown	Adjustments	Restated R million
	R million	R million	
Cash generated by operations	1 155	(532)	623
Additions to property, plant and equipment	(840)	532	(308)
Effect on Net increase in cash and cash equivalents			
SEGMENT REPORT FOR THE NINE MONTHS ENDED 31 MARCH 2009 (Unaudited)(Rand/Metric)			

	Revenue R million	Production cost R million	Operating profit R million	Mining assets R million
Continuing operations				
South Africa				
Underground				
Tshepong	1 407	743	664	3 637
Phakisa	117	72	45	3 541
Bambanani	728	499	229	671
Doornkop	248	214	34	2 396
Elandsrand	1 090	827	263	2 642
Target	500	385	115	2 730
Masimong	907	488	419	674
Evander	1 166	736	430	1 185
Virginia	1 568	1 095	473	932
Other(1)	394	278	116	240
Surface Other(2)	708	400	308	148
Total South Africa	8 833	5 737	3 096	18 796
International				
Papua New Guinea(3)				3 949
Total international				3 949
Total continuing operations	8 833	5 737	3 096	22 745
Discontinued operations				
Cooke operations	614	447	167	
Other operations				268
Total discontinued operations	614	447	167	268
Total operations	9 447	6 184	3 263	23 013
Reconciliation of the segment information to the consolidated income statement and balance sheet (refer to note 12)	(614)	(447)		5 090
	8 833	5 737		28 103

	Capital expenditure R million	Kilograms sold	Tonnes milled t 000
Continuing operations			
South Africa			
Underground			

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Tshepong	181	5 561	1 027
Phakisa	357	449	118
Bambanani	34	2 930	379
Doornkop	302	950	401
Elandsrand	311	4 345	729
Target	249	1 960	477
Masimong	97	3 563	668

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	Capital expenditure R million	Kilograms sold	Tonnes milled t 000
Evander	154	4 657	877
Virginia	127	6 181	1 696
Other(1)	38	1 572	382
Surface Other(2)	52	2 836	6 470
		35	13
Total South Africa	1 902	004	224
International			
Papua New Guinea(3)	1 376		
Total international	1 376		
		35	13
Total continuing operations	3 278	004	224
Discontinued operations			
Cooke operations	87	2 667	1 287
Other operations			
Total discontinued operations	87	2 667	1 287
		37	14
Total operations	3 365	671	511

Reconciliation of the segment information to the consolidated income statement and balance sheet (refer to note 12)

Notes:

(1) Includes Joel and St Helena.

(2) Includes Kalgold, Phoenix and Dumps.

(3) Included in the capital expenditure is an amount of R1 137 million contribution by Newcrest in terms of the farm-in agreement.

SEGMENT REPORT FOR THE NINE MONTHS ENDED 31 MARCH 2008 (Unaudited)(Rand/Metric)

	Revenue R million	Production cost R million	Operating profit/(loss) R million	Mining assets R million
Continuing operations				
South Africa				
Underground				3
Tshepong	1 183	697	486	563
				3
Phakisa	15	9	6	044
Bambanani	707	596	111	748
				2
Doornkop	181	174	7	005
Elandsrand	617	543	74	

									2
									296
									2
Target	354			257				97	496
Masimong	500			483				17	600
									1
Evander	1 055			717				338	330
Virginia	1 091			958				133	910
Other(1)	Paul B. Sweeney	9/9		8/8		1/1(5)		-	-
John M. Willson	9/9	2/2(4)	2/2	-		1/1			
John H. Wright	4/5(2)	-	-	-		-			
Robert P. Pirooz	4/4(3)	-	-	-		1/1			

- (1) The Health, Safety and Environment Committee consisted of all members of the Board until April 30, 2007. On April 30, 2007 the members of the Health, Safety and Environment Committee were changed to include only Mr. Burns, Mr. Willson, and Mr. Pirooz.
- (2) Mr. Wright retired from the Board on April 30, 2007, and attended 4 out of 5 meetings of the Board which took place prior to his retirement.
- (3) Mr. Pirooz was elected as a director on April 30, 2007, and attended all 4 meetings of the Board which took place after his election.
- (4) Mr. Larson replaced Mr. Willson on the Audit Committee on April 30, 2007, and attended all 6 meetings of the Audit Committee which took place after his appointment.
- (5) Mr. Sweeney was added to the Compensation Committee on April 30, 2007, and attended the only meeting of the Compensation Committee which took place after his addition.

Code of Ethical Conduct

As part of its stewardship responsibilities, in February of 2003, the Board adopted formal “Standards of Ethical Conduct” which were designed to deter wrong-doing and to promote honest and ethical conduct and full, accurate and timely disclosure. These standards were revised, amended and restated as a “Code of Ethical Conduct” (the “Code”) in November of 2005 in light of the adoption of the Corporate Governance Disclosure Rules. The Code is applicable to all of the Company’s directors, officers and employees. The full text of the Code is available free of charge to any person upon request from the General Counsel and Secretary of the Company at 1500 – 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6, Telephone: (604) 684-1175. The Board, through the Nominating and Governance Committee, monitors compliance with the Code and is responsible for the granting of any waivers from the Code to directors or executive officers. Disclosure will be made by the Company of any waiver from the requirements of the Code granted to the Company’s directors or executive officers in the Company’s quarterly report that immediately follows the grant of such waiver.

Directors’ and Officers’ Liability Insurance

The Company maintains two Directors’ and Officers’ Liability Insurance Policies covering a period of one year from August 31, 2007 (the “Policy Year”) with an aggregate limit on liability of \$25,000,000 to cover the directors and officers of the Company and its subsidiaries, individually and as a group. The insured company would bear the first \$100,000 of any loss, except in the cases of losses arising in connection with US securities related claims where the insured company would bear the first \$250,000 of any loss.

The Company paid aggregate premiums of \$345,000 for such insurance for the Policy Year.

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Executive Compensation

Summary Compensation Table

The following table sets forth a summary of the total compensation paid to, or earned by, the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly paid executive officers of the Company and any of its subsidiaries (each a "Named Executive Officer") during the three most recently completed financial years.

Summary Compensation Table(1), (2)

Name and Principal Position	Year	Annual Compensation \$			Long-Term Compensation Awards			All Other Compensation \$ (3)
		Salary	Bonus (3)	Other Annual Compensation	Number of Shares Under Option Granted(3)	Number of Bonus Shares Subject to Resale Restrictions(3)		
Geoffrey A. Burns President and Chief Executive Officer	2007	359,070	171,456	-	16,909	1,737	20,737	
	2006	295,721	134,406	-	17,634	1,643	15,655	
	2005	244,186	45,327	-	20,904	1,638	11,752	
A. Robert Doyle Chief Financial Officer	2007	226,977	79,244	-	8,016	824	9,831	
	2006	218,419	75,682	-	10,656	993	9,460	
	2005	177,767	42,664	-	12,174	954	6,844	
Andrés Dasso Executive Director of Pan American Silver Peru, S.A.	2007	280,000	79,625	-	9,267	952	12,217	
	2006	247,250	97,210	-	12,770	1,190	12,187	
	2005	201,600	42,310	-	14,248	1,098	8,467	
Steven Busby Senior Vice President, Project Development	2007	279,070	105,705	-	10,752	1,105	13,186	
	2006	255,628	94,391	-	13,606	1,267	12,078	
	2005	208,047	56,173	-	11,502	1,116	8,010	
Michael Steinmann Senior Vice President, Geology and Exploration	2007	241,860	98,831	-	9,319	957	11,428	
	2006	208,977	105,287	-	11,123	1,036	9,874	
	2005	168,372	36,832	-	7,862	616	4,861	

(1) Except for Mr. Dasso, annual salary and bonus are paid to the Named Executive Officers in Canadian dollars, and for the purposes of this table have been converted to US currency at a CAD = 1 US Dollar exchange rate of 1.075.

(2)

Number of options and bonus shares representing the period ended for 2007, 2006 and 2005 were issued on January 10, 2008, January 2, 2007 and January 3, 2006, respectively.

(3) Bonuses shown for 2007 are those earned in 2007, which were paid in cash during the year or will be paid in 2008.

Long-Term Incentive Plan

The long-term incentive plan was approved by the Board on December 9, 2005 (the "Long-Term Incentive Plan"). No options, Shares or other securities are issued under the Long-Term Incentive Plan. Under the terms of the Long-Term Incentive Plan, guidance is provided regarding the grant of stock options and Shares under the 2005 Plan to those holding senior management positions with the Company.

The Long-Term Incentive Plan was designed to create a sense of ownership by the key employees of the Company and to link the compensation of such employees with the performance of the Company. This plan

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provides a formula for calculating an incentive target award for each eligible employee of the Company. Targets are based on an employee's salary and are directly dependent on an employee's responsibilities and contribution with regard to the long-term performance of the Company.

Stock Options

The 2005 Plan, which governs the Company's issuance of stock options and bonus shares, was established by the Board on March 31, 2005 (and approved by shareholders on April 28, 2005) and is given effect in conjunction with the Company's Long-Term Incentive Plan. The 2005 Plan contemplates (i) the granting of options to purchase Shares and/or (ii) the direct issuance of bonus Shares to executive officers, directors and "Service Providers" of the Company. A "Service Provider" is defined as: (a) an employee of the Company or any of its subsidiaries; (b) any other person or company engaged to provide ongoing management or consulting services for the Company or for any entity controlled by the Company; or (c) any person who is providing ongoing management or consulting services to the Company or to any entity controlled by the Company indirectly through a company that is a Service Provider.

The purpose of granting such options and/or bonus shares is to assist the Company in attracting, retaining and motivating executive officers, directors and Service Providers and to more closely align the personal interests of such executive officers, directors and Service Providers to those of the shareholders. The 2005 Plan is intended to be competitive with the benefit programs of other companies in the mining industry.

The 2005 Plan complies with the rules set forth for such plans by the TSX and Nasdaq.

The term of any options granted under the 2005 Plan will be at the discretion of the Board, but will not be in excess of ten years in accordance with the rules and policies of any stock exchange or securities market on which Shares are listed. Any grant of options under the 2005 Plan will be within the discretion of the Board. In addition, the 2005 Plan gives authority to the Board, in its sole discretion, to allot, issue and deliver up to a total of 50,000 common bonus Shares in each calendar year. The maximum number of Shares which may be issued pursuant to options granted or bonus Shares issued under the 2005 Plan may be equal to, but will not exceed at any time, 10% of the total number of the issued and outstanding common shares in the capital of the Company as of the grant-date on a non-diluted basis. In addition, the number of Shares which may be reserved for issuance pursuant to options granted to insiders of the Company under the 2005 Plan, together with all of the Company's other previously established or proposed share compensation arrangements, in aggregate, shall not at any time exceed 10% of the total number of issued and outstanding Shares in the capital of the Company on a non-diluted basis. The number of Shares which may be issuable to any one optionee under the 2005 Plan together with all of the Company's other previously established or proposed share compensation arrangements, shall not exceed 5% of the total number of issued and outstanding common shares in the capital of the Company on a non-diluted basis. In addition, the number of Shares which may be issuable under the 2005 Plan, together with all the Company's other previously established or proposed share compensation arrangements, within a one year period: (i) to insiders of the Company in aggregate, shall not exceed 10% of the outstanding issue; and (ii) to one optionee who is an insider of the Company or any associates of such insider, shall not exceed 5% of the outstanding issue. The exercise price of options granted under the 2005 Plan will be set as the weighted average trading price of Shares on the TSX or Nasdaq, as the Board may select, for the five trading days (in which at least one board lot of the Shares were traded) prior to the date the option was granted. Under the 2005 Plan, options are non-assignable and non-transferable. The options granted under the 2005 Plan will terminate on the earlier of the expiry date of the options or 30 days after termination of employment, office or the date the individual ceases to be a Service Provider, where the reason for termination of the individual was otherwise than for cause or by reason of death or disability. In the event of termination for cause, the options granted under the 2005 Plan will terminate immediately upon the date which the individual ceases to be a director, officer or Service Provider. In the event the individual ceases to be a director, officer or Service Provider due to death or disability, the options granted under the 2005 Plan will terminate upon the earlier of the expiry date and

12 months after the date of death or disability. The 2005 Plan also contains an adjustment mechanism to alter, as appropriate, the option price or number of shares issuable under the 2005 Plan upon a share reorganization, corporate reorganization or other such event not in the ordinary course of business which alters share price or number of Shares outstanding. As at April 2, 2008 there were options outstanding under the 2005 Plan to acquire up to 646,245 Shares which represents 0.8% of the Company's non-diluted share capital. Under the 2005 Plan the Company has reserved 5,514,829 Shares for issuance upon the exercise of options. If the adoption of the 2008 Plan is approved, these Shares will be rolled into the 2008 Plan. Thus, upon approval of the 2008 Plan, the Company will only be reserving an additional 946,641 Shares for issuance upon the exercise of options or as bonus Shares under the 2008 Plan.

The Company provides no financial assistance to facilitate the purchase of Shares to directors, officers or employees who hold options granted under the 2005 Plan.

The following table sets forth information concerning options granted in respect of the Company's common shares to the Named Executive Officers during the Company's most recently completed financial year. No stock appreciation rights are outstanding and it is currently intended that none be issued.

Option Grants During the Most Recently Completed Financial Year

Name	Number of Securities Under Option	% of Total Options Granted to Employees in Financial Year	Conversion/Exercise Price (1)	Market Value of Securities Underlying Options on the Date of Grant (\$/Securities)(2)	Expiry Date
Geoffrey A. Burns President and Chief Executive Officer	17,634	11%	28.41	29.58	Jan 2, 2012
A. Robert Doyle Chief Financial Officer	10,656	6.7%	28.41	29.58	Jan 2, 2012
Andres Dasso Executive Director of Pan American Silver Peru, S.A.	12,770	8%	28.41	29.58	Jan 2, 2012
Steven Busby Senior Vice President, Project Development	13,606	8.6%	28.41	29.58	Jan 2, 2012
Michael Steinmann Senior Vice President, Geology and Exploration	11,123	7%	28.41	29.58	Jan 2, 2012

(1) The weighted average trading price of the Company's Common shares on the TSX on the 5 trading days prior to the date of grant. Dollar amounts are in Canadian dollars.

(2) The TSX closing price on January 2, 2007. Dollar amounts are in Canadian dollars.

The following table sets forth information concerning the exercise of options for common shares in the Company under the 2005 Plan during the financial year ended December 31, 2007 and the value at December 31, 2007 of unexercised in-the-money options under the 2005 Plan held by each of the Named Executive Officers.

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Option Exercises During the Most Recently Completed Financial Year

Name	Securities Acquired on Exercise	Aggregate Realized Value \$(1)	Unexercised Options at Financial Year End Exercisable/Unexercisable	Value of Unexercised in-the-Money Options at Financial Year End Exercisable (\$)/Unexercisable \$(1)(2)
Geoffrey A. Burns President and Chief Executive Officer	20,000	395,600	6,968/31,570	90,236/296,503
A. Robert Doyle Chief Financial Officer	40,000	700,700	4,058/18,772	52,551/175,219
Andres Dasso Executive Director of Pan American Silver Peru, S.A.	Nil	Nil	14,004/26,777	211,594/280,535
Steven Busby Senior Vice President, Project Development	50,000	1,223,930	4,749/23,105	61,500/212,540
Michael Steinmann Senior Vice President, Geology and Exploration	28,233	425,544	16/19,222	207/185,630

(1) Dollar amounts are in Canadian dollars.

(2) The last closing board lot sale price of Common Shares on the TSX as at December 31, 2007 was CAD \$34.99.

Termination of Employment, Change in Responsibilities and Employment Contracts

Of the Named Executive Officers, Geoffrey A. Burns, the Company's President and Chief Executive Officer; Robert Doyle, the Company's Chief Financial Officer; Michael Steinmann, the Company's Senior Vice-President of Geology and Exploration; and Steven L. Busby, the Company's Senior Vice President of Project Development are currently engaged under employment contracts. Each of these contracts is for an indefinite term and each provides for a base salary (as may be adjusted annually by such amount as the Board determines upon recommendation by the Compensation Committee), discretionary bonus, grant of stock options, vacation time, and various benefits including life, disability, medical and dental insurance. Each contract further provides for reimbursement of reasonable employment related expenses, including a one-time reimbursement for moving expenses. In addition to these terms, the employment contract of Geoffrey A. Burns provided for a signing bonus and the use of a parking stall. The employment contracts also provide for termination payments in certain circumstances. In the event of termination without just cause, all four of the employment contracts provide for a termination payment equal to one year's annual salary (and in the case of Geoffrey A. Burns, plus one month's salary for each fully completed year of continuous employment with the Company, not to exceed two times annual salary; and in the case of Michael Steinmann, a lump

sum payment equal to his annual salary plus benefits for a period of nine months). For Steven L. Busby, his contract further provides that if he provides at least one month notice of resignation, and exercises his right to resign within three months of any person acquiring 50% of the outstanding Shares or acquiring sufficient Shares to replace the majority of the Company's Board with such person's nominees, he is entitled to a termination payment equal to one years' annual salary together with benefits for a twelve-month period. For Geoffrey A. Burns, his contract provides that a resignation within 6 months of any person acquiring 50% of the outstanding Shares or acquiring sufficient Shares to replace the majority of the Company's Board with such person's nominees entitles him to a termination payment equal to two years' annual salary together with benefits for a twelve-month period. For A. Robert Doyle, his contract provides that a resignation under these

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same circumstances entitles him to a termination payment equal to one year's annual salary together with benefits for a twelve-month period and the vesting of all options granted, upon the effective date of resignation, after a change in control.

Compensation Committee

The Company has a Compensation Committee comprised of the following independent directors: John M. Willson, Paul B. Sweeney and Michael J.J. Maloney. The Chairman of the Compensation Committee is John M. Willson. Mr. Willson is retiring from the Board this year. Mr. Maloney will be replacing Mr. Willson as Chairman of the Compensation Committee. The duties and responsibilities of the Compensation Committee are set out in this Information Circular under the heading "Corporate Governance - Board Committees – Compensation Committee".

Report on Executive Compensation

The Company's compensation structure is designed to reward performance and to be competitive with the compensation arrangements of other Canadian mining companies with international operations of similar size and scope. The structure complies with the Company's statement of Compensation Philosophy which was adopted in February 2005. Each executive officer's position is evaluated to establish skill requirements and level of responsibility and this evaluation provides a basis for internal and external comparisons of positions. In addition to industry comparables, the Board and the Compensation Committee consider a variety of factors when determining both compensation policies and programs and individual compensation levels. These factors include the long-term interests of the Company and its shareholders, overall financial and operating performance of the Company and the Board's and the Compensation Committee's assessment of each executive's individual performance and contribution towards meeting corporate objectives. Executive officer compensation is composed of four major components: base salary, participation in the Company's Annual Incentive Plan (the "AIP"), participation in the Long-Term Incentive Plan and extended group benefits.

Base Salary

Base salary ranges are determined following a review of market data for similar positions in Canadian mining companies with international operations of comparable size and scope. The salary for each executive officer's position is then determined having regard for the incumbent's responsibilities, individual performance factors, overall corporate performance, potential for advancement, and the assessment of the Board and the Compensation Committee of such matters as are presented by management. For 2007, the Company increased the base salary of a number of its executive officers, including the President and CEO, Senior Vice President, Mining Operations, Senior Vice President, Project Development, Senior Vice President, Geology and Exploration and the Chief Financial Officer, in recognition of the Company's continued growth in silver reserves and resources, the strong performance of the Company's share price and in light of recent compensation trends among comparable resource companies. See "Compensation Committee Practices" below for additional information on the use of Hay Group Limited as consultants.

Annual Incentive Plan

The second component of the executive officers' compensation is an annual cash bonus earned under the guidelines of the Company's AIP. The payment of the AIP is based upon the Company's performance as compared to a set of annual objectives that have been pre-determined and approved by the Board. These objectives include targets for production, costs, earnings, safety, reserve growth and project advancement and are tied directly to the Company's annual budget, which is also approved by the Board. In addition, there are individual targets set for each executive officer based on each position's relative responsibilities, accountabilities and contribution to achieving and surpassing the Company's annual objectives. Each AIP participant will have an established target for his/her annual incentive pay which may be adjusted on an annual basis as required. The target for each participant is

determined by virtue of his or her position and the influence that position can have on the Company's annual performance, and ranges from 15% to 50% of the individual's annual base salary. Annual objectives are developed for the Company, and the individual. The relative importance of each is identified by the weight assigned to the objective. The objectives are typically of a short-term (one year or less) nature. Objectives will be of three kinds: broad company objectives, department or property objectives, and individual objectives. For 2007, the Company paid in early 2008 an aggregate cash bonus of \$1.6 million to 36 senior managers and executive officers of the Company and certain of its subsidiaries predominantly in consideration of the Company's accomplishments in project development through feasibility and construction efforts including the construction of the Alamo Dorado Mine, and successes in exploration, which replaced all ounces mined and increased total proven and probable reserves. In addition, in 2007 the Company generated positive cash flow and net income significantly above budget. Performance targets relating to production per share, budgeted production, and safety objectives, were not met. The weight assigned to each of these Company performance measure objectives was either 5%, 10% or 15%, with multiplying performance factors ranging from 0 to 2.00. For individual performance, each individual's personal objectives are evaluated at the end of the year and a performance level and corresponding factor is applied to each. Performance factors are based on an objective evaluation of the results or, if appropriate, a subjective evaluation. The performance levels are designed to force clear definitions of what results are expected and to provide consistency in evaluating results. At the completion of the performance period, if 100% of the goal is achieved, the performance factor is 1.00; if 200% or more of the goal is met, the performance factor is 2.0. If a significant portion of the objective is achieved (80-99%), the employee may receive a performance factor rating 0.50. Achieving anything below 80% of an objective receives a performance factor of 0.

AIP payments are determined on the basis of Company and individual performance. In 2007, 50% of the AIP payment was based on Company performance and 50% was based on individual performance with the exception of the Chief Executive Officer whose AIP payment was based 100% on Company performance. The ratio may be adjusted from year to year by the Compensation Committee, depending on the level of Company, departmental or individual focus desired.

For 2007, the Company's performance rating was 95.5%.

The individual performance ratings for the named executive group ranged from 67% to 138%.

Long-Term Incentive Plan

The third component of the executive officers' compensation is the granting of stock options and issuance of bonus Shares. The Compensation Committee or the Board, subject to approval by regulatory authorities, may from time to time grant stock options and bonus Shares to senior managers and executive officers. This is intended to help attract and retain employees by providing them with an opportunity to participate in the future success of the Company and to align the interest of the employee with those of the Company and its shareholders.

The Company's Long-Term Incentive Plan provides guidance regarding the grant of options and bonus Shares to those holding senior and corporate management positions. The Long-Term Incentive Plan provides a formula for calculating the annual Long-Term Incentive Plan target for each eligible employee, based on a percentage of base salary. 75% of the Long-Term Incentive Plan payout will be made available as options and the remaining 25% will be made available as Shares. The Long-Term Incentive Plan is based on individual performance measures and targets, and is reviewed annually. Participation is limited to key management positions having responsibility for influencing the policy and strategy of the Company. In the past, options were generally granted to newly hired executive officers at the time of their initial employment. The Company had placed strong reliance on stock options in terms of the total compensation of its executive officers in keeping with overall compensation trends in the Canadian mining industry and to conserve the Company's cash. However, since the implementation of the Long-Term Incentive Plan in 2005, the practice of granting options upon hire has been curtailed.

The fourth component of the executive officers' compensation is extended group benefits. The Company makes available an array of quality group benefit alternatives to address employee health and other needs, and those of their dependents.

Compensation Committee Practices

The Company's compensation practices will be regularly monitored by the Compensation Committee and will be modified as required, to ensure the Company maintains its competitiveness and that it appropriately recognizes growth and change within the organization. The Company utilized Hay Group Limited ("Hay") to assist in determining executive compensation. Detailed job descriptions have been prepared and are updated for each of the senior management positions in the Company. Hay evaluates each position against appropriate, comparable and consistent data utilizing its proprietary point system. Hay then awards a point value to each position and the position and corresponding point value are compared annually to Hay's Mining Review Compensation survey data. The survey utilizes compensation data from mining companies in Canada with comparable positions. Based on this market data, recommendations are submitted to the Compensation Committee to review and if appropriate adjust base salaries, AIP targets and Long-Term Incentive Plan targets. The Compensation Committee then makes recommendations for changes to executive compensation to the Board.

Mr. Geoffrey A. Burns, the President and Chief Executive Officer of the Company, has a current base salary of \$465,166 that was approved by the Compensation Committee to be effective March 1, 2008. In 2007, Mr. Burns' total compensation consisted of \$359,070 in base salary, \$171,456 in AIP bonus, and \$236,986 in Long-Term Incentive Plan compensation.

The base salary compensation for Mr. Burns is determined on the basis of a review of market data for similar positions in Canadian mining companies with international operations of comparable size and scope. The Annual Incentive Plan compensation paid to Mr. Burns is based on achieving certain corporate goals and objectives which are set at the start of each year and approved by the Board of Directors. There are three categories of annual corporate objectives. The first category represent metrics that should contribute to an increase in shareholder value and include increasing the Company's silver production per share and increasing the Company's proven and probable silver reserves per share. The second category is focussed on growth and measures exploration success and the development and construction progress in the Company's major new mining projects. The third category measures operating performance and includes annual targets for silver production, cash costs per ounce, earnings, cash flow from operating activities and health and safety performance. The targets for each component are set such that they are greater than the Company's internally approved budget. For the year ended December 31, 2007, the Compensation Committee determined that Mr. Burns' performance against the corporate objectives was 95.5% for the purposes of calculating his AIP bonus. The Long-Term Incentive Plan equity-based compensation paid to Mr. Burns was determined by the Compensation Committee's annual review of Mr. Burns' personal performance, as measured against pre-established evaluation criteria which includes, commitment, initiative, knowledge, leadership, teamwork and communications. In 2007 Mr. Burns scored 73 out of a possible 80 points for his personal performance which entitled him to a Long-Term Incentive Plan payment of 66% of his annual base salary.

John M. Willson
Michael J.J. Maloney
Paul B. Sweeney

Compensation of Directors

Other than the Chairman, each non-executive director of the Company receives annual compensation, starting on the date of the annual general meeting at which he or she is elected or re-elected as a director and ending on the date immediately prior to the date of the Company's next annual general meeting, of either:

- (i) common shares in the capital of the Company having a value of \$70,000 based on the 10-day weighted average of the Company's common stock on the Nasdaq National Market immediately prior to the annual general meeting; or
- (ii) options to purchase common shares in the capital of the Company having a value of \$70,000, according to the Black-Scholes formula. The exercise price of such options will be equal to the weighted average trading price of the Company's common stock on the Nasdaq National Market on the five trading days (on which at least one board lot of the common shares was traded) prior to the annual general meeting. The options will vest immediately and will expire ten years after the date on which they were granted.

In 2007, each non-executive director elected to receive common shares in the capital of the Company pursuant to subsection (i) above. In addition to the annual compensation amount, a non-executive chair of the Nominating and Governance Committee, Compensation Committee or Health, Environment and Safety Committee receives a \$3,000 cash fee annually and each non-executive director on those same committees receives a \$1,000 cash fee for each committee meeting attended. The non-executive chair of the Audit Committee receives a \$10,000 cash fee annually and each other non-executive director on the Audit Committee receives a \$4,000 cash fee for each committee meeting attended. The lead director receives a \$10,000 cash fee annually. All non-Canadian resident directors also receive the cost of their Canadian tax filings as part of their compensation.

In 2007, the Chairman received an annual fee of \$93,023, paid in Shares, plus \$74,418 to cover the administrative costs of running the Chairman's office.

The Company reimburses its directors for reasonable out-of-pocket expenses related to their attendance at meetings or other expenses incurred for corporate purposes.

The Nominating and Governance Committee will review the compensation of directors in 2008.

Equity Compensation Plan Information

The following table sets forth information concerning the issuance of Shares under the 2005 Plan for the financial year ended December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved	620,559	\$18.52	5,670,556(1)

by
securityholders

Total:	620,559	\$18.52	5,670,556
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(1) 10% of the Company's outstanding issue as at December 31, 2007 less options outstanding as at December 31, 2007.

Performance Graph

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on its Shares with the cumulative total return of the S&P TSX Composite Index, for the financial years ended December 31, 2007, 2006, 2005, 2004, 2003, and 2002.

(CAD\$)	Pan American Silver Corp. Closing Price	Base	S&P TSX Composite	Base
December 31, 2002	\$ 12.28	100.00	6,615	100.00
December 31, 2003	\$ 18.46	150.33	8,221	124.28
December 31, 2004	\$ 19.23	156.60	9,247	139.79
December 31, 2005	\$ 21.91	178.42	11,272	170.40
December 30, 2006	\$ 29.40	239.41	12,908	195.13
December 29, 2007	\$ 34.99	284.93	13,833	209.13

Interest of Insiders in Material Transactions

No insider of the Company and no associate or affiliate of any insider has or has had any material interest, direct or indirect, in any transaction since the commencement of the Company's last completed financial year, or in any proposed transaction, which in either such case has materially affected or will materially affect the Company.

Management Contracts

Management functions of the Company are not, to any substantial degree, performed by a person other than the directors or senior officers of the Company through consulting contracts. Mr. Robert P. Pirooz, the Company's General Counsel and Secretary, provides certain management services to the Company through a private company,

controlled by him, Iris Consulting Limited. In this regard, the Company paid Iris Consulting Limited, through which Mr. Pirooz provides his services, \$0.1 million for management and administrative services in 2007.

Interest of Certain Persons in Matters to be Acted Upon

Except as disclosed herein, no director or executive officer of the Company, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of Shares or otherwise, in any matter to be acted on at the Meeting other than the election of directors.

Other Matters

Management of the Company knows of no other matters which will be brought before the Meeting, other than those referred to in the Notice of Meeting. Should any other matters, which do not have a material effect on the business of the Company, properly come before the Meeting, the Shares represented by the proxies solicited hereby will be voted on those matters in accordance with the best judgment of the persons voting such proxies.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com. The Company's financial information is provided in its comparative financial statements and management's discussion and analysis ("MD&A") for the most recently completed financial year. Copies of the financial statements and MD&A are available upon request to the Controller or the Secretary of the Company at 1500 – 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6.

Copies of the above documents will be provided free of charge to shareholders of the Company. The Company may require the payment of a reasonable charge from any person or Company who is not a shareholder of the Company and who requests a copy of any such document.

Approval of this Circular

The contents of this Information Circular have been approved by the directors of the Company and its mailing has been authorized by the directors of the Company pursuant to resolutions passed as at March 20, 2008.

DATED at Vancouver, British Columbia, this 10th day of April, 2008.

BY ORDER OF THE BOARD

/s/ Robert Pirooz
Robert Pirooz,
General Counsel and Secretary

APPENDIX “A”

CORPORATE GOVERNANCE DISCLOSURE OF
PAN AMERICAN SILVER CORP.

Governance Disclosure Guidelines
under National Instrument 58-101
Disclosure of Corporate Governance
Practices

Comments

1. Board of Directors

<p>(a) Disclose the identity of directors who are independent.</p>	<p>The following members of the board of directors (the “Board”) of Pan American Silver Corp. (the “Company”) proposed for nomination as directors are considered to be “independent”, within the meaning of the Corporate Governance Disclosure Rules:</p> <p>William A. Fleckenstein – independent Michael Larson – independent Michael J.J. Maloney – independent Paul B. Sweeney – independent David C. Press – independent</p>
<p>(b) Disclose the identity of directors who are not independent, and describe the basis for that determination.</p>	<p>§ Ross J. Beaty – not independent – member of the executive of the Company from 1994 to 2006</p> <p>§ Geoffrey A. Burns – not independent – current President and CEO of the Company</p> <p>§ Robert Pirooz – not independent – current General Counsel and Secretary of the Company</p>
<p>(c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the Board does to facilitate its exercise of independent judgment in carrying out its responsibilities.</p>	<p>A majority of the Company’s directors are independent - Five of the eight persons nominated as directors qualify as independent directors for the purposes of the Corporate Governance Disclosure Rules and the Nasdaq rules.</p>
<p>(d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in the same jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.</p>	<p>§ Ross Beaty – member of the board of directors and Co-Chairman of Western Copper Corp. Chair and member of the board of directors of Global Copper Corp.</p> <p>§ Michael Larson – member of the board of trustees of Western Asset/Claymore US Treasury Inflation Protected Securities</p>

Fund and Western Asset/Claymore US Treasury Inflation Protected Securities Fund (II).

§

Robert Pirooz - member of the board of directors of Global Copper Corp., and Rodinia Minerals Inc.

§

Paul Sweeney – member of the board of directors of

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Governance Disclosure Guidelines under
National Instrument 58-101 Disclosure of
Corporate Governance Practices

Comments

Newgold Inc., Pacific Rim Mining Corp. and
Polaris Minerals Corporation.

§

John M. Willson – member of the board of
directors of Harry Winston Diamond Corp.,
Finning International Inc. and Nexen Inc.

(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer’s most recently completed financial year. If the independent directors do not hold such meetings, describe what the Board does to facilitate open and candid discussion among its independent directors.

At the beginning of each regularly scheduled board of directors meeting, the independent members of the Board hold in camera meetings at which non-independent directors and members of management are not in attendance.

(f) Disclose whether or not the chair of the Board is an independent director. If the Board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the Board has neither a chair that is independent nor a lead director that is independent, describe what the Board does to provide leadership for its independent directors.

Ross J. Beaty is the Chair of the Board and is not independent. William Fleckenstein, an independent director, has been appointed lead director. Michael J.J. Maloney, an independent director, is the Chairman of the Nominating and Governance Committee.

The Board has adopted a position description for the lead director, which was recommended for adoption by the Board by the Nominating and Governance Committee. The lead director’s primary responsibility is to ensure that the Board functions independent of management and to act as principal liaison between the independent directors and the Chief Executive Officer. The “Mandate of the Lead Director” was attached as Schedule “A” to the Company’s 2006 Information Circular and filed on SEDAR. The lead director holds in camera meetings at each Board meeting with all independent directors and then reports to the Board or makes demands.

(g) Disclose the attendance record of each director for all Board meetings held since the beginning of the issuer’s most recently completed financial year.

For the financial year ended December 31, 2007, the Board held nine Board meetings. The attendance records of each of the directors for the most recently completed financial year are set out on page 12 of the Information Circular.

Governance Disclosure Guidelines under National Instrument 58-101 Disclosure of Corporate Governance Practices

Comments

2. Board Mandate

Disclose the text of the Board’s written mandate. If the Board does not have a written mandate, describe how the Board delineates its role and responsibilities.

The Board has adopted a formal written mandate which defines its stewardship responsibilities. The terms of the Board of Directors Mandate are attached hereto as Schedule “A”.

3. Position Descriptions

(a) Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee. If the Board has not developed written position descriptions for the chair and/or the chair of each Board committee, briefly describe how the Board delineates the role and responsibilities of each such position.

The Board has adopted a written position description for the chair of the Board, titled “Mandate of the Chairman of the Board” which was attached as Schedule “C” to the Company’s 2006 Information Circular and filed on SEDAR.

As the Chairman of the Board is not independent, a lead director has been appointed and given a mandate (see 1(f) above).

The chair of each committee has been provided with a mandate for the committee and has accepted leadership responsibilities for ensuring fulfilment of the applicable mandate. Each chair is sufficiently skilled through education and experience to lead the respective committee.

(b) Disclose whether or not the Board and CEO have developed a written position description for the CEO. If the Board and CEO have not developed such a position description, briefly describe how the Board delineates the role and responsibilities of the CEO.

The Board has adopted a written position description for the chief executive officer, titled “Mandate of the Chief Executive Officer” which was attached as Schedule “D” to the Company’s 2006 Information Circular and filed on SEDAR.

4. Orientation and Continuing Education

(a) Briefly describe what measures the Board takes to orient new directors regarding (i) the role of the Board, its committees and its directors, and (ii) the nature and operation of the issuer’s business.

Each new director, on joining the Board, is given an outline of the nature of the Company’s business, its corporate strategy, current issues within the Company, the expectations of the Company concerning input from directors and the general responsibilities of the Company’s directors. Each new director is given a board manual which includes all Board policies and mandates. New directors are required to meet with management of the Company to discuss and better understand the business of the Company and will be advised by counsel to the Company of their legal obligations as directors of the Company. Directors

have been and will continue to be given tours of the Company's mines and development sites to give such directors additional insight into the Company's business.

(b) Briefly describe what measures, if any, the Board takes to provide continuing education for its directors. If the Board does not provide continuing education,

Directors have been and will continue to be given tours of the Company's silver mines and development sites to give such directors additional insight into the Company's business.

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Governance Disclosure Guidelines under National Instrument 58-101 Disclosure of Corporate Governance Practices

Comments

describe how the Board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.

In addition, the General Counsel of the Company has the responsibility of circulating to the Board members new and evolving corporate governance developments applicable to directors of public companies with respect to their conduct, duties and responsibilities.

5. Ethical Business Conduct

(a) Disclose whether or not the Board has adopted a written code for the directors, officers and employees. If the Board has adopted a written code: (i) disclose how a person or company may obtain a copy of the code; (ii) describe how the Board monitors compliance with its code, or if the Board does not monitor compliance, explain whether and how the Board satisfies itself regarding compliance with its code; and (iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.

As part of its stewardship responsibilities, the Board has approved a formal "Code of Ethical Conduct" (the "Code") that is designed to deter wrong-doing and to promote honest and ethical conduct and full, accurate and timely disclosure. The Code is applicable to all the Company's directors, officers and employees. The Board monitors compliance with the Code and is responsible for the granting of any waivers from these standards to directors or executive officers. Disclosure will be made by the Company of any waiver from these standards granted to the Company's directors or executive officers in the Company's quarterly report that immediately follows the grant of such waiver.

There has been no conduct of a director or executive officer that constitutes a departure from the Code, and no material change report in that respect has been filed.

(b) Describe any steps the Board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Directors must disclose to the General Counsel any instances in which they perceive they have a material interest in any matter being considered by the Board; and if it is determined there is a conflict of interest, or that a material interest is held, the conflict must be disclosed to the Board. In addition, the interested Board member must refrain from voting and exit the meeting while the transaction at issue is being considered by the Board.

(c) Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.

The Company's Nominating and Governance Committee is responsible for setting the standards of business conduct contained in the Code and for overseeing and monitoring compliance with the Code. The Code also sets out mechanisms for the reporting of unethical conduct.

The Board sets the tone for ethical conduct throughout the Company by considering and discussing ethical considerations when reviewing the corporate transactions of the Company.

6. Nomination of Directors

(a) Describe the process by which the Board identifies new candidates for Board nomination.

All members of the Board are tasked with recommending individuals they believe are suitable candidates for the Board. The Nominating and Governance Committee identifies, reviews the qualifications of and recommends to the Board possible

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Governance Disclosure Guidelines under National Instrument 58-101 Disclosure of Corporate Governance Practices

Comments

- (b) Disclose whether or not the Board has a nominating committee composed entirely of independent directors. If the Board does not have a nominating committee composed entirely of independent directors, describe what steps the Board takes to encourage an objective nomination process.
- (c) If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

nominees for election or re-election to the Board at each annual general meeting of the Company and identifies, reviews the qualifications of and recommends to the Board possible candidates to fill vacancies on the Board between annual general meetings. The Nominating and Governance Committee also annually reviews and makes recommendations to the Board with respect to the composition of the Board.

All members of the Nominating and Governance Committee are outside, non-management and independent directors in accordance with the Corporate Governance Disclosure Rules and the Nasdaq Rules.

The Nominating and Governance Committee oversees the effective functioning of the Board and annually reviews and makes recommendations to the Board with respect to: (i) the composition of the Board; (ii) the appropriateness of the committees of the Board, their mandates and responsibilities and the allocation of directors to such committees; and (iii) the appropriateness of the terms of the mandate and responsibilities of the Board.

7. Compensation

- (a) Describe the process by which the Board determines the compensation for the issuer's directors and officers.
- (b) Disclose whether or not the Board has a compensation committee composed entirely of independent directors. If the Board does not have a compensation committee composed entirely of independent directors, describe what steps the Board takes to ensure an objective process for determining such compensation.
- (c) If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.
- (d) If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the

The Company's Director of Human Resources and the Compensation Committee reviews overall compensation policies, compares them to the overall industry, and makes recommendations to the Board on the compensation of executive officers.

The Compensation Committee is comprised of three directors, each of whom is an independent director for the purposes of the Corporate Governance Disclosure Rules and the Nasdaq rules. The Chairman of the Compensation Committee is John M. Willson. Mr. Willson is retiring from the Board. Michael J. J. Maloney will replace Mr. Willson as Chairman of the Compensation Committee.

The Compensation Committee determines the salary and benefits of the executive officers of the Company, determines the general compensation structure, policies and programs of the Company, administers the Company's Annual Incentive Plan, Long-Term Incentive Plan and Stock Option and Stock

mandate for which they have been retained. If the Bonus Plan, and delivers an annual report to shareholders on consultant or advisor has been retained to perform any executive compensation.

In addition, the Compensation Committee reviews and makes recommendations to the Board for approval with respect to the annual and long term corporate goals and objectives relevant to determining the compensation of the President and CEO and the

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Governance Disclosure Guidelines under National Instrument 58-101 Disclosure of Corporate Governance Practices

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other work for the issuer, state that fact and briefly describe the nature of the work.

Chairman of the Board.

8. Other Board Committees

If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The Board also has a Health, Safety and Environment Committee which consists of three directors. The Company recognizes that proper care of the environment is integral to its existence, its employees, the communities in which it operates and all of its operations. The Health, Safety and Environment Committee ensures that an audit is made of all construction, remediation and active mines. The results of such audits are reported to the Health, Safety and Environment Committee as is the progress on any significant remediation efforts. The Health, Safety and Environment Committee ensures that strict policies with respect to the health and safety of its employees are in place at each of its operations and that such policies are enforced.

9. Assessments

Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.

The Chairman of the Board and the CEO are assessed each year on the basis of the objectives set out by the Board for their respective positions, their individual performance throughout the year and their ability to execute on long-term strategy. The Chairman and the CEO are assessed first by the Compensation Committee and then by the Board as a whole.

The Board has also appointed a Nominating and Governance Committee, which proposes and makes recommendations to the Board with respect to: (i) the composition of the Board; (ii) the appropriateness of the committees of the Board, their mandates and responsibilities and the allocation of directors to such committees; and (iii) the appropriateness of the terms of the mandate and responsibilities of the Board. During 2005, the Nominating and Governance Committee, in consultation with the entire Board, undertook to formally establish the roles and responsibilities of each of the Lead Director, the Chairman of the Board and the CEO and determine against what criteria each such position should be assessed.

In 2006, the Nominating and Governance Committee developed a process to assess the Board as a whole and the committees of

the Board. The performance assessment of the Board and each Committee of the Board is based on information and feedback obtained from director evaluation questionnaires provided to each director. Each director is asked to complete and return the assessment questionnaire to the Lead Director on a confidential basis. The Lead director may discuss the completed

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Governance Disclosure Guidelines under National
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questionnaires with individual directors where clarification is required. The evaluation process focuses on Board and committee performance, and also asks for peer feedback and suggestions or comments regarding the performance of the Chair of each committee and the Lead Director. The Lead Director reports the results of the performance assessments to the Board.

The Board and the Nominating and Governance Committee have formally assessed the effectiveness of each member of the Board, and have determined that each Board member is significantly qualified through their current or previous professions. Each member fully participates in each meeting having in all cases been specifically canvassed for their input.

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SCHEDULE “A”

PAN AMERICAN SILVER CORP.

(the “Company”)

BOARD OF DIRECTORS MANDATE

STEWARDSHIP RESPONSIBILITY

A. Subject to the Memorandum and Articles of the Company and applicable law, the Board of Directors of the Company (the “Board”) has a responsibility for the stewardship of the Company, including the responsibility to:

(i) supervise the management of and oversee the conduct of business of the Company;

(ii) provide leadership and direction to management;

(iii) evaluate management;

(iv) set policies appropriate for the business of the Company; and

(v) approve corporate strategies and goals.

BOARD COMPOSITION AND MEETINGS

A. A majority of the Board shall be unrelated to the Company.

For the purposes of this Mandate, an “unrelated director” means a director who is independent of the management of the Company and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholdings.

B. The directors will be elected each year by the shareholders of the Company at the annual general meeting of shareholders. The Nominating and Governance Committee will recommend to the full Board nominees for election to the Board and the Board will propose a slate of nominees to the shareholders for election as directors for the ensuing year.

C. Immediately following each annual general meeting, the Board shall:

(i) elect a Chairman of the Board and, when desirable, a lead director of the Board, and establish their duties and responsibilities;

(ii) appoint the President and CEO of the Company and establish their duties and responsibilities;

(iii) on the recommendation of the CEO, appoint the senior officers of the Company and approve the senior management structure of the Company;

(iv) appoint a nominating and governance committee, an audit committee, a compensation committee and a health, safety and environment committee; and

(v) approve the mandate, duties and responsibilities of each committee of the board of directors;

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- D. The Board shall be responsible for monitoring the performance of the President and CEO, and for determining the compensation of the President and CEO.
- E. From time to time, the Board may appoint special committees to assist the Board in connection with specific matters.
- F. The Board shall meet not less than four times during each year and will endeavour to hold one meeting in each financial quarter. The Board will also meet at any other time at the call of the Chairman of the Board or, subject to the Memorandum and Articles of the Company, of any director.

POSITION DESCRIPTIONS

- A. The Board will ensure the Company has management of the highest calibre. This responsibility is carried out primarily by:
 - (i) appointing the President as the Company's business leader and developing criteria and objectives against which the Board will assess, on an ongoing basis, the President's performance;
 - (ii) developing position descriptions for the Chairman of the Board and the chair of each board committee and, with the CEO, developing position descriptions for the President and CEO, and regularly assessing those appointed individuals against such descriptions; and
 - (iii) developing and approving corporate objectives which the CEO is responsible for meeting, and assessing the CEO against these objectives.
- B. A principal responsibility of the Chairman of the Board will be to manage and act as the chief administrative officer of the Board with such duties and responsibilities as the Board may establish from time to time. The Chairman of the Board need not be independent of management.
- C. The principal duties and responsibilities of the lead director will be as established by the Board from time to time. The lead director will be independent of management.
 - D. The Board will ensure that proper limits are placed on management's authority.

STRATEGIC PLANNING PROCESS AND RISK MANAGEMENT SYSTEM

- A. The Board is responsible for adopting, supervising and providing guidance on the strategic planning process and approving a strategic plan which takes into account, among other things, the opportunities and risks of the Company's business.
- B. The President and senior management team will have direct responsibility for the ongoing strategic planning process and the establishment of long term goals for the Company, which are to be reviewed and approved not less than annually by the Board.
- C. The Board will have a continuing understanding of the principal risks associated with the business, largely through continuous communication with management. The Board will ensure the implementation of appropriate systems to manage any such risks.
- D. The Board will provide guidance to the President and senior management team with respect to the Company's ongoing strategic plan. The Board is responsible for monitoring the success of management in implementing the

approved strategies and goals.

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INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEMS

- A. Through the President and CEO, management will establish systems to ensure that appropriate and responsible levels of internal controls are in place for the Company. The confidence of the Board in the ability and integrity of management is the paramount control mechanism.

COMMUNICATIONS POLICY

- A. The Board will monitor and review annually the policies and procedures that are in place to provide for effective communication by the Company with its shareholders and with the public generally, including:
- (i) effective means to enable shareholders to communicate with senior management and the Board; and
 - (ii) effective channels by which the Company will interact with analysts and the public.
- B. The Board will approve the content of the Company's major communications to shareholders and the investing public, including interim and annual reports, the Management Information Circular, the Annual Information Form, any prospectuses that may be issued and significant press releases.
- C. The Board will maintain a Corporate Disclosure Policy which summarizes its policies and practices regarding disclosure of material information to investors, analysts and the media.

SUCCESSION PLANNING

- A. The Board will keep in place, and review regularly, adequate and effective succession plans for the Chairman, President and senior management personnel (including appointing, training and monitoring senior management).

BOARD INDEPENDENCE

- A. The Board will provide for the independent functioning of the Board. The Board will implement appropriate structures and procedures to ensure that the Board can function independently of management at such times as is desirable or necessary through:
- (i) the recruitment of strong, independent directors, who shall compose a majority of the Board;
 - (ii) the appointment of a committee of directors independent of management;
 - (iii) the appointment of a lead director who is not a member of management; and
 - (iv) the institution of regular meetings of independent directors at every quarterly Board meeting, without the presence of management and which is chaired by the lead director.
- B. All directors will have open access to the Company's senior management.
- C. The Board encourages individual directors to make themselves available for consultation with management outside Board meetings in order to provide specific advice and counsel on subjects where such directors have special knowledge and experience.

NEW DIRECTOR ORIENTATION AND CONTINUING EDUCATION

- A. The Nominating and Governance Committee, in conjunction with the Chairman and President, is responsible for ensuring that new directors are provided with an orientation and education program.

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- B. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.
- C. The Board will assist the Nominating and Governance Committee in establishing and maintaining an ongoing director education program.

GENERAL OBLIGATIONS

- A. Approve all capital plans and establish priorities for the allocation of funds to ongoing operations and capital projects.
- B. Approve all single expenditure items proposed by the Company exceeding \$2,000,000 not provided for in any approved capital plan.
 - C. Approve any policy for hedging and forward sales of silver and/or base metals.
 - D. Approve any policy for management of foreign currency risk.
 - E. Approve the annual budget.
- F. Attend, prepare for and be actively involved in regular Board meetings and, if applicable, Board committee meetings.
- G. Develop the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company.
- H. Adopt and monitor, through the Nominating and Governance Committee, a formal code of business ethics that will govern the behaviour of directors, officers and employees of the Company, and, in appropriate circumstances, grant waivers from such code of business conduct.

INDEPENDENT ADVISORS

- A. The Board and any committees may at any time retain outside financial, legal or other advisors at the expense of the Company. Any director may, subject to the approval of the Chairman of the Board, retain an outside advisor at the expense of the Company.

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APPENDIX “B”

PAN AMERICAN SILVER CORP.

PROPOSED 2008 STOCK OPTION AND STOCK BONUS PLAN

1. PURPOSE OF THE PLAN

Pan American Silver Corp. (the “Company”) hereby establishes a stock option plan for directors, officers and Service Providers (as defined below) of the Company and its subsidiaries, to be known as the “Pan American Silver Corp. 2008 Stock Option and Stock Bonus Plan” (the “Plan”). The purpose of the Plan is to give to directors, officers and Service Providers, as additional compensation, the opportunity to participate in the progress of the Company by: (i) granting to such individuals options, exercisable over periods of up to ten years as determined by the board of directors of the Company, to buy shares of the Company at a price equal to the volume weighted average trading price on the five trading days prior to the date the option is granted; or (ii) issuing to such individuals common shares in the capital of the Company.

2. DEFINITIONS

In this Plan, the following terms shall have the following meanings:

“Associate” means an associate as defined in the Securities Act (British Columbia).

“Black-Out Period” means a time when, pursuant to any policies of the Company, any securities of the Company may not be traded by certain persons as designated by the Company, including any Optionee.

“Black-Out Expiration Term” means the period of time that commences with the end of a Black-Out Period and ends ten business days following the end of the Black-Out Period.

“Board” means the board of directors of the Company.

“Bonus Shares” has the meaning ascribed thereto in section 7.1 of this Plan.

“Change of Control Transaction” has the meaning ascribed thereto in section 8.1 of this Plan.

“Company” means Pan American Silver Corp. and its successors.

“Disability” means any disability with respect to an Optionee which the Board, in its sole and unfettered discretion, considers likely to prevent permanently the Optionee from:

- (a) being employed or engaged by the Company, its subsidiaries or another employer, in a position the same as or similar to that in which he was last employed or engaged by the Company or its subsidiaries; or
- (b) acting as a director or officer of the Company or its subsidiaries.

“Disinterested Shareholder Approval” means disinterested shareholder approval as defined in the policies of the Toronto Stock Exchange.

“Exchanges” means the Toronto Stock Exchange and the Nasdaq National Market, and, if applicable, any other stock exchange or securities market on which the Shares are listed.

“Expiry Date” means the date set by the Board under section 3.1 of this Plan, representing the last date on which an Option may be exercised.

“Grant Date” means the date specified in an Option Agreement as the date on which an Option is granted.

“Insider” means:

(a) an insider as defined in the Securities Act (British Columbia), other than a person who is an insider solely by virtue of being a director or senior officer of a subsidiary of the Company; and

(b) an Associate or Affiliate of any person who is an insider under subsection (a).

“Market Price” of Shares at any date means the volume weighted average trading price of the Shares on the Toronto Stock Exchange or the Nasdaq National Market as selected by the Board or, if the Shares are listed on neither the Toronto Stock Exchange nor the Nasdaq National Market, such other stock exchange or securities market on which Shares are listed as is selected by the Board, on the five trading days (on which at least one board lot of the Shares was traded) prior to such date.

“Notice of Disposition” means the notice, in substantially the form attached hereto as Schedule B, whereby an Optionee notifies the Company of its intention to use the cashless manner of exercise of vested Options in accordance with the provisions of section 4.2 of this Plan.

“Option” means an option to purchase Shares granted pursuant to this Plan.

“Option Agreement” means an agreement, in substantially the form attached hereto as Schedule A, whereby the Company grants to an Optionee an Option.

“Option Price” means the price per Share specified in an Option Agreement, adjusted from time to time in accordance with the provisions of section 6 of this Plan.

“Option Shares” means the aggregate number of Shares which an Optionee may purchase under an Option.

“Optionee” means each of the directors, officers and Service Providers granted an Option pursuant to this Plan and their heirs, executors and administrators.

“Plan” means this Pan American Silver Corp. 2008 Stock Option and Stock Bonus Plan.

“Service Provider” means:

(a) an employee of the Company or any of its subsidiaries;

(b) any other person or company engaged to provide ongoing management or consulting services for the Company or for any entity controlled by the Company; and

(c) any person who is providing ongoing management or consulting services to the Company or to any entity controlled by the Company indirectly through a company that is a Service Provider under subsection (b) above.

“Shares” means the common shares in the capital of the Company as constituted on the date of this Plan provided that, in the event of any adjustment pursuant to section 6 of this Plan, “Shares” shall thereafter mean the shares or other property resulting from the events giving rise to the adjustment.

“Take-Over Bid” has the meaning ascribed thereto in section 8.1 of this Plan.

“Unissued Option Shares” means the number of Shares, at a particular time, which have been allotted for issuance upon the exercise of an Option but which have not been issued, as adjusted from time to time in accordance with the provisions of section 6 of this Plan, such adjustments to be cumulative.

3. GRANT OF OPTIONS

3.1 Option Terms. The Board may from time to time authorize the issue of Options to directors, officers and Service Providers of the Company and any of its subsidiaries. The Option Price under each Option shall be the Market Price on the Grant Date. The Expiry Date for each Option shall be set by the Board at the time of issue of the Option and shall not be more than ten years from the Grant Date. Any Options which are terminated or expire will be available for re-granting under the Plan. Options shall be non-assignable and non-transferable, and subject to such vesting provisions as the Board in their sole discretion shall determine.

3.2 Black-Out Period. Notwithstanding section 3.1 of the Plan and except where not permitted by the Exchanges, where an Option expires during a Black-Out Period or during the Black-Out Expiration Term, the term of such Option will be extended to the end of the applicable Black-Out Expiration Term.

3.3 Limits on Shares Issuable on Exercise of Options and on the Grant of Bonus Shares. The maximum number of Shares which may be issuable pursuant to Options granted or Bonus Shares issued under the Plan shall be 6,461,470, or such additional amount as may be approved by the shareholders of the Company. The number of Shares issuable to any one Optionee under the Plan, together with all of the Company’s other previously established or proposed share compensation arrangements, shall not exceed 5% of the total number of issued and outstanding common shares in the capital of the Company on a non-diluted basis. The number of Shares which may be issued to Insiders under the Plan, together with all of the Company’s other previously established or proposed share compensation arrangements, in aggregate, shall not at any time exceed 10% of the total number of issued and outstanding common shares in the capital of the Company on a non-diluted basis. The number of Shares which may be issuable under the Plan, together with all of the Company’s other previously established or proposed share compensation arrangements, within a one-year period:

(a) to Insiders in aggregate, shall not exceed 7% of the outstanding issue;

(b) to any one Optionee who is an Insider and any Associates of such Insider, shall not exceed 2% of the outstanding issue; and

(c) to any non-employee director, other than the Chairman of the Board, shall not exceed an equity award value of \$100,000 (other than Options or Bonus Shares granted or taken in lieu of cash fees).

For the purposes of this section, Option Shares and Bonus Shares issued pursuant to an entitlement granted prior to the Optionee or recipient of the Bonus Shares becoming an Insider may be excluded in determining the number of Shares issuable to Insiders. For the purposes of subsections (a) and (b) above, “outstanding issue” is determined on the basis of the number of common shares in the capital of the Company that are outstanding immediately prior to the Option Share or Bonus Share issuance in question, excluding common shares in the capital of the Company issued pursuant to share compensation arrangements prior to such one-year period.

3.4 Option Agreements. Each Option shall be confirmed by the execution of an Option Agreement. Each Optionee shall have the option to purchase from the Company the Option Shares at the time and in the manner set out in the Plan and in the Option Agreement applicable to that Optionee. The execution of an Option Agreement shall constitute conclusive evidence that it has been completed in compliance with this Plan.

4. EXERCISE OF OPTION

4.1 Manner of Exercise - Cash Exercise for Vested Options. Subject to the vesting and other terms of this Plan and the Option Agreement governing any specific Options, an Option may be exercisable by the Optionee delivering to the Company a notice specifying the number of Shares in respect of which the Option is exercised together with payment in full of the Option Price for each such Share. Upon the Company's receipt of such notice and payment there will be a binding contract for the issue of the Option Shares in respect of which the Option is exercised, upon and subject to the provisions of the Plan. Delivery of the Optionee's cheque payable to the Company in the amount of the Option Price shall constitute payment of the Option Price unless the cheque is not honoured upon presentation in which case:

(a) the Option shall not have been validly exercised; and

(b) the Option shall no longer be exercisable unless the Board determines otherwise.

4.2 Manner of Exercise – Cashless Exercise for Vested Options. If a holder of an Option so desires, such holder may, subject to the vesting and other terms of this Plan and the Option Agreement governing any specific Options, elect to dispose of an Option in exchange for a payment of Shares (the "Share Payment"), and in lieu of the method described in section 4.1 above, by delivering to the Company a notice that the Optionee wishes to rely on the "cashless exercise" provisions of this section 4.2 and a fully completed Notice of Disposition.

The Share Payment will be satisfied by issuance to the Optionee of that number of Shares determined in accordance with the following formula:

$$A \times (X - Y) \\ X$$

Where:

A is the number of vested Options tendered for disposition pursuant to the Notice of Disposition

X is the Market Price of the Shares on the date of the Notice of Disposition

Y is the Option Price of the unexercised vested Options in question

In the event that an Optionee delivers a Notice of Disposition under this section 4.2 and it is later determined that such Optionee does not hold a sufficient number of unexercised vested Options to deliver the Share Payment in accordance with the requirements above, such notice shall be deemed to be void in its entirety and of no further force or effect. Subject to the foregoing, upon the Company's receipt of such Notice of Disposition there will be a binding contract for the issue of the Shares in respect of the Share Payment, upon and subject to the provisions of the Plan. Upon such issuance of Shares by the Company, the number of unexercised vested Options to be disposed of in exchange for the Share payment shall be deemed to be cancelled without any further action by the Company or the Optionee and will be not available for further granting.

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4.3 General Rule. Subject to section 4.4 of this Plan, an Option may be exercised to purchase any number of Shares up to the number of Unissued Option Shares at any time after the Grant Date up to 5:00 p.m. (Vancouver time) on the Expiry Date.

4.4 Termination of Affiliation. If an Optionee ceases to be a director, officer or Service Provider of the Company or its subsidiaries, each Option held by the Optionee shall be exercisable in respect of that number of Option Shares that have vested pursuant to the terms of the Option Agreement governing such Option as follows:

(a) Resignation or Ceasing to Hold Office. If the Optionee, or in the case of an Option granted to any Optionee who satisfies the definition of Service Provider set out in section 2 of this Plan, the Optionee's employer, ceases to be employed or engaged by the Company and any of its subsidiaries (including by way of voluntary resignation or retirement as a director, officer or Service Provider), each Option held by the Optionee shall be exercisable in respect of that number of Option Shares that have vested pursuant to the terms of the Option Agreement governing such Option at any time up to but not after the earlier of the Expiry Date of that Option and the date which is 30 days after the Optionee ceases to be a director, officer or Service Provider;

(b) Death. Notwithstanding subsection 4.4(a) of this Plan, if the Optionee ceases to be a director, officer or Service Provider of the Company and any of its subsidiaries due to death or Disability or, in the case of an Optionee that is a company, the death or Disability of the person who provides management or consulting services to the Company or to any entity controlled by the Company, each Option held by the Optionee shall be exercisable in respect of that number of Option Shares that have vested pursuant to the terms of the Option Agreement governing such Option at any time up to but not after the earlier of the Expiry Date of that Option and the date which is 12 months after the date of death or Disability; and

(c) For Cause. Notwithstanding subsection 4.4(a) of this Plan, if the Optionee, or, in the case of an Option granted to an Optionee who satisfies the definition of Service Provider set out in section 2 of this Plan, the Optionee's employer:

(i) ceases to be employed or engaged by the Company and any of its subsidiaries for cause, as that term is interpreted by the courts of the jurisdiction in which the Optionee or Optionee's employer is employed or engaged;

(ii) ceases to be a director, officer or Service Provider of the Company and any of its subsidiaries by order of any securities commission, recognized stock exchange, or any regulatory body having jurisdiction to so order; or

(iii) ceases to be eligible to hold office as a director of the Company and any of its subsidiaries under the provisions of the applicable corporate statute,

each Option held by the Optionee shall be exercisable in respect of that number of Option Shares that have vested pursuant to the terms of the Option Agreement governing such Option at any time up to but not after the earlier of the Expiry Date of that Option and the date on which the Optionee ceases to be a director, officer or Service Provider.

4.5 Exclusion From Severance Allowance, Retirement Allowance or Termination Settlement. If the Optionee, or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in section 2 of this Plan, the Optionee's employer, retires, resigns or is terminated from employment or engagement

with the Company and any of its subsidiaries, the loss of the right to purchase Shares pursuant to section 4.4 of this Plan shall not give rise to any right to damages and shall not be included in the calculation of nor form any part of any severance allowance, retiring allowance or termination settlement of any kind whatever in respect of such Optionee.

4.6 Amendment of Options by the Board. Notwithstanding subsections 4.4(a) and 4.4(c) of this Plan and in addition to section 5 below, the Board reserves the right to amend the terms of an Option granted to any Optionee, or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in section 2 of this Plan, the Optionee's employer, if such party resigns or is terminated from employment or engagement with the Company and any of its subsidiaries or such other circumstances as the Board sees fit. The Board shall be entitled, but in no way obligated, to amend the number of Option Shares which an Optionee may purchase under an Option, the Expiry Date of an Optionee's Option and the Option Price.

4.7 Amendment of Options of Insiders by the Board. Notwithstanding sections 4.6, 5.1, 5.2 and 5.3 and subject to section 8 of this Plan, the Board will not amend the terms of any option held by an Insider without first receiving the requisite shareholder approval.

5. AMENDMENT PROCEDURE

5.1 Amendment Procedure

The Company retains the right to amend or terminate the terms and conditions of the Plan or Option Agreement, as applicable, by resolution of the Board (the "Amendment Procedure"). Any amendment to the Plan shall take effect only with respect to Options granted after the effective date of such amendment, provided that it may apply to any outstanding Options with the mutual consent of the Company and the Optionees to whom such Options have been granted. Without limiting the generality of the foregoing, the Board may use the Amendment Procedure without seeking shareholder approval when:

- (a) altering, extending or accelerating the terms and conditions of vesting of any Options;
- (b) accelerating the Expiry Date of Options;
- (c) amending the definitions contained within the Plan;
- (d) amending or modifying the mechanics of exercise of Options as set forth in Section 4, provided however, payment in full of the Option Price for the Shares shall not be so amended or modified;
- (e) effecting amendments of a "housekeeping" or ministerial nature including, without limiting the generality of the foregoing, any amendment for the purpose of curing any ambiguity, error, inconsistency or omission in or from the Plan or any Option Agreement;
- (f) effecting amendments necessary to comply with the provisions of applicable laws (including, without limitation, the rules, regulations and policies of the Exchanges);
- (g) effecting amendments respecting the administration of the Plan;
- (h) effecting amendments necessary to suspend or terminate the Plan; and
- (i) any other amendment, whether fundamental or otherwise, not requiring shareholder approval under applicable law (including, without limitation, the rules, regulations, and policies of the Exchanges).

5.2 Shareholder Approval

Shareholder approval will be required for the following types of amendments:

- (a) amendments that increase the number of Shares issuable under the Plan, except such increases by operation of Section 6 of the Plan;
- (b) any reduction in the Option Price of an Option if the Optionee is not an Insider at the time of the proposed amendment; and
- (c) amendments required to be approved by shareholders under applicable law (including, without limitation, pursuant to the rules, regulations and policies of the Exchanges).

5.3 Disinterested Shareholder Approval

Disinterested Shareholder Approval will be required for the following types of amendments:

- (a) amendments to the Plan that could result at any time in the number of Shares reserved for issuance under the Plan to Insiders exceeding 10% of the outstanding issue;
- (b) any reduction in the Option Price of an Option if the Optionee is an Insider at the time of the proposed amendment; and
- (c) amendments requiring Disinterested Shareholder Approval under applicable law (including, without limitation, pursuant to the rules, regulations and policies of the Exchanges).

6. ADJUSTMENT OF OPTION PRICE AND NUMBER OF OPTION SHARES

6.1 Share Reorganization. Whenever the Company issues Shares to all or substantially all holders of Shares by way of a stock dividend or other distribution, or subdivides all outstanding Shares into a greater number of Shares, or combines or consolidates all outstanding Shares into a lesser number of Shares (each of such events being herein called a “Share Reorganization”) then effective immediately after the record date for such dividend or other distribution or the effective date of such subdivision, combination or consolidation, for each Option:

- (a) the Option Price will be adjusted to a price per Share which is the product of:
 - (i) the Option Price in effect immediately before that effective date or record date; and
 - (ii) a fraction the numerator of which is the total number of Shares outstanding on that effective date or record date before giving effect to the Share Reorganization, and the denominator of which is the total number of Shares that are or would be outstanding immediately after such effective date or record date after giving effect to the Share Reorganization; and
- (b) the number of Unissued Option Shares will be adjusted by multiplying (i) the number of Unissued Option Shares immediately before such effective date or record date by (ii) a fraction which is the reciprocal of the fraction described in subsection (a)(ii).

6.2 Special Distribution. Subject to the prior approval of the Exchanges, whenever the Company issues by way of a dividend or otherwise distributes to all or substantially all holders of Shares:

(a) shares of the Company, other than the Shares;

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(b) evidences of indebtedness;

(c) any cash or other assets, excluding cash dividends (other than cash dividends which the Board has determined to be outside the normal course); or

(d) rights, options or warrants,

then to the extent that such dividend or distribution does not constitute a Share Reorganization (any of such non-excluded events being herein called a “Special Distribution”), and effective immediately after the record date at which holders of Shares are determined for purposes of the Special Distribution, for each Option the Option Price will be reduced, and the number of Unissued Option Shares will be correspondingly increased, by such amount, if any, as is determined by the Board in its sole and unfettered discretion to be appropriate in order to properly reflect any diminution in value of the Shares as a result of such Special Distribution.

6.3 Corporate Organization. Whenever there is:

(a) a reclassification of outstanding Shares, a change of Shares into other shares or securities, or any other capital reorganization of the Company, other than as described in sections 6.1 or 6.2 of this Plan;

(b) a consolidation, merger or amalgamation of the Company with or into another corporation resulting in a reclassification of outstanding Shares into other shares or securities or a change of Shares into other shares or securities; or

(c) a transaction whereby all or substantially all of the Company’s undertaking and assets become the property of another corporation;

(any such event being herein called a “Corporate Reorganization”) the Optionee will have an option to purchase (at the times, for the consideration, and subject to the terms and conditions set out in the Plan) and will accept on the exercise of such option, in lieu of the Unissued Option Shares which he would otherwise have been entitled to purchase, the kind and amount of shares or other securities or property that he would have been entitled to receive as a result of the Corporate Reorganization if, on the effective date thereof, he had been the holder of all Unissued Option Shares.

6.4 No Fractional Shares. No fractional Shares shall be issued upon the exercise of the Options and accordingly, if as a result of a Share Reorganization or Corporate Reorganization, an Optionee would become entitled to a fractional Share, such Optionee shall have the right to purchase only the next lowest whole number of Shares and no payment or other adjustment will be made with the fractional interest so disregarded. Additionally, no lots of Shares in an amount less than 500 Shares shall be issued upon the exercise of the Option unless such amount of Shares represents the balance left to be exercised under the Option.

7. BONUS SHARES

7.1 Allotment and Issuance. Subject to section 3.3(c) of this Plan, the Board shall have the power and authority in its sole and absolute discretion, to allot, issue and deliver in such amounts as the Board in its sole and absolute discretion deems fit, as fully paid and non-assessable shares in the capital of the Company, up to a total of 50,000 common shares (“Bonus Shares”), in each calendar year, to those directors, officers and Service Providers of the Company or any of its subsidiaries whom the Board, in its sole and absolute discretion, deems to have provided extraordinary contributions to the advancement of the Company.

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7.2 Consideration. The Bonus shares will be issued in consideration of the fair value of the extraordinary contribution of the Company by the recipient as determined by the Board, in its discretion, and shall be issued at a deemed price determined by the Board at the time of issuance of such Bonus Shares, but such price shall not be less than the Market Price on the day on which the Bonus Shares are issued. No Bonus Shares shall be issued at a time when it is unlawful to fix the price for such Bonus Shares.

7.3 Board Discretion. Nothing in this Plan shall require the issue or distribution of any Bonus Shares in any given year or the distribution to any particular person of Bonus Shares at any time. The receipt by a recipient in any year of Bonus Shares shall not create any entitlement to a receipt of Bonus Shares by such recipient in any other year. No person shall have any right to receive a distribution Bonus Shares in a year, whether or not other persons receive Bonus Shares in such other year. The pool of Bonus Shares available for any given year, if not distributed, shall cease to be available at the end of such year and shall not accumulate or be available for any succeeding year. The Bonus Shares available for distribution in any year will be included for the purposes of calculating the amounts set out in section 3.3 of this Plan.

8. SIGNIFICANT EVENTS AFFECTING THE COMPANY

8.1 Take-Over Bids and Merger Transactions

In the event of a bona fide third-party offer for Shares pursuant to which an offeror offers to purchase all or substantially all of the Shares of the Corporation (a “Take-Over Bid”), or a merger, consolidation, amalgamation or other transaction pursuant to which the Corporation is not the surviving entity (together with a Take-Over Bid, a “Change of Control Transaction”), and in the absence of the surviving entity’s assumption of outstanding awards made under the Plan, the following rules shall apply:

- (a) all vested Options held by an Optionee as of the completion date will be exercisable by the Optionee until the time immediately prior to the completion of such Change of Control Transaction;
- (b) the vesting provisions governing 50% of all unvested Options held by an Optionee as of the completion date shall be accelerated and such Options will be Conditionally Exercisable by the Optionee for a period beginning on the date which is 21 days prior to the anticipated closing date of the Change of Control Transaction described above and ending immediately prior to the completion of such Change of Control Transaction. Option Shares issuable pursuant to Conditionally Exercisable Options will be issued immediately prior to the closing of the Change of Control Transaction; and
- (c) all other unvested Options shall become null and void upon completion of the transaction described above.

For the purposes of this section 8 of the Plan, “Conditionally Exercisable” means, in the event a Change of Control Transaction is not completed within 90 days of the proposed completion date for such transaction, the Optionee will be refunded the Option Price paid to exercise such Optionee’s Options, such Options will be reissued, and the purported exercise of such Options will be null and void ab initio.

9. MISCELLANEOUS

9.1 Form of Notice. A notice given to the Company shall be in writing, signed by the Optionee and delivered to the Secretary of the Company.

9.2 Right to Employment. Neither this Plan nor any of the provisions hereof shall affect in any way the Optionee’s right to continued employment with the Company or its subsidiaries or the Company’s right to terminate such employment.

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9.3 Amendment and Waiver. Subject to pre-clearance with the Toronto Stock Exchange and any other prior regulatory approval where required, the Company may from time to time amend any provisions of the Plan, but no such amendment can impair any of the rights of any Optionee under any Option then outstanding and any material amendment to the Plan or increase in the maximum number of Shares which may be issuable under the Plan as set out in section 3.2 of this Plan will require the approval of shareholders of the Company.

9.4 No Assignment. No Optionee may assign any of his rights under the Plan.

9.5 Conflict. In the event of any conflict between the provisions of this Plan and an Option Agreement, the provisions of this Plan shall govern.

9.6 Time of Essence. Time is of the essence of this Plan and of each Option Agreement. No extension of time will be deemed to be or to operate as a waiver of the essentiality of time.

9.7 Entire Agreement. This Plan and the Option Agreement sets out the entire agreement between the Company and the Optionees relative to an Option and supersedes all prior agreements, undertakings and understandings, whether oral or written.

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SCHEDULE A

PAN AMERICAN SILVER CORP.

2008 STOCK OPTION AND STOCK BONUS PLAN

OPTION AGREEMENT

This Option Agreement is entered into between Pan American Silver Corp. (“the Company”) and the Optionee named below pursuant to the Pan American Silver Corp. 2008 Stock Option and Stock Bonus Plan (the “Plan”), a copy of which is attached hereto, and confirms that:

- (a) on _____, _____ (the “Grant Date”);
- (b) _____ (the “Optionee”);
- (c) was granted the option to purchase _____ Common Shares (the “Option Shares”) of the Company;
- (d) for the price (the “Option Price”) of \$_____ per share;
- (e) which will become exercisable up to, but not after _____, _____ (the “Expiry Date”), as follows:
 - (i) up to _____ Option Shares after _____;
 - (ii) up to _____ Option Shares after _____;
 - (iii) up to _____ Option Shares after _____; and
 - (iv) up to _____ Option Shares after _____,

all on terms and subject to the conditions set out in the Plan.

By signing this Option Agreement, the Optionee acknowledges that the Optionee has read and understands the Plan and agrees to the terms and conditions of the Plan and this Option Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Option Agreement as of the _____ day of _____, _____.

PAN AMERICAN SILVER CORP.

Signature of Optionee	By:	Authorized Signatory
	By:	Authorized Signatory

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SCHEDULE B

PAN AMERICAN SILVER CORP.

2008 STOCK OPTION AND STOCK BONUS PLAN

NOTICE OF DISPOSITION

TO: The Administrator, Stock Option Plan

PAN AMERICAN SILVER CORP.

1500 - 625 Howe Street

Vancouver, British Columbia, Canada V6C 2T6

The undersigned hereby irrevocably gives notice, pursuant to the PAN AMERICAN SILVER CORP. (the "Company") 2008 Stock Option and Stock Bonus Plan (the "Plan"), of the disposition of (cross out the inapplicable item):

- (a) all of the Options; or
- (b) _____ of the Options;

which are the subject of the Option Agreement attached hereto.

The undersigned hereby elects pursuant to section 4.2 of the Plan to dispose of the above-mentioned Options to the Company and directs the Company to issue the a certificate evidencing the whole number of Shares to which the undersigned is entitled based on the formula set out in section 4.2 of the Plan and directs the Company to issue such certificate in the name of the undersigned and to mail such certificate to the undersigned at the following address:

DATED the ____ day of _____, 20__.

Signature of Optionee

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APPENDIX “C”

PAN AMERICAN SILVER CORP.

PROPOSED RESOLUTION

Resolution

Ordinary resolution of the Meeting approving the adoption of the Company’s 2008 Stock Option and Stock Bonus Plan.

“WHEREAS:

- A. The Company wishes to adopt a new Stock Option and Stock Bonus Plan (the “2008 Plan”), subject to requisite shareholder and regulatory approval, substantially in the form attached to the Company’s Information Circular as Appendix “B”; and
- B. The substantial changes reflected in the 2008 Plan, as compared to the Company’s 2005 Stock Option and Stock Bonus Plan (the “2005 Plan”) are set out in the Company’s Information Circular.

BE IT RESOLVED that:

1. The adoption of the 2008 Plan allowing for the issuance of a maximum of 6,461,470 common shares of the Company, substantially as set out in Appendix “B” to the Company’s Information Circular, is hereby approved and confirmed;
2. All outstanding options and common shares available for issuance under the 2005 Plan be transferred to the 2008 Plan;
3. Any one of a group consisting of the directors and officers of the Company be and is hereby authorized, for and on behalf of the Company, to do all acts and things, to settle the form of, execute, under the Company’s common seal or otherwise, and deliver all documents and instruments, to give all notices and to deliver, file with regulatory authorities or otherwise, and distribute, all documents and information which may, in the opinion of such person, be necessary or desirable to implement to this ordinary resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of such document or instrument and the taking of any such action.”

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PAN AMERICAN SILVER CORP
(Registrant)

Date: April 10, 2008

By: /s/ Robert Pirooz

Name: Robert Pirooz
General Counsel, Secretary and
Title: Director