

PAN AMERICAN SILVER CORP
Form 6-K
May 05, 2006

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of May, 2006

Commission File Number: 000-13727

Pan American Silver Corp.

(Translation of registrant's name into English)

1500-625 HOWE STREET

VANCOUVER BC CANADA V6C 2T6

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

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

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 ..X...

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____

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.

Date: May 5, 2006

Pan American Silver Corp.
(Registrant)

By: /s/ Ross Beaty
(Signature)

Ross Beaty, Chairman

2006 FIRST QUARTER REPORT TO SHAREHOLDERS
For the period ending March 31, 2006

NASDAQ Stock Exchange PAAS

Toronto Stock Exchange PAA

May 3, 2006

PAN AMERICAN SILVER SETS NEW Q1 RECORDS ACROSS THE BOARD:
PRODUCTION AND CASH FLOW UP, COSTS DOWN
(all amounts in US Dollars unless otherwise stated)

FIRST QUARTER HIGHLIGHTS

- Record silver production - up 11% over first quarter 2005 to 3.3 million ounces.
- Record revenue - up 57% to \$45.7 million (\$29.1 million in 2005).
- Record mine operating earnings - quadrupled to \$18.0 million (\$3.5 million in 2005).
- Record low cash production cost of \$2.47 per ounce of silver (\$4.50/oz in 2005).
- Record cash flow from operations of \$8.9 million, before working capital adjustments.
- Increased ownership of Manantial Espejo project to 100%. Permits secured and mine development approved.
- Raised \$150 million for construction of Manantial Espejo.

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- Alamo Dorado project remains on budget and on time for late 2006 start-up.

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- On target to double production to over 26 million ounces by 2008.**

FINANCIAL RESULTS

Pan American Silver Corp.'s (NASDAQ: PAAS, TSX: PAA) consolidated revenue for the first quarter of 2006 was a record \$45.7 million or 57% greater than in 2005 (despite lower concentrate sales than the year-earlier period) due to significantly higher realized metal prices and increased silver production and sales. Additional revenue from 4,500 tonnes of concentrate produced in the first quarter but not shipped is expected to be recognized in the second and third quarters of 2006. Cash flow from operations before working capital changes rose to \$8.9 million from \$1.5 million in 2005. Mine operating earnings more than quadrupled to \$18.0 million versus \$3.5 million in 2005.

Consolidated silver production for the first quarter totaled a record 3,327,527 ounces, 11% over the first quarter of 2005. All operations except the silver stockpiles recorded higher mill throughput and higher production.

Cash production costs declined 45% over the year-earlier period due primarily to increased by-product credits from higher base metal prices. Most notably, Morococha recorded negative unit production costs due to higher metal prices and increased by-product zinc and lead production. Lower unit costs should continue as long as base metal prices remain high, so 2006 cash costs should remain significantly lower than 2005 levels.

After recording an \$11.8 million loss on commodity and currency forward contracts, of which \$6.8 million was non-cash and unrealized, the Company had a net loss for the quarter of \$2.8 million. Excluding the unrealized portion of the loss on commodity and currency contracts, the Company recorded net income of \$4.0 million for the current quarter. Pan America will receive \$1,759 per tonne (\$0.80 per pound) for its remaining zinc forward sale positions of 10,500 tonnes during 2006. This represents approximately 35% of Company's estimated zinc production for the year. The mark to market value of these remaining positions will continue to be recorded in income at the end of each quarter and could increase or decrease significantly depending on the price of zinc at the end of each quarter. The Company will sell the balance of its 2006 zinc production at the spot price throughout the year.

Working capital at March 31, 2006, including cash and short-term investments of \$48.6 million, was \$63.1 million, a decrease of \$11.7 million from December 31, 2005 reflecting the ongoing expenditures for the development of the Alamo Dorado mine in Mexico. Working capital at April 21, 2006 increased substantially, when the net proceeds of approximately \$142.8 million from the equity financing were received.

Geoff Burns, President and CEO of Pan American commented: "We are definitely seeing the benefit of the strategic acquisitions we made when silver prices were low. With assets like Morococha, Alamo Dorado and now Manantial Espejo set to double our production to over 26 million ounces by 2008, and with a much better price environment, we should see our future cash flow and income continue to climb. All of our mines turned in excellent production performances this quarter and we should realize all the financial benefits over the next two quarters as our inventory of concentrate is shipped and sold. We are off to a great start for 2006."

OPERATIONS AND DEVELOPMENT HIGHLIGHTS

PERU

The **Morococha** mine was Pan American's best performing operation in the first quarter of 2006, producing a record 735,426 ounces of silver as refurbishments to the mill allowed for increased throughput. Strong base metal prices and increased zinc production resulted in a dramatic decrease in cash costs which were negative \$1.85/oz for the quarter. Zinc production of 5,086 tonnes rose 36%, lead production increased 35% and copper production rose 21%. Mine development continues to moves towards establishing access to the new lower cost, bulk mineable zones discovered in 2005.

The **Quiruvilca** mine also turned in an outstanding performance in the first quarter, producing 608,637 ounces of silver at a cash cost of \$0.92/oz, down substantially from \$4.20/oz realized in the first quarter of 2005. Production of silver, zinc and lead all benefited from higher mill throughput and silver grades as compared to the first quarter of 2005.

The **Huaron** mine achieved a substantial turnaround in the first quarter, increasing mill throughput by 11% to offset slightly lower silver and zinc grades. Cash production costs on 934,480 ounces of silver declined 22% to \$3.69/oz. The improved performance is expected to continue as adjustments in the mill and a more balanced ore extraction plan yield better metal recoveries.

The **Silver Stockpile** operation sold 173,188 ounces of silver in the first quarter. Costs rose as a reflection of higher silver prices which increased the royalty being paid under the operation's purchase agreement.

MEXICO

Construction of the **Alamo Dorado** mine is now approximately 65% complete and the project remains on budget and on time for start-up in the fourth quarter of 2006. Approximately \$12.4 million was spent on development during the quarter, with \$30 million remaining to be spent in 2006 to complete the mine. By the end of this year, Alamo Dorado is expected to produce an average 5 million ounces of silver annually at a cash cost of \$3.25/oz.

The **La Colorada** mine performed to expectations in the first quarter with production of 797,246 ounces of silver, an increase of 16% over 2005, and stable cash costs of \$5.76/oz. During the quarter, approximately \$1.0 million was invested in the new sulphide plant, which is now due to be completed in early May for commissioning in mid-May. The sulphide plant will add approximately 800,000 ounces of production this year, bringing the mine's total production to 4 million ounces of silver in 2006.

ARGENTINA

In late March the Company purchased the outstanding 50% of **Manantial Espejo** for 1.95 million shares and made a decision to immediately proceed with development. The Company has begun securing key personnel, awarding critical contracts, and initiating basic engineering. Starting in early 2008, the mine is expected to produce 4.3 million ounces of silver and 62,000 ounces of gold annually with average life of mine cash costs of \$0.02/oz of silver, net of gold by-product credits. Capital costs for the project are expected to be \$112.3 million.

BOLIVIA

San Vicente profitably produced 78,550 ounces of silver in the first quarter at a cash cost of \$2.85 per ounce. Work is now focused on the expansion project designed to increase San Vicente production to 750 tonnes per day over the next 18 months. Pan American (55%) operates San Vicente in a joint venture with EMUSA (40%), a local Bolivian mining company and Trafigura (5%), a global concentrate and metals trading company. Pan American's investment in San Vicente was \$4.2 million as of March 31, 2006.

SILVER MARKETS

Silver continued its upward trend during the first quarter, opening at \$8.83/oz and closing the quarter at \$11.75/oz. The launch of the silver Exchange Traded Fund has fueled speculative interest throughout 2006 and in April, silver hit a high of \$14.31 and has remained very volatile. Physical interest in silver remains strong as marked by the sale of the 500,000th ounce of silver from the Pan American Silver line of bullion products produced and sold by the Northwest Territorial Mint available through their website (www.silverpa.com). These products now include a new 100 ounce bar embossed with Pan American's name and trademark "silver hammer" .

Pan American will host a conference call to discuss its financial and operating results on Thursday, May 4 at 8:00 am (PST). North American participants please dial toll-free 1-877-427-0636 and international participants dial 1-973-935-2970. The call may also be accessed from the home page of the Company's website at www.panamericansilver.com. It will be available for replay for one week after the call by dialling 1-877-519-4471 (North American callers) or 1-973-341-3080 (International callers) and using replay pin number 7305033.

CAUTIONARY NOTE

Some of the statements in the 2005 annual report and accompanying financial statements are forward-looking statements and as such are based on an assumed set of economic conditions and courses of action. These include estimates of earnings, reserves and resources, future production levels, expectations regarding mine production costs, expected trends in mineral prices and statements that describe Pan American's future plans, objectives or goals. There is a significant risk that actual results will vary, perhaps materially, from results projected depending on such factors as changes in general economic conditions and financial markets, changes in prices for silver and other metals, technological and operational hazards in Pan American's mining and mine development activities, uncertainties inherent in the calculation of mineral reserves, mineral resources and metal recoveries, the timing and availability of financing, governmental and other approvals, political unrest or instability in countries where Pan American is active, labor relations and other risk factors listed from time to time in Pan American's Form 40-F.

Financial & Operating Highlights

	Three months ended	
	March 31,	
	2006	2005
Consolidated Financial Highlights (in thousands of US dollars)		
(Unaudited)		
Net loss for the period	\$ (2,761)	\$ (4,223)
Loss per share	\$ (0.04)	\$ (0.06)
Mine operating earnings	\$ 17,976	\$ 3,488
Cash flow from operations	\$ 7,788	\$ 2,858
Capital spending	\$ 16,261	\$ 10,003
Exploration expenses	\$ 1,234	\$ 1,424
Cash and short-term investments	\$ 48,643	\$ 91,860
Working capital	\$ 63,108	\$ 100,351
Consolidated Ore Milled & Metals Recovered to Concentrate		
Tonnes milled	456,339	393,594
Silver metal - ounces	3,327,527	2,995,702
Zinc metal - tonnes	10,700	8,871
Lead metal - tonnes	3,954	3,675
Copper metal - tonnes	1,041	927
Consolidated Cost per Ounce of Silver (net of by-product credits)		
Total cash cost per ounce ⁽¹⁾	\$ 2.47	\$ 4.50
Total production cost per ounce ⁽¹⁾	\$ 3.92	\$ 5.82
In thousands of US dollars		
Direct operating costs, royalties, treatment and refining charges	\$ 37,651	\$ 28,805
By-product credits	(30,176)	(16,563)
Cash operating costs	7,475	12,242

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Depreciation, amortization & reclamation		4,401		3,570
Production costs	\$	11,876	\$	15,812
Payable ounces of silver (used in cost per ounce calculations)		3,031,459		2,718,073
Average Metal Prices				
Silver - London Fixing	\$	9.72	\$	6.97
Zinc - LME Cash Settlement per pound	\$	1.02	\$	0.60
Lead - LME Cash Settlement per pound	\$	0.56	\$	0.44
Copper - LME Cash Settlement per pound	\$	2.24	\$	1.48

Mine Operations Highlights**Three Months ended
March 31**

	2006	2005
Huaron Mine		
Tonnes milled	162,518	146,010
Average silver grade - grams per tonne	215	218
Average zinc grade	2.77%	3.02%
Silver - ounces	934,480	884,146
Zinc - tonnes	2,892	3,179
Lead - tonnes	1,819	1,904
Copper - tonnes	403	381
Total cash cost per ounce ⁽¹⁾	\$ 3.69	\$ 4.74
Total production cost per ounce ⁽¹⁾	\$ 4.90	\$ 5.91

In thousands of US dollars

Direct operating costs, royalties, treatment and refining charges	\$ 12,562	\$ 10,241
By-product credits	(9,434)	(6,439)
Cash operating costs	3,128	3,802
Depreciation, amortization and reclamation	1,026	944
Production costs	\$ 4,154	\$ 4,746
Payable ounces of silver (used in cost per ounce calculation)	847,290	802,794

Quiruvilca Mine

Tonnes milled	95,520	89,925
Average silver grade - grams per tonne	227	223
Average zinc grade	2.99%	3.21%
Silver - ounces	608,637	563,388
Zinc - tonnes	2,439	2,451
Lead - tonnes	665	681
Copper - tonnes	354	321

Total cash cost per ounce (1)	\$	0.92	\$	4.20
Total production cost per ounce (1)	\$	2.05	\$	4.76

In thousands of US dollars

Direct operating costs, royalties, treatment and refining charges	\$	7,664	\$	6,668
By-product credits		(7,144)		(4,465)
Cash operating costs		520		2,203
Depreciation, amortization and reclamation		640		291
Production costs	\$	1,160	\$	2,494
Payable ounces of silver (used in cost per ounce calculation)		566,492		524,081

	Three months ended	
	March 31,	
	2006	2005
Morococha Mine		
Tonnes milled	132,773	110,528
Average silver grade - grams per tonne	201	222
Average zinc grade	4.46%	4.06%
Silver - ounces	735,426	653,534
Zinc - tonnes	5,086	3,242
Lead - tonnes	1,470	1,091
Copper - tonnes	270	224
Total cash cost per ounce (1)	\$ (1.85)	3.72
Total production cost per ounce (1)	\$ (0.23)	5.47

In thousands of US dollars

Direct operating costs, royalties, treatment and refining charges	\$ 11,411	7,529
By-product credits	(12,622)	(5,345)
Cash operating costs	(1,211)	2,184
Depreciation, amortization, reclamation	1,060	1,031
Production costs	\$ (151)	3,215
Payable ounces of silver (used in cost per ounce calculations)	655,112	587,685

La Colorada Mine

Tonnes milled	56,541	47,130
Average silver grade - grams per tonne	511	547
Silver - ounces	797,246	688,619
Total cash cost per ounce (1)	\$ 5.76	\$ 5.58
Total production cost per ounce (1)	\$ 7.84	\$ 7.48

In thousands of US dollars

Direct operating costs, royalties, treatment and refining charges	\$ 4,968	\$ 4,146
By-product credits	(392)	(314)
Cash operating costs	4,576	3,832
Depreciation, amortization, reclamation	1,655	1,304
Production costs	\$ 6,231	\$ 5,136
Payable ounces of silver (used in cost per ounce calculations)	794,468	686,897

	Three Months ended	
	March 31	
	<u>2006</u>	<u>2005</u>
Pyrite Stockpile		
Tonnes sold	14,935	17,737
Average silver grade - grams per tonne	361	361
Silver - ounces	173,188	