

PAN AMERICAN SILVER CORP
Form 6-K/A
December 23, 2004

FORM 6-K/A
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 September, 2004

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 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-_____

RECORD PROFITS, CASH FLOW AND PRODUCTION IN THIRD QUARTER

MARK PAN AMERICAN SILVER'S TENTH ANNIVERSARY

(all amounts in US dollars unless otherwise stated)

THIRD QUARTER HIGHLIGHTS

- Record net earnings of \$3.3 million for the quarter (\$0.05/share) versus a net loss of \$1.2 million (\$0.02) in the third quarter of 2003. Net earnings year-to-date of \$4.2 million.
- Record consolidated revenue of \$27.4 million - 131% over the third quarter of 2003.
- Record cash flow from operations, before changes to non-cash working capital, of \$7.0 million, versus \$0.3 million in 2003 - the eighth consecutive quarter of improved operating profits.
- Record quarterly silver production of 3.2 million ounces, an increase of 45% over the same period of 2003.
- Completion of acquisition of 84% of the Morococha silver mine in Peru.

FINANCIAL RESULTS

Pan American Silver Corp. (NASDAQ: PAAS; TSX: PAA) reported consolidated revenue for the second quarter of \$27.4 million, 131% greater than revenue in the third quarter of 2003 due to increased silver production, higher realized metal prices and higher sales from concentrate inventory. Net earnings for the quarter were \$3.3 million compared to a net loss of \$1.2 million in 2003.

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Cash flow from operating activities before changes to non-cash working capital increased to \$7.0 million for the quarter.

Consolidated silver production for the third quarter was 3,173,000 ounces, a 45% increase over the third quarter of 2003 and the greatest quarterly production in the Company's history. Steady-state production from Quiruvilca, Huaron and the pyrite stockpiles was complemented by the addition of production from the newly acquired Morococha mine as of July 1, 2004. Zinc production of 10,367 tonnes was 37% higher than in the third quarter of 2003 while lead production of 4,876 tonnes was 12.5% higher also due to the addition of Morococha production.

Consolidated cash costs in the third quarter rose from \$3.87/oz to \$4.07/oz and total costs rose from \$4.39/oz to \$5.09/oz due to an expected temporary increase in production costs at the La Colorada mine. Positive results from the new mine plan and more selective mining methods that have been implemented will begin to be realized in the fourth quarter.

Capital spending in the third quarter declined slightly to \$3.1 million, excluding \$36.2 million spent to acquire the Morococha mine. Exploration spending doubled to \$1.2 million in the third quarter, primarily reflecting increased activity at the Manantial Espejo and San Vicente development projects.

For the nine months ended September 30, 2004, consolidated revenue totaled \$63.5 million versus \$32.3 million in the year-earlier period due to higher production and higher realized metal prices. Net earnings were \$4.2 million versus a net loss of \$4.0 million in the first nine months of 2003.

Consolidated silver production in the first nine months of 2004 was 8,058,443 ounces, a 24% increase over the same period in 2003 on track for 11.5 million ounces in 2004. Zinc production of 24,890 tonnes and copper production of 2,376 tonnes were unchanged from 2003 levels. Lead production of 12,973 tonnes was 12.5% lower than in 2003 due to lower lead production at Huaron.

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Cash production costs for the first nine months of 2004 declined 3% to \$4.01/oz, while total production costs rose 8% to \$5.00 due to higher depreciation charges.

Working capital at September 30, 2004, including cash and short-term investments of \$80.8 million, improved to \$97.1 million, an increase of \$15.2 million from December 31, 2003. The change in working capital stems from the receipt of \$54.8 million in net proceeds from a share issuance in February, offset by the purchase of the Morococha mine completed during the quarter. Capital spending in the first nine months of 2004 was \$9.7 million excluding the purchase of Morococha, down from \$12.5 million a year earlier. Exploration spending increased from \$1.6 million in the first three quarters of 2003 to \$2.9 million in 2004, reflecting increased project development activity and drill programs to expand reserves at Huaron, San Vicente and now Morococha.

Ross Beaty, Chairman of Pan American said, "This is the eighth consecutive quarter that Pan American has improved its operating profit and we set new records for earnings, cash flow and production. Our operations are strong, our development projects are progressing well and we have one of the best balance sheets in the industry with virtually no debt. We completed the acquisition of the low-cost Morococha silver mine last quarter and we are fully funded to start building another new mine within the next 12 months. Pan American Silver is in great shape today and we look forward to an even better future."

OPERATIONS AND DEVELOPMENT HIGHLIGHTS

PERU

The **Quiruvilca mine** continued its turn-around in the third quarter with production of 654,182 ounces of silver, up 2% over 2003 levels. Cash and total production costs dropped markedly, from \$4.69/oz and \$4.85/oz respectively to \$3.34/oz in the current quarter. For the first nine months of the year the mine produced 1,892,383 ounces of silver at a cash cost of \$3.27/oz, versus similar production at a cash cost of \$5.31/oz in 2003. A new life-of-mine plan is now being developed at Quiruvilca based on the discovery of a major new vein structure announced in the second quarter.

Silver production at the **Huaron mine** remained steady in the third quarter at 1,064,476 ounces at a cash cost of \$3.87/oz. Total production costs increased 16% over the prior-year period to \$5.21/oz reflecting higher depreciation costs. Year-to-date the mine has produced 3,129,071 ounces at a cash cost of \$3.93/oz, in line with 2003.

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The Company concluded the acquisition of 84% of the **Morococha Mine** in the third quarter. Morococha produced 694,564 ounces of silver to Pan American's account in the third quarter at a cash cost of \$3.52/oz and a total cost of \$4.85/oz. Over the long term the mine is expected to produce an average of 3.5 million ounces of silver annually (100%) at cash costs of less than \$3.00/oz.

The **Silver Stockpile Operation** continued to generate excellent cash flow, producing 231,115 ounces of silver at a cash cost of \$2.87/oz during the most recent quarter. Year to date the Company has produced 779,426 ounces from the silver stockpiles at a cash cost of \$2.83/oz. The increased cash costs in 2004 reflect a sliding-scale refining charge, which increases as the silver price rises.

MEXICO

The **La Colorada mine** in Mexico increased its third quarter silver production to 441,959 ounces, up from 244,971 ounces in 2003. During the quarter a new mine plan was implemented to reduce dilution, to increase silver grades and to blend ore from clay-rich areas that has been difficult to process. This required more non-production underground development, resulting in high cash costs for the quarter, as planned. Ore grades are now 19% higher and new mining areas have been opened up with lower clay-content ore, increasing recoveries. Cash costs are now expected to decline and silver production to increase steadily. Silver production and cash costs are expected to improve further in 2005 once the sulphide zone returns to production post dewatering.

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Staffing has begun on the **Alamo Dorado** project in anticipation of a positive feasibility study, now due in February 2005. A power supply has been secured and the design process for the power line's right-of-way has been initiated. Grindability tests have been completed and a pilot plant is now operating. Construction is expected to begin in 2005.

ARGENTINA

The 50% owned **Manantial Espejo** silver-gold joint venture also progressed significantly in the third quarter. The feasibility study currently underway now envisions a combined open-pit, underground operation to exploit the Maria and Karina Union deposits. Ramped pit designs along with annual production schedules and waste dump designs have been completed. As drilling continues to intersect new vein structures and to expand the two main systems on the property, another 5,000 m of infill and extension drilling has been initiated. Drilling has also begun to secure water for the mine and a number of baseline studies have been completed. Given the ongoing drilling programs, the joint venture will provide a proven and probable reserve with a mine plan upon completion of the feasibility study early in 2005.

BOLIVIA

At the **San Vicente** property, small-scale mining produced 86,704 ounces of silver in the third quarter of the year to Pan American's account, while the Company continues to move forward with a feasibility study testing the viability of increasing production in 2005. EMUSA, a Bolivian mining company, continues to carry out small-scale contract mining under a site services agreement.

SILVER MARKETS

The silver price opened the quarter at \$5.91/oz, breaking through the \$6 level almost immediately and closing at \$6.66/oz on September 30, 2004 for an average price of \$6.47/oz, approximately the same as the average for the year. The silver price remains very volatile, but has continued to rebound from its second-quarter lows and was up 23% over year-end 2003 as of late October.

According to Ross Beaty: "Primary factors influencing the silver price today continue to be the US dollar, global industrial production particularly in the electronics/electrical sector and investment demand. The underlying demand/supply fundamentals for silver are sound. It is a great time to be one of the world's major silver producers."

Pan American will host a conference call to discuss the results on Monday, November 1, 2004 at 11:00 a.m. Pacific time (2:00 p.m. Eastern time). North American participants please call toll-free 1-877-825-5811. International participants please dial 1-973-582-2767. The conference may also be accessed live from the investor relations section of the Pan American website at www.panamericansilver.com. To listen to a playback for one week after the call, dial 1-877-519-4471 and enter the pass code 5270686.

For More Information, please contact:

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www.panamericansilver.com

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CAUTIONARY NOTE

Some of the statements in this news release are forward-looking statements, such as estimates of 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. Actual results and developments may differ materially from those contemplated by these statements 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

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Financial & Operating Highlights

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Consolidated Financial Highlights (in thousands of US dollars)				
Net income (loss) for the period	\$ 3,289	\$ (1,225)	\$ 4,210	\$ (3,972)
Earnings (loss) per share	0.05	(0.02)	(0.11)	(0.08)
Cash flow from operations before working capital adjustments				
Capital spending **	6,989	302	12,287	344
Exploration expense	39,327	3,501	45,889	12,513
Cash and short-term investments	1,213	600	2,878	1,588
Working capital	80,839	92,852	80,839	92,852
	\$ 97,076	\$ 87,054	\$ 97,076	\$ 87,054

** Includes the acquisition of the Morococha mine for \$36,214

Consolidated Metal Production

Tonnes milled	420,912	282,650	1,023,475	871,689
Silver metal - ounces	3,173,000	2,187,508	8,058,443	6,518,167
Zinc metal - tonnes	10,367	7,578	24,890	24,759
Lead metal - tonnes	4,876	4,332	12,973	14,836
Copper metal - tonnes	1,106	841	2,376	2,625

Consolidated Cost per Ounce of Silver (net of by-product credits)

Total cash cost per ounce	\$ 4.07	\$ 3.87	\$ 4.01	\$ 4.12
Total production cost per ounce	\$ 5.09	\$ 4.39	\$ 5.00	\$ 4.63

(In thousands of US dollars)

Direct operating costs plus value of metals lost in smelting and refining	\$ 20,885	\$ 11,467	\$ 51,988	\$ 35,612
By-product credits	(8,312)	(3,950)	(20,502)	(11,508)
Cash operating costs	12,573	7,517	31,486	24,104
Depreciation, amortization & reclamation	3,127	1,013	7,782	2,987

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Production costs	\$	15,700	\$	8,530	\$	39,268	\$	27,091
Ounces used in cost per ounce calculations		3,086,296		1,942,537		7,847,992		5,846,927
Average Metal Prices								
Silver - London Fixing	\$	6.46	\$	4.99	\$	6.47	\$	4.75
Zinc - LME Cash Settlement per pound	\$	0.44	\$	0.37	\$	0.47	\$	0.36
Lead - LME Cash Settlement per pound	\$	0.42	\$	0.23	\$	0.39	\$	0.22
Copper - LME Cash Settlement per pound	\$	1.29	\$	0.79	\$	1.27	\$	0.77

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Mine Operations Highlights

	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Huaron Mine				
Tonnes milled	166,965	148,630	481,445	461,570
Average silver grade - grams per tonne	228	246	230	256
Average zinc grade - percent	3.13%	3.75%	3.22%	3.83%
Silver - ounces	1,064,476	1,047,616	3,129,071	3,398,329
Zinc - tonnes	3,856	4,598	11,877	14,881
Lead - tonnes	2,825	3,247	8,677	11,277
Copper - tonnes	491	362	1,250	1,050
Net smelter return per tonne	\$ 57.32	\$ 46.45	\$ 59.14	\$ 44.96
Cost per tonne	41.95	41.70	43.92	41.09
Margin (loss) per tonne	\$ 15.37	\$ 4.75	\$ 15.22	\$ 3.87
Total cash cost per ounce	\$ 3.87	\$ 3.78	\$ 3.93	\$ 3.81
Total production cost per ounce	\$ 5.21	\$ 4.49	\$ 5.25	\$ 4.49
(In thousands of US dollars)				
Direct operating costs & value of metals lost in smelting and refining	\$ 7,666	\$ 6,516	\$ 22,990	\$ 20,059
By-product credits	(3,543)	(2,560)	(10,694)	(7,118)
Cash operating costs	4,123	3,956	12,295	12,941
Depreciation, amortization and reclamation	1,423	748	4,138	2,322
Production costs	\$ 5,546	\$ 4,704	\$ 16,433	\$ 15,263
Ounces for cost per ounce calculations	1,064,476	1,047,616	3,129,071	3,398,329

Quiruvilca Mine

Tonnes milled	98,625	106,930	284,590	352,199
Average silver grade - grams per tonne	235	212	236	191
Average zinc grade - percent	3.48%	3.17%	3.66%	3.17%
Silver - ounces	654,182	641,747	1,892,383	1,875,775
Zinc - tonnes	2,920	2,845	8,994	9,525
Lead - tonnes	890	980	2,998	3,266
Copper - tonnes	310	479	800	1,575
Net smelter return per tonne	\$ 61.65	\$ 38.44	\$ 62.84	\$ 34.02
Cost per tonne	42.45	38.89	42.97	38.92
Margin (loss) per tonne	\$ 19.20	\$ (0.45)	\$ 19.87	\$ (4.90)
Total cash cost per ounce	\$ 3.34	\$ 4.69	\$ 3.27	\$ 5.31
Total production cost per ounce	\$ 3.34	\$ 4.85	\$ 3.25	\$ 5.46

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(In thousands of US dollars)

Direct operating costs & value of metals lost in smelting and refining	\$ 4,566	\$ 4,402	\$ 13,305	\$ 14,350
By-product credits	(2,383)	(1,390)	(7,111)	(4,391)
Cash operating costs	2,182	3,012	6,194	9,960
Capital spending expensed and carrying value adjustment	-	104	(48)	288
Production costs	\$ 2,182	\$ 3,115	\$ 6,146	\$ 10,247
Ounces for cost per ounce calculations	654,182	641,747	1,892,383	1,875,775

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Morococha Mine*	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Tonnes milled	112,580	-	112,580	-
Average silver grade - grams per tonne	227	-	227	-
Average zinc grade - percent	3.69%	-	3.69%	-
Silver - ounces	694,564	-	694,564	-
Zinc - tonnes	3,079	-	3,079	-
Lead - tonnes	1,162	-	1,162	-
Copper - tonnes	290	-	290	-
Net smelter return per tonne	\$ 54.53	\$ -	\$ 54.53	\$ -
Cost per tonne	38.38	-	38.38	-
Margin (loss) per tonne	\$ 16.14	\$ -	\$ 16.14	\$ -
Total cash cost per ounce	\$ 3.52	\$ -	\$ 3.52	\$ -
Total production cost per ounce	\$ 4.85	\$ -	\$ 4.85	\$ -
In thousands of US dollars				
Direct operating costs & value of metals lost in smelting and refining	\$ 4,690	\$ -	\$ 4,690	\$ -
By-product credits	(2,246)	-	(2,246)	-
Cash operating costs	2,444	-	2,444	-
Capital spending expensed and carrying value adjustment	927	-	927	-
Production costs	\$ 3,371	\$ -	\$ 3,371	\$ -
Ounces for cost per ounce calculations	694,564	-	694,564	-

* Production and cost figures are for Pan American's share only. Pan American's ownership increased from 81% to 84% during the quarter.

La Colorada Mine

Tonnes milled	34,822	27,090	126,211	57,920
Average silver grade - grams per tonne	510	430	457	467
Silver - ounces	441,959	244,971	1,352,549	671,240
Zinc - tonnes	-	135	122	353
Lead - tonnes	-	105	136	293
Total cash cost per ounce	\$ 7.15	\$ -	\$ 6.17	\$ -
Total production cost per ounce	\$ 8.57	\$ -	\$ 7.86	\$ -

(In thousands of US dollars)

Direct operating costs & value of metals lost in smelting and refining	\$ 3,299	\$ -	\$ 8,801	\$ -
By-product credits	(140)	-	(450)	-

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Cash operating costs	3,159	-	8,351	-
Depreciation, amortization and reclamation	629	-	2,274	-
Production costs	\$ 3,789	\$ -	\$ 10,625	\$ -
Ounces for cost per ounce calculations	441,959	-	1,352,549	-

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Pyrite Stockpile Sales	Three Months ended September 30		Nine Months ended September 30	
	2004	2003	2004	2003
Tonnes sold	19,214	20,197	64,050	47,041
Average silver grade - grams per tonne	374	391	378	379
Silver ounces	231,115	253,174	779,426	572,823
Net smelter return per tonne	\$ 44.23	\$ 35.55	\$ 44.76	\$ 33.08
Cost per tonne	1.03	0.56	0.64	0.60
Margin (loss) per tonne	\$ 43.20	\$ 34.99	\$ 44.12	\$ 32.48
Total cash cost per ounce	\$ 2.87	\$ 2.17	\$ 2.83	\$ 2.10
Total production cost per ounce	\$ 3.51	\$ 2.81	\$ 3.46	\$ 2.76
(In thousands of US dollars)				
Value of metals lost in smelting and refining	\$ 664	\$ 549	\$ 2,202	\$ 1,203
By-product credits	-	-	-	-
Cash operating costs	664	549	2,202	1,203
Depreciation, amortization and reclamation	147	162	491	377
Production costs	\$ 811	\$ 711	\$ 2,693	\$ 1,580
Ounces for cost per ounce calculations	231,115	253,174	779,426	572,823
San Vicente Mine**				
Tonnes milled	7,920	-	18,649	-
Average silver grade - grams per tonne	389	-	408	-
Average zinc grade - percent	7.48%	-	5.28%	-
Silver - ounces	86,704	-	210,451	-
Zinc - tonnes	512	-	817	-
Copper - tonnes	15	-	36	-

** Pan American does not include San Vicente's production in its cost per ounce calculations. The production statistics represent Pan American's 50% interest in the mine's silver production.

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PAN AMERICAN SILVER CORP.

Consolidated Balance Sheets (in thousands of US dollars)

September 30 2004 (Unaudited)	December 31 2003
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ASSETS

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Current			
Cash and cash equivalents	\$	17,862	\$ 14,191
Short-term investments		62,977	74,938
Accounts receivable		16,948	7,545
Inventories		8,809	6,612
Prepaid expenses		3,599	1,289
Total Current Assets		110,195	104,575
Mineral property, plant and equipment - notes 3 and 4		102,315	83,574
Investment and non-producing properties - note 5		121,323	83,873
Direct smelting ore		3,289	3,901
Other assets		4,826	3,960
Total Assets	\$	341,948	\$ 279,883

LIABILITIES

Current			
Accounts payable and accrued liabilities	\$	11,435	\$ 10,525
Advances for metal shipments		1,244	4,536
Current portion of bank loans and capital lease		14	2,639
Current portion of other non-current liabilities		426	4,948
Total Current Liabilities		13,119	22,648
Deferred revenue		754	865
Bank loans and capital lease		332	10,803
Liability component of convertible debentures		167	19,116
Provision for asset retirement obligation and reclamation		29,796	21,192
Provision for future income tax		30,073	19,035
Non-controlling interest		1,734	-
Severance indemnities and commitments		2,640	2,126
Total Liabilities		78,615	95,785

SHAREHOLDERS' EQUITY

Share capital			
Authorized: 100,000,000 common shares with no par value			
Issued:			
December 31, 2003 - 53,009,851 common shares			
September 30, 2004 - 66,752,572 common shares		380,404	225,154
Equity component of convertible debentures		701	66,735
Additional paid in capital		9,874	12,752
Deficit		(127,646)	(120,543)
Total Shareholders' Equity		263,333	184,098
Total Liabilities and Shareholders' Equity	\$	341,948	\$ 279,883
See accompanying notes to consolidated financial statements			

PAN AMERICAN SILVER CORP.

Consolidated Statements of Operations

(Unaudited - in thousands of US dollars, except per share amounts)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
		(Note 2)		(Note 2)

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Revenue	\$ 27,409	\$ 11,890	\$ 63,510	\$ 32,265
Expenses				
Operating	18,526	10,200	46,225	28,962
General and administration	934	565	2,939	1,548
Depreciation and amortization	3,033	432	7,186	1,365
Stock-based compensation	518	835	1,642	2,036
Reclamation	302	75	905	231
Exploration and development	1,213	600	2,878	1,588
Interest	66	678	823	1,015
	24,592	13,385	62,598	36,745
Income (loss) from operations	2,817	(1,495)	912	(4,480)
Gain on sale of concessions	-	-	3,583	-
Debt settlement expenses	(53)	-	(1,364)	-
Non-controlling interest	(320)	-	(320)	-
Interest and other income (note 7)	845	270	1,399	508
Net income (loss) for the period	\$ 3,289	\$ (1,225)	\$ 4,210	\$ (3,972)
Adjustments:				
Charges relating to conversion of convertible debentures	-	-	(8,464)	-
Convertible debentures issue costs	-	(3,000)	-	(3,000)
Accretion of convertible debentures	-	(975)	(2,838)	(975)
Adjusted net income (loss) attributable to common shareholders	\$ 3,289	\$ (5,200)	\$ (7,092)	\$ (7,947)
Earnings (loss) per share - Basic and Fully Diluted	\$ 0.05	\$ (0.10)	\$ (0.11)	\$ (0.16)
Weighted average number of shares outstanding - Basic	66,660	52,307	61,947	51,030
Weighted average number of shares outstanding - Fully Diluted	72,213	67,990	67,499	66,714
See accompanying notes to consolidated financial statements				

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PAN AMERICAN SILVER CORP.

Consolidated Statements of Cash Flows

(Unaudited - in thousands of US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003 (Note 2)	2004	2003 (Note 2)
Operating activities				
Net income (loss) for the period	\$ 3,289	\$ (1,225)	\$ 4,210	\$ (3,972)
Reclamation expenditures	(327)	-	(919)	-
Gain on sale of assets	-	(165)	(3,583)	(165)
Items not involving cash				
Depreciation and amortization	3,033	432	7,186	1,365

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Minority interest	320	-	320	-
Interest accretion on convertible debentures	-	-	366	-
Stock-based compensation	518	835	1,642	2,036
Debt settlement expenses	-	-	1,208	-
Compensation expense	-	-	245	-
Asset retirement and reclamation accretion	302	75	905	231
Operating cost provisions	(146)	350	707	849
Changes in non-cash working capital items (note 8)	(6,576)	(804)	(11,772)	(3,069)
	413	(502)	515	(2,725)
Financing activities				
Shares issued for cash	812	2,940	61,817	5,638
Shares issue costs	-	-	(180)	-
Convertible debentures	-	86,250	-	86,250
Convertible debentures issue costs	-	(2,993)	-	(3,000)
Convertible debentures payments	(22)	-	(13,542)	-
Capital lease repayment	-	(75)	(75)	(150)
Proceeds from bank loans	-	-	-	8,000
Repayment of bank loans	-	(406)	(13,021)	(1,344)
	790	85,716	34,999	95,394
Investing activities				
Mineral property, plant and equipment expenditures	(2,679)	(3,006)	(8,687)	(11,644)
Investment and non-producing property expenditures	(434)	(492)	(988)	(869)
Acquisition of net assets of subsidiary (note 3)	(36,214)	-	(36,214)	-
Acquisition of cash of subsidiary	-	-	-	2,393
Proceeds from sale of assets	-	165	3,583	165
Proceeds from sale of marketable securities	2,007	-	12,463	-
Other	-	(180)	(2,000)	(60)
	(37,320)	(3,513)	(31,843)	(10,015)
(Decrease) increase in cash and cash equivalents during the period				
	(36,117)	81,701	3,671	82,654
Cash and cash equivalents, beginning of period				
	53,979	11,138	14,191	10,185
Cash and cash equivalents, end of period				
	\$ 17,862	\$ 92,839	\$ 17,862	\$ 92,839
Supplemental disclosure of non-cash financing and investing activities				
Shares issued for compensation	\$ -	\$ -	\$ 245	\$ -
Shares issued for acquisition of subsidiary	-	-	-	64,228
Shares issued for conversion of convertible debentures	-	-	88,848	-
See accompanying notes to consolidated financial statements				

PAN AMERICAN SILVER CORP.

Consolidated Statements of Shareholders' Equity For the nine months ended September 30, 2004

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(Unaudited - in thousands of US dollars, except for shares)

	Common shares		Convertible	Additional	Deficit	Total
	Shares	Amount	Debentures	Paid in Capital		
Balance, December 31, 2002	43,883,454	\$ 161,108	\$ -	\$ 1,327	\$ (106,943)	\$ 55,492
Stock-based compensation	-	-	-	2,871	-	2,871
Exercise of stock options	1,385,502	9,312	-	(1,471)	-	7,841
Exercise of share purchase warrants	100,943	509	-	-	-	509
Issued on acquisition of Corner Bay Silver Inc.	7,636,659	54,203	-	-	-	54,203
Fair value of stock options granted	-	-	-	1,136	-	1,136
Fair value of share purchase warrants	-	-	-	8,889	-	8,889
Issue of convertible debentures	-	-	63,201	-	-	63,201
Accretion of convertible debentures	-	-	3,534	-	(3,534)	-
Convertible debentures issue costs	-	-	-	-	(3,272)	(3,272)
Issued as compensation	3,293	22	-	-	-	22
Net loss for the year	-	-	-	-	(6,794)	(6,794)
Balance, December 31, 2003	53,009,851	225,154	66,735	12,752	(120,543)	184,098
Stock-based compensation	-	-	-	1,642	-	1,642
Exercise of stock options	717,695	9,313	-	(4,415)	-	4,898
Exercise of share purchase warrants	540,026	2,024	-	(105)	-	1,919
Shares issued for cash	3,333,333	55,000	-	-	-	55,000
Shares issue costs	-	(180)	-	-	-	(180)
Shares issued on conversion of convertible debentures	9,135,043	88,848	(68,883)	-	(8,464)	11,501
Issued as compensation	16,624	245	-	-	-	245
Accretion of convertible debentures	-	-	2,849	-	(2,849)	-
Net income for the period	-	-	-	-	4,210	4,210
Balance, September 30, 2004	66,752,572	\$ 380,404	\$ 701	\$ 9,874	\$ (127,646)	\$ 263,333

See accompanying notes to consolidated financial statements

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Pan American Silver Corp (the "Company") is engaged in silver mining and related activities, including exploration, extraction, processing, refining and reclamation. The Company has mining operations in Peru, Mexico and Bolivia, project development activities in Argentina, Mexico and Bolivia, and exploration activities in South America.

The Company completed the acquisition of the Morococha mining assets in central Peru (Note 3) with the effective date July 1, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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These unaudited interim consolidated financial statements are expressed in United States dollars and are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which are more fully described in the annual audited consolidated financial statements for the year ended December 31, 2003 which is included in the Company's 2003 Annual Report. These statements do not include all of the disclosures required by Canadian GAAP for annual financial statements. Certain comparative figures have been reclassified to conform to the current presentation.

In management's opinion, all adjustments necessary for fair presentation have been included in these financial statements.

a) Stock-based compensation

During the fourth quarter 2003 the Company changed its accounting policy, retroactive to January 1, 2002, in accordance with recommendation of CICA 3870, "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over their vesting periods. Previously, the Company used the intrinsic value method for valuing stock-based compensation awards granted to employees, directors and officers where compensation expense was recognized for the excess, if any, of the quoted market price of the Company's common shares over the common share exercise price on the day that options were granted. In addition, the Company provided note disclosure of pro forma net loss and pro forma loss per share as if the fair value based method had been used to account for share purchase options granted to employees, directors and officers after January 1, 2002.

Using the fair value method for stock-based compensation, the Company recorded an additional charge to earnings of \$1,642,000 for the nine months ended September 30, 2004 (nine months ended September 30, 2003 - \$2,036,000) for stock options granted to employees, directors and officers. The fair value of the stock options granted during the nine months ended September 30, 2004 was determined using an option pricing model assuming no dividends were paid, a weighted average volatility of the Company's share price of 58 per cent, weighted average expected life of 3.5 years and weighted average annual risk free rate of 4.03 per cent.

b) Asset retirement obligation

During the fourth quarter of 2003, the Company changed its accounting policy on a retroactive basis with respect to accounting and reporting for obligations associated with the

Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of long-lived assets. The Company adopted CICA 3110 "Asset Retirement Obligations" whereby the fair value of the liability is initially recorded and the carrying value of the related asset is increased by the corresponding amount. The liability is accreted to its present value and the capitalized cost is amortized over the useful life of the related asset. The change in accounting policy did not have a significant impact on reported results of operations in any period presented.

3. ACQUISITION OF MOROCOCHA MINING ASSETS

In July 2004, the Company acquired 92.0 per cent of the voting shares (80.8 per cent equity interest) of Compania Minera Argentum S.A. ("Argentum") and 100 per cent of the voting shares of Compania Minera Natividad ("Natividad") for cash of \$35,276,000. Argentum and Natividad assets comprise of the Morococha mining assets, its working capital and surrounding mineral concessions located in central Peru. The Company subsequently acquired an additional 3.0 per cent equity interest in Argentum by acquiring 25 per cent its outstanding non-voting investment shares for a cash payment of \$844,000.

The acquisition was accounted for by the purchase method of accounting and the accounts of Argentum and Natividad have been consolidated from July 1, 2004, which was the date the Company acquired effective control and ownership of the assets and liabilities of the Morococha mine.

The fair value of assets and liabilities acquired and the consideration paid are summarized as follows:

Current assets, including cash of \$657	\$	7,945
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Plant and equipment		7,053
Mineral properties		46,158
		61,156
Less:		
Accounts payable and accrued liabilities		(3,215)
Non-controlling interest		(1,414)
Provision for asset retirement obligation and reclamation		(8,618)
Future income tax liability		(11,038)
Total purchase price	\$	36,871
Consideration paid is as follow:		
Cash	\$	36,120
Acquisition costs		751
	\$	36,871

The final allocation of the consideration among the assets and liabilities of the Morococha Mine may vary from those shown above.

The purchase consideration for the mining assets of Argentum and Natividad exceeded the carrying value of the underlying assets for tax purposes by \$28,176,000. In addition, the Company recorded a provision for future reclamation and restoration costs in amount of \$8,618,000. These amounts have been applied to increase the carrying value of the mineral properties for accounting purposes. However, this did not increase the carrying value of the

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

underlying assets for tax purposes and resulted in a temporary difference between accounting and tax value. The resulting estimated future income tax liability associated with this temporary difference of \$11,038,000 was also applied to increase the carrying value of the mineral properties.

4. MINERAL PROPERTY, PLANT AND EQUIPMENT

Mineral property, plant and equipment consist of:

	September 30, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Mineral properties						
Morococha mine, Peru	\$ 9,693	\$ (636)	\$ 9,057	\$ -	\$ -	\$ -
La Colorada mine, Mexico	4,153	(303)	3,850	4,153	-	4,153
Huaron mine, Peru	1	-	1	1	-	1
	13,847	(939)	12,908	4,154	-	4,154
Plant and equipment						
Morococha mine, Peru	7,053	(463)	6,590	-	-	-
La Colorada mine, Mexico	10,850	(792)	10,058	10,332	(360)	9,972
Huaron mine, Peru	14,417	(4,423)	9,994	14,417	(3,426)	10,991
Quiruvilca mine, Peru	15,410	(15,410)	-	15,410	(15,410)	-
Other	3,257	(559)	2,698	3,161	(503)	2,658
	50,987	(21,647)	29,340	43,320	(19,699)	23,621
Mine development and others						
Morococha mine, Peru	502	(33)	469	-	-	-

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La Colorada mine, Mexico	35,846	(2,615)	33,231	31,892	(1,113)	30,779
Huaron mine, Peru	36,333	(10,071)	26,262	32,820	(7,800)	25,020
Quiruvilca mine, Peru	10,151	(10,046)	105	10,046	(10,046)	-
	82,832	(22,765)	60,067	74,758	(18,959)	55,799
	\$ 147,666	\$ (45,351)	\$ 102,315	\$ 122,232	\$ (38,658)	\$ 83,574

The Company completed the purchase of 83.78 per cent equity interest in Compania Minera Argentum S.A. and 100 per cent equity interest in Compania Minera Natividad for \$36,871,000 (Note 3).

5. INVESTMENT AND OTHER NON-PRODUCING PROPERTIES

Acquisition costs of mineral development properties together with costs directly related to mine development expenditures are deferred. Exploration expenditures on investment properties are charged to operations in the period they are incurred.

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

Investment and non-producing properties consist of:

	September 30 2004	December 31 2003
Non-producing properties		
Morococha, Peru	\$ 36,465	\$ -
Alamo Dorado, Mexico	81,061	80,076
Manantial Espejo, Argentina	2,012	2,012
	119,538	82,088
Investment properties		
Waterloo, USA	1,000	1,000
Tres Cruces, Hog Heaven and others	785	785
	1,785	1,785
	\$ 121,323	\$ 83,873

6. SHARE CAPITAL

During the nine-month period ended September 30, 2004, the Company:

- i) issued 9,135,043 common shares at a value of \$88,848,000 to the holders of \$85,431,000 principal amount, senior subordinated convertible debentures on conversion;
- ii) issued 3,333,333 common shares at \$16.50 per share, for net proceeds of \$54,820,000;

iii) issued 717,695 common shares for proceeds of \$4,898,000 in connection with the exercise of employees and directors stock options;

iv) issued 540,026 common shares for proceeds of \$1,919,000 in connection with the exercise of share purchase warrants; and

v) issued 16,624 common shares at a value of \$245,000 as compensation expense.

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

The following table summarizes information concerning stock options outstanding as at September 30, 2004:

Range of Exercise Prices	Year of Expiry	Options Outstanding		Options Exercisable	
		Number Outstanding as at September 30, 2004	Weighted Average Remaining Contractual Life (months)	Number Exercisable as at September 30, 2004	Weighted Average Exercise Price
\$3.61	2004	36	.07	36	\$ 3.61
\$9.51	2005	48,077	5.03	48,077	\$ 9.51
\$3.96 - \$7.73	2006	124,666	19.42	88,000	\$ 5.07
\$7.93 - \$8.01	2007	385,000	37.83	351,000	\$ 7.95
\$7.05 - \$11.44	2008	494,231	45.44	169,231	\$ 7.93
\$13.08 - \$17.84	2009	382,000	53.31	142,000	\$ 15.58
\$3.96	2010	217,000	74.53	217,000	\$ 3.96
		1,651,010	49.01	1,015,344	\$ 9.01

During the nine months ended September 30, 2004, the Company recognized \$1,642,000 of stock compensation expense consisting of \$831,000 for options issued in 2004 and \$811,000 for options issued in 2003.

As at September 30, 2004 there were warrants outstanding to allow the holders to purchase 3,814,470 common shares of the Company at Cdn\$12.00 per share, which expire on February 20, 2008.

Subsequent to September 30, 2004, the Company issued 7,000 common shares for proceeds of \$63,600 pursuant to exercise of employee stock options.

7. INTEREST AND OTHER INCOME

Interest and other income consist of:

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	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Revenue from third party	\$ 554	\$ 239	\$ 780	\$ 546
Power credits	25	14	111	42
Gain on sale of marketable securities	226	-	475	-
Other revenue and expenses	40	17	33	(80)
	\$ 845	\$ 270	\$ 1,399	\$ 508

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Changes in non-cash working capital				
Short-term investments	\$ (475)	\$ -	\$ (475)	\$ -
Accounts receivable	(2,270)	1,032	(5,047)	(695)
Inventories	(212)	229	803	(1,807)
Prepays expenses	(1,260)	44	(1,241)	909
Accounts payable and accrued liabilities	(2,359)	(2,109)	(5,812)	(1,476)
	\$ (6,576)	\$ (804)	\$ (11,772)	\$ (3,069)

9. SEGMENTED INFORMATION

Substantially all of the Company's operations are within the mining sector, conducted through operations in six countries. Due to differences between mining and exploration activities, the Company has a separate budgeting process and measures the results of operations and exploration activities independently. The Corporate office provides financial, human resources and technical support to its mining and exploration activities.

Segmented disclosures and enterprise-wide information are as follows:

	For the three months ended September 30, 2004			
	Mining	Corporate Office	Exploration & Development	Total
Revenue from external customers	\$ 27,409	\$ -	\$ -	\$ 27,409
Net income (loss) for the period	5,004	(1,109)	(606)	3,289

For the three months ended September 30, 2003
(Note 2)

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	Mining	Corporate Office	Exploration & Development	Total
Revenue from external customers	\$ 11,838	\$ 52	\$ -	\$ 11,890
Net income (loss) for the period	655	(1,641)	(239)	(1,225)

For the nine months ended September 30, 2004

	Mining	Corporate Office	Exploration & Development	Total
Revenue from external customers	\$ 63,510	\$ -	\$ -	\$ 63,510
Net income (loss) for the period	12,022	(5,758)	(2,054)	4,210
Segmented assets	\$ 178,991	\$ 72,382	\$ 90,575	\$ 341,948

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Pan American Silver Corp.

Notes to consolidated financial statements

As at September 30, 2004 and 2003 and for the three and nine month periods then ended

(Tabular amounts are in thousands of US dollars, except for shares, price per share and per share amounts (Unaudited))

For the nine months ended September 30, 2003
(Note 2)

	Mining	Corporate Office	Exploration & Development	Total
Revenue from external customers	\$ 31,905	\$ 360	\$ -	\$ 32,265
Net income (loss) for the period	333	(3,457)	(848)	(3,972)
Segmented assets	\$ 92,611	\$ 91,696	\$ 86,403	\$ 270,710

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Third Quarter 2004 Management's Discussion and Analysis

Management's discussion and analysis ("MD&A") focuses on significant factors that affected Pan American Silver Corp.'s and its subsidiaries ("Pan American" or the "Company") performance and such factors that may affect its future performance. The MD&A should be read in conjunction with the unaudited consolidated financial statements for the three months and nine months ended September 30, 2004 and the related notes contained herein. Tabular amounts are in thousands of US dollars, except for per share amounts.

The significant accounting policies are outlined within Note 2 to the Consolidated Financial Statements of the Company for the year ended December 31, 2003. These accounting policies have been applied consistently for the nine months ended September 30, 2004.

Significant Events and Transactions of the Third Quarter

The Company completed its acquisition of 92 per cent of the voting shares of Compania Minera Argentum ("Argentum"), a public company listed on the Peru Stock Exchange, which holds the Morococha mining assets previously owned by Sociedad Minera Corona. The Argentum shares were purchased for \$33.78 million by way of a public offering through the Lima Stock Exchange. This gave Pan American an 81 per cent direct interest in Argentum. Subsequent to this offer, the Company purchased an additional 3 per cent interest in Argentum by acquiring 25 per cent of the investment shares for \$0.84 million. In addition, Pan American acquired 100 per cent of Compania Minera Natividad ("Natividad") for \$1.5 million, which holds numerous adjacent mineral concessions and the Amistad processing facility. The Company intends to combine Natividad and Argentum in the near future. The statements of operations and balance sheets of Argentum and Natividad have been incorporated into Pan American's consolidated financial statements from July 1, 2004.

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Argentum and Natividad (collectively "Morococho") contributed 694,564 ounces of silver to Pan American's production in the third quarter of 2004 at a cash cost of \$3.52 per ounce. Over the longer term Morococho is expected to produce 3.5 million ounces of silver annually at a cash cost of less than \$3.00 per ounce.

The fair value of assets and liabilities acquired through the acquisition of Morococho are summarized as follows:

		(US\$000)
Cash	\$	657
Accounts receivable		4,364
Inventory		2,878
Prepaid expenses		46
Plant and equipment		7,053
Mineral properties		46,158
Total assets		61,156
Less:		
Accounts payable and accrued liabilities		(3,215)
Non-controlling interest		(1,414)
Provision for asset retirement obligation and reclamation		(8,618)
Future income tax liability		(11,038)
Total purchase price	\$	36,871

The future income tax liability arises due to the fact that the purchase consideration exceeded the carrying value of the mining assets for tax purposes, resulting in a temporary difference between the accounting and tax value. The estimated future income tax liability associated with this temporary difference is \$11.04 million and has been recognized as a future income tax liability and also applied to increase the carrying value of the mineral properties.

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The provision for asset retirement obligation and reclamation of \$8.62 million arises pursuant to CICA Handbook Section 3110 "Accounting for Asset Retirement Obligations", which required the Company to recognize the expected fair value of future site restoration costs at Morococho as a liability and to increase the carrying value of mineral properties by the same amount. The liability is accreted over time to its anticipated future value with a corresponding charge to the statement of operations while the increase in the carrying value of mineral properties is amortized on a unit of production basis.

The La Colorada mine in Mexico reached commercial production on January 1, 2004 after a \$20 million expansion, which began in late 2002. As such, all revenue and expense items were recognized in the statement of operations in the first nine months of 2004, having been capitalized throughout 2003. This change in accounting treatment gives rise to several significant differences when comparing the consolidated statement of operations for the third quarter of 2004 with the corresponding period in 2003.

Results of Operations

For the three months ended September 30, 2004 the Company's net income was \$3.29 million (earnings per share of \$0.05) compared to a net loss of \$1.23 million (loss per share of \$0.02) for the corresponding period in 2003. The Company generated net income of \$4.21 million for the nine-month period ended September 30, 2004 compared to a loss of \$3.97 million for the corresponding period in 2003. The loss per share of (\$0.11) for the nine months ended September 30, 2004 includes charges associated with the conversion and accretion of the Company's 5.25 per cent convertible unsecured senior subordinated debentures (the "Debentures"), which occurred in the second quarter of 2004 and were charged directly to deficit.

Revenue from metal sales was 131 per cent higher in the third quarter of 2004 and 97 per cent higher in the first nine months of 2004 compared to the corresponding periods in 2003. The acquisition of the Morococho mine and the La Colorada mine reaching commercial production on January 1, 2004, accounted for most of the revenue increase from a year ago. The Company's other mining operations recorded a 37 per cent increase in revenue in the third quarter of 2004 compared to the comparable period in 2003 as a result of higher metal prices and in spite of the fact that less tonnes of concentrate were sold in the third quarter of 2004.

The Company continued the trend of improving operating profits in the third quarter of 2004. Operating profit is the difference between revenue and cash operating costs. In the third quarter of 2004 operating profits were \$8.9 million, up from \$4.4 million in the second quarter of 2004 and from \$1.7 million in the comparable quarter of 2003. As reflected in the following table, the third quarter of 2004 represents the eighth consecutive quarter that the Company has improved its operating profit. Steadily improving operating profit has helped the Company record its second consecutive quarter of positive net earnings. Partially offsetting the

improved operating profits were increases in depreciation and amortization, exploration and general and administrative charges, reflecting the increased activity levels of a growing enterprise. The table below sets out select quarterly results for the past eleven quarters.

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Year	Quarter (<i>unaudited</i>)	Revenue	Operating Profit (1)	Net income (loss) for the period	Net loss per share
2004	Sept. 30	\$27,409	\$8,883	\$3,289	\$0.05
	June 30	\$20,950	\$4,419	\$1,287	(\$0.12) (2)
2003	March 31	\$15,151	\$3,983	(\$366)	(\$0.05) (2)
	Dec. 31	\$12,857	\$2,041	(\$4,858)	(\$0.15)
	Sept. 30	\$11,890	\$1,690	(\$390)	(\$0.01)
2002	June 30	\$12,553	\$1,220	(\$1,156)	(\$0.02)
	March 31	\$7,822	\$393	(\$1,573)	(\$0.03)
	Dec. 31	\$12,084	\$379	(\$14,040)	(\$0.35)
	Sept. 30	\$11,195	(\$252)	(\$17,387)	(\$0.40)
	June 30	\$11,615	\$808	(\$1,247)	(\$0.03)
	March 31	\$10,199	\$997	(\$1,303)	(\$0.03)

(1) Operating Profit/(Loss) is equal to total revenues less direct mine operating expenses

(2) Includes charges associated with the early conversion and accretion of the Debentures

Depreciation and amortization charges for the third quarter increased significantly to \$3.03 million from \$0.43 million a year before. The purchase of Morococha and the achievement of commercial production at La Colorada are the principal reasons for this increase. Depreciation and amortization have also increased as a direct result of the Company's adoption of CICA Handbook Section 3110 "Accounting for Asset Retirement Obligations", which required the Company to increase its asset carrying values by \$7.9 million as at December 31, 2003. The amortization of these higher asset values on a unit of production basis has resulted in increased depreciation charges.

General and administration ("G & A") costs for the three-month period ended September 30, 2004 were \$0.93 million, up from \$0.57 million for the comparable quarter in 2003. G & A costs have increased significantly in 2004 from previous years, which is a reflection of the expansion of the Company's management team necessary to execute the Company's growth plans, and to a lesser extent a stronger Canadian dollar.

The Company recognized a \$0.52 million stock-based compensation expense in the third quarter of 2004, as a result of adopting CICA Handbook Section 3870 "Stock-Based Compensation" in the fourth quarter of 2003. On a restated basis, the comparable expense recorded in the quarter ended September 30, 2003 was \$0.84 million.

Reclamation expense of \$0.30 million in the third quarter of 2004 related to the accretion of the liability that the Company recognized by adopting CICA Handbook Section 3110 "Accounting for Asset Retirement Obligations" as at December 31, 2003. Aside from those restoration costs associated with the Morococha mine, there has been no change to the Company's expectations of future site restoration costs during the quarter at any of its other mines.

Higher exploration and development expenses were recorded for the three-month and nine-month periods of 2004 relative to 2003 primarily as a result of the Company's active development program at Manantial Espejo.

Interest and other income represented net income received from the San Vicente operation and interest received from the cash balances the Company maintained during the quarter, which were substantially higher than a year ago primarily due to the proceeds of the Debentures, together with the equity financing completed in March 2004.

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Production

Pan American produced 3,173,000 ounces of silver in the third quarter of 2004, a 45 per cent increase from the corresponding period in 2003. The acquisition of the Morococha mine accounts for 32 per cent of the increase, with significant increases at La Colorada and the San Vicente operation responsible for the balance. The Quiruvilca mine maintained its strong performance by producing more ounces than a year ago at much lower cash costs per ounce. The Huaron mine continued to improve on a

challenging first quarter by recording higher silver production than in the third quarter of 2003 at a cash cost of \$3.87 per ounce. The Company's Pyrite Stockpile operation was again profitable, producing 231,115 ounces of silver expired.

Yossi Maimon, CPA. Mr. Maimon joined Protalix Ltd. as its Chief Financial Officer pursuant to an employment agreement effective as of October 15, 2006 by and between Protalix Ltd. and Mr. Maimon and currently serves as our Chief Financial Officer. Pursuant to the employment agreement, his current monthly base salary is NIS 73,500 (approximately \$19,940) and Mr. Maimon is entitled to an annual discretionary bonus and additional discretionary bonuses in the event Protalix achieves significant financial milestones, subject to the Board's sole discretion. The monthly salary is subject to cost of living adjustments from time to time. In connection with the employment agreement, Protalix agreed to grant to Mr. Maimon options to purchase 10,150 ordinary shares of Protalix Ltd. at an exercise price equal to \$59.40 per share, which we assumed as options to purchase 619,972 shares of our common stock at \$0.97 per share. The first 25% of such options shall vest on the first anniversary of the grant date and the remainder shall vest quarterly in 12 equal increments. In addition, in 2008 we granted to Mr. Maimon an option to purchase 175,000 shares of our common stock at an exercise price equal to \$5.00 per share. The option vests variably over a five-year period that commenced on January 1, 2008. In 2009, we granted to Mr. Maimon an option to purchase 50,000 shares of our common stock at an exercise price equal to \$2.65 per share. As of December 31, 2009, all of those

options had fully vested. In 2010, we granted Mr. Maimon an option to purchase 130,000 shares of our common stock at an exercise price equal to \$6.90 per share, which option vests quarterly over a three-year period commencing upon FDA approval of taliglucerase alfa, if at all. The employment agreement is terminable by either party on 60 days written notice for any reason and we may terminate the agreement for cause without notice. Mr. Maimon is entitled to be insured by Protalix Ltd. under a Manager's Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car and a company phone. Mr. Maimon is entitled to 24 working days of vacation. All stock options that have not vested as of the date of termination shall be deemed to have expired.

Sandra L. Lauterbach. Ms. Lauterbach joined our company as our Vice President, Sales and Commercial Affairs, pursuant to an employment agreement effective December 18, 2009. Pursuant to the employment agreement, Ms. Lauterbach's annual base salary is \$180,000 and we may elect to pay her an annual discretionary bonus in an amount and based upon criteria determined by either the Compensation Committee of our Board of Directors, or the entire Board of Directors, at their sole discretion. She is also entitled to certain health care insurance benefits and contributions to retirement plans, and allowances for car and cell phone expenses. In connection with the employment agreement, the Board of Directors granted to Ms. Lauterbach stock options to purchase 160,000 shares of our common stock at an exercise price equal to \$6.81. The options vest over a four-year period, with 25% of the options vesting upon the lapse of one year from the date of grant and the remainder of the options vesting on a quarterly basis in 12 equal installments, commencing on the initial vesting date. The unvested portion of the option will vest automatically upon a change of control of our company. The employment agreement is terminable by either party with 60 days written notice for any reason and we may terminate the agreement for cause without notice.

Tzvi Palash. Mr. Palash joined Protalix Ltd. as its Chief Operating Officer pursuant to an employment agreement effective September 6, 2010. Pursuant to the employment agreement, Mr. Palash's current monthly base salary is NIS 69,000 (approximately \$18,719) and Mr. Palash is entitled to an annual discretionary bonus for performance subject to the sole discretion of our compensation committee. The monthly salary is subject to cost of living adjustments from time to time as may be required by law. In connection with the employment agreement, we granted to Mr. Palash options to purchase 160,000 shares of our common stock with an exercise price equal to \$7.55 per share. The first 25% of such options shall vest on the first anniversary of the grant date and the remainder shall vest quarterly in 12 equal increments. The employment agreement is terminable by either party on 60 days written notice for any reason and we may terminate the agreement for cause without notice. Mr. Palash is entitled to be insured by Protalix Ltd. under a Manager's Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car, a company phone, a company laptop and lodging accommodations in the Carmiel area. Mr. Palash is entitled to 24 working days of vacation.

2006 Stock Incentive Plan

Our Board of Directors and a majority of our shareholders approved our 2006 Stock Incentive Plan on December 14, 2006 and cancelled our 1998 stock option plan (no options were outstanding under the 1998 plan at that time). We have reserved 9,741,655 shares of our common stock for issuance, in the aggregate, under the 2006 Stock Incentive Plan, subject to adjustment for a stock split or any future stock dividend or other similar change in our common stock or our capital structure. As of December 31, 2010, options to acquire 3,064 shares of common stock remain available to be granted under our 2006 Stock Incentive Plan.

Our 2006 Stock Incentive Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights and dividend equivalent rights, collectively referred to as awards. Stock options granted under the 2006 Stock Incentive Plan may be either incentive stock options under the provisions of Section 422 of the Internal Revenue Code, or non-qualified stock options. Incentive stock options may be granted only to employees. Awards other than incentive stock options may be granted to employees, directors and consultants.

The 2006 Stock Incentive Plan is also designed to comply with the provisions of the Israeli Income Tax Ordinance New Version, 1961 (including as amended pursuant to Amendment 132 thereto) (the tax ordinance) and is intended to enable us to grant awards to grantees who are Israeli residents as follows: (i) awards to employees pursuant to Section 102 of the tax ordinance; and (ii) awards to non-employees pursuant

to Section 3(I) of the tax ordinance. For this purpose, employee refers only to employees, office holders and directors of our company or a related entity excluding those who are considered Controlling Shareholders pursuant to, or otherwise excluded by, the tax ordinance. In accordance with the terms and conditions imposed by the Tax Ordinance, grantees who receive awards under the 2006 Stock Incentive Plan may be afforded certain tax benefits in Israel as described below.

Our Board of Directors or the Compensation Committee, referred to as the plan administrator, will administer our 2006 Stock Incentive Plan, including selecting the grantees, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award, and determining the vesting and exercise periods of each award.

The exercise price of stock options granted under the 2006 Stock Incentive Plan must be equal to at least 100% of the fair market value of our common stock on the date of grant; however, in certain circumstances, grants may be made at a lower price to Israeli grantees who are residents of the State of Israel. If, however, incentive stock options are granted to an employee who owns stock possessing more than 10% of the voting power of all classes of our stock or the stock of any parent or subsidiary of our company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of these incentive stock options must not exceed five years. The maximum term of all other awards must not exceed 10 years (or five years in the case of an incentive stock option granted to any participant who owns stock representing more than 10% of the voting power of all classes of our stock or the stock of any parent or subsidiary of our company). The plan administrator will determine the exercise or purchase price (if any) of all other awards granted under the 2006 Stock Incentive Plan.

Under the 2006 Stock Incentive Plan, incentive stock options and options to Israeli grantees may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. Other awards shall be transferable by will or by the laws of descent or distribution and to the extent and in the manner authorized by the plan administrator by gift or pursuant to a domestic relations order to members of the participant's immediate family. The 2006 Stock Incentive Plan permits the designation of beneficiaries by holders of awards, including incentive stock options.

If the service of a participant in the 2006 Stock Incentive Plan is terminated for any reason other than cause, the participant may exercise awards that were vested as of the termination date for a period ending upon the earlier of 12 months from the date of termination (or such shorter or longer period set forth in the award agreement) or the expiration date of the awards unless otherwise determined by the plan administrator. If the service of a participant in the 2006 Stock Incentive Plan is terminated for cause, the participant may exercise awards that were vested as of the termination date for a period ending upon the earlier of 14 days from the date of termination (or such shorter or longer period set forth in the award agreement) or the expiration date of the awards unless otherwise determined by the plan administrator.

In the event of a corporate transaction, all awards will terminate unless assumed by the successor corporation. Unless otherwise provided in a participant's award agreement, in the event of a corporate transaction and with respect to the portion of each award that is assumed or replaced, then such portion will automatically become fully vested and exercisable immediately upon termination of a participant's service if the participant is terminated by the successor company or us without cause within 12 months after the corporate transaction. With respect to the portion of each award that is not assumed or replaced, such portion will automatically become fully vested and exercisable immediately prior to the effective date of the corporate transaction so long as the participant's service has not been terminated prior to such date.

In the event of a change in control, except as otherwise provided in a participant's award agreement, following a change in control (other than a change in control that also is a corporate transaction) and upon the termination of a participant's service without cause within 12 months after a change in control, each award of such participant that is outstanding at such time will automatically become fully vested and exercisable immediately upon the participant's termination. In addition, the stock options issued to each of our Named Executive Officers are subject to accelerated vesting immediately upon a change in control of our company, as defined in our 2006 Stock Incentive Plan.

Under our 2006 Stock Incentive Plan, a corporate transaction is generally defined as:

a merger or consolidation in which we are not the surviving entity, except for the principal purpose of changing our company's state of incorporation;

the sale, transfer or other disposition of all or substantially all of our assets;

the complete liquidation or dissolution of our company;

any reverse merger in which we are the surviving entity but our shares of common stock outstanding immediately prior to such merger are converted or exchanged by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or in which securities possessing more than forty percent (40%) of the total combined voting power of our outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

acquisition in a single or series of related transactions by any person or related group of persons of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities but excluding any such transaction or series of related transactions that the plan administrator determines not to be a corporate transaction (provided however that the plan administrator shall have no discretion in connection with a corporate transaction for the purchase of all or substantially all of our shares unless the principal purpose of such transaction is changing our company's state of incorporation).

Under our 2006 Stock Incentive Plan, a change of control is defined as:

the direct or indirect acquisition by any person or related group of persons of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities pursuant to a tender or exchange offer made directly to our shareholders and which a majority of the members of our board (who have generally been on our board for at least 12 months) who are not affiliates or associates of the offeror do not recommend shareholders accept the offer; or

a change in the composition of our board over a period of 12 months or less, such that a majority of our board members ceases, by reason of one or more contested elections for board membership, to be comprised of individuals who were previously directors of our company.

Unless terminated sooner, the 2006 Stock Incentive Plan will automatically terminate in 2016. Our Board of Directors has the authority to amend, suspend or terminate our 2006 Stock Incentive Plan. No amendment, suspension or termination of the 2006 Stock Incentive Plan shall adversely affect any rights under awards already granted to a participant. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein (including the Tax Ordinance), we shall obtain shareholder approval of any such amendment to the 2006 Stock Incentive Plan in such a manner and to such a degree as required.

Impact of Israeli Tax Law

The awards granted to employees pursuant to Section 102 of the Tax Ordinance under the 2006 Stock Incentive Plan may be designated by us as approved options under the capital gains alternative, or as approved options under the ordinary income tax alternative.

To qualify for these benefits, certain requirements must be met, including registration of the options in the name of a trustee. Each option, and any shares of common stock acquired upon the exercise of the option, must be held by the trustee for a period commencing on the date of grant and deposit into trust with the trustee and ending 24 months thereafter.

Under the terms of the capital gains alternative, we may not deduct expenses pertaining to the options for tax

purposes.

Under the 2006 Stock Incentive Plan, we may also grant to employees options pursuant to Section 102(c) of the Tax Ordinance that are not required to be held in trust by a trustee. This alternative, while facilitating immediate exercise of vested options and sale of the underlying shares, will subject the optionee to the marginal income tax rate of up to 50% as well as payments to the National Insurance Institute and health tax on the date of the sale of the shares or options. Under the 2006 Stock Incentive Plan, we may also grant to non-employees options pursuant to Section 3(I) of the Tax Ordinance. Under that section, the income tax on the benefit arising to the optionee upon the exercise of options and the issuance of common stock is generally due at the time of exercise of the options.

These options shall be further subject to the terms of the tax ruling that has been obtained by Protalix Ltd. from the Israeli tax authorities in connection with the merger. Under the tax ruling, the options issued by us in connection with the assumption of Section 102 options previously issued by Protalix Ltd. under the capital gains alternative shall be issued to a trustee, shall be designated under the capital gains alternative and the issuance date of the original options shall be deemed the issuance date for the assumed options for the calculation of the respective holding period.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On March 17, 2005, Protalix Ltd. entered into a Management Services Agreement with Pontifax Management Company, Ltd. in connection with the purchase of Protalix's Series B Preferred Shares by the Pontifax Funds. Pursuant to the Management Services Agreement, Mr. Hurvitz served as a member of our Board of Directors and later as the Chairman of our Board of Directors until his resignation in March 2010. In consideration for Mr. Hurvitz's services, Protalix was required to pay Pontifax Management Company a fee equal to \$3,000 per month plus required taxes on such payment. In addition, in connection with the execution of the Management Services Agreement and the later appointment of Mr. Hurvitz as Chairman of our Board of Directors, Protalix issued to Pontifax, in the aggregate, a number of options that, upon our December 2006 merger transaction, were converted into options to purchase 3,384,502 shares of our common stock. During the year 2010 through the date of Mr. Hurvitz's resignation, the fee payable under this agreement was increased to \$33,000 per annum, which is the same fee payable to the other non-executive directors. No further payments were due to Pontifax Management Company after Mr. Hurvitz's resignation from our Board of Directors.

On September 14, 2006, Protalix Ltd. entered into a collaboration and licensing agreement with Teva for the development and manufacture of two proteins using ProCellEx™, our proprietary protein expression system. Mr. Hurvitz, our former Chairman, was the chairman of Teva's board of directors when we entered into the agreement. Professor Kornberg, a member of our Board of Directors also serves as a member of Teva's board of directors. The agreement provides that we will collaborate with Teva on the research and development of two proteins using ProCellEx. We and Teva identified two proteins for research and development activities under the agreement, but in 2009 both of the projects were terminated for commercial reasons. Other elements of our collaboration with Teva are currently ongoing.

All related party transactions are reviewed and approved by the Audit Committee, as required by the Audit Committee Charter.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended.

The Audit Committee of our Board of Directors operates under a written charter adopted by our Board of Directors, and currently consists of Amos Bar Shalev, Yodfat Harel Gross and Alfred Akirov. All members of the committee fall under the independence requirements contemplated by Rule 10A-3 under the Exchange Act.

As described more fully in its charter, the Audit Committee provides oversight of the quality and integrity of our consolidated financial statements, internal controls and financial reporting process, and our process to manage business and financial risks and compliance with legal, ethical and regulatory requirements. In addition, the audit committee interacts directly with and evaluates the qualifications, independence and performance of the independent auditors, Kesselman & Kesselman, and is responsible for the appointment, compensation, retention and oversight of the work of the auditors.

Management is responsible for the preparation, presentation and integrity of the consolidated financial statements, and evaluation of and assessment of the effectiveness of our internal control over financial reporting. The independent auditors are responsible for performing an independent audit of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed the audited consolidated financial statements with our Board of Directors and management. Management has represented to the audit committee that our consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee discussed with Kesselman & Kesselman the matters required to be discussed by Statement of Auditing Standards No. 61, *Communications with Audit Committees*. In addition, the independent auditors provided the Audit Committee with the written disclosures and letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and the Audit Committee has discussed with Kesselman & Kesselman that firm's independence from our company.

Based on the review and discussions of the audited consolidated financial statements and discussions with management and Kesselman & Kesselman, the Audit Committee recommended to Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for filing with the SEC.

Respectfully submitted,

Members of the Protalix BioTherapeutics, Inc.
Audit Committee

*Amos Bar Shalev
Yodfat Harel Gross
Alfred Akirov*

Our Board of Directors recommends that shareholders vote FOR the election or re-election of all director nominees named in this Proposal 1: Election of Directors.

PROPOSAL 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), which was signed into law in July 2010, added Section 14A to the Exchange Act. The Dodd-Frank Act requires that we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of the our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC.

We believe that the executive compensation program for the named executive officers, as described in Compensation Discussion and Analysis, is based on a pay-for-performance culture and seeks to align the interests of our named executive officers with the interests of our shareholders. We believe that our compensation programs are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total shareholder return, while at the same time creating a culture that focuses executives on prudent risk management and appropriately rewards them for performance. Our executive compensation program is also designed to be competitive with our peer companies, and seeks to enable us to attract and retain the best possible executive talent.

We also believe that the extensive disclosure of compensation information provided in this proxy statement provides our shareholders the information they need to make an informed decision as they weigh the pay of the named executive officers in relation to our performance. This Say-on-Pay proposal gives you the shareholder the opportunity to endorse or not endorse the compensation we paid to the named executive officers through the resolution set forth below.

RESOLVED, that the compensation paid to the named executive officers of Protalix BioTherapeutics, Inc., as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion included in this proxy statement, is hereby APPROVED.

Because your vote is advisory, it will not be binding upon our company, our Board of Directors or the Compensation Committee. The vote on this resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the SEC. Our company, our Board of Directors, and the Compensation Committee will consider the outcome of the vote when evaluating future executive compensation arrangements for our named executive officers.

This proposal is provided as required pursuant to Rule 14a-21(a) of the Exchange Act.

Our Board of Directors recommends that shareholders vote FOR the approval of the executive compensation as disclosed in this proxy statement and as described in this Proposal 2: Advisory Vote on Executive Compensation.

PROPOSAL 4: ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Act requires that we provide our shareholders with the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently we should seek future advisory votes on the compensation of our named executive officers as disclosed in accordance with the compensation disclosure rules of the SEC. By voting with respect to this proposal, shareholders may indicate whether they would prefer that we conduct future advisory votes on executive compensation once every one, two or three years. Shareholders also may, if they wish, abstain from casting a vote on this proposal.

Our Board of Directors has determined that an annual advisory vote on executive compensation is the most appropriate alternative for our company as it will allow our shareholders to provide timely and direct input on our executive compensation philosophy, policies and practices as disclosed in the proxy statement each year. Accordingly, our Board of Directors believes that an annual vote is consistent with our efforts to engage in an ongoing dialogue with our shareholders on executive compensation and corporate governance matters and therefore recommends that you vote for a one-year interval for the advisory vote on executive compensation.

Because your vote is advisory, it will not be binding upon our company, our Board of Directors or the Compensation Committee. We recognize that our shareholders may have different views as to the best approach for our company, and therefore looks forward to hearing from our shareholders as to their preferences on the frequency of an advisory vote on executive compensation. We, our Board of Directors and the Compensation Committee will take into account the outcome of the vote when considering the frequency of future advisory votes on executive compensation. Our Board of Directors may decide that it is in the best interests of our shareholders to hold an advisory vote on executive compensation more or less frequently than the frequency receiving the most votes cast by the shareholders.

Shareholders may cast a vote on the preferred voting frequency by selecting the option of one year, two years, or three years (or abstain) when completing their proxy in response to the resolution set forth below.

RESOLVED, that the shareholders determine, on an advisory basis, whether the preferred frequency of an advisory vote on the executive compensation of our named executive officers as set forth in our proxy statement should be every year, every two years, or every three years.

The proxy voting card provides shareholders with the opportunity to choose among four options (holding the vote every one, two, or three years, or abstain from voting) and, therefore shareholders will not be voting to approve or disapprove the recommendation of our Board of Directors.

Our Board of Directors recommends that shareholders vote FOR the option of every year as the preferred frequency with which shareholders are provided with an advisory vote on executive compensation as described in this Proposal 3: Advisory Vote on the Frequency of an Advisory Vote on Executive Compensation.

PROPOSAL 4: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Board of Directors, upon the recommendation of its Audit Committee, has ratified the selection of Kesselman & Kesselman to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2011. The Audit Committee of our Board of Directors is solely responsible for selecting our independent public accountants. Although shareholder approval is not required to appoint Kesselman & Kesselman as our independent public accountants, we believe that submitting the appointment of Kesselman & Kesselman to our shareholders for ratification is a matter of good corporate governance. If our shareholders do not ratify the appointment, then the appointment will be reconsidered by the Audit Committee. Even if the appointment is ratified, the Audit Committee may engage a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of our Corporation and our shareholders. The proxy will be voted as specified, and if no specification is made, the proxy will be cast **FOR** this proposal.

During our fiscal year ended December 31, 2010, there were no disagreements with Kesselman & Kesselman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which if not resolve to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with their opinion.

The audit report of Kesselman & Kesselman on our consolidated financial statements for the years ended December 31, 2009 and 2010 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

The Audit Committee will consider whether the provision of any other services by Kesselman & Kesselman is compatible with maintaining the independence of Kesselman & Kesselman. The Audit Committee has concluded that Kesselman & Kesselman is independent.

Representatives of Kesselman & Kesselman will be present at the annual meeting and available to answer shareholders questions.

Our Board of Directors recommends that shareholders vote **FOR the ratification of the appointment of Kesselman & Kesselman for the fiscal year ending December 31, 2011.**

The following table sets forth fees billed to us by our independent registered public accounting firm during the fiscal years ended December 31, 2010 and 2009 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements; (ii) services by our independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees; (iii) services rendered in connection with tax compliance, tax advice and tax planning; and (iv) all other fees for services rendered.

Year ended December 31,	
2010	2009

Audit Fees	\$ 289,740	\$ 259,000
Audit Related Fees	\$ 28,353	\$ 78,039
Tax Fees	\$ 63,008	\$ 197,282

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Prior to entering into the engagement letter with our independent registered accountants, our Audit Committee approved the 2010 audit fees. For fiscal year 2011, our Audit Committee has approved fees for certain services to be rendered by the independent registered accountants.

SHAREHOLDER PROPOSALS

All shareholder proposals intended to be presented at our 2012 Annual Meeting of Shareholders must be submitted in writing to Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100 and received by us no later than June 8, 2012, and must comply in all other respects with applicable rules and regulations of the SEC relating to such inclusion. Such notice must include, with respect to each matter the shareholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and record address of the shareholder proposing such business; (iii) the class and number of shares of our company which are beneficially owned by the shareholder; and (iv) any material interest of the shareholder in such business. In addition, the notice must include certain information relating to any derivative or hedging transactions by the shareholder delivering such notice and its Shareholder Associated Persons, as defined in our By-Laws, and other arrangements with other parties regarding our securities, as presented in detail in our By-Laws.

Any such proposal submitted with respect to our 2012 Annual Meeting of Shareholders which is submitted outside the requirements of Rule 14a-8 under the Exchange Act will be considered timely if we receive written notice of that proposal not less than 45 days nor more than 75 days prior to the date in 2012 on which we first mailed this proxy statement in 2011; however, if the date of the annual meeting is changed by more than 30 days from the date of the prior year's annual meeting, the notice will be considered untimely if it is not received at least 90 days prior to the newly announced date that we will mail our proxy statement.

ANNUAL REPORT TO SHAREHOLDERS

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC, which provides additional information about us, will be distributed to all shareholders entitled to vote along with the proxy materials.

Additional copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are available on the Internet at <http://www.sec.gov> and <http://www.protalix.com> and are also available in paper form without charge upon written request to Investor Relations, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as householding, potentially means extra convenience for shareholders and cost savings for companies.

This year, a number of brokers with account holders who are shareholders of our company will be householding our proxy materials. A single proxy statement may be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once a shareholder has received notice from its broker that it will be householding communications to such shareholder's address, householding will continue until such shareholder is notified otherwise or until such shareholder notifies its broker or us that it no longer wishes to participate in householding. If, at any time, a shareholder no longer wishes to participate in householding and would prefer to receive a separate proxy statement and annual report in the future such shareholder may (1) notify its broker or (2) direct its written request to: Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100, +972 (4) 988-9488, ext. 143. Shareholders who currently receive

multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to such shareholders at a shared address to which a single copy of the documents was delivered.

OTHER MATTERS

Our Board of Directors knows of no other business to be acted upon at the annual meeting. However, if any other business properly comes before the Annual Meeting of Shareholders, it is the intension of the persons named in the enclosed proxy to vote on such matters in accordance with their best judgment.

The prompt return of your proxy is appreciated and will be helpful in obtaining the necessary vote. Therefore, whether or not you expect to attend the annual meeting please sign the proxy and return it in the enclosed envelope or vote by internet or telephone.

BY ORDER OF THE BOARD OF DIRECTORS,

Yossi Maimon
Vice President and Chief Financial Officer and
Corporate Secretary

Carmiel, Israel September 15, 2011

