

10 January 2012

South American Silver

Year End	Revenue (US\$m)	PBT* US\$m	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/09	0.0	(1.9)	(3.4)	0.0	N/A	N/A
12/10	0.0	(3.8)	(4.3)	0.0	N/A	N/A
12/11e	0.0	(7.3)	(11.0)	0.0	N/A	N/A
12/12e	0.0	(1.8)	(1.8)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Hi-ho silver!

South American Silver intends to enter the ranks of the world's top silver producers by developing its Malku Khota (100%) silver-indium-gallium project in Bolivia (commissioning due Q115) and exploring for gold-copper-silver at its Escalones (100%) project in Chile. Based on the 10 May 2011 Malku Khota Preliminary Economic Assessment (PEA) findings and valuing the recently announced Escalones maiden resource (using a US\$59/t inferred Cu multiple on the 4.5Blbs CuEq resource), our total valuation for South American Silver is US\$10.09/share (10% discount and US\$25/oz Ag).

Cheap mining and strong commodity fundamentals

The current envisaged low operating costs (US\$1/t mined, US\$6.41/t processed) associated with mining Malku Khota will allow South American Silver to take full advantage of the project's 42g/t Ag grade. Further, silver is seen by many to have lagged the success of gold so far in the current cycle and further, may provide the most stable basis to extract the large amounts of indium and gallium present in resource, metals which also experience a favourable outlook through their uses in high technology products.

Escalones: Maiden resource announced

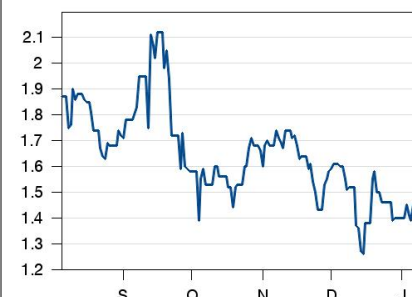
Escalones is a porphyry type copper-gold-silver project located along the same trend as the world famous El Teniente copper mine in Chile. A maiden inferred resource, announced December 19, comprises 3.8Mlbs Cu, 56.9Mlbs Mb, 0.61Moz Au and 16.8Moz Ag using a 0.2% CuEq COG (which equates to a copper equivalent 4.5Blbs). For context, this resource is already of the size and scale as that of Malku Khota's. 2012 exploration will comprise a 7,000m (fully funded) drill programme, starting January, with expected completion in April 2012.

Valuation: Bolivian discount overplayed?

Our discounted dividend model based on the May 2011 PEA yields a base case valuation of US\$8.90 per share, putting the current share price at a considerable 84% discount, which we consider reflects both the heavy discount faced by exploration and pre-development mining juniors presently and its exposure to Bolivia. A further US\$1.19/share should be added for the maiden Escalones CuEq resource (using an inferred Cu tonne multiple of US\$59).

Price 145c
Market Cap C\$145m

Share price graph



Share details

Code SAC
Listing TSE
Sector Metals & Mining
Shares in issue 100.8m

Price

52 week High Low
212c 129c

Balance Sheet as at 30 September 2011

Debt/Equity (%) N/A
NAV per share (c) 45.0
Net cash (US\$m) 28.7

Business

South American Silver intends to develop its wholly owned Malku Khota silver-indium-gallium project in Bolivia and explores for copper-gold-silver at its wholly owned Escalones project in Chile.

Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography

UK	Europe	US	Other
N/A	N/A	N/A	N/A

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Investment summary: Bolivian silver

Company description: Mining Bolivian Silver

South American Silver intends to develop its wholly owned Malku Khota silver-indium-gallium project in Bolivia and is targeting a detailed feasibility study by mid-2013 with production to commence in 2015. To aid in this, South American Silver has just appointed Mr Phillip Brodie-Hall as chief operating officer. With his global experience in nearly every facet of mine project development and the commencement of feasibility studies to further refine project economics, South American Silver continues to de-risk development of the Malku Khota project.

Valuation: Considerable upside to the current share price

Though only at a very early stage of assessment (Preliminary Economic Assessments are a forerunner to detailed studies), Malku Khota exhibits the characteristics of an economically viable deposit. Based on the information contained within the PEA and using its mid-case commodity price assumptions (which uses an identical silver price to our long-term value of US\$25/oz) we reach a discounted dividend valuation of US\$8.90 per share (at a 10% discount to reflect general equity risk, which increases to an implied 32% based on the current share price of c C\$1.45). We also value the maiden Escalones CuEq resource of 4.5Blbs by applying our inferred copper tonne multiple of US\$59/t, for an additional US\$1.19, resulting in a total valuation of US\$10.09 per share.

Sensitivities: Bolivian country risk – present, but not limiting

Probably the most apparent risk to investing in South American Silver would be its intentions to mine in a country that has seen adverse media reporting on the current president Evo Morales. Though Mr Morales in 2007 assumed greater control of Bolivia's energy industry he has yet to show signs that he would pursue a similar avenue concerning the mining industry. In fact the prolific US based silver producing company, Coeur d'Alene Mines Corporation (projected 2011 production of 19.5 million ounces of silver), has developed and wholly owns the San Bartolomé silver mine near Potosi, Bolivia. This mine contributes roughly 40% of Coeur d'Alene's mine production per annum and injects around US\$22m per annum into the local economy. Obviously the success of Coeur d'Alene in developing this asset, with the help of the Bolivian State Mining Company, is a very positive sign that the country is making efforts to attract foreign mining investment.

Financials: Malku Khota funded into feasibility in H212

As of 30 September 2011 South American Silver had US\$28.7m in cash on the balance sheet which the company forecasts is enough to take the Malku Khota project into the detailed feasibility stage in H212 and also initiate a Phase II exploration programme at Escalones in Chile. In our valuation of the company if we assume 100% debt funding of Malku Khota, this would result in a maximum funding requirement of US\$315.4m in 2014 which would equate to a gearing (debt/equity) ratio of 704% and leverage ratio of 88% (debt/debt+equity). However, this is unlikely to happen and we therefore assume that the company raises 50% in equity which would then potentially result in a funding requirement of US\$75m in 2013 at a gearing (debt/equity) ratio of 100% and leverage ratio of 50% (debt/debt+equity). We anticipate that these numbers will be updated on release of the pre-feasibility study (2012) and the detailed feasibility study (2013). We also note that 2.31m options to acquire ordinary shares in the company, with an exercise price of C\$0.50, have an expiry date of 15 February 2012.

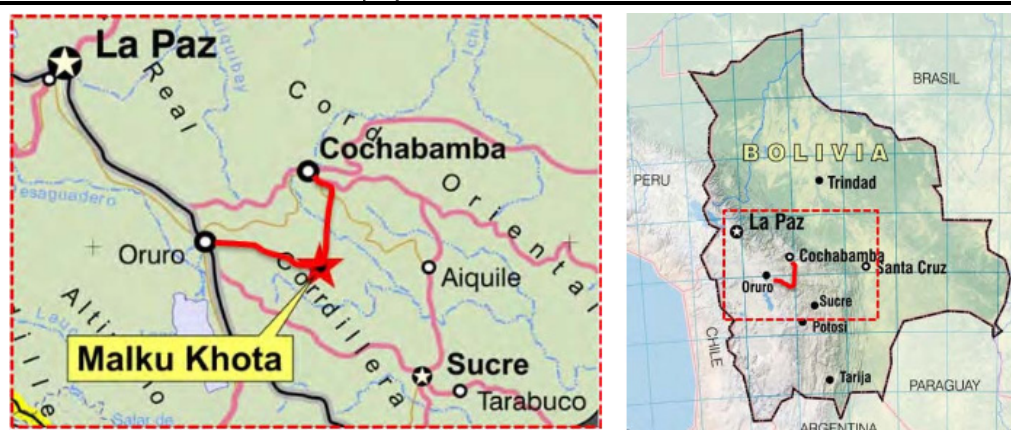
Company description: Silver, indium & gallium in Bolivia

South American Silver is a mineral exploration company focused on development of the Malku Khota silver-indium-gallium project in Bolivia. Malku Khota has an NI 43-101 measured and indicated resource of 230Moz of silver, 1,481t of indium and 1,082t of gallium, which enables the company to take advantage of the rapidly growing high technology driven market. The project is undergoing a pre-feasibility study to confirm the PEA estimates over the course of the mine life 158Moz of silver, c 1184t of indium and c 212t of gallium could be produced. The second company asset is the large-scale Escalones copper-gold project in Chile's premier copper mining district, which is currently being explored in a phase two drill programme in preparation for an updated resource in 2012.

Company history

Initial work to consolidate the Malku Khota district began in 2003, through its wholly owned Bolivian subsidiaries, Compania Minera General Minerals S.A and then via transferral of the original concessions Cobra and Daniel (later being named the Kempff Option) to Compania Minera Malku Khota (CMMK). The company now controls 5,975ha of mineral concessions and in March 2007, CMMK made its final payment to purchase the concessions comprising the Kempff Option with a 1% net smelter royalty (NSR). In February 2007 South American Silver listed on the Toronto Stock Exchange under the symbol SAC and is currently headquartered in Vancouver. The company also trades on the US OTC market under the symbol SOHAF. Through its IPO it issued 34,000,000 shares at C\$0.50 each and raised C\$17m, which was directed to advancing its 100% owned Malku Khota project. The company's strategy is focused on responsible mining and community collaboration. The management team has significant experience in the South American mining industry and continues to look for additional opportunities in the region that have the potential to develop into large resources.

Exhibit 1: Location of Malku Khota project in Bolivia



Source: South American Silver

Malku Khota project in Bolivia

Location – in an established mining region

The Malku Khota project is located in the world-class silver mining district in central Bolivia within the eastern part of the Bolivian Altiplano. The climate in the region is typical for the Bolivian Cordillera Oriental with cool to moderate rainy summers and cool, dry winters. The company's

5,475ha land position encompasses a north-south trending mountain range at elevations between 3,800m to 4,200m above sea level. The area is relatively remote and moderately populated with the closest villages of Malku Khota and Kalachaka situated within the project site boundaries. The project is situated approximately 200km north of Potosi, 98km south-east of Oruro, and 85km south of Cochabamba. The property is reachable by a dirt road via a main road linking Oruro with Cochabamba and provides access for truck service for labour and supplies. Oruro lies on the Pan Pacific Highway connecting Argentina, Bolivia and Peru. Oruro is also linked by rail to the Chilean port of Antofagasta. The project has access to water and is 12km away from the nearest electricity supply and telephone service and 40km away from a commercial gas pipeline.

Geology of the Andean Cordillera of Bolivia

The Malku Khota project is located in the Andean Cordillera of Bolivia, which has been characterised as a classic example of a convergent continental plate margin. There are two styles of silver mineralisation present at the Malku Khota property. The early sedimentary exhalative mineralisation from the Jurassic and Cretaceous periods is associated with silver, barite, lead and zinc. A later hydrothermal event introduced gold and bismuth and additional silver, lead, zinc, copper and indium/gallium mineralisation into the system. The majority of the disseminated silver mineralisation is hosted within the sandstones of the Ravelo Formation, mainly in the Malku Khota and Upper Wara Wara units. The mineralised zones extend for at least 4km along strike and dip to the west at 60-80 degrees. Three main areas have been identified as Limosna, Wara Wara and Sucre, with mineralisation extending to over 500m in depth and ranging in thickness from 50m to over 300m. The silver minerals identified in outcrop, tunnels and drill holes are mostly in oxidised material amenable to direct leaching.

Malku Khota exploration – historic to present

Silver deposits at Malku Khota were first discovered in the 17th century when mining was initiated in the Kallampa, Frio, and Pique Pobre areas. In modern times, between 1994 and 1995, surface exploration was carried out by Geoexplorers Bolivia and Compañía Minera La Rosa. During 2004 and 2005, South American Silver completed initial reconnaissance that included geological mapping and sample collection from the Malku Khota and Wara Wara formations. This sampling project, which covered 15km strike length, revealed anomalous silver, gold, bismuth and base metals. In 2005, a substantial programme of surface and underground sampling was undertaken in partnership with SILEX Bolivia S.A., which confirmed the presence of large widths of disseminated silver mineralisation at the surface and in historic underground workings. Surface sampling identified a 1.5km x 4.0km area that averaged more than 10g/t silver in the Limosna, Wara Wara and Sucre areas.

Exploration undertaken by South American Silver

From May 2007 to December 2010, South American Silver completed a total of 42,704m of drilling and 121 diamond core holes, focusing again on the key three zones. The results from the core drilling programme confirmed that silver mineralisation is present to a depth of up to 500m of the Limosna Ridge and in grades of economic interest, which are comparable to the relative widths and grades found in the surface sampling programme. In 2010 the company discovered a new high-grade silver-gold-indium vein system at Malku Khota, in an area that was previously classified as unmineralised. The zone consists of a number of sub-parallel veins and structures more than 100m wide. The most significant 26m interval in the Sucre vein has averaged 125.2g/t of silver and

14.8g/t of indium. Additional drilling at the Limosna deposit intercepted two new zones of nearly 300m of continuous above cut-off grade mineralisation. Included in these zones were high grade intercepts of 31m grading 260g/t Ag and 19m grading 259g/t Ag. As part of the pre-feasibility study, the company is carrying out a significant drill programme with the purpose of converting inferred resources into measured and indicated category and ultimately into reserves.

NI43-101 compliant resources at Malku Khota

In May 2011, the company announced an updated NI 43-101 compliant resource estimate for the Malku Khota project. It expanded measured and indicated resources of silver by 60% to 230Moz with an additional inferred resource of 140Moz silver. The statement also includes measured and indicated resource of 1,481t of indium and 1,082t of gallium, plus 935t of indium and 1,001t of gallium in the inferred category. The drilling to date has confirmed the geologic model with over 80% of the life-of-mine in-pit silver resources classified in the measured and indicated category.

Exhibit 2: Malku Khota resource statement - 2011

Resource category and category grade	Silver Moz	Indium tonnes	Gallium tonnes	Copper Mlb	Lead Mlb	Zinc Mlb	AgEq Moz
Measured & Indicated	230	1,481	1,082	120	453	247	354
M&I grade	28.1g/t	5.8g/t	4.3g/t	0.02%	0.07%	0.04%	43.2g/t
Inferred	140	935	1,001	102	362	246	240
Inferred grade	18.9g/t	4.1g/t	4.3g/t	0.02%	0.07%	0.05%	32.5g/t

Source: South American Silver

Preliminary Economic Assessment of Malku Khota

In March 2011, the company announced results from the updated Preliminary Economic Assessment for the Malku Khota project. The study showed robust economics with a base case pre-tax NPV_{5%} of US\$704m and IRR of 37.7% (using a silver price of US\$18/oz). This scenario envisages annual production of 13.2Moz of silver in the first five years, at a cash cost of US\$2.94/oz net of by-product credits (using 3 year average metal prices). The production of indium is estimated at 80 tonnes per annum and gallium at 15 tonnes per annum. Based on the metallurgical tests, a conceptual design of a heap leach facility and recovery plant has been developed. It is planned that heap leaching will provide the lowest cost processing option taking into account the value added by the indium, lead, zinc and gallium. The operation will be based on a conventional shovel and truck open pit mining with approximately 200Mt of ore mined at an average strip ratio of c 2.2 (waste tonne) to 1b (ore tonne) for the 15 years life of mine. For the first five years of production, the estimated silver equivalent grades average 58g/t, with silver and indium grades of 42.42g/t and 7.55g/t respectively and the remaining value from copper, lead and zinc credits. Over the life of mine the silver equivalent grade is predicted to be approximately 50g/t, with silver and indium grades averaging 33.60g/t and 7.35g/t. Following the three-stage crushing circuit the material will be stacked in a heap leach pad, located 2km away from the pit, which is designed to receive 40,000tpd in a single eight metre lift sized for a 120 day leach cycle. Based on four years of metallurgical test work the predicted leaching recoveries are 73.6% for silver, 81.0% for indium, 51.1% for lead, 62.0% for zinc, 84.8% for copper and 26.9% for gallium.

Project requirements - power, people and water

The project will require approximately 40MW of power, which will come from the Bolivian national grid located some 20km from the site or potentially from a nearby gas pipeline. The water supply, which has been confirmed to be sufficient to meet project needs, will come from pit dewatering,

regional flows and groundwater sources. The construction of the site is expected to take around 12-18 months and once in commercial production, Malku Khota will provide employment to over 400 people, coming mainly from surrounding communities. Over 15 years of operations, Malku Khota is projected to produce 158Moz of silver, 1,184t of indium, 191Mlb of lead, 135Mlb of zinc, 88Mlb of copper and 212t of gallium. The continuous resource optimisation will provide potential to extend the mine life beyond 15 years or to further expand annual production levels.

Further development of Malku Khota

On the basis of the technical and economic evaluations in the PEA, it has been concluded that the project demonstrates sufficient potential to advance to feasibility study. In Q211, the company initiated pre-feasibility studies, which will be followed by a detailed feasibility study due to commence in H212. The studies will include further metallurgical test work and additional definition drilling to promote inferred resources to the measured and indicated categories and eventually to mineral reserves. The main objective of the pre-feasibility study is to define the project in detail and show its technical and financial potential. The definitive feasibility study will present the economic case of the project for the investment decision and be the basis for the environmental and social review process and the project permitting. The company is considering a pilot plant to be constructed on site during feasibility works. The possible starter module of 5,000-10,000tpd capacity may be built initially, stepping up to full capacity over a number of phases. Phase one of the construction process is planned to commence in early 2014 and lead to first production in 2015.

The Escalones copper-gold-silver project in Chile

South American Silver controls 100% of the Escalones copper and gold project in Chile. The property is in one of the world's biggest copper mining districts and in close to the largest underground copper mine in the world, El Teniente. The project is approximately 100km south-east of Santiago in central Chile, is accessible by road and near a gas pipeline. The mineralisation at Escalones shows high grades of copper at surface with significant silver, gold and molybdenum credits. On 19 December 2011, South American Silver published a maiden inferred tonnes NI43-101 resource for Escalones, the details of which are presented in the following exhibits:

Exhibit 3: Escalones maiden inferred resource – tonnes and grade

CuEq (%) Cut-off	Tonnes Millions	Copper %	Molybdenum ppm	Gold g/t	Silver g/t	Copper Equiv. %
0.1%	636.2	0.33	57.4	0.04	1.06	0.39
0.2%	420.6	0.41	61.39	0.05	1.24	0.49
0.3%	232.7	0.55	68.25	0.06	1.66	0.64

Source: South American Silver news release, 19 December 2011

Exhibit 4: Escalones maiden inferred resource – contained metal

CuEq (%) Cut-off	Copper M lb	Molybdenum M lb	Gold Mozs	Silver Mozs	Copper Equiv. M lbs
0.1%	4,567	80.4	754,000	21.7	5,453
0.2%	3,835	56.9	610,000	16.8	4,503
0.3%	2,842	35	435,000	12.4	3,292

Source: South American Silver news release 19 December 2011

Further exploration will look to add tonnages and increase confidence (convert existing tonnages to a higher resource classification) in the above maiden resource estimate. 2012 exploration will

comprise a 7,000m (fully funded) drill programme, starting January, with expected completion in April 2012.

Exhibit 5: Escalones project area



Source: Edison Investment Research

The gallium and indium market

Indium and gallium are deemed strategic metals due to their rarity, restricted supply base and increasing demand for use in high-end technologies. The primary use for both metals is varied, from the manufacture of flat-panel display screens and high-brightness LED lights, to photovoltaic technologies used in thin film solar technology, among many others. Most indium and gallium production results from processing zinc, bauxite, tin and, to a lesser extent, silver ores, and so relative market supply is governed by the respective health of these commodity markets. The long-term growth for zinc is estimated at 1-3% pa versus c 15% for indium presenting a clear supply deficit, especially if the indium market growth continues at this pace and remains primarily a by-product of zinc refining. Further, with silver's diversified set of end uses and its characteristics as a store of value, it could be seen as a best-case scenario for stable mine production of the metals.

Green technology driving future demand

Due to indium and gallium production being a by-product of processing ores, a growing global industry has arisen to recover the metals, either in a spent form from manufacturing processes or from recycling indium- and gallium-bearing scrap materials. Recycling as a new source of material, though expensive and highly specialised, has exceeded primary production in recent years. Reduction in carbon emissions is also driving future demand for these metals. Policymakers worldwide are being driven towards cleaner forms of energy, including solar and nuclear. Both are consumers of indium and gallium and, outside of the consumer electronics industry, drive strong demand growth (estimated at 15% per year for indium and c 15-20% for gallium). The current market prices for indium and gallium have recovered well from the lows of 2008 caused by the global financial crisis. For further information please refer to our August sector report '*Indium and gallium overview*' which details the principal uses, market drivers and price trend for these two little known metals.

Assumptions: 'base case' valuation and sensitivities

We base our valuation of South American Silver principally on the findings of its 10 May 2011 Preliminary Economic Assessment (PEA), for the Malku Khota project undertaken by its technical consultants. The principal commodity mined will be silver with appreciable amounts of indium and gallium also recovered. The Malku Khota operation will however also benefit from copper and lead

revenues and to a lesser extent zinc. The mining method is as outlined on page 5, with the life of mine based on current resources being depleted over 16 years starting in 2015. This additional year to the 15 years life of mine detailed in the PEA is our assumption that the mine will require a period of ramping up to allow for any teething problems to be addressed and the routine of the mining operation to bed down properly. We forecast that the capital development programme to develop the mine will start in 2014 (US\$236.25m), increasing in 2015 (US\$142.70m) as initial mining commences with final capital expenditure in 2017 (US\$32.45m) for a total of US\$411.40m as detailed in the PEA. Sustaining capital we assume will be US\$13.9m per annum totalling US\$209m (as stated in the PEA) over the 15 years between 2016 and 2030 inclusive.

Exhibit 6: Base case assumptions (for first steady state production year 2017)

Note: *Average for first five years LOM

Parameter	Unit	Value	Parameter	Unit	Value
Tonnes waste	Mt	14.00	Ag selling price per oz	US\$/oz	25
Tonnes ore	Mt	13.97	In selling price per kg	US\$/kg	570
Strip ratio	ratio	1.00	Pb selling price per lb	US\$/lb	1.0
Silver grade*	g/t	42.42*	Zn selling price per lb	US\$/lb	1.0
Indium grade*	g/t	7.55*	Cu selling price per lb	US\$/lb	3.7
Gallium grade	g/t (range over LOM)	2.81 to 5.43	Ga selling price per kg	US\$/kg	570
Copper grade	% (range over LOM)	0.004 to 0.037	Mining cost per tonne mined	US\$/t	1.08
Lead grade	% (range over LOM)	0.043 to 0.145	Processing cost per tonne leach material	US\$/t	6.41
Zinc grade	% (range over LOM)	0.010 to 0.074	G&A per tonne of leach material	US\$/t	0.80
Ag recovery	%	73.6	Total initial capex	US\$m	411.4
In recovery	%	81.0	Sustaining capex per annum	US\$m	209.0
Lead recovery	%	51.1	Edison assumption for ramp up period	year	2015-2016
Zinc recovery	%	62.0	Ore production in 2015	Mt	2.5
Cu recovery	%	84.8	Ore production in 2016	Mt	7.5
Ga recovery	%	26.9	Marginal tax rate	%	30

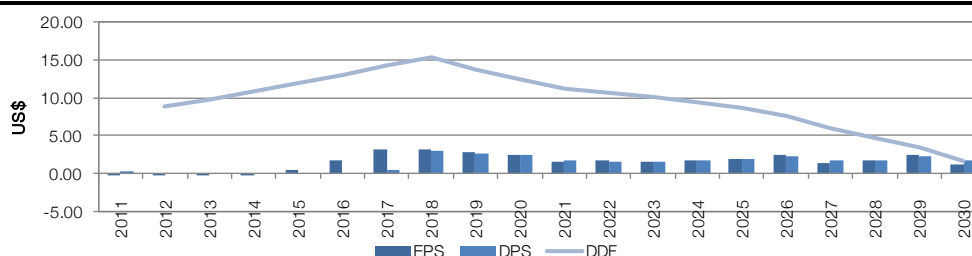
Source: Edison Investment Research

Valuation

If South American Silver executes the Malku Khota project as detailed above and pays out all its surplus cash in the form of dividends, we estimate that the resultant theoretical dividend stream to investors from 2018 to 2030 will be worth US\$8.90 in current money terms (using a discount rate of 10% to reflect general equity risk) as depicted in the following graph:

Exhibit 7: Edison estimate of 'base case' fully diluted EPS and theoretical DPS, FY11-FY30

Note: DDF = discounted dividend flow



Source: Edison Investment Research

As mining commences in Q115 of note is that the dividend stream is depressed below the US\$2.00 per share value from 2021 until 2025. This is due to the stripping ratio increasing (potentially indicating a cut-back in the pit to allow for deeper portions of the resource to be extracted; however, we have no specific information to validate this), consequently diluting the silver grade, reducing revenues and increasing mining costs. However in the following years we see a recovery in the dividend stream as revenues pick up as mining costs stabilise and ore grades improve. Thereafter, from 2027 until 2030 we see a further depression in the theoretical distribution

of dividends that could be distributed due primarily to a decrease in silver production before revenues increase until the cessation of mining activities in 2031 (under our assumptions).

Escalones – maiden resource adds a further US\$1.19 per share

Based on the maiden resource statement released 19 December, we value the copper equivalent resource of 4.5 billion pounds by applying our inferred copper tonne multiple (derived from a broad selection of industry peers). An additional value of US\$1.19 per share results in a total valuation for South American Silver shares of US\$10.09.

Sensitivities

South American Silver is exposed to geological risk, development and execution risk, environmental risk and legislative risk as it progresses towards development of the Malku Khota project and first production in 2015. We also identify the following risks specific to South American Silver:

Bolivia – country risk

Probably the most apparent risk to investing in South American Silver would be its intentions to mine in a country that has seen adverse media reporting on the current president Evo Morales. Though Mr Morales in 2007 assumed greater control of Bolivia's energy industry he has yet to show signs that he would pursue a similar avenue concerning the mining industry. In fact the prolific US based silver producing company, Coeur d'Alene Mines Corporation (projected 2011 production of 19.5 million ounces of silver), developed and wholly owns the San Bartolomé silver mine near Potosi, Bolivia. This mine contributes roughly 40% of Coeur d'Alene's mine production per annum and injects around US\$22m per annum into the local economy. Obviously the success of Coeur d'Alene in developing this asset, with the help of the Bolivian State Mining Company, is a very positive sign that the country is making efforts to attract foreign mining investment. Other significant investments have been made by Sumitomo Corp at its San Cristobal Mine Project, the third largest silver mine in the world.

PEA: Gaining confidence in valuation parameters

A preliminary economic assessment should not be considered a complete and definitive assessment of the economic viability of mining a geological resource. Whereas it does provide a first-pass assessment of the viability of mining a deposit, much greater detail concerning geological (including, importantly, conversion to reserves), metallurgical, engineering and cost parameters will be required to provide a level of detail appropriate to secure finance from third party financial institutions. South American Silver however has gone a step towards mitigating the risk of project development by the appointment of Phillip Brodie-Hall as Chief Operating Officer to oversee the completion of the pre-feasibility study and to lead the various technical teams needed to bring Malku Khota into production. We would also consider that the variable nature in revenues generated (see valuation section, page 8) could also be revised potentially increasing the projects NPV. In addition to these risks we have identified the following specific to our valuation:

Exhibit 8: Sensitivity to changes in the silver price

Silver price	15	20	25	30	35
NPV (US\$)	4.23	6.56	8.90	11.25	13.60

Source: Edison Investment Research

Exhibit 9: Sensitivity to percentage change in operating costs

Opex	-20%	-10%	0	+10%	+20%
NPV (US\$)	9.82	9.36	8.90	8.44	7.98

Source: Edison Investment Research

Exhibit 10: Sensitivity to change in discount rate

%	5	7.5	10	20	32
NPV (US\$)	15.11	11.51	8.90	3.58	1.45

Source: Edison Investment Research

Exhibit 11: Sensitivity to percentage change to initial capex

%	-20%	-10%	0	+10%	+20%
NPV (US\$)	9.29	9.10	8.90	8.70	8.51

Source: Edison Investment Research

Dilution analysis

The initial capital cost estimate for the Malku Khota project is US\$411.4m. For the purposes of this dilution analysis we assume this figure is roughly representative of the initial capital outlay required to develop the project (though we expect a slight variation pending completion of a final definitive feasibility study). Further, assuming that the project is funded 50% by debt, South American Silver will need to raise an additional US\$205.7m in equity in order to satisfy its funding obligations. With US\$205.7m thus invested, the project's post-funding value then rises to US\$1,628m (being approximately US\$1,422m, the NPV of the project on our assumptions, plus US\$205.7m), exhibit 12 gives the post-funding value of the Malku Khota project to South American Silver shareholders, per share, with a total of US\$205.7m in equity being raised at a variety of different prices.

Exhibit 12: Dilution analysis

Shares in issue (millions)	100.8	100.8	100.8	100.8	100.8	100.8	100.8	100.8	100.8	100.8
Funds to be raised via equity raising (US\$m)	205.7	205.7	205.7	205.7	205.7	205.7	205.7	205.7	205.7	205.7
Market price at time of raising (cents)	140	150	160	180	200	220	240	250	260	270
New shares issued (millions)	146.9	137.1	128.6	114.3	102.9	93.5	85.7	82.3	79.1	76.2
Total shares in issue (millions)	247.8	238.0	229.4	215.1	203.7	194.3	186.5	183.1	180.0	177.0
Dilution (%)	145.7	136.0	160.0	113.3	102.0	92.7	85.0	81.6	78.5	75.5
Valuation post-funding per share (US\$)	4.54	4.71	4.88	5.18	5.45	5.69	5.91	6.01	6.11	6.83

Source: Edison Investment Research

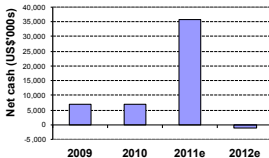
Financials

As of 30 September 2011 South American Silver had US\$28.7m in cash on the balance sheet which the company forecasts is enough to take the Malku Khota project into the detailed feasibility stage in H212 and also initiate a phase two exploration programme at Escalones in Chile. In our valuation of the company, if we assume 100% debt funding of Malku Khota, this would result in a maximum funding requirement of US\$315.4m in 2014 which would equate to a gearing (debt/equity) ratio of 704% and leverage ratio of 88% (debt/debt+equity). However, this is unlikely to happen and we therefore assume that the company raises 50% in equity in 2013 which would then potentially result in a funding requirement of US\$75m in 2013 at a gearing (debt/equity) ratio of 100% and leverage ratio of 50% (debt/debt+equity). We anticipate that these numbers will be updated on release of the pre-feasibility study (2012) and the detailed feasibility study (2013). We also note that 2.31m options to acquire ordinary shares in the company, with an exercise price of C\$0.50, have an expiry date of 15 February 2012.

Exhibit 13: Financials

	US\$ '000s	2009	2010	2011e	2012e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	0
Cost of Sales		0	0	0	0
Gross Profit		0	0	0	0
EBITDA		(1,847)	(3,799)	(7,319)	(4,965)
Operating Profit (before amort. and except.)		(1,875)	(3,832)	(7,352)	(4,999)
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		82	926	0	0
Operating Profit		(1,793)	(2,906)	(7,352)	(4,999)
Net Interest		7	27	27	714
Profit Before Tax (norm)		(1,868)	(3,805)	(7,325)	(4,285)
Profit Before Tax (FRS 3)		(1,786)	(2,879)	(7,325)	(4,285)
Tax		0	0	0	0
Profit After Tax (norm)		(1,786)	(2,879)	(7,325)	(4,285)
Profit After Tax (FRS 3)		(1,786)	(2,879)	(7,325)	(4,285)
Average Number of Shares Outstanding (m)		52.0	66.5	66.5	100.8
EPS - normalised (c)		(3.4)	(4.3)	(11.0)	(4.2)
EPS - normalised and fully diluted (c)		(3.1)	(3.9)	(9.4)	(3.8)
EPS - (IFRS) (c)		(3.4)	(4.3)	(11.0)	(4.2)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		8,769	12,603	17,796	17,796
Intangible Assets		8,675	12,525	17,531	17,531
Tangible Assets		94	78	265	265
Investments		0	0	0	0
Current Assets		7,089	7,235	36,281	27,354
Stocks		0	0	0	0
Debtors		75	221	594	0
Cash		7,014	7,014	35,687	27,354
Other		0	0	0	0
Current Liabilities		(462)	(839)	(400)	(400)
Creditors		(462)	(839)	(400)	(400)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		15,396	19,000	53,677	44,749
CASH FLOW					
Operating Cash Flow		(1,087)	(1,533)	(4,810)	(4,405)
Net Interest		7	27	27	714
Tax		0	0	0	0
Capex		(2,220)	(3,659)	(5,193)	0
Acquisitions/disposals		0	0	0	0
Financing		2,891	33,838	1,642	0
Dividends		0	0	0	0
Net Cash Flow		(409)	28,673	(8,334)	(3,691)
Opening net debt/(cash)		(7,423)	(7,014)	(35,687)	(27,354)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(7,014)	(35,687)	(27,354)	(23,662)

Source: South American Silver/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation																						
N/A	N/A	 <table><caption>Net cash (US\$'000e)</caption><thead><tr><th>Year</th><th>Net cash (US\$'000e)</th></tr></thead><tbody><tr><td>2009</td><td>7,000</td></tr><tr><td>2010</td><td>7,000</td></tr><tr><td>2011e</td><td>36,000</td></tr><tr><td>2012e</td><td>-1,000</td></tr></tbody></table>	Year	Net cash (US\$'000e)	2009	7,000	2010	7,000	2011e	36,000	2012e	-1,000	<table><tr><td>Litigation/regulatory</td><td>●</td></tr><tr><td>Pensions</td><td>○</td></tr><tr><td>Currency</td><td>◐</td></tr><tr><td>Stock overhang</td><td>○</td></tr><tr><td>Interest rates</td><td>◐</td></tr><tr><td>Oil/commodity prices</td><td>●</td></tr></table>	Litigation/regulatory	●	Pensions	○	Currency	◐	Stock overhang	○	Interest rates	◐	Oil/commodity prices	●
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Stock overhang	○																								
Interest rates	◐																								
Oil/commodity prices	●																								

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 08-12e	N/A	ROCE 11e	N/A	Gearing 11e	N/A	Address:	
EPS CAGR 10-12e	N/A	Avg ROCE 08-12e	N/A	Interest cover 11e	N/A	650 West Georgia Street, Suite 2100, PO Box 11590	
EBITDA CAGR 08-12e	N/A	ROE 11e	N/A	CA/CL 11e	N/A	Vancouver, BC V6B 4N8	
EBITDA CAGR 10-12e	N/A	Gross margin 11e	N/A	Stock turn 11e	N/A	Phone	(604) 681-6926
Sales CAGR 08-12e	N/A	Operating margin 11e	N/A	Debtor days 11e	N/A	Fax	NA
Sales CAGR 10-12e	N/A	Gr mgn / Op mgn 11e	N/A	Creditor days 11e	N/A	http://www.soamsilver.com	

Principal shareholders		%	Management team
Zamin Precious Minerals, Ltd.		18.74	CEO: Greg Johnson
Sprott Asset Management LP		3.12	Mr. Johnson was appointed as President and CEO of South American Silver Corp. in April 2010. Mr. Johnson has 25 yrs of mining experience & brings broad corporate finance, project development and exploration experience to the Company. He most recently served at NovaGold Resources as Vice-President, Strategic Development, where during his 12 years he was part of the team that grew NovaGold from a \$50m market capitalization to more than a \$2bn company.
Fitch (Ralph Gordon)		2.84	
Johnson (Gregory S)		1.81	
GF Geneva Finance S.A.		0.87	
U.S. Global Investors, Inc.		0.50	
Perfect Management Services AG		0.40	
			COO: Phillip Brodie-Hall
			Mr. Brodie-Hall is a professional engineer who brings over 35 years of engineering construction and project development experience to the Company from a career that has covered nearly every aspect of evaluation, feasibility studies and project development in the mining and mineral processing industries. He has had first-hand experience with projects in Australia, Southeast Asia, Africa, the Middle-East, Eurasia, and North and South America.
Forthcoming announcements/catalysts		Date *	
AGM		May 2012	
Final results		March 2012	CFO: William Filtness
			Mr. Filtness is a Chartered Accountant who has been involved in the mining industry for over 25 years as a director or officer of a number of public companies. Mr. Filtness has been CFO of South American Silver since the company's IPO in 2007.
<i>Note: * = estimated</i>			
Companies named in this report			
Coeur d'Alene Mines Corporation, Zamin Precious Minerals			

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