



BEACON ROCK RESEARCH

FEBRUARY 23, 2009

SOUTH AMERICA SILVER CORP. (TSX: SAC)

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Disclosures 1,2,3,4

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South American Silver Advances World-Class Silver Discovery

South American Silver Corp. (TSX: SAC) received its first NI 43-101 compliant Preliminary Economic Assessment (PEA) study on its 100% owned silver-indium Malku Khota project in Bolivia. Because the study is the first un-optimized study and includes only about 3.5 km of the project's 15 km strike length, we believe the project has significant upside.

We consider Malku Khota, with an established silver indicated resource of 145 million ounces of silver, to be one of the largest silver discoveries in the current metal cycle. The Malku Khota project also includes an indium indicated resource of 845 kg (indium is in demand for use in solar panels and flat screen televisions).

South American Silver was one of our 2009 Developer Picks. On December 31, 2008, South American Silver shares closed at \$0.18 per share, slightly above cash of \$0.17 per share held in the company's treasury. This was down slightly from \$0.21 per share in September following the 2008 Silver Summit in Coeur d'Alene. Following the announcement of the PEA, South American Silver closed at \$0.41 per share, up over 100% in less than 60 days.

Figure 1—Malku Khota Project Location, Bolivia
Source: South American Silver



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Malku Khota Project Summary

Malku Khota project in Bolivia is shaping up to be a world-class asset. Malku Khota has a strike length of about 15 km (5,475 hectares) where mineralization is contained within a sedimentary package, in a highly exposed ridgeline, suggesting a low strip ratio. The project is at a high elevation, in a relatively uninhabited area, and within 20 to 25 km from a main highway and power. There is dirt road access to the project from the cities of Oruro and Cochabamba.

The Limosna, Wara Wara and Sucre targets at Malku Khota have multi-kilometer strike lengths within sandstone ridges hosting silver and indium mineralization. Indium trades at about \$700 per kg and is in demand for a growing number of applications. A NI 43-101 compliant resource estimates an indicated resource of 144.6 million oz. silver and 845,000 kg indium, and a separate inferred resource of 177.8 million oz. silver and 968,000 kg indium. This resource is based on 25,000 meters of drilling in 75 drill holes completed through August of 2008. These targets are a relatively small portion of the entire land package which is highly prospective for additional metals, including gallium, lead, zinc, antimony, and gold.

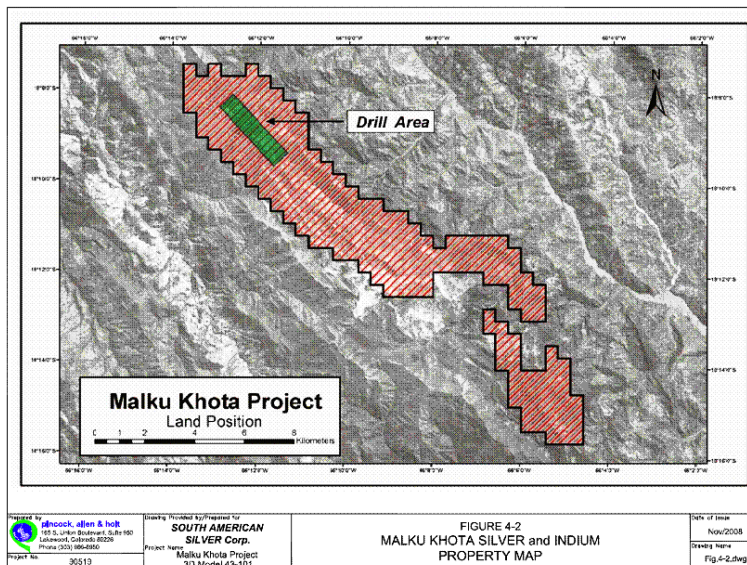


Figure 2—Malku Khota Project Map
Source: South American Silver

Preliminary Economic Assessment Summary

The PEA base case study suggested a conventional open pit mine and a 20,000 tpd heap leach operation, with estimated initial capital costs of \$104.7 million, resulting in a NPV of \$1,233 million (0% discount rate) and an IRR of 50.7% with pay-back of capital in about 2.2 years. The base case assumes average grades of 25.3 g/t silver and 5.92 g/t indium, and a silver price of \$13.30 per ounce and an indium price of US\$530 per kg, over the life of the project. As the base case plan suggests a mine life of 36 years, and exploration of Malku Khota covers only a fraction of the property, we see additional studies considering a larger project both increasing cash flow early in the project and boosting NPV and IRR.

The robust economics for the initial PEA may be attributed to characteristics of the Malku Khota project. Given the elevated structure above the valley floor, the study suggests a strip ratio of only one to one. In addition, the project has an easily digestible cash cost of US\$3.75 per ounce silver (net of credits). South American Silver completed early metallurgical assessments for a cyanide leach operation, typical of silver projects in Nevada, which would limit recovery to the precious metals only. Alternatively, the project receives a significant boost with an acid-chloride leach, which recovers indium and potentially other valuable minerals. In addition, an acid-chloride leach may also allow for the production on site of dore. This may result in other benefits including lower operating expenses and taxes.



Figure 3—Limosna Ridgeline, Malku Khota, Bolivia
Source: South American Silver

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Political Risk and Opportunity

We suspect that U.S. and Bolivian relations may improve during the administrations of Obama and Morales. While it is convenient to place Bolivia in a higher risk classification, we believe the jury is still out on Bolivian President Evo Morales. The long-standing issue requires addressing a redistribution of wealth between wealthy lowland ranchers and indigenous people. It appears clear that Morales earnestly represents the position of long suffering indigenous people. There is reason to believe that he will increase taxes on mining companies commensurate with other resource based nations. There is also good potential that he may limit his term in office as promised, but this will only be borne out with time.

It is evident that the administration of Evo Morales recognizes the importance of resources to Bolivia and the necessity of attracting investment and talent for further development. Companies investing in Bolivia, providing some level of confidence in the nation's stability, include Sumitomo Corporation, Coeur d'Alene Mines, Pan American Silver, Jindal Steel of India, and Petrobras of Brazil. Bolivia is likely to remain of interest to mining companies for exploration and development.

Looking Forward at Malku Khota

South American Silver will focus on additional metallurgical work and engineering studies in 2009. This may lead to further surface exploration on the trend during the year. They are also considering a pilot plant. The timeline is still uncertain, but early analysis clearly suggests that Malku Khota merits attention for further development. We note that the pre-tax NPV (with a 10% discount rate) was estimated to be US\$325 million, which based on 50 million shares outstanding, would imply a value at full commercial production of about \$6.00 per share. Clearly, there will be intervening shareholder dilution during development, but Malku Khota stands out as the most interesting silver discovery of the current metal cycle.

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