

South American Silver Corp.
Third Quarter Ended September 30, 2011
Management's Discussion & Analysis ("MD&A")
November 10, 2011

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Introduction

The following information, prepared as of November 10, 2011, should be read in conjunction with the unaudited condensed interim consolidated financial statements of South American Silver Corp. (the “Company”) for the nine months ended September 30, 2011, as well as the restated audited consolidated financial statements for the year ended December 31, 2010 and the related management’s discussion and analysis (the “Annual MD&A”). The unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Figures referenced in this MD&A from periods prior to and including December 31, 2009 are in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). All amounts are expressed in U.S. dollars unless otherwise indicated.

The Company’s critical accounting estimates, significant accounting policies and risk factors as disclosed in the 2010 annual financial statements have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. For a description of material factors that could cause the Company’s actual results to differ materially from the forward-looking statements in this MD&A, please see the “Cautionary notes” and “Risks and uncertainties” sections at the end of the MD&A.

President’s message

This past quarter has been a period of increased volatility in the global markets with concerns about the European debt crisis and the US economy. Trading volumes have been seasonally low contributing to this volatility in the North American markets. However, South American Silver has continued to move forward with our project development plan at both our Malku Khota silver-indium-gallium project and the Escalones copper-silver-gold project in Bolivia and Chile, respectively.

At the Malku Khota silver-indium-gallium project, engineering activities are in progress to refine the metallurgical characteristics of the deposit to a pre-feasibility level, and optimization studies are underway to further increase estimated production levels. Camp construction plans to support expanded project development activities at Malku Khota are currently in progress to support a significant drill campaign of in-fill and expansion work.

Earlier in 2011, the Company announced results from an updated Preliminary Economic Assessment (“PEA”) for the Malku Khota silver-indium-gallium project. Results of the PEA more than doubled estimated mine production levels from the 2009 PEA to 13.2 million ounces of silver per year for the first 5 years of production, at a cash cost of \$2.94 per ounce net of by-product credits at “base case” 3 year average metal prices, putting it in the lower quartile of producer costs. Additionally it more than doubled indium production to 80 tonnes of indium per year and reported the first projected production figures for gallium at 15 tonnes per year. With further resource optimization there remains excellent potential to extend the mine life beyond 15 years.

The report showed robust economic results with Pre-tax NPV of \$704 million and IRR of 37.7% at conservative “base case” metal prices of \$18.00/oz silver, and \$500/kg indium at a 5% discount rate. At the “middle price case” of \$25.00/oz silver the NPV at 5% increases to \$1.536 billion with an IRR of 64.3%, and at current prices of \$35/oz silver, the NPV at 5% increases to \$2.571 billion. On a cash flow basis, the first 5 years increased to average \$185 million per year at the base case, to \$287 million per year at the middle case and to \$430 million per year for the recent price case.

In addition to the updated PEA, the Company announced an updated resource estimate for the Malku Khota project expanding Measured and Indicated resources by 60% to 230 million ounces of silver with an additional Inferred resource of 140 million ounces of silver. In addition to the increased silver content, the updated resource estimate also included a Measured and Indicated resource of 1,481 tonnes of indium and 1,082 tonnes of gallium, plus 935 tonnes of indium and 1,001 tonnes of gallium in the Inferred category.

Also during the third quarter the Company commenced work on an initial resource estimate at the Escalones copper-silver-gold project based on the exploration program undertaken earlier in the year and all historic work to date on the project. In addition a program of re-logging and re-sampling of previously drilled holes along with re-interpretation of IP and SP geophysics was completed for the development of additional drill targets in the next phase of work. Preparations are also underway to complete a deep penetrating ZTEM geophysical survey in November on the project designed to assist in mapping and targeting of the porphyry related mineralization. Final preparations are being made for a drill program to expand resource on the project in Q4-2011.

Approach to business

South American Silver Corp.’s growth strategy has been to identify mineral properties that have significant scale potential to develop large resources in well established mining districts of Bolivia and Chile. Management looks to leverage its exploration and development expertise to bring additional resources and value to shareholders and to reduce development risk and expense through its focus on community relations and corporate social responsibility. The Company will continue to look for additional opportunities that can bring value to South American Silver’s shareholders through its approach to business. Responsible mining and community collaboration are a key part of

South American Silver's business strategy on its projects, where the Company is committed to upholding high environmental and social standards while focusing on delivering the financial growth its shareholders expect.

As part of the Company's ongoing community relations approach to Malku Khota, community relations personnel are working closely with the surrounding local communities. The Company will look to facilitate local and regional economic development through the various stages of project development.

Current market and economic conditions

Though the precious metals markets have experienced noteworthy volatility through late summer and into the fall along with the general markets, recent prices have shown good relative strength and support for silver in the \$35/oz range. Silver saw highs to the mid-\$40/oz level in August and September with a correction to below \$30/oz just one month later but has traded back into the mid-\$30/oz range entering November (more than 70% higher compared to October 2010). Gold has seen its own swings in price surging to record highs of nearly \$1900/oz in September (a nearly 125% increase from its 1980 nominal high of \$850/oz) then briefly correcting to just below \$1600/oz, before recovering to an average price of nearly \$1750/oz in October. On an inflation-adjusted basis, silver still remains well below its highs of \$140/oz in real terms as does gold with its high from 1980 estimated at \$2350/oz in 2011 dollars.

Since mid 2010, silver has nearly doubled in value, outperforming gold, which has increased by about 40% over the same period. The current gold to silver price ratio of 50:1 remains well below its historic highs of 15-20:1 but is now well off of its 2010 lows in the 60-80:1 range.

The fundamentals for both silver and gold appear strongly supportive for continued higher prices as Governments continue to combat economic concerns with stimulus strategies to encourage economic growth and increase their sovereign debt. Increasingly, investors are returning to hard assets as a store of value and hedge against inflation and currency devaluation resulting in increased investment demand is being seen for both silver and gold in all forms, including Exchange Traded Funds (ETF's), new physical metal investment trusts, bars and coins.

For silver specifically, its hybrid nature as both a precious and industrial metal shows in the significant increases last year in both investment and industrial demand growth up 40% and 21% respectively. Industrial demand for silver is closely tied to global economic growth particularly in developing countries with applications ranging from biomedical to high technology. Silver appears to have resumed the multi-year trend prior to the recent global economic crisis of increasing overall industrial demand and has been accompanied by strong increases in investor demand.

With total demand rising 18% in 2010 and total supply growth including mining, secondary silver sources and government sales only up 8%, demand growth considerably outstripped supply. Mining production only rose a total of 2.5% with by-product silver production from both gold and copper mining falling in 2010 even with rising silver prices. Total by-product production of silver from base metal mining is anticipated to decline in coming years demonstrating that by-product silver production is largely price inelastic. With anticipated continued growth in industrial use coupled with strong investment demand, the fundamentals appear to remain positive for higher silver prices going forward. With one of the largest development stage silver resources, strong fundamentals and attractive valuation level relative to peers, South American Silver substantially outperformed both the metals and the silver and gold equity indexes over the past 18 months.

The indium and gallium market has shown tremendous strength in 2011 as well, surging from trough pricing during the global economic slowdown of around \$500/kg to the \$750-\$1000/kg over the past several months. Recent developments in the indium and gallium markets continue to present compelling supply/demand dynamics for these high technology metals.

The main usages for indium and gallium are in flat panel displays and touch screens, high efficiency solar panels and high-efficiency, long life LED lighting. Global indium and gallium consumption is anticipated to continue to grow significantly in these rapidly expanding market sectors. In total, global indium use has grown approximately ten times since 1990.

With one of the largest NI 43-101 qualified resources of primary indium and gallium, South American Silver is attracting additional investor interest due to its large exposure to this rapidly growing high technology driven market.

Base metals have also seen significant volatility in their prices over the past several months with copper falling from its highs of nearly \$4.50/lb in July and August toward the \$3.00/lb level in October with a recent rebound back to \$3.50/lb in early November. Similarly zinc has fallen from \$1.00/lb toward \$0.80/lb and has rebounded in early November back toward \$0.90/lb. Recent price fluctuations in base metals appear to have been driven largely by short term economic concerns and general market volatility. Long term growth in demand for copper and zinc is likely to continue to be driven largely by growth in developing economies particularly in Asia where per capita consumption levels remain well below that of more developed nations.

With the volatility in the general markets and in commodities, equities in the sector have also seen significant swings in valuation over the past 6 months. Silver equities have been particularly so with the move of the silver price toward its highs of \$50/oz last spring, the correction toward \$30/oz and recent rebound toward \$35/oz today. Most silver equities saw consolidation from their spring highs and many small cap and growth stage companies are below their 200-day moving averages, a level that has often acted as a significant support level in the on-going bull market. The larger cap producers have seen a significant rebound from their lows on the back of strong earnings and the most of the indices with these larger companies are now back above their 200 day moving averages suggesting that investment capital is beginning to flow back into the sector. Traditionally late fall and winter are the strongest seasonalities for the precious metals sector and it appears that we may be moving into stronger markets toward the end of the year. South American Silver remains at a very attractive investment valuation levels compared to many of its silver exploration and development stage peers and appears to have established a solid base of support at current levels.

Property review

Malku Khota

South American Silver's most advanced project is the Malku Khota silver-indium-gallium project located in the world-class silver mining district of central Bolivia, approximately 200 kilometres north of Potosi. Malku Khota is one of the world's large silver, indium and gallium resources. The updated PEA in early 2011 showed robust economics for a bulk-mineable heap leach operation with the potential to be one of the largest new silver, indium and gallium producing mines in development. The project is road-accessible, with power available within 15 kilometres of site.

The Company has recently expanded the community relations team under the direction of the Vice President of Operations and Social Responsibility. The Company anticipates continuing to build on its community relations team to support bringing the project into feasibility and permitting stages in 2012. With the acceleration of activities at the project, the community relations activities have also increased and discussions are underway with the surrounding communities to look at ways to facilitate local economic and business development through the various stages of project implementation. The recent update to the PEA estimated that the construction phase would facilitate the creation of approximately 1,000 new jobs in the region with over 400 employees needed during operations. For the remainder of 2011 Pre-feasibility activities will be the focus of work on the project.

Disseminated silver and indium mineralization at Malku Khota begins at the surface and remains open to further expansion laterally and at depth in a regionally extensive sandstone unit which continues for over 15 kilometres on the property. To date, only about 30% of the known prospective mineralized host stratigraphy at Malku Khota has been drill tested. As part of the pre-feasibility activities, the Company will look to undertake a significant resource expansion program in addition to infill work designed to convert inferred resources to measured and indicated resources and eventually into reserves. That future program will include drilling to test several additional high-priority, near surface targets based on surface sampling and geophysics, along with greater step out drilling laterally and to depth from the known mineralization.

South American Silver continues to refine the metallurgical characteristics of the deposit through ongoing process-related test work for the pre-feasibility study to optimize the leach recovery of the silver, indium, gallium and associated lead, zinc and copper mineralization in both heap leach and milling options.

Due to the large scale, near surface, bulk mineable nature of the deposit there remains excellent potential to continue to expand production levels beyond the 13 million ounces of silver per year level through further optimization of the resource and increases in overall mine throughput. Optimization studies to look at further production level increases will be included as part of the Pre-Feasibility level studies.

During the 3rd quarter ended September 30, 2011, expenditures at the Malku Khota project totaled approximately \$0.9 million. Work focused on metallurgical testing, environmental baseline data collection, community meetings and various engineering optimization studies.

Escalones

The Escalones copper-silver-gold porphyry related project is located approximately 100 kilometres south-east of Santiago by road in central Chile. The property is 35 kilometres east of El Teniente, one of the world's largest underground copper mines and shows high grades at surface at over 1% copper with significant silver, gold and molybdenum credits. Exploration has focused on a large, 4 square kilometre area of alteration, and shallow drilling has intersected zones of 75 to 100 metres grading over 1% copper and a single deeper hole intercepted 176 metres of porphyry mineralization grading 0.6% copper. These grades and significant widths of mineralization indicate the presence of a strong mineralizing system at Escalones.

At the Escalones project, the Company completed an initial exploration program in early 2011 including follow-up geochemical sampling, geophysical interpretation, and re-logging and re-sampling of previously drilled core holes in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in Q4-2011. Also in Q4, a ZTEM deep penetrating geophysical survey is being carried out to assist in

mapping and targeting of the porphyry related mineralization. A substantial drill program designed to extend zones of known mineralization and test additional geologic and geophysical targets is planned to start late in the year based on drill rig availability. A total of \$88,000 was incurred at the Escalones project in the third quarter on the exploration program.

Results of operations

Nine month results

During the nine months ended September 30, 2011, the Company reported a net loss of \$6,608,236 (\$0.07 per share) compared to a loss of \$2,570,012 (\$0.04 per share) reported in the nine months ended September 30, 2010. The 2011 loss includes share-based payments expense of \$3,353,240 (2010 - \$684,289) representing non-cash charges incurred in connection with the granting of stock options and performance share units ("PSUs"). The fair value of all stock options and PSUs is recorded as a charge to operations or to deferred property costs over the vesting period.

Excluding the impact of stock-based compensation expense, general and administrative expense increased from \$1,728,732 to \$3,498,409. The Company has undertaken a number of corporate initiatives reflecting the increased level of activities on the Malku Khota project including an expanded investor relations program. Shareholder information and investor relations expense increased from \$498,021 to \$1,262,825 as the Company has continued to increase its marketing efforts, including participation in a significant special marketing publication, engagement of investor relations consultants, and attendance at a number of conferences and investor meetings in North America, Asia and Europe. Professional fees increased from \$347,201 to \$440,323, reflecting legal costs incurred in respect of corporate governance, the implementation of a comprehensive long-term incentive plan, and a potential U.S. market listing. Commensurate with the increasing profile and activity level of the Company, wages and benefits increased from \$325,528 to \$610,397, consulting fees increased from \$138,091 to \$157,989, and directors' fees increased from \$75,250 to \$188,238. Office and administration, including associated travel costs, increased from \$206,986 to \$631,949 as the Company has moved into larger premises for its technical staff in Denver and opened a head office in Vancouver. Reconnaissance and sundry exploration costs of \$75,840 (2010 - \$16,616) reflect the Company's initiative of generating new projects.

Expenses were offset by interest income of \$271,644 (2010 - \$3,511) earned on the Company's surplus cash balance. The increase in interest is due to higher surplus cash and increasing Canadian interest rates. The Company also recorded a foreign currency loss of \$28,231 (2010 - \$160,502). The Company holds a portion of its funds in U.S. dollars and recognizes gains or losses on the accounting translation of these funds into Canadian dollars which is the parent company's functional currency for accounting purposes. The Company continues to hold the majority of its funds in Canadian dollars and has recognized a currency translation loss of \$1,454,397 on the accounting translation to U.S. dollars which is the Company's reporting currency. This loss has been recorded as other comprehensive loss and has not been included in the determination of net loss for the period. In the comparative nine months ended September 30, 2010, the Company recorded a currency translation gain of \$149,335. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

Three month results

During the three months ended September 30, 2011, the Company reported a net loss of \$1,894,255 (\$0.02 per share) compared to a loss of \$1,252,258 (\$0.02 per share) reported in the third quarter of 2010. The third quarter loss includes share-based payments expense of \$961,692 (2010 - \$509,048). Excluding this item, general and administrative expenses increased from \$573,172 to \$1,099,142, reflecting the increasing profile of the Company. Significant variances included shareholder information and investor relations expense which increased from \$225,032 to \$413,054; and office and administration which increased from \$80,067 to \$274,658 as the Company moved into new premises in Vancouver.

Expenses were offset by interest income of \$88,616 (2010 - \$1,382). The Company also reported a foreign currency gain of \$78,233 (2010 - loss of \$171,420) recognized on the accounting translation of certain funds held in U.S. currency.

The Company continues to hold the majority of its funds in Canadian dollars and has recognized a currency translation loss of \$2,501,189 (2010 - gain of \$156,671) on the accounting translation to U.S. dollars which is the Company's reporting currency. This gain (loss) has been recorded as other comprehensive income and has not been included in the determination of net loss for the period.

Capital expenditures

Total exploration spending for the nine months ended September 30, 2011 increased to \$3,582,631 from \$2,663,399 incurred in the same period of 2010. The majority of the 2011 deferred expenditures were incurred at Malku Khota where costs totalled \$2,839,220 primarily in respect of the updated PEA and other engineering and metallurgical testing costs. The 2011 costs included \$555,829 in laboratory costs associated with the metallurgical testing program. A total of \$743,411 was incurred at Escalones in Chile, including a cash option payment of \$450,000.

During the comparative quarter in 2010, costs at Malku Khota totalled \$2,430,294, including \$517,087 in drilling costs and \$422,014 in laboratory costs associated with the metallurgical testing program. A total of \$233,105 was incurred at Escalones in Chile, including a cash option payment of \$150,000.

Financing activities

During the nine months ended September 30, 2011, the Company completed no financings. The Company received cash of \$1,642,236 (2010 - \$8,912) from the exercise of warrants and stock options.

During the comparative nine months ended September 30, 2010, the Company raised net proceeds of \$3,434,247 in two tranches, under a private placement of 6,350,000 units at a price of Cdn. \$0.63 per unit. Each unit was comprised of one common share and one half of one share purchase warrant, with each whole warrant exercisable to acquire one additional share at a price of Cdn.\$0.95 per share until July 15, 2012, subject to acceleration of the expiry date under certain conditions. In connection with this private placement, the Company issued 381,000 broker warrants entitling the holder to subscribe for 381,000 common shares at a price of Cdn. \$0.63 per share for a period of 12 months.

Summary of quarterly results (unaudited) ⁽¹⁾

| Three months ended | Sept. 30, 2011 | June 30, 2011 | Mar. 31, 2011 | Dec. 31, 2010 | Sept. 30, 2010 | June 30, 2010 | Mar. 31, 2010 | Dec. 31, 2009 |
|--|----------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| Total revenues | \$nil | \$nil | \$nil | \$nil | \$nil | \$nil | \$nil | \$nil |
| Deferred exploration costs | \$992,490 | \$1,564,925 | \$1,025,216 | \$1,186,505 | \$942,892 | \$969,844 | \$750,663 | \$756,057 |
| Net loss | (\$1,894,255) | (\$3,488,647) | (\$1,225,334) | (\$1,517,309) | (\$1,252,258) | (\$529,613) | (\$788,141) | (\$526,143) |
| Total comprehensive loss | (\$4,395,444) | (\$3,323,257) | (\$343,932) | (\$401,202) | (\$1,095,587) | (\$747,353) | (\$577,737) | (\$526,143) |
| Net loss per share (Basic and diluted) | (\$0.02) | (\$0.03) | (\$0.01) | (\$0.02) | (\$0.02) | (\$0.01) | (\$0.01) | (\$0.01) |

(1) Information for 2011 and 2010 is prepared in accordance with IFRS, while information for 2009 is prepared in accordance with Canadian GAAP.

Liquidity and capital resources

The Company's aggregate operating, investing and financing activities during the nine months ended September 30, 2011 resulted in a net cash outflow of \$5,596,716. As at September 30, 2011, the Company had working capital of \$28.6 million, including cash and cash equivalents of \$28.6 million. With these funds in place, the Company is in a very strong financial position to accelerate the advancement of its Malku Khota project toward feasibility, and its Escalones project to the resource definition stage.

Contractual obligations

South American Silver has the following contractual obligations as at September 30, 2011:

| | Total due over next 5 years | Payments Due by Period | | |
|--------------------------------------|--------------------------------|------------------------|-----------|-----------|
| | | Less than 1 year | 1-3 years | 3-5 years |
| Lease agreements for office premises | \$646,000 | \$148,000 | \$251,000 | \$247,000 |

Outlook

With the completion of the updated resource and Preliminary Economic Assessment at the Malku Khota project in Q1-2011, the Company has moved fully into Pre-Feasibility level work which began mid-year. The next phase of the program will include further engineering and optimization studies, in-fill confirmatory drilling to confirm the predictability of the geologic model at the Limosna, Wara Wara and Sucre Zones and to move resources into reserves with the completion of a pre-feasibility level study on the project. The Company plans to complete additional resource expansion drilling designed to test expansion along trend and down dip and potentially continue to expand the project resources which remain open in all directions. The Company has budgeted approximately \$16.7 million toward exploration and development work at Malku Khota during the pre-feasibility phase.

At the Escalones project, the Company has completed an initial exploration program that included follow-up geochemical sampling, and geophysical interpretation in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in Q4-2011. Planning is underway for a substantial drill program designed to extend zones of known mineralization and test additional geologic and geophysical targets is planned for later in the year based on drill rig availability.

In the months ahead, we are committed to reporting on a number of important project milestones which we believe will broaden shareholder value as we advance each of our South American projects through the next stages of development.

Related party transactions

The Company's related parties consist of the Company's officers or companies associated with them, and a legal firm in which a director is a partner. The Company incurred the following expenditures during the three and nine months ended September 30, 2011 and 2010 that were charged by related parties:

| | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|--|---|---|--|--|
| | \$ | \$ | \$ | \$ |
| Consulting fees | 19,950 | 21,350 | 60,095 | 62,130 |
| Legal fees | 16,419 | 20,449 | 229,471 | 226,219 |
| Legal fees in deferred share issue costs | - | 66,312 | - | 108,393 |
| Mineral property costs – consulting fees | 72,528 | 88,600 | 221,911 | 133,820 |
| | 108,897 | 196,711 | 511,477 | 530,562 |

Included in accounts payable at June 30, 2011 is an amount of \$172,452 (December 31, 2010 - \$409,095) due to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

Key management includes the Chief Executive Officer and the Executive Chairman. The compensation paid or payable to key management for services is as follows:

| | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|----------------------|---|---|--|--|
| | \$ | \$ | \$ | \$ |
| Wages and benefits | 113,879 | 70,456 | 329,629 | 165,417 |
| Share-based payments | 156,668 | 101,599 | 417,798 | 191,068 |
| | 270,547 | 172,055 | 744,427 | 356,485 |

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, and accounts payable and accrued liabilities. Cash equivalents consist of bankers' acceptances. The Company has no asset backed commercial paper. The majority of the Company's cash and cash equivalents is held through a major Canadian chartered bank. The Company also maintains deposits for ongoing working capital at major banks in the jurisdictions in which its foreign subsidiaries operate.

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its activities in Canada, Bolivia, and Chile. The Company's currency risk is presently related to approximately \$980,000 of financial assets and liabilities denominated in U.S. dollars which are owned by the Canadian parent, or denominated in Bolivian Bolivianos or in Chilean pesos. Based on this exposure as at September 30, 2011, a 5% change in exchange rates would give rise to a change in net loss of approximately \$49,000. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

Off-balance sheet arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Disclosure controls and procedures and internal controls over financial reporting

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, engaged external consultants to evaluate the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting as at December 31, 2010. Based on this evaluation, management concluded that these disclosure and internal controls and procedures over financial reporting were effective.

As of the date of this report, management is not aware of any change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Critical accounting estimates

The accounting estimates considered to be significant to the Company include the carrying values of mining claims and deferred exploration costs and the computation of stock-based compensation expense and warrants.

Management reviews the carrying values of its mining claims on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. In addition, capitalized costs related to relinquished property rights are written off in the period of relinquishment. Capitalized costs in respect of the Company's mining claims amounted to \$16,107,586 as at September 30, 2011. These costs may not be recoverable and there is a risk that these costs may be written down in future quarters.

The Company uses the fair-value method of accounting for share-based payments related to incentive stock options, compensation warrants and PSU's granted, modified or settled. Under this method, compensation cost attributable to options and awards granted is measured at fair value at the grant date and expensed over the vesting period. Stock options granted to consultants are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to consultants is recognized as share-based payment expense from the date of grant to the reporting date and credited to contributed surplus. The fair value of PSU's granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus. The fair value of PSU's which vest immediately is recorded at the date of grant; the fair value of PSU's which vest in the future is recognized over the vesting period.

In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated risk-free interest rate. Changes to these estimates could result in the fair value of the share-based payments expense being less than or greater than the amount recorded. During the nine months ended September 30, 2011, the Company granted stock options and PSU's, the estimated fair values of which amounted to \$5,864,832. The Company recorded share-based payments costs of \$3,712,389 (2010 - \$775,262) in accordance with the vesting provisions of stock options and PSU's.

Outstanding share data

Authorized Capital:

An unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series

Issued and outstanding as at November 10, 2011: 100,976,858 common shares

Fully diluted as at November 10, 2011: 118,373,016 common shares

Outstanding options and warrants as at November 10, 2011:

| Type of Security | Number | Exercise Price Cdn. \$ | Expiry date |
|------------------|-----------|---------------------------|------------------------------|
| Stock options | 2,200,000 | \$0.50 | February 15, 2012 |
| Stock options | 590,000 | \$0.68 | May 16, 2012 |
| Stock options | 400,000 | \$2.09 | April 15, 2013 |
| Stock options | 510,000 | \$0.53 | May 30, 2013 |
| Stock options | 200,000 | \$1.85 | August 16, 2013 |
| Stock options | 906,734 | \$0.35 | May 25, 2014 |
| Stock options | 650,000 | \$0.37 | March 26, 2015 |
| Stock options | 800,000 | \$0.37 | March 29, 2015 |
| Stock options | 400,000 | \$0.69 | June 8, 2015 |
| Stock options | 1,608,734 | \$0.63 | September 16, 2015 |
| Stock options | 1,800,000 | \$2.09 | April 15, 2016 |
| Stock options | 600,000 | \$2.32 | May 26, 2016 |
| Stock options | 325,000 | \$1.85 | August 16, 2016 |
| Warrants | 1,200,000 | \$0.60 | November 27, 2011 |
| Warrants | 8,000 | \$0.60 | December 7, 2011 |
| Warrants | 200,000 | \$0.50 | February 15, 2012 |
| Warrants | 1,997,690 | \$1.16 | May 30, 2012 |
| Warrants | 2,600,000 | \$0.95 | July 15, 2012 ⁽¹⁾ |
| Warrants | 400,000 | \$1.47 | November 5, 2012 |

- (1) In the event that the Company's common shares trade on the Toronto Stock Exchange (the "TSX") at a price not less than Cdn. \$1.25 for a period of 10 consecutive trading days, the Company shall be entitled to accelerate the exercise period of these warrants to a period ending at least 30 days from the date notice of such acceleration is provided to the holders of the warrants.

International Financial Reporting Standards (“IFRS”)

For fiscal years commencing on or after January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. The three month period ended March 31, 2011 was the Company’s first reporting period under IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010.

The Company’s IFRS conversion team identified four phases to the Company’s conversion: scoping and planning, detailed assessment, implementation and post-implementation. The Company has now completed its IFRS conversion project through the implementation phase. The post-implementation phase will continue in future periods, as outlined below.

Notes 2 and 4 of the accompanying interim condensed consolidated financial statements provide details of the Company’s key Canadian GAAP to IFRS differences. The Company’s previously released interim condensed consolidated financial statements for the three months ended March 31, 2011 provide details of accounting policy decisions and first-time adoption exemptions applied.

The conversion to IFRS has had a low impact on the financial record keeping, internal controls and financial disclosures of the Company due to the exploration and project development nature of the Company’s business. Accounting systems have been assessed and re-configured to ensure accurate reporting under IFRS.

Transitional financial impact

The following is a summary of the adjustments to net loss and other comprehensive loss for the three and nine months ended September 30, 2010 under IFRS (all of which are outlined in the notes to the accompanying condensed consolidated financial statements):

| | Three months ended September 30, 2010 \$ | Nine months ended September 30, 2010 \$ |
|--|---|--|
| Net loss under Canadian GAAP | (1,098,740) | (2,436,461) |
| Adjustment – share-based payments (1) | 3,153 | 15,784 |
| Adjustment – currency translation difference (2) | (156,671) | (149,335) |
| Net loss under IFRS | <u>(1,252,258)</u> | <u>(2,570,012)</u> |
| Other comprehensive income under Canadian GAAP | - | - |
| Adjustment – currency translation difference | 156,671 | 149,335 |
| Other comprehensive income under IFRS | <u>156,671</u> | <u>149,335</u> |
| Total comprehensive loss under IFRS | <u>(1,095,587)</u> | <u>(2,420,677)</u> |

- (1) Under IFRS, in the determination of share-based payments expense, the Company estimates forfeitures of awards on the grant date and revises these estimates for actual experiences in subsequent periods. Under Canadian GAAP, the Company had recognized forfeitures of awards as they occurred.
- (2) The Company, as a result of its interpretation of IFRS, has determined that the parent company, South American Silver Corp., has a functional currency of Canadian dollars. On translation to the presentation currency, U.S. dollars, the exchange gains/losses under IFRS are charged to other comprehensive income/loss. This treatment has resulted in a currency translation difference on conversion from Canadian GAAP to IFRS.

All of the above adjustments are non-cash accounting adjustments. There was no impact on total assets, total liabilities, and total shareholders’ equity on converting from Canadian GAAP to IFRS as at September 30, 2010.

Post-implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. The standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, financial instruments, and leases. The International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company’s financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that

potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

Accounting standards issued but not yet applied

- *Amendments to IFRS 7 “Financial Instruments: Disclosures”*

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

- *New standard IFRS 9 “Financial Instruments”*

IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39, “Financial Instruments: Recognition and Measurement”, and applies to the classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013.

- *New standard IFRS 10 “Consolidated Financial Statements”*

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates in its subsidiaries. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *New standard IFRS 11 “Joint Arrangements”*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

- *New standard IFRS 12 “Disclosure of Interests in Other Entities”*

IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

The Company has not early adopted any of these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Risks and uncertainties

The Company’s ability to continue its exploration activities and any future development activities, and to continue as a going concern, will depend in part on its ability to commence production and generate material revenues or to obtain suitable financing.

The Company is not in commercial production on any of its mineral properties and, accordingly, it does not generate cash from operations. The Company’s planned exploration and development expenditures on existing properties require significant financial resources. The Company remains dependent on raising additional financing through the issuance of equity securities to fund exploration and development requirements on existing properties, to fund property acquisitions and for general corporate costs.

Exploration and development

The Company is in the business of exploring for minerals which by its nature involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the mineral properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to obtain financing or, alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis.

A portion of the Company’s interest in the Escalones project is subject to an option agreement which requires the Company to make periodic payments over a varying number of years to maintain its interest. The Company can cancel this agreement at any time without completing the remaining payments and without penalty.

Political risk

Exploration is presently carried out in Bolivia and Chile. Each of these countries exposes the Company to risks that may not otherwise be experienced if all operations were all in Canada. Political risks may adversely affect the Company's existing assets and operations. Real and perceived political risk in some countries may also affect the Company's ability to finance exploration programs and future mine development opportunities.

Although Chile has a mature and stable political system and enjoys one of the best country risk ratings of the region, there is always the potential for changes in mining policies or shifts in political attitude towards foreign investment in natural resources. Changes, even if minor in nature, may adversely affect the Company's operations.

Bolivia is undergoing a period of significant transformation including the creation of a new Bolivian Constitution which was ratified by national referendum held on January 25, 2009. Based on the new constitution a new mining policy and mining tax changes are being proposed. As new laws and regulations required by the new Constitution have not yet been passed into law, there is a potential for changes in economic factors or resource ownership for the Company if the new laws and regulations change the rates applicable to taxes and royalties or the terms of current concessions on mining properties.

The Company's mineral exploration and mining operations may be adversely affected by political instability and legal and economic uncertainty that might exist. The risks associated with the Company's foreign operations may include political unrest, labour disputes, invalidation of governmental orders, permits, agreements or property rights, war, civil disturbances, criminal and terrorist actions, arbitrary changes in laws, regulations and policies, taxation, price controls, exchange controls, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports, high rates of inflation and increased financing costs. These risks may limit or disrupt the Company's projects or operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization, expropriation or other means without fair compensation.

Community relations

The Company's success depends on how well it manages the economic, environmental and social impacts of its operations on the communities surrounding its properties. With the advancement of the Malku Khota project and the increased level of the Company's activities, discussions have commenced with community leaders representing the local indigenous people regarding the involvement of those communities in the development process. Indigenous leaders have requested that the Company not restart field activities until discussions could take place on community engagement. The government is assisting in these discussions and the Company is working closely with local community leaders. If the Company's discussions with the local communities do not result in an agreement as to their engagement, the local communities may attempt to prevent or disrupt the Company's operations at Malku Khota.

Environmental laws and regulations

The Company's activities are subject to foreign environmental laws and regulations which may materially adversely affect its future operations. These laws and regulations control the exploration and development of mineral properties and their effects on the environment, including air and water quality, mine reclamation, waste handling and disposal, the protection of different species of plant and animal life, and the preservation of lands. These laws and regulations will require the Company to acquire permits and other authorizations for certain activities. There can be no assurance that the Company will be able to acquire such necessary permits or authorizations on a timely basis, if at all.

In Bolivia, there is relatively new comprehensive environmental legislation. Bolivian environmental laws and regulations provide that any individual or corporation causing environmental damage is liable for that damage, even after the activity or use of the land causing the environmental damage has ceased. In order to avoid potential liability for environmental damage caused by previous concession holders, a concession holder must perform an environmental audit on the land immediately upon being granted the concession. Failure to complete this environmental audit may result in the new concession holder being retroactively liable for environmental damage caused by previous concession holders. Environmental damages are not subject to a statute of limitation.

The Company cannot predict what environmental legislation or regulations will be enacted or adopted in the future or how future laws and regulations will be administered or interpreted. Compliance with more stringent laws and regulations, as well as potentially more vigorous enforcement policies or regulatory agencies or stricter interpretation of existing laws, may materially adversely affect the Company's future operations.

Beyond exploration, environmental and political risk, and community relations, the Company is faced with a number of other risk factors as detailed in the Annual MD&A.

About South American Silver Corp.

South American Silver Corp. is a growth focused mineral exploration company creating value through the exploration and development of the 100% owned Malku Khota silver-indium-gallium project in Bolivia, one of the world's largest undeveloped silver-indium-gallium deposits, and the large-scale 100%-controlled Escalones copper-gold project in Chile. The Company's approach to business combines the team's track record of discovery and advancement of large projects, key operational and process expertise, and effective community relations to increase shareholder value. Management has extensive experience in the global exploration and mining industry with much of that focused in Bolivia, Chile, Peru and Argentina. The Company's shares are listed on the Toronto Stock Exchange under the symbol "SAC" and on the US OTC market as "SOHAF". Additional information related to South American Silver Corp. is available at www.soamsilver.com and on SEDAR at www.sedar.com

Cautionary notes

Forward-looking statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions. This MD&A contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning mineral resource estimates and the interpretation of drill results may also be considered as a forward-looking statement; as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

It is important to note that:

Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements, include, but are not limited to, possible variations in mineral resources, grade or recovery rates, silver or indium prices, operating or capital costs; availability of sufficient financing to fund planned or further required work in a timely manner and on acceptable terms; changes in project parameters as plans continue to be refined; failure of equipment or processes to operate as anticipated; and political, regulatory, environmental and other risks of the mining industry.

The material assumptions that were applied in making the forward looking statements in this MD&A or referenced in this MD&A include, but are not limited to: statements regarding estimated mineral resources and the potential for delineation of additional resources through further exploration at the Malku Khota project, as well as statements regarding estimated net present value, internal rate of return, annual production, costs, prices and by product value; the accuracy of current interpretation of drill and other exploration results; and execution of the Company's existing plans or exploration programs for each of its properties, either of which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans or programs.

Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason. Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of November 10, 2011.

Cautionary note regarding reserve and resource estimates and the PEA

The material in this MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of U.S. securities laws. Unless otherwise indicated, all resource and reserve estimates included in this press release have been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and resource and reserve information contained herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. The estimation of quantities of resources and reserves is complex, based on significant subjective assumptions and forward-looking information, including assumptions that arise from the evaluation of geological, geophysical, engineering and economic data for a given ore body. This data could change over time as a result of numerous factors, including new information gained from development activities, evolving production history and a reassessment of the viability of production under different economic conditions. Changes in data and/or assumptions could cause reserve estimates to substantially change from period to period. No assurance can be given that the indicated level of mineral will be produced. Actual production could differ from expected production and an adverse change in mineral prices could make a reserve uneconomic to mine. Variations could also occur in actual ore grades and recovery rates from estimates.

The PEA was prepared to broadly quantify the Malku Khota Project's capital and operating cost parameters and to provide guidance on the type and scale of future Project engineering and development work that will be needed to ultimately define the

Project's likelihood of a positive feasibility determination and optimal production rate. It was not prepared to be used as a valuation of the Project nor should it be considered to be a final feasibility study on which a commercial production decision could be made. The capital and operating cost estimates which were used have been developed only to an approximate order of magnitude based on generally understood capital cost to production level relationships, and although they are based on engineering studies, these are preliminary so the ultimate costs may vary widely from the amounts set out in the PEA. This could materially adversely impact the projected economics of the Project. As is normal at this stage of a project, data in some areas was incomplete and estimates were developed based solely on the expertise of the Company's employees and consultants. At this level of engineering, the criteria, methods and estimates are preliminary and result in a high level of subjective judgment being employed. There can be no assurance that the potential results contained in the PEA will be realized.

Other information

Additional information related to the Company, including the Company's Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.soamsilver.com.