

South American Silver Corp.
Year Ended December 31, 2010
Management's Discussion & Analysis
March 18th, 2011

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General

The following information, prepared as of March 18, 2011, should be read in conjunction with the audited consolidated financial statements of South American Silver Corp. (the “Company” or “SASC”) for the year ended December 31, 2010 which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in U.S. dollars unless otherwise indicated.

Description of business

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 project in Bolivia, one of the world’s largest undeveloped silver and indium deposits, and the 100% controlled large-scale 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 over 100 years of combined 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

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 development of the project.

Current market and economic conditions

As of March 2011, the prices of silver and gold have continued to show tremendous strength, having recovered from a brief correction starting in early December. Silver recently reached over \$35.00/oz, its highest price in more than two decades and gold has been as high as \$1,440/oz, surpassing its December 2010 high of \$1425/oz and well above its 1980 high of \$850/oz. Strong demand for commodities and the weakening of the US dollar remain contributing factors to continuing strength in metals prices. Since March 2010, silver has more than doubled in value, outperforming gold which has increased by about 26% over the same period. The current gold to silver price ratio of 40 remains well above its historic lows of 15-20 but is now well off of its highs last year in the 60-80 level.

The fundamentals for both silver and gold appear strongly supportive for continued higher prices. 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 a hedge against inflation and currency devaluation resulting in increased investment demand 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, the increased use in industrial applications ranging from biomedical to high technology is notable as it has become an increasingly larger percentage of the total annual demand. Up until the recent global economic crisis, industrial demand for silver had risen consistently on an annual basis over the 6 year period starting from 2002. That trend appears to have resumed with increased industrial demand in 2010. Total global silver supply peaked in 2005 and has been flat to falling since. With an anticipated rebound in industrial demand, coupled with continued strong investment demand, the fundamentals remain positive for higher silver prices. Compellingly, silver is one of the only major metals to have not yet reached its previous all time highs from the early 1980’s when it traded in the mid-\$30/oz level and to \$50/oz in 1980. 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 for the greater part of 2010, continuing into 2011.

Recent developments in the indium market also continue to present compelling supply/demand dynamics for the high technology metal. Over the past 5 years indium prices have ranged between \$400/kg to over \$1,000/kg, with two of the past 5 years at over \$1,000/kg. November 2010 indium prices have continued to rise from the lows of 2008-2009 and are currently around \$550-600/kg reflecting the recent improving global economic conditions.

Because of the unique optical and electrical properties of indium and its rapidly growing use in flat panel displays, touch screens, smart phones, high efficiency solar panels and high-efficiency, long life LED lighting, global indium consumption is anticipated to continue to grow significantly. Over the past 5 years, the largest segment of the indium market for LCD panels has grown four times, solar panel growth utilizing either high silver or high indium technology has increased ten times, and the high efficiency, long life LED lighting market has seen compound annual growth rates of over 32%. According to a recent Roskill report on the global industry markets and outlook for indium, consumption of indium for flat panel display (FPD) applications is expected to grow at a rate of 17%/year, from 395 tonnes/year in 2009 to 752 tonnes/year in 2013, while solar applications could increase at nearly 40%/year. In total, global indium use has grown approximately ten times since 1990.

Historically indium has been supplied primarily as a by-product of zinc metal refining, with few primary producers. At current growth rates, it is estimated that by-product indium production may soon fall short of demand based on zinc production growth rates of only 1-3% per year and indium growth rates estimated at 15-20% per year. Recent studies by both the UN and the U.S. Department of Energy have highlighted indium, along with a number of rare earth metals, as a key specialty high-technology metal potentially at risk of shortages due to rapidly increasing growth, low recycling rates and low primary production. A recent study published in New Scientist Magazine by Yale University researchers, supports this conclusion showing that based on total reserves vs. current consumption indium is one of the most scarce of the strategic metals at just 5-10 years total supply without factoring in continued rapid consumption growth.

China is the largest producer and consumer of indium and has imposed export quotas and restrictive tariffs on indium exports. As a response, both Japan and Korea, as the second and third largest users of the metal, have begun creating strategic stockpiles of indium to ensure security of their supply needs. In late 2010, Chinese interests announced taking a 50% stake in a development stage primary indium project outside of China, committing the funding to bring the project to production.

Investor interest in indium has also been increasing, with SMG Indium announcing the creation of a new IPO for an indium market tracker in 2010. This future US listed investment has been designed to stockpile raw indium metal and track the price of indium, much like the recently introduced silver and gold ETF's, which have significantly expanded investor exposure and demand for both metals in recent years. With one of the largest NI 43-101 qualified resources of primary indium, South American Silver is attracting additional investor interest due to its large exposure to this rapidly growing market for indium.

Copper and zinc have also rebounded significantly from their lows of 2008 at less than \$1.50/lb and \$0.50/lb respectively to trade recently above \$4.50/lb for copper and \$1.15/lb for zinc. Demand for copper and zinc is being driven largely by growth in Asia and particularly China and India where industrialization remains a long-term supporting factor for basic materials. With South American Silver anticipating a first resource estimate on its Chilean based copper-gold project in 2011, investors are well positioned to benefit from this long term metal cycle in base metals.

Precious metals equities have responded well to the move up in precious metals with many showing greater percentage gains than the underlying metals. Particularly, many of the exploration and development-stage companies have shown stronger relative performance compared with the larger producers demonstrating increased demand by investors for growth potential. On a year to date basis, South American Silver Corp. has significantly outperformed the key gold and silver equity indexes such as the broad Toronto Gold Index and the U.S. Amex Gold Miners Index. South American Silver remains at a very attractive investment valuation level compared to its silver exploration and development stage peers.

Resource based economies have continued to benefit from the rebound in metal prices over the past year, particularly those in emerging markets like South America. With mining representing one of the largest elements of the Bolivian economy, Bolivia has continued to have one of the fastest growing GDP's in all of the Americas. Bolivia has seen 3 major new silver mines come into production in the past 4 years, including Pan America Silver, Coeur D'Alene, and Sumitomo Mines. This has helped push Bolivia to the 5th largest global silver producing country in the past couple of years. The large amount of trade activity with Brazil has been particularly positive as well. These improving economic and business conditions have resulted in bond upgrades by Moody's and Fitch rating services in 2010.

Recent developments

On October 7, 2010, the Company announced new exploration drilling results for the Malku Khota project (PR 10-13). Results were reported on thirteen additional drill holes out of an approximate 11,500 metre on-going drill campaign. The primary objective of this year's current drill program has been confirmatory drilling to demonstrate the predictability of the geologic model especially within the modeled pit boundaries in preparation for the updated Preliminary Economic Assessment at the end of Q1-2011. The drill campaign has primarily focused on in-fill drilling within the pit model with some deeper holes designed to increase the amount of drill information lower in the pit models. These deeper holes have confirmed the broadly mineralized horizon remains open to depth. An additional drill rig was added to the project for a total of 3 drills to maximize the number of holes for the resource.

To date, only about 30% of the known prospective mineralized host stratigraphy at Malku Khota has been drill tested. In 2011, 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.

Highlights of the recent drilling in the central portion of the Limosna deposit at Malku Khota have shown that the higher grade mineralization seen at surface continues deeper and broadens out. This new mineralization is toward the lowest levels modeled for the 2009 Preliminary Economic Assessment (“PEA”) completed by Pincock, Allan and Holt. The results from holes LMD048 and LMD050 demonstrate two of the best intercepts to date on the project in terms of width and grade with respective down-hole grade-thickness values of over 21,500 gram-meters (g-m) silver equivalent and >13,500 g-m silver. LMD048 intercepted 286 meters at 62.4 g/t silver with 2.7 g/t indium and 3.2 g/t gallium, with a high-grade zone of 31 meters grading 260 g/t silver. LMD050 intercepted 243 meters grading 43.1 g/t silver with 1.4 g/t indium and 3.6 g/t gallium, with high grade zone of 19 meters grading 258.5 g/t silver.

Additionally, the Company has continued metallurgical and process-related test work to further refine the leach recovery characteristics for silver and indium and associated gold, copper, lead, zinc and gallium mineralization. The test work to date indicates the amenability of heap leaching and/or milling of the mineralized material at Malku Khota.

Engineering studies are being completed in Q1-2011 using an updated 3D geologic model, metallurgical and process studies, and refined plans for mine facilities, operations infrastructure, and project implementation utilizing local resources as much as possible. This information will be the basis for a substantive update of the 2009 PEA and will look at a number of optimization approaches to be incorporated in an updated economic assessment study planned for the end of the first quarter of 2011.

On November 30, 2010, the Company announced the sale of 27.5 million common shares of the Company, by way of private placement at a price of Cdn. \$1.16 per share, for gross proceeds of approximately Cdn. \$31.9 million. The largest component of the offering was a strategic investment by Zamin Precious Minerals Limited, which purchased 18.9 million common shares under this offering representing approximately 19.7% of the Company’s issued shares following the closing of the financing. The Zamin mining group is a key regional player in the South American resource industry with major projects in Brazil, Uruguay, Bolivia, and Chile. South American Silver looks forward to working with this key strategic investor to continue to advance the Company’s Malku Khota and Escalones assets.

Property review

Malku Khota

South American Silver’s most advanced project is the Malku Khota Silver-Indium 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 and indium resources with an NI 43-101-qualified indicated resource of 144.6 million ozs of silver and 845 tonnes of indium and an additional inferred resource of 177.8 million ozs of silver and 968 tonnes of indium. The PEA prepared by Pincock Allen & Holt Inc. in 2009 showed robust economics for a bulk-mineable heap leach operation with the potential to be one of the largest new silver and indium producing mines in development. The project is road-accessible, with power available within 15 kilometres of site.

The Company has a history of positive relations with the communities surrounding the Malku Khota project. The Company has recently added a new coordinator of Community Relations in addition to three full-time Community Relations personnel on the project. In addition the Company anticipates continuing to build on its community relations team to support bringing the project to feasibility and permitting 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. Field work to support the Pre-Feasibility studies on the project is anticipated to restart in Q2 with the conclusion of these community discussions.

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. Drilling in 2010 was primarily focused on confirmation and in-fill drilling, with a focus to increase the density of drilling in the areas that fall within the pit model. This drilling, which concluded at the end of December 2010, will be integrated into an updated resource estimate by the end of Q1, 2011.

Since completion of the PEA in March 2009, South American Silver has continued to refine the metallurgical characteristics of the deposit through ongoing process-related test work to refine the leach recovery characteristics of the silver, indium and associated lead, zinc, copper and gallium mineralization in both heap leach and milling options. The test work to date indicates the amenability of heap leaching and/or milling of the mineralized material at Malku Khota applying the same type of process as used in copper oxide SX-EW heap leach mining or by the indium refineries

that process by-product indium from zinc smelting. This updated information will be integrated into an updated Preliminary Economic Assessment at the end of Q1-2011.

During the year ended December 31, 2010, expenditures at the Malku Khota project totaled approximately \$3.6 million. Work focused on drilling, metallurgical testing, environmental baseline data collection, community meetings and various engineering optimization studies.

Escalones

The Escalones copper-gold-silver porphyry related project is located approximately 100 kilometres south-east of Santiago by road in central Chile. The property (35 kilometres east of El Teniente, one of the world's largest underground copper mines) shows high grades at surface at over 1% copper with significant gold, silver 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% 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 copper-gold project, the Company has completed initial geological modeling and will commence an exploration program by the end of Q1-2011 that would include follow-up geochemical sampling, and geophysics in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in 2011. 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. A total of \$237,794 was incurred at the Escalones project during 2010 for geologic modeling work and a \$150,000 option payment.

Selected annual information

The table below provides selected financial information for the Company on a consolidated basis for each of the past three years ended December 31.

	2010	2009	2008
Total Revenues	\$ nil	\$ nil	\$ nil
Net Loss	\$ (2,879,231)	\$ (1,784,831)	\$ (3,121,973)
Net Loss Per Share (basic and diluted)	\$ (0.04)	\$ (0.03)	\$ (0.06)
Total Assets	\$ 48,511,341	\$ 15,858,467	\$ 13,965,265
Long-term Liabilities	\$ nil	\$ nil	\$ nil
Deferred Exploration Expenditures – for the year	\$ 3,849,904	\$ 2,220,261	\$ 4,297,971
Deferred Exploration Expenditures – cumulative, net of write-downs	\$ 12,524,955	\$ 8,675,051	\$ 6,454,790
Dividends declared	\$ nil	\$ nil	\$ nil

The net loss for 2010 includes a non-cash charge of \$841,956 (2009 - 548,443; 2008 - \$1,031,578) for stock-based compensation expense. The net loss for 2010 was reduced by a foreign exchange gain of \$926,134 (2009 - \$82,932; 2008 – loss of \$211,679). The net loss for 2008 included a write-down of mining claims amounting to \$1,023,677. There were no write-downs of mineral properties during 2010 and 2009.

Results of operations

During the year ended December 31, 2010, the Company reported a net loss of \$2,879,231 (\$0.04 per share) compared to a loss of \$1,784,831 (\$0.03 per share) reported in 2009. The 2010 loss includes stock-based compensation expense of \$841,956 (2009 - \$548,443) representing non-cash charges incurred in connection with the granting of stock options and restricted share awards. The fair value of all stock options and restricted share awards granted is recorded as a charge to operations or to deferred property costs over the vesting period, with a corresponding credit to contributed surplus.

Excluding the impact of stock-based compensation expense, general and administrative expenses increased from \$1,325,353 to \$2,990,492. The Company undertook a number of corporate initiatives during 2010 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 \$263,083 to \$1,089,706 as the Company has significantly increased its marketing efforts, including engagement of investor relations consultants and attendance at a number of conferences and investor meetings in North America, Europe and Asia. Included in these costs is a non-cash amount of \$324,167 representing the cost of warrants granted to investor relations consultants. Professional fees increased from \$196,551 to \$474,700, reflecting higher legal costs incurred in respect of a number of initiatives including corporate governance activities and implementation of a comprehensive long-term incentive plan. Commensurate with the increasing profile and activity level of the Company, wages and benefits increased from \$277,338 to \$514,675, and consulting expense increased from \$155,885 to \$225,026. Office and administration increased from \$226,147 to \$437,176 as the Company moved into larger premises for its technical staff in Denver and opened a head office in Vancouver. Filing and transfer agent fees increased from \$34,427 to \$99,366, reflecting application and related fees associated with a potential US market listing. These variances were offset by a decrease in exploration expenses at the Laurani project in Bolivia from \$73,019 to \$16,905.

Expenses were offset by a foreign exchange gain of \$926,134 (2009 - \$6,664). The Company completed its \$31.9 million gross proceeds financing on November 30, 2010, and the foreign exchange gain is attributable to the strengthening of the Canadian dollar in the intervening period to the end of the year. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

Capital expenditures

Total exploration spending for 2010 increased to \$3,849,904 from \$2,220,261 incurred in 2009. The majority of the 2010 deferred expenditures were incurred at Malku Khota where costs totalled \$3,612,110, including \$751,041 in drilling costs and \$659,971 in laboratory costs associated with the metallurgical testing program. A total of \$237,794 was incurred at Escalones in Chile, including a cash option payment of \$150,000.

During 2009, costs incurred at Malku Khota totalled \$1,999,525, including costs associated with the preliminary economic assessment. A total of \$220,736 was incurred at Escalones, including a cash option payment of \$150,000.

Financing activities

During the third quarter of 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 is 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.

During the fourth quarter, the Company completed a private placement of 27,499,378 common shares at a price of Cdn. \$1.16 per share, raising net proceeds of \$31,073,087. As compensation for services, the Company paid cash commissions totalling \$2,173,480 and issued a total of 2,323,508 broker warrants, each entitling the holder to subscribe for one common share at a price of Cdn. \$1.16 per share until May 30, 2012. The Company also incurred other share issue costs of \$238,081 in respect of this financing.

During fiscal 2009, the Company raised net proceeds of \$2,890,597 pursuant to a private placement of 8,126,250 units at a price of Cdn.\$0.40 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.\$0.60 per share for a period of two years. In connection with this private placement, the Company issued 348,300 broker warrants entitling the holder to subscribe for 348,300 units at a price of Cdn.\$0.40 per unit for a period of 18 months, with each unit being similarly comprised of one common share and one half of one share purchase warrant.

Summary of quarterly results (unaudited)

Three months ended	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Deferred exploration costs	\$1,186,505	\$942,892	\$969,844	\$750,663	\$756,057	\$453,258	\$592,877	\$418,069
Net and comprehensive loss	(\$442,770)	(\$1,098,740)	(\$764,791)	(\$572,930)	(\$526,143)	(\$314,656)	(\$396,370)	(\$547,662)
Net loss per share (Basic and diluted)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

The net loss for the quarter ended December 31, 2010 was reduced by a foreign exchange gain amounting to \$937,301.

Fourth quarter

During the fourth quarter of 2010, the Company recorded a net loss of \$442,770 (\$0.01 per share) compared to a net loss of \$526,143 (\$0.01 per share) recorded in the fourth quarter of 2009. The 2010 fourth quarter loss includes non-cash stock-based compensation expense of \$254,683 (2009 - \$122,522). Shareholder information expense of \$591,685 includes \$287,885 in non-cash charges settled by the issuance of warrants. The net loss for the quarter was reduced by a foreign exchange gain of \$937,301, the impact of a strengthening Canadian dollar on cash balances maintained in Canadian currency.

The Company incurred deferred property expenditures during the fourth quarter of 2009 amounting to \$1,186,505. The majority of this amount, \$1,181,816, was incurred at Malku Khota, including costs associated with the ongoing update to the preliminary economic assessment. In the comparative fourth quarter of 2009, the Company incurred deferred property expenditures of \$756,057, including \$743,044 incurred at Malku Khota.

During the fourth quarter of 2010, the Company completed a private placement financing, raising net proceeds of \$28,661,526, and raised a further \$1,733,639 from the exercise of warrants and options. During the comparative fourth quarter of 2009, the Company raised net proceeds of \$2,890,597 pursuant to a private placement.

Liquidity and capital resources

The Company's aggregate operating, investing and financing activities during 2010 resulted in a net cash inflow of \$28,673,178. As at December 31, 2010, the Company had working capital of \$35.1 million, including cash and cash equivalents of \$35.7 million. With these funds in place, the Company will be in a very strong financial position to accelerate the advancement of its Malku Khota silver-indium project in Bolivia toward feasibility, and its Escalones copper-gold project in Chile to the resource definition stage.

Outlook

The Company is continuing to focus on the work necessary for the completion of an updated resource and Preliminary Economic Assessment at the Malku Khota silver-indium project by the end of Q1-2011. This program included more detailed metallurgical and engineering studies, as well as in-fill confirmatory drilling at the Limosna, Wara Wara and Sucre Zones to confirm the predictability of the geologic model. Beginning in 2011 the Company will look to undertake a significant level of infill drill work designed to convert inferred resources to measured and indicated resources and eventually into reserves along with additional resource expansion drilling. Field work to support Pre-Feasibility level studies on the project is anticipated to start in Q2-2011. The Company has budgeted approximately \$16.7 million toward exploration and development work at Malku Khota in 2011.

At the Escalones copper-gold project, the Company has completed initial geological modeling and will commence an exploration program by the end of Q1-2011 that would include follow-up geochemical sampling, and geophysics in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in 2011. 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. The Company has budgeted exploration expenditures of \$3.2 million to be incurred at Escalones in 2011.

Related party transactions

The Company entered into the following transactions with related parties during the year ended December 31, 2010:

- Aggregate legal fees of \$477,445 (2009 - \$101,174) were charged by a legal firm in which a director is a partner. Of this amount, \$212,785 (2009 - \$32,714) was included in share issue costs, with the remainder charged to legal expense.
- Consulting fees of \$113,380 (2009 - \$119,026) were charged by firms with directors or officers in common and were charged to operations.
- Consulting fees of \$143,020 (2009 - \$59,274) were charged by firms with directors or officers in common and included in deferred property costs.

Included in accounts payable at December 31, 2010 is an amount of \$409,095 (December 31, 2009 - \$172,028) 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.

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 \$30,840,000 of financial assets and liabilities denominated in Canadian dollars, in Bolivian Bolivianos or in Chilean pesos. Based on this exposure as at December 31, 2010, a 5% change in exchange rates would give rise to a change in net loss and comprehensive loss of approximately \$1,540,000. The majority of this exposure is due to the fact that the Company raises funding in Canadian currency and as at December 31, 2010, the Company had cash and cash equivalents of \$31,035,000 denominated in Canadian currency. 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 (as defined in the rules of the Canadian Securities Administrators ("CSA") as at December 31, 2010, and have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under Canadian securities laws is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities laws and (ii) accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has engaged external consultants, who used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework to evaluate the effectiveness of the Company's internal control over financial reporting. As of December 31, 2010, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

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 \$12,524,955 as at December 31, 2010. 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 stock-based compensation related to incentive stock options, compensation warrants and restricted share awards 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 stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. 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 stock-based compensation being less than or greater than the amount recorded. During 2010, the Company granted stock options, the estimated fair values of which amounted to \$1,314,214 (2009 - \$225,402). During 2010, the Company recorded stock-based compensation costs of \$993,106 (2009 - \$580,563) in accordance with the vesting provisions of stock options and restricted share awards.

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 March 18, 2011: 98,695,195 common shares

Fully diluted as at March 18, 2011: 114,760,653 common shares

Outstanding options and warrants as at March 18, 2011:

Type of Security	Number	Exercise Price Cdn. \$	Expiry date
Stock options	2,425,000	\$0.50	February 15, 2012
Stock options	590,000	\$0.68	May 16, 2012
Stock options	520,000	\$0.53	May 30, 2013
Stock options	973,400	\$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	1,708,400	\$0.63	September 16, 2015
Warrants	47,790	\$0.63	July 15, 2011
Warrants	9,360	\$0.63	July 19, 2011
Warrants	1,702,500	\$0.60	November 27, 2011
Warrants	320,500	\$0.60	December 7, 2011
Warrants	200,000	\$0.50	February 15, 2012

Type of Security	Number	Exercise Price Cdn. \$	Expiry date
Warrants	2,323,508	\$1.16	May 30, 2012
Warrants	2,995,000	\$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.

Changes in accounting policies including initial adoption

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These standards replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new standard for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these standards is permitted as of the beginning of a fiscal year. All three standards must be adopted concurrently. The Company adopted the new standards for its fiscal year beginning January 1, 2010. The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's first consolidated financial statements presented in accordance with IFRS will be for the three-month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

PHASE	DESCRIPTION AND STATUS
<p><i>PRELIMINARY PLANNING AND SCOPING</i></p>	<p>This phase involved development of an IFRS conversion plan and internal diagnostic review designed to understand, identify and assess the overall effort required to produce financial information under IFRS. The IFRS diagnostic review has been completed. This review included high level consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting and information systems.</p> <p>Based on management's review of IFRS and current Company processes, minimal impact is expected on information systems.</p> <p>The IFRS diagnostic review included a high level impact assessment of IFRS effective in 2009, as relevant to the Company. This initial assessment identified standards of high or medium priority to the Company, including standards on foreign currency translation, exploration and evaluation assets, income tax, stock-based compensation and first time adoption of IFRS. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company's adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate. No significant changes were made to the IFRS conversion plan during the fourth quarter of 2010.</p>
<p><i>DETAILED IMPACT ASSESSMENT</i></p>	<p>This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS. Management has completed its detailed component evaluation being the detailed review of IFRS relevant to the Company and identification of key differences.</p>
<p><i>IMPLEMENTATION</i></p>	<p>This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective January 1, 2011. Management has identified adjustments under IFRS related to the computation of stock-based compensation, a derivative liability associated with warrants denominated in U.S. dollars, and foreign exchange adjustments related to functional currency considerations. The opening consolidated IFRS statement of financial position as at January 1, 2010 and as at December 31, 2010, as drafted by management, and using IFRS accounting policies, is being reviewed by the Company's external auditors. Management has also prepared draft shell interim consolidated financial statements which are being reviewed by the Company's external auditors.</p>

Risks and uncertainties

Exploration for and the development of mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. The more significant ones include:

Uncertainty of Resource Estimates: The Company announced the results of an initial and updated resource estimate on the Malku Khota Project in May and October 2008, respectively, and announced the results of a preliminary economic study on the Malku Khota Project in February 2009. The Company's statements of mineral resources are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability. Until they are categorized as "mineral reserves", the known mineralization at the Malku Khota project is not determined to be economic ore.

The mining and exploration business relies upon the accuracy of determinations as to whether a given deposit has significant mineral reserves and resources. Mineral reserve and resource estimates are based on limited sampling, and inherently carry the uncertainty that samples may not be representative. Such estimates necessarily include presumptions of continuity of mineralization which may not actually be present. Mineral reserve and resource estimates may require revision (either upward or downward) based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral resources uneconomic. Inaccurate estimates may result in a misallocation of resources such that an excess amount could be allocated to a less than economic deposit or, conversely, failure to develop a significant deposit. Greater assurance will require completion of final comprehensive feasibility studies that conclude a potential mine at the Malku Khota project is likely to be economic, but such studies remain subject to the same risks and uncertainties.

Exploration Stage Operations: The Company's operations are subject to all of the risks normally incident to the exploration for and the development and operation of mineral properties. The Company has implemented safety and environmental measures for its operations.

All of the Company's properties are still in the exploration or advanced exploration stage. Mineral exploration and exploitation involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to avoid. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. The Company has relied on and may continue to rely on consultants and others for mineral exploration and exploitation expertise. Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the material processed and to develop the mining and processing facilities and infrastructure at any site chosen for mining. There can be no assurance that commercial quantities of ore will be discovered. There is also no assurance that even if commercial quantities of ore are discovered, that the properties will be brought into commercial production or that the funds required to exploit mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The commercial viability of a mineral deposit once discovered is also dependent on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices. Most of the above factors are beyond the control of the Company. There can be no assurance that the Company's mineral exploration activities will be successful. In the event that such commercial viability is never attained, the Company may seek to transfer its property interests or otherwise realize value or may even be required to abandon its business and fail as a "going concern".

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 domestic. 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.

Permits and Government Regulation: The Company's material properties are currently located in Bolivia and Chile, and as such, the operations of the Company may require licenses and permits from various governmental authorities in both Bolivia and Chile to carry out exploration and development at its projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary licences and permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the

Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities. In addition, the requirements applicable to sustain existing permits and licenses may change or become more stringent over time and there is no assurance that the Company will have the resources or expertise to meet its obligations under such licenses and permits.

In Bolivia, the government is the owner of all mineral resources and with the completion of the new Mining Code would award mining concessions. Under current Bolivian law, local and foreign companies are treated equally in obtaining mineral concessions and may own 100% of a mining concession. It is anticipated that under Bolivia's pending new Mining Code, the granting of mining rights be pursuant to signing a mining contract with the State which would cover the use and exploitation of natural resources under specific terms.

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.

Additional Funding: The Company currently has no revenues from operations. Following the Company's November 2010 private placement, the Company has approximately 18-24 months of funding in place to advance the Malku Khota silver-indium project into feasibility and to advance the Escalones copper-gold project to the resource definition stage. In order to fund the development of the Malku Khota and Escalones properties, additional funds will be required. The only sources of future funds presently available to the Company are the sale of additional equity capital, selling or leasing the Company's interest in a property, or entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource market and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. In addition, the status of Bolivia as a developing country may make it more difficult for the Company to obtain financing for its projects. There is no assurance that the Company will be successful in raising additional funds in the future. If the Company does not have the necessary capital to meet its obligations under its contractual obligations, the Company may have to forfeit its interest in properties or prospects earned or assumed under such contracts. In addition, if the Company does not have sufficient funds to pursue its exploration and development programs, the viability of the Company could be jeopardized.

Metal Price Risk: The Company's portfolio of properties has exposure to predominantly silver, indium, copper, lead and zinc, with some exposure to gold. The prices of these metals, especially copper and silver, greatly affect the value of the Company and the potential value of its properties and investments. This is due, at least in part, to the underlying value of the Company's assets at different metals prices. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable. The Company's revenues and earnings also could be affected by the prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of silver, indium or copper. The prices of these commodities are affected by numerous factors beyond the Company's control.

Environmental Risk: 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.

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; 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 March 18, 2011.

Cautionary note regarding reserve and resource estimates

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.

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.

South American Silver Corp.
(An Exploration Stage Company)

Consolidated Financial Statements
December 31, 2010 and 2009

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of South American Silver Corp. (the "Company") have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgement based on currently available information.

The Audit Committee of the Board of Directors, consisting of three independent directors, meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

(Signed) "Gregory Johnson"
President and Chief
Executive Officer

(Signed) "William Filtness"
Chief Financial Officer

Vancouver, B.C., Canada
March 18, 2011

Independent Auditor's Report

To the Shareholders of South American Silver Corp.

We have audited the accompanying consolidated financial statements of South American Silver Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive loss, deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of South American Silver Corp. and its subsidiaries as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

March 18, 2011

Vancouver, British Columbia

South American Silver Corp.

(An Exploration Stage Company)

Consolidated Balance Sheets as at December 31, 2010 and 2009

(expressed in U.S. dollars)

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	35,687,151	7,013,973
Receivables and prepaids	221,155	75,138
	<hr/>	<hr/>
	35,908,306	7,089,111
Mining properties and equipment		
Mining claims and deferred exploration costs (note 4)	12,524,955	8,675,051
Equipment (note 5)	78,080	94,305
	<hr/>	<hr/>
	12,603,035	8,769,356
	<hr/>	<hr/>
	48,511,341	15,858,467
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	838,525	462,017
	<hr/>	<hr/>
Shareholders' Equity		
Share capital (notes 6a and 6b)	79,482,130	47,251,095
Contributed surplus (note 6d)	5,742,677	2,818,115
Deficit	(37,551,991)	(34,672,760)
	<hr/>	<hr/>
	47,672,816	15,396,450
	<hr/>	<hr/>
	48,511,341	15,858,467
Commitments (note 4a)		
Contingencies (note 9)		
Subsequent event (note 14)		

On behalf of the Board

(signed) "Paul Haber"

(signed) "John Watson"

The accompanying notes are an integral part of these consolidated financial statements.

South American Silver Corp.

(An Exploration Stage Company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31, 2010 and 2009

(expressed in U.S. dollars)

	2010	2009
	\$	\$
General and administrative expenses		
Consulting	225,026	155,885
Depreciation and amortization	33,588	28,353
Directors' fees	99,250	70,550
Filing and transfer agent fees	99,366	34,427
Office and administration	437,176	226,147
Professional fees	474,700	196,551
Reconnaissance and sundry exploration	16,905	73,019
Shareholder information and investor relations	1,089,706	263,083
Stock-based compensation	841,956	548,443
Wages and benefits	514,675	277,338
	<u>(3,832,348)</u>	<u>(1,873,796)</u>
Other income and (expenses)		
Interest and other income	26,983	6,664
Foreign currency gain	926,134	82,932
Loss on disposal of assets	-	(631)
	<u>953,117</u>	<u>88,965</u>
Net loss and comprehensive loss for the year	(2,879,231)	(1,784,831)
Deficit - Beginning of year	<u>(34,672,760)</u>	<u>(32,887,929)</u>
Deficit - End of year	<u>(37,551,991)</u>	<u>(34,672,760)</u>
Basic and diluted loss per common share	<u>(0.04)</u>	<u>(0.03)</u>
Weighted average number of common shares outstanding	<u>66,509,817</u>	<u>52,011,146</u>

The accompanying notes are an integral part of these consolidated financial statements.

South American Silver Corp.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(expressed in U.S. dollars)

	2010 \$	2009 \$
Cash flows (used in) from operating activities		
Net loss for the year	(2,879,231)	(1,784,831)
Items not affecting cash		
Depreciation and amortization	33,588	28,353
Investor relations fees settled by warrant issuance	324,167	-
Loss on disposal of assets	-	631
Stock-based compensation	841,956	548,443
	<u>(1,679,520)</u>	<u>(1,207,404)</u>
Changes in non-cash operating working capital		
Change in receivables and prepaids	(102,962)	(24,742)
Change in accounts payable and accrued liabilities	276,037	152,186
	<u>(1,506,445)</u>	<u>(1,079,960)</u>
Cash flows used in investing activities		
Deferred exploration costs	(3,641,338)	(2,133,454)
Purchase of equipment	(17,363)	(86,080)
	<u>(3,658,701)</u>	<u>(2,219,534)</u>
Cash flows from financing activities		
Private placements of securities, net of issue costs	32,095,773	2,890,597
Exercise of warrants and options	1,742,551	-
	<u>33,838,324</u>	<u>2,890,597</u>
Increase (decrease) in cash and cash equivalents	28,673,178	(408,897)
Cash and cash equivalents - Beginning of year	<u>7,013,973</u>	<u>7,422,870</u>
Cash and cash equivalents - End of year	<u>35,687,151</u>	<u>7,013,973</u>
Cash and cash equivalents are comprised of:		
Cash	1,046,059	548,580
Cash equivalents	34,641,092	6,465,393
	<u>35,687,151</u>	<u>7,013,973</u>

Supplemental cash flow information (note 11)

The accompanying notes are an integral part of these consolidated financial statements.

South American Silver Corp.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in U.S. dollars)

1 Organization and nature of operations

South American Silver Corp. (the "Company") was incorporated pursuant to the *Canada Business Corporations Act* by articles of incorporation dated September 28, 2006.

The Company's principal activities include the acquisition, exploration and development of mineral properties. The principal countries where the Company is undertaking exploration activities are Bolivia and Chile. Property interests in these countries are held through various wholly owned subsidiaries.

The recoverability of amounts shown as mining claims and deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the Company's ability to obtain financing to develop the properties, and the ultimate realization of profits through future production or sale of the properties.

2 Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and reflect the following significant accounting policies:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments held in the form of bankers' acceptances, money market investments and certificates of deposit with investment terms of less than three months at acquisition. These investments are stated at fair value which approximates cost plus accrued interest. The Company's cash and cash equivalents are held in a major Canadian bank and several other major foreign banks.

Mining claims and deferred exploration

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, impaired, sold or abandoned. Mineral property option proceeds, if received, are credited against the deferred costs incurred by the Company on the property or properties being optioned. Under this method, the amounts shown as mining claims and deferred exploration represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted using the unit of production basis. If the properties are impaired, sold or abandoned, the expenditures will be charged to operations in the related period.

South American Silver Corp.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in U.S. dollars)

The Company reviews the capitalized costs on its properties and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Exploration costs that are not attributable to a specific property are charged to operations as reconnaissance expense.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and regulatory requirements.

Equipment

Equipment is carried at cost. Depreciation is computed using the straight-line method over estimated useful lives of one to five years.

Foreign currency

The functional and reporting currency of the Company is the United States dollar. Amounts in Canadian dollars are indicated by a reference to Cdn. \$.

Foreign currency amounts relating to the Company's foreign operations included in these consolidated financial statements are translated using the temporal method of accounting. Under this method, monetary assets and liabilities are translated at the rate of exchange prevailing at the end of the period. Non-monetary assets and liabilities are translated at the rate of exchange prevailing when the assets were acquired or the liabilities incurred. Revenue and expense items are translated using the average rate of exchange during the financial statement periods, except for depreciation and amortization which are translated at historic rates. Gains and losses resulting from the translation of transactions and balances denominated in foreign currencies are included in the determination of earnings/loss for the year.

Stock-based compensation plans

The Company has established a share incentive plan (the "Plan") for the benefit of full-time and part-time employees, officers, directors and consultants of the Company and its affiliates. The Plan includes a stock award plan comprised of stock options and share appreciation rights, a performance share unit plan and a share purchase plan. The maximum number of shares available under the Plan is limited to 15% of the issued common shares.

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The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus. The fair value of stock options which vest immediately is recorded at the date of grant; the fair value of options which vest in the future is recognized 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 stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options is estimated using the Black-Scholes option pricing model.

The fair value of restricted share awards granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus. The fair value of restricted share awards which vest immediately is recorded at the date of grant; the fair value of restricted share awards which vest in the future is recognized over the vesting period.

Comprehensive income

Comprehensive income includes both net loss and other comprehensive income (“OCI”). OCI is the change in shareholders’ equity from non-owner sources which is not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income (“AOCI”), which is presented as a new category of shareholders’ equity on the balance sheet. The Company had no OCI transactions during the years ended December 31, 2010 and 2009, and neither opening nor closing balances for AOCI.

Financial instruments recognition, measurement, disclosure and presentation

Under CICA Handbook Section 3855, “Financial Instruments”, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

The Company has designated its cash and cash equivalents as held-for trading, which are measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At December 31, 2010 and 2009, the Company had neither available-for-sale nor held-to maturity financial instruments.

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Income taxes

The Company applies the asset and liability method of measuring income taxes based on temporary differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized. The effect of a change in a tax rate is recognized in income in the year that includes the date of enactment or substantive enactment. The recognition of future benefits is limited to the extent that the realization of such benefits is more likely than not.

Loss per share

Loss per share is determined using the weighted average number of shares outstanding during the year. Diluted loss per share is determined using the treasury stock method. Under this method, the dilutive effect on loss per share is recognized on the use of proceeds that could be obtained from exercise of options, warrants and similar instruments. It assumes that proceeds would be used to purchase common shares at the average market price during the year. In 2010 and 2009, the calculation of basic and diluted loss per share is the same.

Estimates by management

Estimates by management represent an integral component of financial statements prepared in conformity with Canadian GAAP. The estimates made in these financial statements reflect management's judgments based on past experiences, present conditions, and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these financial statements were prepared. Significant estimates include the recoverability of mining claims and deferred exploration costs, the physical and economic lives of equipment, the determination of the likelihood that future income tax benefits can be realized, and the variables in calculating the fair value of stock based compensation and warrants.

Deferred share issue costs

Costs directly attributable with the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issue costs. These costs will be deferred until the shares to which the costs relate have been issued, at which time the deferred costs will be charged against share capital. If a financing is abandoned, the related costs deferred are charged to operations.

Asset retirement obligations

The Company recognizes asset retirement obligations in the year in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at fair value and is adjusted to its present value in subsequent years as accretion expense is recorded. The fair value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset when incurred and amortized to earnings over the asset's estimated useful life. As at December 31, 2010, there is no asset retirement obligation.

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3 Changes in accounting policies including initial adoption

Recently adopted accounting pronouncements

Business combinations, consolidated financial statements and non-controlling interest

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements” (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company adopted the new standards for its fiscal year beginning January 1, 2010. The adoption of these standards did not have a material impact on the Company’s consolidated financial statements.

4 Mining claims and deferred exploration costs – Schedule 1

Mining claims and deferred exploration costs are associated with the following projects.

	Dec. 31, 2010	Dec. 31, 2009
	\$	\$
Escalones, Chile a)	1,067,321	829,527
Malku Khota, Bolivia b)	11,457,634	7,845,524
	<u>12,524,955</u>	<u>8,675,051</u>

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a) Escalones, Chile

In 2004, the Company entered into an option agreement (the “Boezio Option”) to acquire the Escalones property located in Chile. In each of 2005, 2007 and 2009, the terms were renegotiated. Pursuant to the Boezio Option, as revised, the Company has the right until June 30, 2013 to purchase the claims upon payment to the owner of \$5,000,000. As at December 31, 2010, \$850,000 has been paid, including \$150,000 paid by a former partner and including \$150,000 paid during 2010. Additional payments pursuant to the Boezio Option are due as follows: \$450,000 on June 30, 2011; \$700,000 on June 30, 2012; and \$3,000,000 on June 30, 2013.

The Company is required to pay all amounts required to protect and maintain the property during the option period. There is a 2% net smelter royalty (“NSR”) payable on production if the price of copper is greater than \$0.75 per pound and a 1% NSR if the copper price is equal to or less than \$0.75 per pound. The NSR may be purchased for \$3,000,000 within the five years following the first sale of minerals produced and \$5,000,000 after five years of the date of the first sale of minerals produced.

If the Company purchases the concessions, the Boezio Option requires the Company to commence exploitation of the concessions within two years thereafter. Until exploitation begins, the Company is required to pay annual advance royalty payments of \$200,000 which are credited against future royalty payments. Failure to commence exploitation within the two year period triggers an obligation to make annual indemnity payments of \$300,000 until exploitation begins. In this event, the \$200,000 annual payments made from the date of exercise of the option are deemed to be indemnity payments, not advance royalty payments. Royalty payments are suspended if exploitation of the mining concessions is suspended for reasons beyond the Company’s control.

b) Malku Khota, Bolivia

In 2003, the Company entered into an option agreement (the “Kempff Option”) to acquire the Malku Khota property located in west central Bolivia. During 2007, the Company completed the purchase of the central portion of the Malku Khota property. A 1% NSR is payable on all production from the property included in the Kempff Option. This NSR can be purchased at any time for \$500,000.

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5 Equipment

Equipment consists of the following:

	December 31, 2010			December 31, 2009		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net book value \$
Furniture and equipment	102,720	36,431	66,289	94,503	16,896	77,607
Computer hardware	35,238	24,612	10,626	26,092	15,939	10,153
Computer software	66,074	64,909	1,165	66,074	61,362	4,712
Vehicle	27,500	27,500	-	27,500	25,667	1,833
	<u>231,532</u>	<u>153,452</u>	<u>78,080</u>	<u>214,169</u>	<u>119,864</u>	<u>94,305</u>

6 Share capital

a) Authorized

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

The holders of the common shares are entitled to one vote per share. The holders of the common shares are entitled to dividends, when and if declared by the directors of the Company, and to the distribution of the residual assets of the Company in the event of the liquidation, dissolution or winding-up of the Company. No dividends have ever been declared or paid as at December 31, 2010.

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b) **Issued and outstanding**

	Number of common shares	Amount \$
Balance – December 31, 2008	50,023,332	44,276,393
Shares issued on vesting of restricted share awards	1,433,333	615,473
Private placements of securities, net of issue costs	8,126,250	2,359,229
	<hr/>	
Balance – December 31, 2009	59,582,915	47,251,095
Shares issued on vesting of restricted share awards	1,433,335	615,473
Shares issued on exercise of share purchase warrants	2,776,950	2,015,490
Shares issued on exercise of stock options	563,142	317,801
Private placements of securities, net of issue costs	33,849,378	29,282,271
	<hr/>	
Balance – December 31, 2010	98,205,720	79,482,130
	<hr/>	

During 2010, 1,433,335 (2009 – 1,433,333) common shares were issued on the vesting of 1,433,335 (2009 – 1,433,333) restricted share awards.

In July 2010, the Company completed, in two tranches, a private placement of 6,350,000 units at a price of Cdn. \$0.63 per unit for gross proceeds of \$3,847,278 (Cdn. \$4,000,500). Each unit is comprised of one common share and one half of one share purchase warrant, with each whole share purchase warrant exercisable to acquire one common share at a price of Cdn. \$0.95 per share for a period of 24 months, subject to acceleration of the expiry date under certain conditions. The value of \$560,847 has been attributed to these warrants using the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.7%; expected life – 2 years; expected volatility – 91% to 92%; and expected dividends – nil.

The Company paid cash commissions of \$230,837 to the underwriters and issued a total of 381,000 non-transferable compensation 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. The value of \$57,430 has been attributed to these broker warrants based on the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.2%; expected life – 1 year; expected volatility – 73% to 75%; and expected dividends – nil. The Company also incurred other share issue costs of \$182,193 in respect of this financing. The Company has allocated \$68,583 in aggregate issue costs to the warrants included in contributed surplus.

In November 2010, the Company completed a private placement of 27,499,378 common shares at a price of Cdn. \$1.16 per share for gross proceeds of \$31,073,087 (Cdn. \$31,899,278). As compensation for services, the Company paid cash commissions totalling \$2,173,480 and issued a total of 2,323,508 broker warrants, each entitling the holder to subscribe for one common share at a price of Cdn. \$1.16 per share until May 30, 2012. The value of \$2,263,808 has been attributed to these broker warrants based on the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model are as follows:

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average risk-free interest rate – 1.4%; expected life – 1.5 years; expected volatility – 91%; and expected dividends – nil. The Company also incurred other share issue costs of \$238,082 in respect of this financing.

During the comparative year ended December 31, 2009, the Company completed, in two tranches, a private placement of 8,126,250 units at a price of Cdn.\$0.40 per unit for gross proceeds of \$3,065,931 (Cdn.\$3,250,500). Each unit was comprised of one common share and one half of one share purchase warrant, with each whole share purchase warrant exercisable to acquire one common share at a price of Cdn.\$0.60 per share for a period of two years. The value of \$489,361 was attributed to these warrants using the Black-Scholes option-pricing model and was credited to contributed surplus. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.1%; expected life – 2 years; expected volatility – 91%; and expected dividends – nil.

The Company paid cash commissions of \$131,997 to certain brokers and issued an aggregate of 348,300 broker warrants entitling the holder to subscribe for 348,300 units at a price of \$0.40 per unit for a period of 18 months. Each unit was comprised of one common share and one half of one share purchase warrant, with each whole share purchase warrant exercisable to acquire one common share at a price of Cdn.\$0.60 per share for a period of two years. The value of \$83,286 was attributed to these broker warrants based on the Black-Scholes option-pricing model and has been credited to contributed surplus. Assumptions used in the pricing model are as follows: average risk-free interest rate – 1.1%; expected life – 1.5 years; expected volatility – 98%; and expected dividends – nil. The Company also incurred other share issue costs of \$43,337 in respect of this financing. The Company allocated \$41,279 in issue costs to the warrants included in contributed surplus.

c) Stock options, restricted share awards, and warrants

The Company's stock options with associated share appreciation rights outstanding as at December 31, 2010 and 2009 and the changes for the years then ended are as follows:

	2010		2009	
	Number of options	Weighted average exercise price Cdn.\$	Number of options	Weighted average exercise price Cdn.\$
Options outstanding -				
Beginning of year	5,120,000	0.50	4,225,000	0.53
Options granted	3,625,000	0.53	990,000	0.35
Options exercised	(678,200)	0.54	-	-
Options forfeited or cancelled	-	-	(95,000)	0.55
Options outstanding -				
End of year	8,066,800	0.51	5,120,000	0.50

In March 2010, the Company granted stock options to officers and directors of the Company for the purchase of 1,450,000 common shares at a price of Cdn. \$0.37 per share, and in June 2010, the Company granted stock options to directors for the purchase of 400,000 common shares at a price of Cdn. \$0.69 per share. These options are exercisable for a period of five years, and vest as to 33 1/3% on a cumulative basis on the date which is 12, 24 and 36 months following the date of the grant.

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In September 2010, the Company granted stock options to employees, officers, directors and consultants of the Company for the purchase of 1,775,000 common shares at a price of Cdn. \$0.63 per share. These options are exercisable for a period of five years, and of these options, 675,000 granted to directors vested immediately and of the balance, 33 1/3% vested immediately, with a further 33 1/3% vesting on the date which is 12 months following the date of the grant; and the final 33 1/3% vesting on the date which is 24 months following the date of the grant.

During the comparative year ended December 31, 2009, the Company granted stock options to employees, officers, directors and consultants of the Company for the purchase of 990,000 common shares at a price of Cdn. \$0.35 per share. These options are exercisable for a period of five years, and vest as to 33 1/3% on a cumulative basis on the date which is 12, 24 and 36 months following the date of the grant.

The fair values of the options granted have been estimated using the Black Scholes option-pricing model. Assumptions used in the pricing model are as follows: average risk-free interest rate – 2.1% to 2.3% (2009 – 2.1%); expected life – 5 years; expected volatility – 88% to 89% (2009 – 96%); and expected dividends – nil. The fair value of options granted during 2010 amounts to \$1,314,214 (2009 - \$225,402). During 2010, an amount of \$813,151 (2009 - \$300,077) was recorded as a charge to operations and \$151,150 (2009 - \$32,120) was included in deferred exploration costs. These amounts incurred were credited to contributed surplus.

Options to acquire common shares are outstanding at December 31, 2010 as follows:

Number of options outstanding	Number of options exercisable	Exercise price Cdn. \$	Expiry date
2,425,000	2,425,000	0.50	February 15, 2012
590,000	590,000	0.68	May 16, 2012
520,000	346,667	0.53	May 30, 2013
973,400	313,400	0.35	May 25, 2014
650,000	Nil	0.37	March 26, 2015
800,000	Nil	0.37	March 29, 2015
400,000	Nil	0.69	June 8, 2015
<u>1,708,400</u>	<u>975,067</u>	0.63	September 16, 2015
<u>8,066,800</u>	<u>4,650,134</u>		

The Company's restricted share awards outstanding as at December 31, 2010 and 2009 and the changes for the years then ended are as follows:

	Number of restricted share awards
Balance – December 31, 2008	2,866,668
Vesting of restricted share awards	<u>(1,433,333)</u>
Balance – December 31, 2009	1,433,335
Vesting of restricted share awards	<u>(1,433,335)</u>
Balance – December 31, 2010	<u>-</u>

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During 2010, the Company recorded stock-based compensation of \$28,805 (2008 - \$248,366) in respect of restricted share awards. The amounts incurred were recorded as a charge to operations and credited to contributed surplus.

The Company's warrants outstanding as at December 31, 2010 and 2009 and the changes for the years then ended are as follows:

	Number of warrants	Weighted average price Cdn.\$
Balance – December 31, 2008	3,020,000	0.50
Warrants expired, unexercised	(3,020,000)	0.50
Warrants issued	4,063,125	0.60
Broker warrants issued	348,300	0.40
Balance – December 31, 2009	4,411,425	0.58
Warrants issued	6,853,658	1.01
Warrants exercised	(2,776,950)	0.60
Balance – December 31, 2010	8,488,133	0.93

Warrants to acquire common shares are outstanding at December 31, 2010 as follows:

Number Outstanding	Exercise Price	Expiry Date
95,580	Cdn. \$0.63	July 15, 2011
18,720	Cdn. \$0.63	July 19, 2011
1,930,250	Cdn. \$0.60	November 27, 2011
325,075	Cdn. \$0.60	December 7, 2011
200,000	Cdn. \$0.50	February 15, 2012
200,000	\$0.80	February 17, 2012
2,323,508	Cdn. \$1.16	May 30, 2012
2,995,000 (1)	Cdn. \$0.95	July 15, 2012
400,000	Cdn. \$1.47	November 5, 2012
<u>8,488,133</u>		

(1) In the event that the Company's common shares trade on the Toronto Stock Exchange (the "TSX") at a price of 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.

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d) **Contributed surplus**

	\$
Balance – December 31, 2008	2,321,657
Stock-based compensation	580,563
Vesting of restricted share awards	(615,473)
Share purchase warrants issued	448,082
Broker warrants issued	83,286
	<hr/>
Balance – December 31, 2009	2,818,115
Stock-based compensation	993,106
Warrants issued for investor relation fees	324,167
Vesting of restricted share awards	(615,473)
Transfer to share capital on exercise of warrants	(369,964)
Transfer to share capital on exercise of options	(220,776)
Warrants issued as part of units financing	492,264
Broker warrants issued	2,321,238
	<hr/>
Balance – December 31, 2010	<u>5,742,677</u>

7 Income taxes

The recovery of income taxes differs from the amounts computed by applying local tax rates to the loss before tax due to the following:

	Year ended Dec. 31, 2010 \$	Year ended Dec. 31, 2009 \$
Tax rate	28.50%	30.00%
	<hr/>	
Net loss for the year	(2,879,231)	(1,784,831)
	<hr/>	
Provision for income taxes (recovery) at applicable rates	(820,581)	(535,449)
Permanent differences	104,824	215,497
(Decrease) from lower effective rate of foreign subsidiaries	(68,019)	(19,099)
Other adjustments to valuation allowance	783,776	339,051
	<hr/>	
Income tax provision	-	-
	<hr/>	

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Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities are as follows:

	Dec. 31, 2010 \$	Dec. 31, 2009 \$
Future income tax benefits		
Excess of tax basis over carrying value of assets	291,097	282,497
Operating loss carry-forwards	2,240,421	1,083,095
Book value of financing fees in excess of tax value	685,303	249,735
	<u>3,216,821</u>	<u>1,615,327</u>
Future income tax liability		
Gains not realized	(118,538)	-
	<u>3,098,283</u>	<u>1,615,327</u>
Valuation allowance	(3,098,283)	(1,615,327)
Net future tax asset	<u>-</u>	<u>-</u>

The Company has a non-capital loss carried forward available to reduce future taxable income of approximately \$7,278,000. These losses expire as follows:

	Canada \$	United States \$
2026	87,300	-
2027	307,500	408,600
2028	709,600	415,500
2029	1,184,400	445,800
2030 and thereafter	2,929,400	889,900
	<u>5,218,200</u>	<u>2,159,800</u>

In addition, the Company has approximately \$386,000 of operating losses in its Bolivian subsidiaries available to reduce future taxable income. These losses do not expire.

8 Related party transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

During the year ended December 31, 2010:

- aggregate legal fees of \$477,445 (2009 - \$101,174) were charged by a legal firm in which a director is a partner. Of this amount, \$212,785 (2009 - \$32,714) was included in share issue costs, with the remainder charged to legal expense.

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- consulting fees of \$113,380 (2009 - \$119,026) were charged to operations in respect of services rendered by officers or companies associated with them.
- consulting fees of \$143,020 (2009 - \$59,274) were charged by officers or companies associated with them and included in deferred property costs.

Included in accounts payable at December 31, 2010 is an amount of \$409,095 (2009 - \$172,028) 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.

9 Contingencies

The Company may be subject to various contingent liabilities that occur in the normal course of operations. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

10 Segment information

The Company's operations are limited to a single industry segment, being mineral exploration and development. Geographic segment information of the Company's assets is as follows:

	Dec. 31, 2010	Dec. 31, 2009
	\$	\$
Bolivia	11,632,412	8,187,006
Canada	35,669,356	6,747,089
Chile	1,094,740	884,831
United States and other	114,833	39,541
Total assets	<u>48,511,341</u>	<u>15,858,467</u>

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Geographic segmentation of the Company's loss is as follows:

	Year ended Dec. 31, 2010 \$	Year ended Dec. 31, 2009 \$
Bolivia	70,452	100,104
Canada	1,779,847	1,045,779
Chile	108,577	117,965
United States and other	920,355	520,983
Total loss	<u>2,879,231</u>	<u>1,784,831</u>

11 Supplemental cash flow information

The Company conducted non-cash investing and financing activities as follows:

	Year ended Dec. 31, 2010 \$	Year ended Dec. 31, 2009 \$
Investing activities		
Deferred exploration costs included in prepaids	43,055	-
Deferred exploration costs included in accounts payable	(234,507)	(134,036)
Financing activities		
Stock-based compensation included in deferred exploration costs	(151,150)	(32,120)
Broker warrants issued for financing costs	2,321,238	83,286

12 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital as an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. The Company has no debt and has no immediate plans to enter into debt financing.

The Company is dependent on the equity markets as its sole source of operating working capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects.

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In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company is not subject to any capital requirements imposed by a regulator, other than continued listing requirements of the Toronto Stock Exchange. The Company expects its current capital resources will be sufficient to carry out its exploration plans and operations through the current operating period.

The Company's investment policy is to invest its cash in bankers' acceptances and term deposits, with maturities of three months or less from the original date of acquisition.

13 Financial instruments

a) Fair value of 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 and term deposits, the investment terms of which are less than three months at the time of acquisition. The Company has no asset backed commercial paper. Cash and cash equivalents are measured at fair value. Receivables and accounts payable and accrued liabilities are measured at their amortized cost which approximates their fair value due to their short-term nature.

The Company classifies fair values of financial instruments within a three-level hierarchy that prioritizes the inputs to fair value measurement and reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. As at December 31, 2010, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments have been classified as "Level 2" financial instruments.

b) Currency risk

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 \$30,840,000 of financial assets and liabilities denominated in Canadian dollars, in Bolivian Bolivianos or in Chilean pesos. Based on this exposure as at December 31, 2010, a 5% change in exchange rates would give rise to a change in net loss and comprehensive loss of approximately \$1,540,000. The majority of this exposure is due to the fact that the Company raises funding in Canadian currency and as at December 31, 2010, the Company had cash and cash equivalents of \$31,035,000 denominated in Canadian currency. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

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The currencies of the Company's financial instruments, based on notional amounts, were as follows:

	December 31, 2010		
	Canadian dollar	Bolivian Boliviano	Chilean Peso
Cash and cash equivalents	31,035,110	334,922	4,266,851
Receivables	144,127	67,604	(404,203)
Accounts payable and accrued liabilities	(479,392)	(552,237)	(5,406,395)
Gross balance sheet exposure	<u>30,699,845</u>	<u>(149,711)</u>	<u>(1,543,747)</u>

	December 31, 2009		
	Canadian dollar	Bolivian Boliviano	Chilean Peso
Cash and cash equivalents	862,159	192,181	5,166,599
Receivables	9,663	82,367	147,878
Accounts payable and accrued liabilities	(161,350)	(675,337)	(9,889,059)
Gross balance sheet exposure	<u>710,472</u>	<u>(400,789)</u>	<u>(4,574,582)</u>

Future changes in exchange rates could have a material effect on the Company's business, financial condition and results of operations.

c) **Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The majority of the Company's cash is held through a major Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered to be limited. Cash equivalents amount to \$34.6 million and consist of term deposits or bankers' acceptances which have an original maturity of three months or less from the date of purchase and which are readily convertible into a known amount of cash. The Company also maintains deposits for ongoing working capital at major banks in the jurisdictions in which its foreign subsidiaries operate.

d) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short term investments included in cash and cash equivalents is limited because these instruments are generally held to maturity and the interest rate is fixed. The Company manages its cash according to its operational needs.

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e) **Liquidity risk**

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are all current.

14 Subsequent event

Subsequent to December 31, 2010, the Company received proceeds of \$337,512 from the exercise of 57,150 broker warrants and 432,325 share purchase warrants.

South American Silver Corp.*(An Exploration Stage Company)***Consolidated Schedule of Deferred Exploration Costs***(expressed in U.S. dollars)*

	Bolivia properties	Chile properties	Total
	\$	\$	\$
Balance at December 31, 2008	5,845,999	608,791	6,454,790
Land and option payments	30,764	158,623	189,387
Laboratory	198,543	-	198,543
Preliminary economic assessment study (“PEA”)	133,252	-	133,252
Field supplies	60,799	113	60,912
Consulting and supervision	368,877	46,525	415,402
Maps and reproduction	7,147	150	7,297
Community relations	90,680	-	90,680
Environmental	-	3,767	3,767
Geological consulting	570,199	4,525	574,724
Drilling	181,794	-	181,794
Trenching	94,335	4,843	99,178
Travel and accommodation	144,088	904	144,992
Stock-based compensation	32,120	-	32,120
Value added tax credits	86,927	1,286	88,213
	<u>1,999,525</u>	<u>220,736</u>	<u>2,220,261</u>
Balance at December 31, 2009	7,845,524	829,527	8,675,051
Land and option payments	24,104	157,105	181,209
Laboratory	659,971	-	659,971
Field supplies	79,873	366	80,239
Consulting and supervision	567,925	63,893	631,818
Maps and reproduction	2,645	38	2,683
Community relations	57,485	-	57,485
Environmental	29,108	-	29,108
Hydrology	22,847	-	22,847
Petrology	9,820	-	9,820
Engineering	195,353	-	195,353
Geological consulting	516,512	14,789	531,301
Drilling	751,041	-	751,041
Trenching	162,915	-	162,915
Travel and accommodation	166,486	1,418	167,904
Stock-based compensation	151,150	-	151,150
Value added tax credits	214,875	185	215,060
	<u>3,612,110</u>	<u>237,794</u>	<u>3,849,904</u>
Balance at December 31, 2010	11,457,634	1,067,321	12,524,955

