

South American Silver Corp.
First Quarter Ended March 31, 2011
Management's Discussion & Analysis ("MD&A")
June 13th, 2011

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General

The following information, prepared as of June 13, 2011, should be read in conjunction with the unaudited interim consolidated financial statements of South American Silver Corp. (the “Company” or “SASC”) for the three months ended March 31, 2011, as well as the restated audited consolidated financial statements for the year ended December 31, 2010 and the related management’s discussion and analysis (the “Annual MD&A”). The unaudited interim consolidated financial statements for the three months ended March 31, 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Figures referenced in this MD&A from periods prior to and including December 31, 2009 are in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). All amounts are expressed in U.S. dollars unless otherwise indicated.

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

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

Approach to business

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

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

Current market and economic conditions

Prices for silver and gold have continued to surge upward during the first part of the year with silver nearly reaching its nominal highs from 1980 of \$50/oz and gold reaching almost \$1550/oz, well above its 1980 nominal high of \$850/oz. On an inflation adjusted basis, however, silver remains well below its high of \$140/oz in real terms as does gold with a high of \$2200/oz. May saw a sharp correction in silver to the mid-\$30’s with gold seeing a more moderate correction.

Strong demand for commodities and the weakening of the US dollar remain contributing factors to the strength in metals prices. Since June 2010, silver has more than doubled in value, outperforming gold, which has increased by about 30% over the same period. The current gold to silver price ratio of 40:1 remains well above its historic lows of 15-20:1 but is now well off of its 2010 highs in the 60-80:1 range.

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 hedge against inflation and currency devaluation resulting in increased investment demand is being seen for both silver and gold in all forms, including Exchange Traded Funds (ETF’s), new physical metal investment trusts, bars and coins.

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

increasing overall industrial demand.

With total demand rising 18% in 2010 and total supply growth including mining, secondary silver sources and government sales only up 8%, demand growth considerably outstripped supply. Mining production only rose a total of 2.5% with by-product silver production from both gold and copper mining falling in 2010 even with rising silver prices. Total by-product production of silver from base metal mining is anticipated to decline in coming years demonstrating that by-product silver production is largely price inelastic. With anticipated continued growth in industrial use coupled with strong investment demand, the fundamentals remain positive for higher silver prices. 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.

The indium and gallium market has shown tremendous strength in 2011 as well, surging from trough pricing during the global economic slowdown of around \$500/kg to the \$800-\$1000/kg in June. News of a possible short-term supply disruption in indium due to production decreases in China and rebounding global demand seem to be the drivers to the recent rise in indium and gallium prices. Recent developments in the indium and gallium markets continue to present compelling supply/demand dynamics for the high technology metals.

The main usages for indium and gallium are in flat panel displays and touch screens, high efficiency solar panels and high-efficiency, long life LED lighting. Global indium and gallium consumption is anticipated to continue to grow significantly in these rapidly expanding market sectors. According to a recent report on the global outlook for indium, consumption of indium for flat panel display (FPD) applications is expected to grow at a rate of 17%/year while LED lighting and solar applications could increase at 30-40%/year. In total, global indium use has grown approximately ten times since 1990.

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

Copper and zinc have also rebounded significantly from their lows of 2008 of less than \$1.50/lb and \$0.50/lb respectively to trade recently above \$4.00/lb for copper and \$1.00/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.

Commodity markets and commodity related equities in general have been very volatile in recent months. Silver and silver equities have been particularly so with the recent move of the silver price toward its highs of \$50/oz and recent correction toward \$36/oz today. Most silver equities has seen consolidation from their spring highs and many today are near their 200-day moving averages, a level that has often acted as a significant support level in the on-going bull market. The broad silver equity ETF the SIL, which includes the producers, is off about 20% since late April. Over the past two years 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 levels compared to many of its silver exploration and development stage peers.

Recent developments

On March 31st, the Company announced results from an updated Preliminary Economic Assessment (PEA) for the Malku Khota silver-indium-gallium project. The technical report was filed in its entirety on May 13th, 2011. Results of the PEA more than doubled estimated mine production levels from the 2009 PEA to over 13.2 million ounces of silver per year for the first 5 years of production, at a cash cost of \$2.94 per ounce net of by-product credits at “base case” metal prices, putting it in the lower quartile of producer costs. Additionally it more than doubled indium production to 80 tonnes of indium per year and reported the first projected production figures for gallium at 15 tonnes/year. With further resource optimization there remains excellent potential to extend the mine life beyond 15 years or to expand annual production levels further.

The report showed robust economic results with Pre-tax NPV of \$704 million and IRR of 37.7% at conservative “base case” metal prices of \$18.00/oz silver, and \$500/kg indium at a 5% discount rate. At the “middle price case” of \$25.00/oz silver the NPV5% increases to \$1.536 billion and IRR to 64.3%, and at current prices \$35/oz silver the NPV5% increases to \$2.571 billion. On a cash flow basis the first 5 years increased to average \$185 million per year at the base case, to \$287 million per year at the middle case and to \$430 million per year for the recent price case.

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

On May 16, 2011, the Company announced the appointment of a new Vice President of Operations and Social Responsibility, James Mallory who brings over 33 years of mining industry experience in large-scale mine management, operations and construction in North and South America to the company. Most recently, Mr. Mallory was Vice President at Silver Standard Resources.

Additionally, two new Directors were elected to the Board at the Company's 2011 Annual General Meeting, Mr. Tony Cau and Mr. Jeffrey Couch. Mr. Tony Cau is COO at Zamin Ferrous and brings over 30 years of experience in the mining, construction and heavy manufacturing industries, including mine development and expansion projects around the world for groups like BHP, SNC-Lavalin, and Bateman Engineering. Mr. Jeffrey Couch is Head of Business Development at ENRC and has held various financial advisory positions for groups such as Campbell Lutyens, was Director of Metals & Mining Investment Banking for Credit Suisse, and a key member of the capital markets team for Citigroup European Investment Bank.

Property review

Malku Khota

South American Silver's most advanced project is the Malku Khota silver-indium-gallium project located in the world-class silver mining district of central Bolivia, approximately 200 kilometres north of Potosi. Malku Khota is one of the world's large silver, indium and gallium resources with an NI 43-101-qualified indicated resource of 230.3 million ozs of silver, 1,481 tonnes of indium and 1,082 tonnes of gallium, and an additional inferred resource of 140 million ozs of silver, 935 tonnes of indium, and 1,001 tonnes of gallium. An updated PEA in early 2011 showed robust economics for a bulk-mineable heap leach operation with the potential to be one of the largest new silver, indium and gallium producing mines in development. The project is road-accessible, with power available within 15 kilometres of site.

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

Disseminated silver and indium mineralization at Malku Khota begins at the surface and remains open to further expansion laterally and at depth in a regionally extensive sandstone unit which continues for over 15 kilometres on the property. To date, only about 30% of the known prospective mineralized host stratigraphy at Malku Khota has been drill tested. 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.

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

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

At the Escalones project, the Company has completed an initial exploration program in early 2011 including follow-up geochemical sampling, and geophysical interpretation in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in the second half of 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 \$76,368 was incurred at the Escalones project in the first quarter on the exploration program.

Results of operations

During the three months ended March 31, 2011, the Company reported a net loss of \$1,225,334 (\$0.01 per share) compared to a loss of \$788,141 (\$0.01 per share) reported in the first quarter of 2010.

General and administrative expense increased from \$593,206 to \$1,220,685. The Company has undertaken a number of corporate initiatives reflecting the increased level of activities on the Malku Khota project including an expanded investor relations program. Shareholder information expense increased from \$132,736 to \$463,145 as the Company has continued to increase its marketing efforts, including participation in a significant special marketing publication, engagement of investor relations consultants, and attendance at a number of conferences and investor meetings in North America and Europe. Professional fees increased from \$103,463 to \$173,350, reflecting legal costs incurred in respect of corporate governance, the implementation of a comprehensive long-term incentive plan, and a potential U.S. market listing. Commensurate with the increasing profile and activity level of the Company, wages and benefits increased from \$78,946 to \$139,154, and consulting expense increased from \$39,792 to \$78,762. Office and administration increased from \$58,218 to \$108,730 as the Company has moved into larger premises for its technical staff in Denver and opened a head office in Vancouver. First quarter 2011 expense also includes share-based payments expense of \$146,196 (2010 - \$95,289) representing non-cash charges incurred in connection with the vesting of stock options and restricted share awards.

Expenses were offset by \$87,552 (2010 - \$1,133) earned on the Company's surplus cash balance. The increase in interest is due to higher surplus cash and increasing Canadian interest rates. The Company also recorded a foreign currency loss of \$92,201 (2010 - \$196,068) due to a strengthening of the Canadian dollar. The Company holds a portion of its funds in U.S. dollars and recognized a loss on the accounting translation of these funds into Canadian dollars which is the parent company's functional currency for accounting purposes. The Company continues to hold the majority of its funds in Canadian dollars and has recognized a currency translation gain of \$881,402 (2010 - \$210,404) on the accounting translation to U.S. dollars which is the Company's reporting currency. This gain has been recorded as other comprehensive income and has not been included in the determination of net loss for the period. 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 the quarter ended March 31, 2011 increased to \$1,025,216 from \$750,663 incurred in the first quarter of 2010. The majority of the 2011 deferred expenditures were incurred at Malku Khota where costs totalled \$948,847 primarily in respect of the updated PEA. The 2011 costs included \$241,804 in laboratory costs associated with the metallurgical testing program. A total of \$76,369 was incurred at Escalones in Chile.

During the comparative quarter in 2010, costs at Malku Khota totalled \$706,441, including \$161,474 in drilling costs and \$147,015 in laboratory costs associated with the metallurgical testing program. A total of \$44,222 was incurred at Escalones.

Financing activities

During each of the quarters ended March 31, 2011 and 2010, the Company completed no financings. During the quarter ended March 31, 2011, the Company received cash of \$338,274 from the exercise of 489,475 warrants.

Summary of quarterly results (unaudited) ⁽¹⁾

Three months ended	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Deferred exploration costs	\$1,025,216	\$1,186,505	\$942,892	\$969,844	\$750,663	\$756,057	\$453,258	\$592,877
Net loss	(\$1,225,334)	(\$1,681,426)	(\$1,205,746)	(\$412,008)	(\$788,141)	(\$526,143)	(\$314,656)	(\$396,370)
Total comprehensive loss	(\$343,932)	(\$565,319)	(\$1,049,075)	(\$629,748)	(\$577,737)	(\$526,143)	(\$314,656)	(\$396,370)

Three months ended	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Net loss per share (Basic and diluted)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

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

The net loss for the quarter ended June 30, 2010 was reduced by a foreign exchange gain amounting to \$838,145.

Liquidity and capital resources

The Company's aggregate operating, investing and financing activities during the first quarter resulted in a net cash outflow of \$1,941,818. As March 31, 2011, the Company had working capital of \$34.2 million, including cash and cash equivalents of \$34.6 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

With the completion of the updated resource and Preliminary Economic Assessment at the Malku Khota silver-indium-gallium project in Q1-2011, the Company now moves its focus to Pre-Feasibility work which will commence mid-year. The next phase of the program will include further engineering studies, in-fill confirmatory drilling to confirm the predictability of the geologic model at the Limosna, Wara Wara and Sucre Zones and to move resources into reserves with the completion of a pre-feasibility study on the project. The Company will complete additional resource expansion drilling to grow the resource to test expansion along trend and down dip. 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 exploration program that include follow-up geochemical sampling, and geophysical interpretation in connection with the planned issuance of an initial copper-gold-silver resource at this large scale, high potential porphyry project in the second half of 2011. Planning is underway for a substantial drill program designed to extend zones of known mineralization and test additional geologic and geophysical targets is planned for later in the year based on drill rig availability. The Company has budgeted exploration expenditures of \$3.2 million to be incurred at Escalones in 2011.

Related party transactions

The Company's related parties consist of the Company's officers or companies associated with them, and a legal firm in which a director is a partner. The Company incurred the following expenditures during the three months ended March 31, 2011 and 2010 that were charged by related parties:

	March 31, 2011	March 31, 2010
	\$	\$
Consulting fees	20,650	22,030
Legal fees	109,896	79,695
Mineral property costs – consulting fees	75,275	21,970
	<u>205,821</u>	<u>123,695</u>

Included in receivables and prepaids at March 31, 2011 is an amount of \$51,395 (December 31, 2010 - \$nil) which was advanced to or recoverable from related parties. These amounts are non-interest bearing and have no specific terms of repayment.

Included in accounts payable at March 31, 2011 is an amount of \$341,416 (December 31, 2010 - \$409,095) due to related parties. These amounts are non-interest bearing and have no specific terms of repayment.

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

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

	March 31, 2011	March 31, 2010
	\$	\$
Wages and benefits	100,953	25,000
Share-based payments expense	69,624	16,715
	<u>170,577</u>	<u>41,715</u>

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 \$31,310,000 of financial assets and liabilities denominated in Canadian dollars, in Bolivian Bolivianos or in Chilean pesos. Based on this exposure as at March 31, 2011, a 5% change in exchange rates would give rise to a change in net loss and comprehensive loss of approximately \$1,565,000. The majority of this exposure is due to the fact that the Company raises funding in Canadian currency and as at March 31, 2011, the Company had cash and cash equivalents of \$31,470,000 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 and internal control over financial reporting as at December 31, 2010. Based on this evaluation, management concluded that these disclosure and internal controls and procedures over financial reporting were effective.

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

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

Critical accounting estimates

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

Management reviews the carrying values of its mining claims on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. In addition, capitalized costs related to relinquished property rights are written off in the period of relinquishment. Capitalized costs in respect of the Company's mining claims amounted to \$13,550,171 as at March 31, 2011. These costs may not be recoverable and there is a risk that these costs may be written down in future quarters.

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

In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated risk-free interest rate. Changes to these estimates could result in the fair value of the share-based payments expense being less than or greater than the amount recorded. During the first quarter ended March 31, 2011, the Company did not grant any stock options or PSU's. The Company recorded share-based payments costs of \$160,459 (2010 - \$106,081) 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 June 13, 2011: 99,915,294 common shares

Fully diluted as at June 13, 2011: 117,901,035 common shares

Outstanding options, warrants and PSU's as at June 13, 2011:

Type of Security	Number	Exercise Price Cdn. \$	Expiry date
Stock options	2,370,000	\$0.50	February 15, 2012
Stock options	590,000	\$0.68	May 16, 2012
Stock options	400,000	\$2.09	April 15, 2013
Stock options	513,333	\$0.53	May 30, 2013
Stock options	906,734	\$0.35	May 25, 2014
Stock options	650,000	\$0.37	March 26, 2015
Stock options	800,000	\$0.37	March 29, 2015
Stock options	400,000	\$0.69	June 8, 2015
Stock options	1,608,734	\$0.63	September 16, 2015
Stock options	1,800,000	\$2.09	April 15, 2016
Stock options	600,000	\$2.32	May 26, 2016
Warrants	1,560,500	\$0.60	November 27, 2011
Warrants	8,000	\$0.60	December 7, 2011
Warrants	200,000	\$0.50	February 15, 2012
Warrants	1,997,690	\$1.16	May 30, 2012
Warrants	2,995,000	\$0.95	July 15, 2012 ⁽¹⁾
Warrants	400,000	\$1.47	November 5, 2012
PSU's ⁽²⁾	185,750	n/a	n/a

(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.

(2) The PSU's vest on October 15, 2011. Upon vesting, each PSU will convert into one common share.

International Financial Reporting Standards (“IFRS”)

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

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

Notes 2 and 5 of the accompanying interim condensed consolidated financial statements provide details of the Company’s key Canadian GAAP to IFRS differences, accounting policy decisions and first-time adoption exemptions applied.

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

Transitional financial impact

The following is a summary of the adjustments to net loss and other comprehensive loss for the three months ended March 31, 2010 and for the year ended December 31, 2010 under IFRS (all of which are outlined in the notes to the accompanying condensed consolidated financial statements):

	Year ended December 31, 2010 \$	Three months ended March 31, 2010 \$
Net loss under Canadian GAAP	(2,879,231)	(572,930)
Adjustment – share-based payments (1)	57,352	(4,807)
Adjustment – currency translation difference (2)	(1,265,442)	(210,404)
Net loss under IFRS	<u>(4,087,321)</u>	<u>(788,141)</u>
Other comprehensive income under Canadian GAAP	-	-
Adjustment – currency translation difference	1,265,442	210,404
Other comprehensive income under IFRS	<u>1,265,442</u>	<u>210,404</u>
Total comprehensive loss under IFRS	<u>(2,821,879)</u>	<u>(577,737)</u>

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

All of the above adjustments are non-cash accounting adjustments. There was no impact on total assets, total liabilities, and total shareholders’ equity on converting from Canadian GAAP to IFRS as at January 1, 2010, March 31, 2010 or December 31, 2010.

Post-implementation

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

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

Accounting standards issued but not yet applied

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

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

- *New standard IFRS 9 “Financial Instruments”*

IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39, “Financial Instruments: Recognition and Measurement”, and applies to the classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of the project is expected in 2011.

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

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

- *New standard IFRS 11 “Joint Arrangements”*

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

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

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

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

Risks and uncertainties

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

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

Exploration and development

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

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

Political risk

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

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

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

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

Community relations

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

Environmental laws and regulations

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

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

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

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

Cautionary notes

Forward-looking statements

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

It is important to note that:

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

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

Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason. Unless otherwise indicated, forward-looking statements in this MD&A describe the Company’s expectations as of June 13, 2011.

Cautionary note regarding reserve and resource estimates and the PEA

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

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

Other information

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