

MINING SHARE FOCUS

A report on exceptional mining share opportunities.

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South American Silver (SAC.TO; USOTC:SOHAF):

The World's Best Silver Play...For *Free*?

Trading at a fraction of its inherent value, a tiny junior mining company is currently sitting on no less than *two* world-class metal deposits.

Either of these projects has the ability to multiply the company's current share price all by itself... *giving you the other project essentially for free.*

It's a rare market oversight...and an opportunity for quick-acting investors to potentially reap huge gains.

By Brien Lundin

Overlooked investments with the potential to soar in value. That's what this publication specializes in.

Still, in my 25-year career of finding high-growth, low-market-cap opportunities for my readers to invest in, rarely have I found an opportunity with the growth potential that tiny **South American Silver (SAC.TO; USOTC:SOHAF)** offers investors.

Simply put, this company is packed to the brim with world-class mineral resources...and is currently priced at just a tiny fraction of their worth.

While some companies bring little more than a quality management team and a couple of promising geologic ideas to the table, South American Silver boasts not one, but two projects

with defined resources, each with the ability, all by itself, to multiply the company's market cap.

Consider the powerful advantages that this company offers investors:

- It owns 100% of one of the largest silver deposits on the planet.
- With silver prices currently around \$35/oz, this company is valued at only about \$0.50 per ounce for its huge silver hoard.
- This valuation is only *a fraction* of what the market is paying right now for similar deposits — SAC could multiply in price if it just catches up to its peer group.
- And it should do *much* better than that: Only 30% of the silver project's mineralized structure has

been drilled so far. The project could ultimately grow to two or three times its current size.

- And here's the kicker: SAC just outlined a 3.8-billion-pound copper resource on an entirely different project, which means...
- ...It boasts *over* \$230 of in-the-ground metal value per share.

Add it all up, and it's easy to see that South American Silver is currently trading for a fraction of what it should be, even if it doesn't add a single ounce of silver or another pound of copper to its current metal hoard.

How many other investments out there could multiply in value...*if they don't grow at all?*

And when you consider the extra-

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Closing The Gap

A key metric for any project is the net present value or NPV. Figuring out a project's NPV and applying an appropriate discount rate to account for various risks can give investors a pretty good idea of the value of a project.

And, in the case of a junior mining company, where the vast majority of its market cap can usually be attributed to one flagship project, the NPV for that project can be a good proxy for what the company's market cap should be.

Taking a look at the economics for Malku Khota from the project's 2011 Preliminary Economic Assessment, we see the project should deliver an NPV of \$704 million at a 5% discount rate and an \$18/oz silver price.

But then look at what happens when we use a silver price of \$25/oz.

As you can see, the NPV explodes to \$1.48 billion dollars!

In other words, South American Silver would need to rise by *eight times or more* in value just to equal the value of its silver project — and that's based on a silver price \$10 lower than today's.

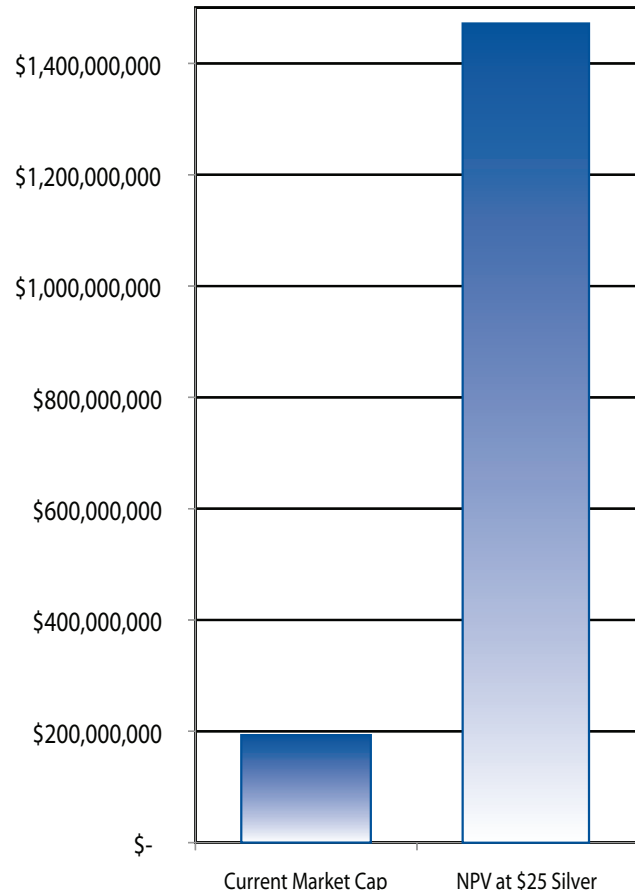
And this doesn't take into account any expansion of the resource, any increase in the planned size of the mine, or any increase in silver prices — all of which seem very likely.

Nor does it take into account the in-situ value of Escalones' copper hoard, which could multiply the value of SAC all by itself.

If there's a more compelling investment in today's commodities markets, I've yet to see it.

The World's Best Silver Play?

At \$25 silver and \$570 indium, South American Silver's Malku Khota project has an estimated value of \$1.48 billion — or about *eight times* the company's current market value.



ordinary growth prospects for South American Silver, combined with the likelihood for continued high silver and copper prices, it's easy to see that this is an opportunity that must not be missed.

But don't call your broker yet: You have to discover the exciting story behind this opportunity — and why it could be much better than I've already let on.

Par For The Course

The talking heads in the financial press will tell you that investment opportunities like the one now present-

ed by South American Silver are rare. And yet they turn up in the pages of Mining Share Focus with amazing regularity.

Consider that, as the secular bull market for precious and base metals has marched on over the past decade, this newsletter (and my paid publication, Gold Newsletter) have delivered huge winners for investors with the foresight to act quickly on my recommendations.

Unlike this recommendation, which is already backstopped with tons of in-the-ground value, many of these

picks were little more than bets on management and on its power to make major new discoveries. Among the companies that have been similarly featured in Mining Share Focus are:

- **NovaGold Resources** — This tiny company was trading at C\$1.78 when I initially recommended it back in 2001. It went on to make three multi-million-ounce gold discoveries and to multiply 11 times in value from my first recommendation!
- **Northern Dynasty Minerals** — Recommended at C\$1.18, this

company went on to generate over 1,600% gains on the back of its Pebble copper-gold-moly project in southwest Alaska. To date, exploration NDM has outlined a deposit that stands at 80.6 billion pounds of copper, 107.3 million ounces of gold and 7.2 billion pounds of moly in all categories

- **Underworld Resources** — Literally days after my recommendation in a Mining Share Focus report just like this one, this leader of the second Yukon gold rush was snapped up at *five times* my original recommended entry price!

And if you think that gains like that are a thing of the past, think again. This publication specializes in finding

underappreciated investment opportunities *exactly like* South American Silver.

All that remains is for the broader market to realize that South American Silver controls one of the world's largest, undeveloped silver deposits...*as well as* a huge copper deposit.

But before we delve into the potent investment arguments offered by the company's two major projects, let's take a quick look at why the future looks bright for silver...and for copper as well.

Silver Is Soaring

The secular bull market for silver

began at around \$5.00/oz in 2003. By early 2011, silver had multiplied almost 10-fold to nearly \$50.00/oz; it continues to trade at historically high levels of around \$35.00/oz.

Silver has shot up in sympathy with gold, as investors have looked to the precious metals as a safe haven during a period of extreme monetary easing.

The U.S. Federal Reserve has taken the lead in cutting the value of the dollar with a long period of low interest rates, "quantitative easing" and other expansionary measures. And other central banks around the world, particularly in Europe, have

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The Comparables Tell The Tale

Two comparisons to South American Silver's Malku Khota deposit tell you everything you need to know about this project's vast potential.

The first comparison is to the Escobal project recently sold to Tahoe Resources for \$505 million. With 317 million ounces of silver in all categories, that sale price implied a per-silver-ounce value of \$1.60/oz.

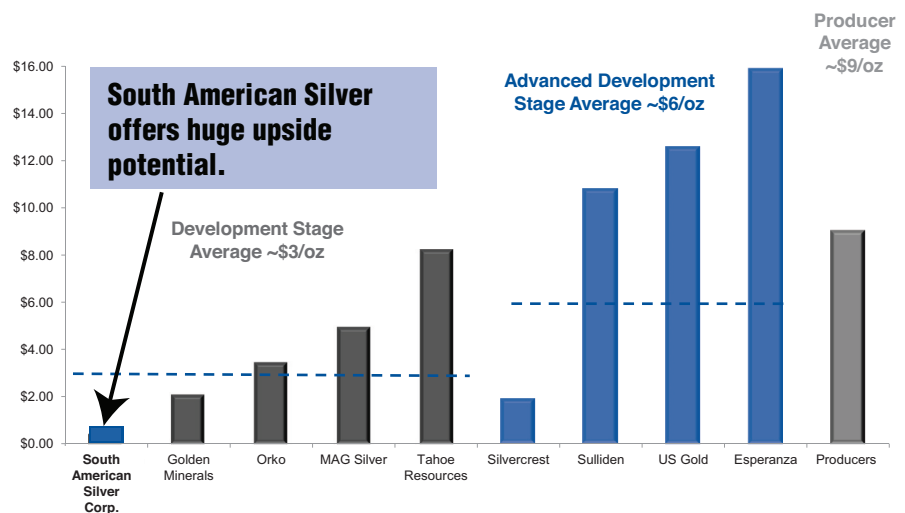
By contrast, Malku Khota, which makes up the lion's share of SAC's valuation, boasts 370 million silver ounces in the measured, indicated and inferred categories. And with the company's current market cap hovering around \$185 million, that implies a per-silver-ounce value of \$0.50/oz.

Thus, just by meeting the bar Escobal set for the sale of advanced-stage silver projects, the company could easily triple from current levels.

But consider this: Tahoe Resources, which now owns Escobal at its primary project, sports an enterprise value of \$8.00/oz. So South American Silver would have to increase around *16 times* in value just to equal the current market value of Escobal.

Enterprise Value Per Silver Resource Ounce

By project development stage



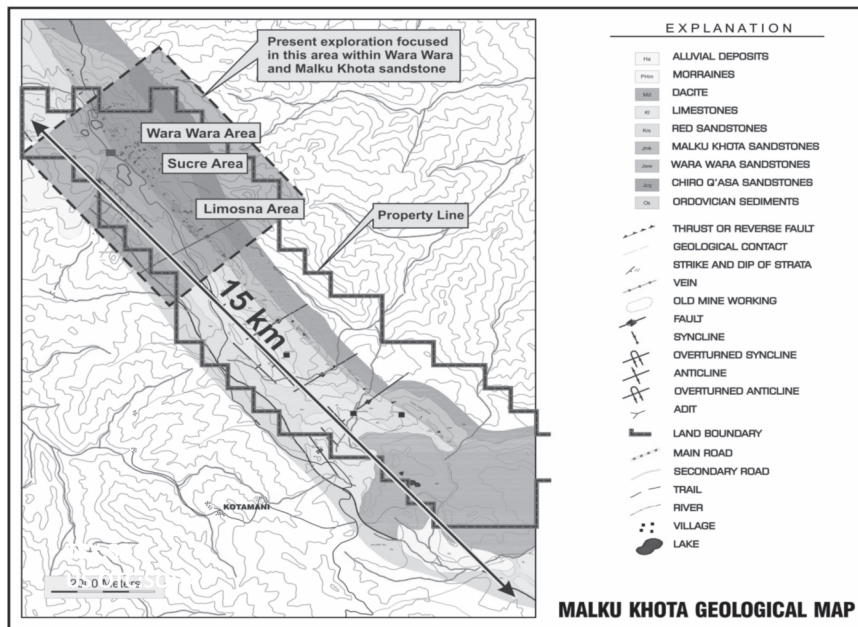
Source: Canaccord Report February 2, 2012
Note: All companies have projects in South and/or North

Another indicator of the company's powerful upside: Consider the accompanying chart comparing Enterprise Value per Resource Ounce. SAC easily offers the greatest value among development stage companies. Just as important, as it progresses toward production, that value will soar.

As the company moves Malku Khota and Escalones through the development process, the current discount will begin to evaporate, allowing SAC to approach (or even exceed) the valuations assigned to its peers.

Malku Khota Deposit

Only four kilometers of 50 square kilometers property drill tested — 2012 drill program could significantly expand resources.



followed suit, creating a race to the bottom for fiat currencies.

This environment, combined with strong investor and consumer interest in the precious metals from the Middle East and Asia, has created an ideal climate for precious metals. As a result, gold and silver have both enjoyed multi-year price runs.

Adding to the investment allure of both gold and silver has been the advent of the gold and silver ETFs. These funds, which allow investors to own fractional amounts of physical metal, have sucked an enormous amount of gold and silver out of the global market.

Silver has also enjoyed a recent resurgence in its industrial demand, as new uses for silver and an improving global economy have combined to coax silver prices to levels not seen since the 1980s.

While gold has various industrial uses, it is primarily used as a currency of last resort and as an adornment. Silver's significant consumption by industrial processes will give it an

added upside as the economy continues to improve.

Copper: A Staple Of The 21st Century Economy

An improved global economy will also support the price of copper, the other significant commodity in South American Silver's metal hoard.

Probably *the* reason for the huge spike in copper prices we've seen over the past decade has been the increased demand for the red metal generated by the growth of China's middle class.

Copper-intensive products like cars, appliances, electronics and houses are all in great demand. Simply put, China's increasingly wealthy citizenry wants the same things that are staples among the middle classes of the U.S. and Europe.

The sky-high demand pressure that China has put on copper over the past decade is not going away anytime soon. The wealth-creation process that

has generated that pressure will take many more decades to completely unfold.

In an investment environment where China's middle class will continue to grow and where a weaker dollar means higher prices for dollar-denominated commodities, copper prices should stay sky-high for years to come.

With the outlook bright for the underlying metals in South American Silver's portfolio, let's turn our attention to the projects that host those metals.

Malku Khota: A Treasure Trove Of Silver

The key selling point of Malku Khota is that it's big. *Really* big.

At its current size of 370.3 million ounces of silver, it already stands as one of the world's largest undeveloped silver deposits. That resource total is comprised of an NI 43-101 compliant estimate of 230.3 million ounces of measured and indicated silver and 140 million ounces of inferred silver.

Located in central Bolivia, 200 kilometers north of Potosi, Malku Khota lies within one of the world's richest silver districts. The deposit is near-surface and both bulk-mineable and heap-leachable. It is road-accessible and lies within 15 kilometers of a potential power source.

With those qualities alone, it would seem to be the perfect silver deposit. But the story gets even better....

The mineralization at Malku Khota begins at the surface and remains wide-open to expansion. The primary resource outlined on the project lies within three main zones: the Limosna, the Wara Wara and the Sucre.

Those targets cover only four kilometers of a 15-kilometer trend on a 50-square-kilometer property. Malku Khota lies within one of the world's premier silver mining districts, an area that boasts historic silver production

that runs into the billions of ounces, and yet still remains highly-prospective and under-explored.

In a sign of how significant Bolivia has become as a silver destination, three major silver mines have opened there in the last four years. Now nearing the prefeasibility stage, Malku Khota looks well on its way to becoming the country's next big silver operation.

Last year's updated resource estimate for the project showed a 60% growth in its measured and indicated silver ounces. And with a 2012 drilling program designed to expand and upgrade the deposit still further, Malku Khota looks likely to grow substantially from here.

The deposit is contained within broad zones of continuous, sediment-hosted mineralization that remain open at depth and along trend. The potential remains for a 2012 drilling program to discover new, higher-grade zones at Malku Khota and to expand its known surface mineralization down-dip.

But, as you're about to see, drilling could fail to add another ounce to project's silver hoard (not likely), and Malku Khota would still have the potential to multiply SAC's current share price, solely by continuing to advance along the development curve.

Independent Economic Study Shows Huge Value

Last year's resource estimate was part of an updated "preliminary economic assessment" (PEA) released to give a clearer picture of the money-making potential at Malku Khota.

That independent study assumed a "starter pit" in the first five years that will generate ore with an average grade of 58 g/t silver equivalent. That includes credits from the project's indium and gallium resources.

I'll have more to say on those metals in a minute. Right now, it's

enough to know that credits from these additional metals have the potential to put Malku Khota in the lowest quartile of silver deposits in terms of mine production costs. Alternatively, they could be used to help pay for the initial capital costs to build a mine here.

Over a 15-year mine life, South American Silver estimates that this project will be a 40,000 tonne-per-day operation, with 200 million tonnes of ore processed over the life of the mine. Average annual metals production is pegged at 10.5 million ounces of silver, 78.9 tonnes of indium and 15,184 kilograms of gallium, along with modest quantities of lead, zinc and copper.

Using base-case metals prices of just \$18/oz for silver, \$500/kg for indium and \$500/kg for gallium, the company projects a net present value (NPV) of \$704 million and a rich internal rate of return (IRR) of 37.7%. (And these numbers were after an assumed cash discount rate of 5%.)

In other words, based on its most conservative estimates for long-term metals prices, South American Silver believes this one project is worth almost *four times* the company's current market cap.

And the numbers explode from there. Based on trailing, two-year average prices of \$25/oz for silver, \$570/kg for indium and \$570/kg for gallium, the NPV (again at 5%) jumps to \$1.48 billion and the IRR nearly doubles to 63%. Plug in recent prices for these metals, and

the NPV skyrockets to \$2.57 billion and the IRR comes in at a whopping 92.9%!

Granted, it's entirely possible that average metals prices over the life of the mine will tend towards the more conservative estimates, but in a world starved for resources, buried in debt and determined to inflate its way out of problems, average prices could also easily exceed even the company's most optimistic estimates.

Regardless, the key point is that, assuming base-case prices, the company is sitting on a project worth many times its current valuation.

Moreover, this project will average 13 million to 20 million ounces of silver-equivalent production in its first 11 years of operation. This production rate would put Malku Khota in the top tier of development-stage silver projects in the world today.

And the favorable comparisons don't stop there...

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Study Shows Rich Economics

The latest independent economic study for Malku Khota shows the project is worth a considerable multiple of the company's current market value.

May 2011 Preliminary Economic Assessment

Heap Leach Operation – 40,000 Tonnes per Day

Recovery: Silver 80%, Indium 70%

Annual Production: 13.2 M oz Silver²
80.7 tonnes Indium²

Mine Life: 15 Years

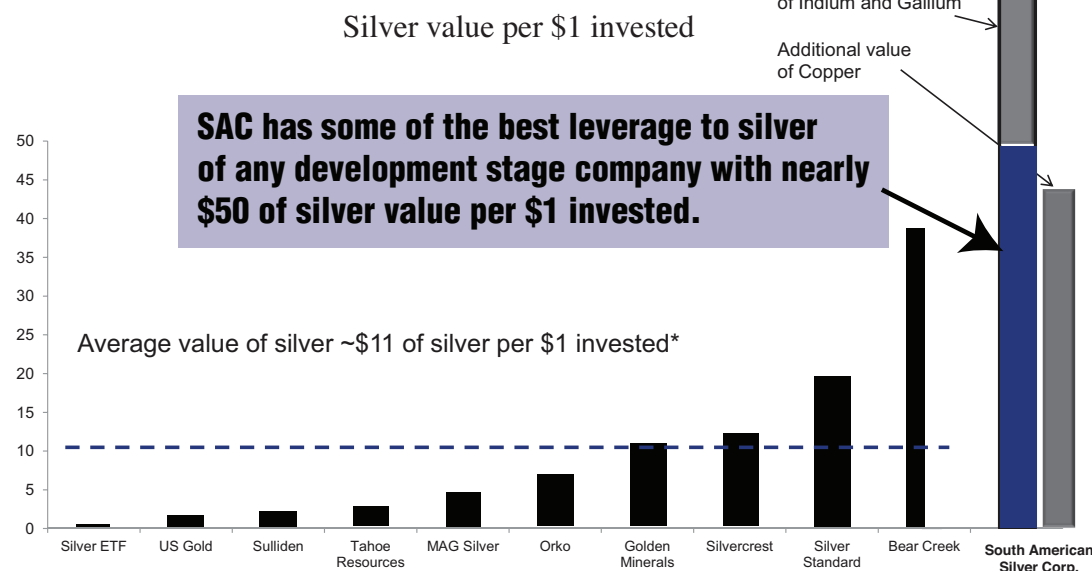
	2011 Base	2011 Mid	Recent 1 Year Avg
Silver Price/oz	\$18.00	\$25.00	\$35.00
Indium Price/kg	\$500	\$570	\$650
Net Annual Cash Flow ² :	\$185M/yr	\$287M/yr	\$430M/yr
Net Total Cash Flow:	\$1.26B	\$2.53B	\$4.30B
Pre-Tax NPV:	>\$704M	>\$1,482M	>\$2,571M
Payback Period:	27 mon.	19 mon.	15 mon.

(1) In US dollars, March 2011, PEA

(2) First five years of production

Leveraged to Silver

Value of silver per dollar invested



Source: Canaccord as of January 24, 2012, Share prices updated February 2, 2012
 Note: all companies have projects in South and/or North America
 Calculated using \$25/oz Ag. Dollar value of silver per \$1 invested = (silver resource/shares outstanding) x \$25/oz silver divided by share price.
 Value only shown for silver with no contribution from other metals. Cu value using \$2.25

modern economy and to the potential economics of the Malku Khota.

Indium is now a key component in electronics of all sorts, particularly in the flat panel displays commonly found in today's smart phones, mp3 players and LCD TVs. Other applications for indium (and gallium) include solar panels, LED lighting and more.

A recent UN study cited both indium and gallium as metals strategically at risk of shortages due to demand growth, low recycling rates and limited primary production.

Remarkably Undervalued... And Beginning To Catch Up

Comparisons to other silver projects reveal the tremendous upside now being offered by South American Silver.

First, consider the sale in 2010 of Goldcorp's Escobal silver project to Tahoe Resources. That project has 317 million ounces of silver in all categories, and the \$505 million sale price valued its silver at \$1.60/oz. By comparison, Malku Khota is currently valued at a mere \$0.50/oz.

So, just by matching Escobal's per-ounce sale price, SAC could triple in price from current levels.

But it gets even better: Tahoe Resources sports an enterprise value of \$8.00/oz. So South American Silver would have to increase around 16 times in value just to equal the current market

value of Escobal.

Another compelling comparison pits South American Silver against Bear Creek's undeveloped silver resource at its Corani silver project, which currently stands at 375 million ounces. This is very comparable to SAC's 370 million ounces, and yet Bear Creek's market cap is currently double South American Silver's market cap.

As you can see from the accompanying chart, South American Silver offers by far the greatest silver value per dollar invested of any development stage company.

Simply put, very few companies can beat South American Silver's value proposition.

Space-Age Metals Pay For Silver

Compared to silver, indium and gallium are relatively obscure metals that do not often show up on many commodity investors' radar screens. But these metals are vital, both to the

How does all this talk of indium and gallium translate into "free silver" for current investors in South American Silver?

Well, with an in situ indium resource that stands at 2,416 tonnes and a gallium resource that stands at 2,083 tonnes, Malku Khota boasts some of the world's largest undeveloped supplies of these two metals.

Given the recent popularity of off-take agreements in the industry, it would not surprise me to see the company to cut a deal with a major industrial user for Malku Khota's indium and gallium.

Such an agreement could pay for a substantial portion of the capital costs of building a mine on this property. And given the current state of demand for indium and gallium, finding a willing buyer for these metals should not be a problem.

An offtake agreement would provide current investors with cheap access to the huge upside of Malku Khota's massive silver resource.

Alternatively, if South American Silver elects to keep its indium and gallium production “in-house,” these metals will contribute significantly to the mine’s relatively low silver production cash costs.

Friends In High Places

In late 2010, the company secured C\$32 million in funds via an over-subscribed private placement. Zamin Precious Ltd, in conjunction with Izurium Capital Management Ltd, bought 18.3 million common shares of the overall placement giving them a 19.7% stake of SAC as of the placement's closing.

Zamin has a stellar track record of success in South America, including the sale of the Bahia Mineracao Limitada mining project for over \$1 billion. The company has projects in Brazil, Uruguay, Bolivia and Chile. And now, it has made a big bet on

South American Silver.

Zamin’s investment means more than just a huge infusion of cash. It brings with it the cachet of a major player in the South American economic and political scenes.

Said Zamin’s founder Mr. Pramod Agarwal: “We see a particularly promising investment environment developing in Bolivia, a country with vast mineral potential, and we will look to add value to our investment in South American Silver by leveraging our track-record of successful relationship building with national and state governments in the region.”

In South American Silver, Zamin sees a company capable of generating outstanding returns. And in Zamin, South American Silver may have found a partner to help it eliminate the jurisdiction discount that the market is currently applying to Malku Khota due to its Bolivian location.

Bolivia: Significant Mining Investments

A key value driver of the South American Silver story is the company’s ability to operate successfully in Bolivia.

The company is currently trading at a substantial discount to Malku Khota’s inherent value primarily because the broader market has questions about Bolivia’s leftist government.

As is often the case with geopolitical concerns, the truth is much different than the perception.

And the truth is that Bolivia is heavily reliant on the mining industry to keep its economy afloat. In fact, the current administration in La Paz is fully aware of how critical foreign investment is to its ultimate survival.

Evidence of this is easily found, starting with the fact that three major silver mines have opened in Bolivia since

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Big...And Growing Quickly South American Silver Has Aggressive Plans for 2012

Not content to have two world-class assets to its credit, South American Silver has announced ambitious plans to advance those projects significantly during the balance of 2012.

Here’s a quick look at what the company’s management team has slated for its two projects this year:

Malku Khota Silver-Indium-Gallium Project

- Prefeasibility level engineering and metallurgical work to further optimize production levels and the project process flowsheet
- An updated Economic Assessment with pre-feasibility-level engineering work, due out in Q2 2012, based on exploration from the past 12 months
- 20,000 meters of drilling to upgrade the resource at Malku Khota and expand it both at depth and between the known deposits
- Targets identified by surface sampling and geophysics to be tested (only 30% of the known mineral-

ization has been explored!)

- Optimization studies will seek to expand annual silver production to 18 to 20 million ounces per year — a rate that would make Malku Khota one of the world’s largest silver producers
- Feasibility and baseline environmental work planned for the second half of 2012

Escalones Copper-Gold Project

- Further interpretation of ZTEM and aeromagnetic surveys to identify large areas of untested conductivity anomalies to target with upcoming drilling
- Additional ZTEM and magnetic surveys of property
- 7,000 meters of drilling in support of a resource update in mid-year 2012
- Engineering and metallurgical testwork to determine potential copper, gold, silver and molybdenum recoveries in advance of a Preliminary Economic Assessment due in Q4 2012

INDIUM & GALLIUM: Critically Important For The World *...And Very Valuable For South American Silver*

When investors think of investing in metals, indium and gallium are probably not the first metals that come to mind.

And yet, these space-age metals are of vital importance to the South American Silver story, because they have the potential to pay for the costs of putting Malku Khota into production.

Indium is in strong demand thanks to the demand for flat panel displays of all sorts, be they smart phones, computers, LCD TVs or mp3 players.

Demand for both indium and gallium is also driven by demand for solar panels, as well as LED lighting.

China's decision to apply export quotas to its indium supplies is another reason the market remains tight. In response, Japan and Korea, both large consumers of indium, have been stockpiling the metal. A recent UN study cited both indium and gallium as metals strategically at risk of shortages due to demand growth, low recycling rates and limited primary production.

All this plays perfectly into South American Silver's hands, as it looks to

sign an offtake agreement for the indium and gallium at Malku Khota.

Given the state of play in the market and the fact that it controls one of the world's larger potential sources of indium and gallium, the company should have no problem finding an eager buyer.

With an in situ resource of more than 2,416 tonnes of indium and 2,083 tonnes of gallium, any offtake agreement could pay for a meaningful portion of Malku Khota's upfront capital costs.

the Morales administration took power. It started in 2007 with the opening of Sumitomo Metal Mining's San Cristobal Mine; it continued in 2008 with Couer D'Alene Mines' San Bartolome Mine; and it continued in 2009 with the opening of Pan American Silver's San Vicente Mine.

In recent years, the government has issued permits for Jindal Steel to begin developing one of the world's largest iron ore projects. Jindal has already committed \$2.1 billion in capital to developing this project.

Other investments of note include Petrobras' \$1 billion commitment to oil and gas projects and Repsol of Spain's \$1.6 billion commitment to oil and gas exploration and development.

These are not the types of investments that get made if a country's government is deemed fundamentally hostile to foreign investment. With 40% of its GDP coming from mining, the Bolivian government is not likely to turn its back on an opportunity to increase the country's wealth.

As one of the world's most mineral-rich countries, it knows that it will need foreign capital on an ongoing

basis to help it provide economic support to its population.

Another key indicator of how the perception of Bolivia's government is changing comes from recent bond upgrades of the country's sovereign debt by the Moody's and Fitch rating services. In addition, the government has made a concerted effort to provide a favorable regulatory framework, to improve infrastructure and to invite industry input on mining law changes.

Mining is too big a piece of the Bolivian economy; it's unlikely any government would want to mess with it. The Morales administration's key concern is ensuring the welfare of the indigenous populations that live in and around the areas where mining is taking place.

And, in that respect, South American Silver and the Bolivian government are in full agreement.

A Country And A Company Overlooked?

It's a sad fact that South American governments have often allowed their

countries' mineral wealth to flow to a select few bureaucrats and government officials.

One commendable aspect of the current regime in Bolivia appears that it is making every effort to ensure that the economic benefits of its mineral wealth are dispersed to the people whose lands provide that wealth.

South American Silver fully supports this stance. That's why it has dedicated community relations personnel actively working on the ground in Bolivia, ensuring that local communities are on board with the development of Malku Khota.

As Greg Johnson stated on February 27, in a recent project update, "Over the past year South American Silver has significantly broadened its community relations activities and the Company has entered into Impact and Benefit-type agreements with local indigenous communities to facilitate local economic and business development through the various stages of project implementation."

Mr. Johnson has a long track record of working with native peoples to unlock the value of mining projects.

His ability to do so played an important role in turning NovaGold from a small-cap junior into a major player in the resource sector.

I have little doubt that he and his team will meet with similar success in Bolivia. The company's deep commitment to responsible mining and community collaboration will ensure that all stakeholders have a voice as Malku Khota gets converted into an operating mine.

And let's not forget the powerful connections that Zamin may bring to the table. As the company navigates the development process, the Brazilian major's sizable stake in SAC makes it

likely that Zamin will do everything it can to smooth the path for a lucrative silver mining operation at Malku Khota.

The political risk baked into the company's current market cap is built on a concern that Bolivia won't continue to welcome foreign investment. As the company continues to hit development milestones for Malku Khota, it will become clear that South American Silver is well on its way to turning this project into one of the world's largest silver mines.

Best of all, Malku Khota is just one of two large projects in the company's portfolio...and investors are cur-

rently assigning almost no value to its copper project in Chile.

Escalones: An Unappreciated Gem

Escalones sits 100 kilometers southeast of Santiago and 35 kilometers east of El Teniente, one of the world's largest underground copper mines. So far, exploration has identified a four-square-kilometer area of alteration at Escalones.

Again, Escalones is presently valued at nearly nothing in SAC's cur-

(Continued...)

ESCALONES: The Copper Play That Could Multiply South American Silver's Value

Prior to South American Silver's release of an initial resource estimate for Escalones a few months ago, not many investors were even aware of this project. Everyone was focused on the potential of the company's massive Malku Khota silver project in Bolivia.

And while the market is still giving SAC little credit for the good work it has already done on this Chilean copper project, the recent estimate for Escalones makes clear that the company controls not one, but *two* major metal resources.

Based on 30 diamond drill holes and a 0.2% copper-equivalent cutoff, the estimate pegs Escalones' initial, inferred resource at 3.84 billion pounds of copper, 56.9 million pounds of molybdenum, 610,000 ounces of gold and 16.8 million ounces of silver. The calculations used to arrive at these numbers were based on three-year average metals prices of \$3.00/pound for copper, \$16.00/pound for moly, \$1,200/ounce for gold and \$22/ounce for silver.

The company has begun a Phase II exploration program at Escalones that will encompass 7,000 meters of follow-up drilling to test for extensions of the project's known mineralization. The program will also probe new targets already identified by geochemical and geophysical work.

The geophysical work included a state-of-the-art "ZTEM" deep-penetrating airborne program across the entire property. South American Silver's geologists are currently engaged in the interpretation of the rich data from this and other programs.

Situated along a world-class porphyry copper belt that runs north-south through Chile's central Andes Mountains, the 70-square-kilometer property is highly prospective for additional copper resources. For example, it lies just 35 kilometers east of El Teniente, the world's largest underground copper mine. Infrastructure in the area is considered to be very favorable for development.

As I said, the market is currently not assigning Escalones the value it

deserves, based on its in-situ copper resources.

A recent study of copper developers by Canaccord Genuity suggests that, at current spot price levels for copper, Escalones should be valued at roughly \$0.025 per in-situ pound of copper. With a copper hoard of around four billion pounds, that implies at valuation of roughly \$100 million, or a little more than half SAC's current market cap.

Based on the company's share price before and after the Escalones announcement, the market is still crediting the project with contributing, at most, just a few pennies to SAC's share price.

But with resource growth and speedy development highly likely, Escalones could soon reach a development stage that would qualify it for a \$0.05 per in-situ pound valuation. Assuming that copper prices maintain or exceed their current levels, Escalones (all by itself) could soon be worth almost *twice* the company's current market cap!

“...Escalones is presently valued at nearly nothing in SAC’s current market capitalization, yet it is on track to potentially double the entire company’s value all by itself.”

rent market capitalization, yet it is on track to potentially *double* the entire company’s value all by itself.

How is this possible? Allow me to explain...

A recent report by Canaccord Genuity on the world’s Top 20 copper developers shows a high correlation between the valuation of those companies and the spot price of copper over the last four years. At current price levels of between \$3.50 to \$3.90 per pound, the market is assigning roughly \$0.05 for every pound of copper in the ground held by these companies.

To give you a sense of Escalones’ potential, imagine that it was the only project in the company’s portfolio, making the SAC a stand-alone copper developer.

According to a recently-released resource estimate for the Escalones project, this hypothetical company would have approximately four billion pounds of inferred copper to its credit.

Since this resource is still at an early stage of development, it would not yet warrant the \$0.05/pound valuation that Canaccord currently finds the market giving more advanced-stage developers. But even early-stage copper companies are receiving \$0.025/pound valuations for their in-situ resources.

Thus, based on current market comparables, a stand-alone “Escalones” copper company should be valued at around \$100 million, which would account for a little more than half of SAC’s current market cap.

However, given the collective shrug that the market gave the initial

release of Escalones’ resource estimate in late 2011, Malku Khota continues to underpin the vast majority of the company’s \$185 million market cap, with Escalones contributing, at most, a few pennies to SAC’s current share price.

Silver Or Copper: Either Could Multiply SAC’s Value

The mineralization at Escalones remains wide open for expansion. But, for now, let’s assume that the current resource grows only modestly. Just by engaging in the delineation drilling that will take place to upgrade the resource and provide the data for a PEA, Escalones will gradually move along the production curve, eventually becoming an advanced-stage copper play by the lights of the Canaccord report.

At that point, assuming copper prices remain near or above current levels, Escalones should see the per-pound valuation assigned to its in-situ resource rise to \$0.05/pound. That rise, in combination with just a small amount of resource growth, would justify a nearly \$300 million market cap for a stand-alone Escalones copper company.

In other words — just by developing this already exciting resource — SAC has the opportunity to almost *double* its current value, without factoring in a penny for its ownership of one of the world’s largest undeveloped silver mines!

Of course, given Escalones’ size (70 square kilometers) and the wide-open nature of its mineralization, further drilling is likely to grow its copper resource substantially. Moreover,

given the project’s favorable infrastructure situation and its probability to host a “starter pit,” the resulting PEA and prefeasibility studies that will come as a result of the development process could value Escalones at a great deal more than \$300 million.

Thus, either Escalones or Malku Khota — copper or silver — could multiply the value of SAC all by themselves. Put them both together, and you get a company with a level of profit potential rarely found in our investing careers.

Given the track record established by SAC’s seasoned management team, I certainly wouldn’t bet against their ability to fully unlock the enormous value inherent in both Malku Khota and Escalones.

Let’s take a look at that team, because their resumes and experience are at the root of South American Silver’s success.

A “Been-There, Done-That” Management Team

Not only does South American Silver’s management team have over 100 years of experience operating in South America, it has also managed to retain the services of President and CEO Greg Johnson.

Mr. Johnson made his name in the mining industry by helping to turn NovaGold Resources from C\$30 million in market cap to more than C\$2 billion.

In the process, he brought no less than three major projects to the feasibility stage and was co-winner of the Thayler Lindsay International Discovery Award for his role in the discovery and advancement of Donlin Creek (40 million ounces of gold in all categories).

Part of Mr. Johnson’s success stemmed from his ability to create good relationships and win-win scenarios with the indigenous populations who inhabited the areas in and around NovaGold’s core projects.

As you'll see later, the ability to work with indigenous populations will be critical to the success of Malku Khota's development, and Mr. Johnson's track record strongly suggests that he and his management team will be up to the task.

Another key player at South American Silver is Executive Chairman Ralph Fitch. Mr. Fitch's career spans forty years and includes major mineral discoveries on four continents. During his tenure at Chevron Minerals Group, he received the company's prestigious Chairman's Award for his role in the massive Collahuasi deposit in Chile, one of the world's largest copper mines.

Also on the team are Chief Operating Officer Phillip Brodie-Hall and VP of Exploration Felipe Malbran. Mr. Brodie-Hall has 35 years of engineering, construction and project development experience. He has developed projects across the globe. Mr. Malbran brings with him a wealth of experience in economic geology and geotechnical and regional geology.

Along with Dr. David Dreisinger, VP of Metallurgy, these gentlemen will help to bring Malku Khota into production and to move Escalones along the development curve. It's a deep team, one that is not only bringing Malku Khota to the pre-feasibility stage, but also one that has the ability to find funding to bring both projects through feasibility and beyond.

A Taste Of What's To Come

The market is already beginning to wake up to the fact that South American Silver has found something really big Malku Khota. And it's eventually going to wake up to the huge value inherent in Escalones.

As the Zamin investment indicates, the smart money is already starting to gravitate to this company. That's a good thing. It reflects the terrific job that Greg Johnson and his team have done in advancing this company.

To maximize your returns on South American Silver, you cannot afford to wait idly on the sidelines. The rise SAC seems destined to experience in the coming months has the potential to deliver lucrative returns for those with the foresight to invest in this company at or near current levels.

With a firm backstop to its current valuation courtesy of its enormous silver and copper resources, present trading levels represent your last, best opportunity to get in before this company's share price begins to take off like a rocket.

How can I be so confident? Well, let's revisit the myriad value triggers likely to occur in the next 18 to 24 months.

Two Projects For The Price Of One

Simply put, your window of opportunity to invest in SAC won't remain open for long, as the company offers current investors a multitude of remarkable advantages:

- South American Silver owns one of the world's largest undeveloped silver deposits...
- That deposit continues to grow, with only 30% of the known mineralized structure drilled so far...
- Malku Khota is so large, so simple to mine and offers so much in other metal value, that it stands as perhaps the most profitable silver project now in development...

Independent economic and peer-group studies show Malku Khota could be worth a multiple of the company's current market value...

- The market is currently assigning virtually no value to Escalones, which conservative valuation methods currently peg at a \$100 million resource...
- Based on current copper prices and the valuations the market is giving to copper development projects, Escalones' inherent value could

easily *triple* as SAC advances along the development curve...

- *Either* Escalones or Malku Khota could multiply the value of SAC, even without copper or silver gaining a single cent in price.
- Put these two projects together, and South American Silver offers the kind of explosive profit potential rarely encountered in the investing world.

A company that can lay claim to one of the world's largest primary silver projects (*and* to a massive copper project) does not normally trade at such a steep discount to its inherent value...especially with silver and copper trading at historically high levels and apparently headed even higher.

Bargains like this don't come along every day, particularly in the red-hot resource sector. Simply put, if you're looking for a lucrative way to invest in the bull markets for precious and base metals, it's staring you in the face with South American Silver.

The key is to act now: The company's updated economic assessment is due shortly, and will focus on potentially dramatic improvements to the value of Malku Khota.

Past experience shows you should buy this stock before this report comes out, so quick action is strongly recommended.

South American Silver SAC.TO (Toronto Stock Exchange) USOTC:SOHAF

Recent Share Price:C\$1.50-C\$1.75

Shares Outstanding:.....101.9 million

Market Cap:C\$1.78 million

Shares Outstanding

Fully Diluted:118.4 million

Market Cap

Fully Diluted:C\$207.2 million

Website:www.soamsilver.com

Toll Free Phone:855-681-6926

(Over, please...)

News And Views...

No inflation? Really?

I've often mentioned John Williams' *ShadowStats* service as a valuable guide to the true rate of inflation. To make a long story short, John strips away the effects of the gerry-rigging that the U.S. Bureau of Labor Statistics has done to the Consumer Price Index over the years -- the very manipulations that the government has used to underreport the true rate of inflation.

John's work, very simply, shows that you can add about 5% to 6% to the stated rate of inflation to get the true, underlying rate that would have been reported in the 1970s under the old CPI.

A lot of people, particularly in the government, have taken issue with John's work. So it was interesting to see the respected American Institute for Economic Research (AEIR) chime into the debate with their "Everyday Price Index" (EPI).

AEIR developed this index "to address the widespread perception that the Consumer Price Index (CPI) does not reflect the day-to-day experience of Americans." This radical new index incorporates a number of

advancements, including dynamic adjustment to changing buying habits of the public over time (instead of tracking long-distance telephone charges, for instance, it now tracks the cost of telephone services).

Perhaps most importantly, the EPI tracks the price changes that ordinary people see in their everyday buying experience.

And what does the EPI show? Interestingly, it shows a 2011 average annual rate of 8% -- closely tracking the results of John Williams' work. This compares to the official CPI rate for 2011 of 3.1%.

Is it a coincidence that these private CPI calculations are so deviant from the official government rate, and agree so closely with each other?

I don't think so. And further, I believe the high price of gold is reflecting the truth behind the government's numbers.

Casey vs Krauthammer vs Who?

One of the big highlights of each year's New Orleans Investment Conference is our "Political Debate" pitting a con-

servative vs a libertarian vs a liberal.

Some of our more fiery debates have featured the irrepresible Doug Casey as one of our philosophical combatants, and I'm happy to report that, after an absence of a couple of years, Doug is returning to carry the flag for all freedom-loving libertarians.

For the conservative side, the always-popular Charles Krauthammer will again wow our audience with his eloquence and insights. We've yet to decide on the liberal representative in our debate, and are eagerly accepting any suggestions.

Widely followed experts like Rick Santelli, Marc Faber and Peter Schiff are also returning, along with dozens of today's top experts in precious metals and resource stocks.

We expect a full sell-out, as usual, at our conference host hotel this year. Just as important as getting a room, anyone who acts now will enjoy a savings of over \$400 from our on-site registration fee.

To lock in your place, visit www.neworleansconference.com, or call toll free 800-648-8411.

MINING SHARE FOCUS

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