



## **SOUTH AMERICAN SILVER CORP.**

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### **South American Silver Corp. Issues Positive Preliminary Economic Assessment Study on Malku Khota Silver-Indium Project**

**Trading Symbol: SAC-TSX**

**February 25, 2009**

South American Silver Corp. (“SASC” or the “Company”) announces the results of a NI 43-101 compliant Preliminary Economic Assessment Study (“PEA”) on its 100% owned Malku Khota silver-indium-gold project located in central Bolivia. The study includes a Base Case with a pre-tax undiscounted NPV of US\$1,233 Million (0% discount rate) and IRR 50.7%. The PEA was prepared by Pincock Allen & Holt (“PAH”) and is based on the earlier NI 43-101 resource estimate that PAH had prepared in September 2008 (see SASC PR08-12). The full PEA will be filed on SEDAR within 45 days.

#### Key Economic Indicators:

- Pre-Tax NPV (at 0% discount rate) US\$ 1,233 Million
- Initial CAPEX US\$ 104.7 Million
- Cash Cost (net of credits) US\$ 3.75 /oz silver
- Pre-Tax IRR 50.7 %
- First ten years silver grade 38.6 g/t
- First ten years indium grade 8.1 g/t
- Years to payback from start of production 2.2 years

The economic study considered a base case mining rate of 20,000 tonnes per day (“tpd”) mining 247 million tonnes of leach material over a life of mine of 36 years averaging 25.3 g/t silver and 5.92 g/t indium, using the three year trailing average silver price of US\$13.30/oz and US\$530 per kg for indium. A three year trailing price is the conventional assumption made in base case scenarios. It includes a series of sensitivities to important parameters such as metal prices (see table below). The Base Case consists of conventional open pit mining and processing by crushing, agglomeration and placement of mineralized

material on heap-leach pads. Leaching involves a sulphuric acid plus chloride leach which recovers the silver and the indium.

Ralph Fitch, President of the Company stated that “This study announces to investors that Malku Khota has the economic potential of becoming a major silver project. This is the first independent and un-optimized economic study we have had on the Malku Khota Project and we are very encouraged by the positive results. The PAH study provides the Company with the quality of data we need to scope further resource definition, mine planning and process work for a pre-feasibility study. Clearly, as the silver price increases, the Malku Khota Project becomes far more valuable to the Company and our shareholders.”

### Base Case

The table below shows key parameters of the Base Case.

Base Case	
Parameters	Silver Price US\$13.30/oz
Total Silver Produced	152.9 million oz
Total Indium Produced	974,300 kg
Tonnes Leachable Material	247.3 million tonnes
Strip Ratio	1:1
Pre-Tax NPV at 0% discount rate	US\$ 1,233 million
Pre-Tax NPV at 5%	US\$ 577 million
Pre-Tax NPV at 10%	US\$ 325 million
Pre-Tax IRR%	50.7 %
Silver Cash Cost/oz (net of credits)	US\$ 3.75/oz
Initial CAPEX	US\$ 104.7 million
Mine Life	36 years
Years to Payback From Start of Production	2.2 years
Annual Production - Tonnes Leached	7 million tonnes
Average Annual Production -Silver	4.25 million oz
Average Annual Production - Indium	27,000 kg
Mining Cost	US\$ 1.14/tonne
Processing Cost	US\$ 2.60/tonne

IRR= internal rate of return. NPV= pre-tax net present value. CAPEX= capital expenditure.

Because the mine life is 36 years, further optimization of the Base Case may allow for an expansion of the mining rate as the project moves towards pre-feasibility.

It is noteworthy that the NI 43-101 report indicates there is good potential for additional resources with additional drilling.

## Sensitivity Analysis

The project is robust with only modest sensitivity to silver and indium prices, operating and capital costs.

IRR			
Parameter	Parameter Minus 20%	Base Case	Parameter Plus 20%
Silver Price	40.8	50.7%	59.3
Indium Price	49.1	50.7%	52.0
Operating Cost	56.0	50.7%	43.5
Capital Cost	60.0	50.7%	43.7

## Metallurgical Test Work

Metallurgical test-work was done at SGS Lakefield in Canada. The metallurgical process envisaged for the property would include crushing the leach material to minus 19 mm and stacking it in heaps constructed over double liners. This material would then be irrigated with a simple solution of sulphuric acid, salt and bleach (the acid-chloride leach). Solutions collected from the base of the heap would be re-circulated to increase the concentration of the dissolved metals, with a portion bled to a commercially available ion exchange unit. The ion exchange unit, which is used in the steel and metal plating industry, regenerates the sulphuric acid and allows most of the acid to be returned to the heap. It also scalps off up to 70% of the metals in solution and these are subsequently precipitated by cementation. It is envisaged that the silver and indium precipitates will be refined to final purity products for commercial sale.

Metallurgical tests have shown that gold, copper and lead are also brought into solution by the acid-chloride leach and may also be recovered and precipitated by similar processes. Further test work is ongoing to maximize recoveries of silver and indium and demonstrate the recovery efficiencies for other metals. To indicate the potential for these additional revenues an estimate has been added to the Base Case model using values obtained from the metallurgical work to date. The following table shows the values used.

Acid-Chloride Leach				
Potential By-Product Metal	Gold	Copper	Lead	Total
Assumed Head Grade	0.04 g/t	0.03%	0.16%	
Assumed Metal Recovery	50%	60%	25%	
Assumed Metal Price	800 US\$/tr oz	1.40 US\$/lb	0.42 US\$/lb	
By-Product Value/ tonne	0.51 US\$/t	0.56 US\$/t	0.37 US\$/t	1.44 US\$/t

PAH also included a heap leach option in the PEA based on cyanide extraction, typical of those seen in Nevada gold operations. Cyanide leaching fails to recover the indium. Results for this silver only option, including gold and copper credits were positive at the 20,000 tpd mining rate. For this silver only scenario, PAH describes a pre-tax undiscounted NPV of US\$358 million and IRR of 47% using the base case silver price of US\$13.30/oz.

The PEA or scoping study clearly points SASC in the direction of the acid-chloride leach. The acid-chloride leach captures other metal values such as the indium, gold, copper and lead, increasing revenues per tonne.

## Planned Activities

The next steps for the Company are to continue with more detailed and larger metallurgical tests to prove up a commercial design for the acid-chloride leach and further refinement of the processes required to produce final silver and indium products. The Company will also start scoping the additional information it would need to proceed to a pre-feasibility study. At the same time the Company will explore the remainder of the 15 km trend to establish the best targets for future expansion of the resource.

## Indicated and Inferred Resource Estimates

The PEA was based on the Indicated and Inferred Resource previously estimated by PAH (see Press Release 08-12, dated October 1, 2008).

<b>Indicated Resource Estimate</b>					
<b>Cut Off (g/t Silver)</b>	<b>Tonnes</b>	<b>Average Silver Grade (g/t)</b>	<b>Average Indium Grade (g/t)</b>	<b>Silver Troy Ounces</b>	<b>Indium Kilograms</b>
10	151,355,000	29.71	5.58	144,597,000	845,000
20	80,698,000	43.15	6.75	111,966,000	544,000
30	45,116,000	57.90	7.75	83,989,000	350,000
40	28,505,000	71.54	8.50	65,567,000	242,000
50	18,904,000	85.33	9.15	51,861,000	173,000
60	13,534,000	97.52	9.80	42,432,000	133,000

<b>Inferred Resource Estimate</b>					
<b>Cut Off (g/t Silver)</b>	<b>Tonnes</b>	<b>Average Silver Grade (g/t)</b>	<b>Average Indium Grade (g/t)</b>	<b>Silver Troy Ounces</b>	<b>Indium Kilograms</b>
10	230,069,000	24.03	4.21	177,783,000	968,000
20	95,330,000	37.81	5.87	115,882,000	560,000
30	50,726,000	49.74	7.06	81,120,000	358,000
40	31,471,000	59.13	7.69	59,832,000	242,000
50	18,236,000	69.78	8.15	40,910,000	149,000
60	10,691,000	80.63	8.82	27,714,000	94,000

Mr. Barton Stone, C.P.G., Chief Geologist of Pincock Allen & Holt is the Qualified Person for the PEA. He has reviewed the content of this press release.

Certain statements in this press release constitute “forward-looking statements”. These forward-looking statements 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, total and annual production, costs, mineral grades, recovery rates, prices and by-product value. Forward-looking statements express, as at the date of this press release, the Company's plans, estimates, forecasts, projections, expectations, or beliefs as to future events or results. Forward-looking statements are based on certain assumptions, including the key assumptions and parameters on which such estimates are based, involve risks and uncertainties and there can be no assurance that such statements will prove to be

accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. 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; political, regulatory, environmental and other risks of the mining industry and other risks more fully described in the Company's Annual Information Form filed and publicly available on SEDAR at [www.sedar.com](http://www.sedar.com). Readers are cautioned not to place undue reliance on the forward-looking statements contained in this press release. 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.

This press release uses the terms 'indicated resources' and 'inferred resources' which are terms recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects). Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will be converted into reserves. In addition, 'inferred resources' have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that an inferred resource will be upgraded to a higher category. Under Canadian rules, estimates of inferred resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for preliminary economic assessment as defined under NI 43-101. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

The PEA includes inferred mineral resources which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves. Furthermore, there is no certainty that the results projected in the PEA will be realized and actual results may vary substantially.

SASC is a mineral exploration company that acquires, explores and develops mineral properties, primarily silver, gold and copper in South America. The Company presently holds interests in two material properties: the flagship Malku Khota silver-gold in Bolivia and the Escalones copper-gold-molybdenum property in Chile.

For further information, please contact:  
Richard Doran  
Executive Vice President, Investor Relations  
Tel: (303) 512-0919  
Fax: (303) 758-2063