

WESTERN SILVER CORPORATION

PEÑASQUITO SILVER ECONOMICS UPGRADED ON SCOPING STUDY

SHALLOW HIGH-GRADE MINERALIZATION DISCOVERED

Western Silver Corporation continues to announce good news from its 100%-owned Peñasquito silver project. Since we published our detailed Information Memorandum on May 20, 2003 an independent economic scoping study shows lower capital and operating costs that enhance the economics. Further, Western has announced that its shallow drill program has identified extensive mineralization associated with the Outcrop Breccia and established five other targets that require more detailed drilling. These results strengthen our belief that Peñasquito will become one of the most important silver projects in the world.

Developments at Peñasquito

- The Chile Colorado economic scoping study conducted by M3 Engineering and Technology, drawing on previous work by SNC-Lavalin, projects a pretax IRR on a 100% equity basis of 25.6%, demonstrating significantly more robust economics than we projected:
 - Capital costs are reduced to \$148.6 million compared with our estimate of \$200 million.
 - Mining costs are reduced to \$0.58 per short ton mined from our estimate of \$0.63.
 - Processing costs are reduced to \$3.06 per short ton processed from our estimate of \$3.40.
 - These factors are slightly offset by the life-of-mine strip ratio at 2.2:1 compared with our estimate of 2.0.
- There are several factors that make us believe the M3 report is itself an extremely conservative assessment of the Chile Colorado zone:
 - The mine plan only processes 98 million short tons of ore, out of total indicated and inferred sulfide mineral resources of 184 million short tons set out in the SNC-Lavalin resource calculation.
 - The strip ratio of 2.2:1 assumes that numerous blocks that do not have sufficient drilling to be classified as ore are waste. In fact, the continuity of mineralization indicates that many of these blocks are likely to be mineralized, which would increase the tonnage of ore, reduce the strip ratio, and reduce costs.
 - M3 assumed a specific gravity of 2.6, although the actual density is likely to be at least 10% greater.
- Most significantly, M3 only reviewed the Chile Colorado zone. Our previous report discussed the district-wide potential at Peñasquito in some depth (see pages 7 through 10). On July 29, Western Silver announced results of an extensive shallow drill program designed to test the upper levels of the bedrock obscured by alluvial valley fill. This program provides further evidence of the district-scale potential at Peñasquito.
 - Five holes drilled to the west of the Outcrop Breccia intersected high grade gold-silver mineralization that, when combined with previous work conducted by Kennecott, indicates the Outcrop zone may be at least comparable to Chile Colorado in terms of tonnage and grade.
 - Five additional targets to be explored in detail during the next twelve months have been identified.
- Western's current work program is to two-fold:
 - Continue the engineering feasibility studies at Chile Colorado, including infill and step out drilling to further define and expand the mine plan.
 - Explore the other established targets in order to get a handle on the district-scale potential and establish whether one of these other targets would be a better candidate for initial production.

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CHILE COLORADO ECONOMICS

Western Silver retained M3 Engineering & Technology Corporation, a well-regarded mine engineering and construction firm, to prepare an independent mine development plan based on data contained in the independent Preliminary Mineral Resource Estimate prepared by SNC-Lavalin in March 2003.

In combination, these documents present a thorough analysis of the Chile Colorado zone as defined by the existing drill data. As a result of the size and scope of the project, the resource estimation and economic scoping study have been completed while exploration and definition of both the Chile Colorado zone and the larger Peñasquito project is continuing.

We consider this approach – reviewing the economics in parallel with defining the ore – to be highly professional, reflecting a corporate culture that combines mine development as well as exploration geology.

The table below sets out M3’s projections, converted into short tons. We have included an outline project financing using 70% debt, 30% equity.

	Year:	-2	-1	1	2	3	4	5	Life-of-mine
Mining & Milling									
Ore to mill	(st)			8,046,000	8,046,000	8,046,000	8,046,000	8,046,000	98,102,000
Silver production	('000 oz)			12,225	12,046	11,153	7,728	10,979	112,279
Gold production	(oz)			46,380	45,008	47,996	46,940	58,064	744,095
Zinc production	(st)			74,622	73,358	70,923	52,556	78,613	838,840
Lead production	(st)			42,802	42,459	39,042	26,457	33,089	313,913
Income Statement									
Revenue	(\$mm)			96,186	94,553	90,288	67,419	94,353	1,015,584
Royalty	(\$mm)			1,924	1,891	1,806	1,348	1,887	20,312
Net revenue	(\$mm)			94,262	92,662	88,482	66,071	92,466	995,272
Mining	(\$mm)	2,492	5,531	14,239	12,898	20,743	13,418	9,270	173,810
Milling	(\$mm)	-	-	22,805	22,805	22,805	22,805	22,805	278,055
G&A	(\$mm)	-	-	1,825	1,825	1,825	1,825	1,825	22,252
Operating costs	(\$mm)	2,492	5,531	38,869	37,528	45,373	38,048	33,900	474,117
Operating income	(\$mm)	(2,492)	(5,531)	55,393	55,134	43,109	28,023	58,566	521,155
Depreciation	(\$mm)	-	-	13,938	14,785	15,065	15,092	15,093	147,627
Employee profit share	(\$mm)	-	-	4,146	4,035	2,804	1,293	4,347	38,155
Income before interest and tax	(\$mm)	(2,492)	(5,531)	37,310	36,314	25,240	11,638	39,126	335,373
Interest	(\$mm)	1,578	5,368	7,038	5,955	4,873	3,790	2,707	33,474
Income before tax	(\$mm)	(4,070)	(10,899)	30,271	30,359	20,367	7,848	36,419	301,900
Taxation	(\$mm)	-	-	10,292	10,322	6,925	2,668	12,382	107,735
Income after tax	(\$mm)	(4,070)	(10,899)	19,979	20,037	13,442	5,180	24,036	194,164
Cash flow									
Cash flow	(\$mm)	(4,070)	(10,899)	33,917	34,822	28,507	20,271	39,129	341,791
Free cash flow	(\$mm)	(60,420)	(82,226)	22,212	26,352	25,707	20,007	39,114	194,164
Capital									
Plant	(\$mm)	34,756	68,512						103,268
Mine	(\$mm)	21,594	2,815	11,705	8,470	2,800	264	15	44,359
Total	(\$mm)	56,350	71,327	11,705	8,470	2,800	264	15	147,627
Debt									
Initial balance	(\$mm)	-	39,447	94,743	81,209	67,674	54,139	40,604	
Draw	(\$mm)	39,447	55,297	-	-	-	-	-	94,743
Repay	(\$mm)	-	-	13,535	13,535	13,535	13,535	13,535	94,743
Final Balance	(\$mm)	39,447	94,743	81,209	67,674	54,139	40,604	27,070	
Interest	(\$mm)	1,578	5,368	7,038	5,955	4,873	3,790	2,707	33,474
Cash to equity									
Cash to equity	(\$mm)	(20,973)	(26,929)	8,678	12,817	12,173	6,473	25,580	194,164

The projections are based on the same metal prices and smelting terms that SNC-Lavalin used in the resource calculations. Their key price assumptions – silver and gold – are \$5.00 and \$325 per ounce respectively, compared with recent prices of \$5.20 and \$365. The base metal prices are interlinked with smelting charges. Although the zinc price assumption of \$0.45 per pound is above current levels, the economics are near the current level because Western/M3 have assumed smelter costs much higher than current.

Note the decline in projected production and revenues in years three and four that are then reversed in year five. This has a significant impact on the economics – projected operating income declines from \$55 million in year two to \$28 million in year four, before rebounding to \$58 million in year five.

This decline reflects mining of material currently categorized as waste or low grade that may well be reclassified with addition infill drilling. We believe the final mine plan is likely to be much smoother, based on reviewing the blocks in the SNC-Lavalin report.

In order to get a handle on the likely potential, we have straight-lined operations from year two in the “Adjusted Case”. The table below sets out a simple analysis of the value to equity, again assuming a 70:30 debt equity ratio. Note that both the internal rate of return and the present values are after tax, including project financing. We also set out the present value looking forward five years, to indicate the potential growth in value as the project moves forward.

		Current	In 5 years
M3 Case			
Internal rate of return		25.4%	
PV10	(\$mm)	62.60	107.70
PV5	(\$mm)	111.20	142.50
PV0	(\$mm)	194.20	194.20
Adjusted Case			
Internal rate of return		31.4%	
PV10	(\$mm)	99.10	161.10
PV5	(\$mm)	127.60	181.80
PV0	(\$mm)	273.30	273.30

We consider the PV5 on the adjusted basis (\$128 million rising to \$182 million in five years) to be a reasonable indication of the current market value of Chile Colorado. Note this does not include any of the potential elsewhere at Peñasquito, possible extensions to Chile Colorado, or higher metal prices. Nor does it include the impact of Dense Media Separation that has the potential to further reduce capital and operating costs or increase production.

Conclusion

The M3 scoping study confirms the economic viability of Chile Colorado. The report maps out additional work prior to completion of a full feasibility study that may well enhance the economics. We project the rate of return to equity after taxation and financing at 25.4% on the M3 Base Case, or 31.4% on the Adjusted Case.

RESOURCE EXTENSION

Western conducted a wide-spread shallow drill program over an area approximately 7.5 miles by 2 miles covering nine targets, including six that warrant further drilling: Peñasco West, El Sotol, La Palma, Colorado Sur, Cedros, and “99 Target”. Further core and reverse circulation drilling is already underway.

Peñasco West

Peñasco West is located on the west side of the Outcrop Breccia – the actual outcrop covers an area of approximately 130 feet square, although the breccia itself is about 3,000 feet in diameter. Kennecott drilled two holes beneath the outcrop that cut thick intervals of low grade gold-silver mineralization.

Western drilled five shallow holes, all of which intersected mineralization. S-09, collared 164 feet west of the outcrop, intersected oxidized breccia from 30 feet to 105 feet and a felsic quartz porphyry intrusive from 105 feet to the bottom of the hole at approximately 330 feet – both are altered and mineralized. The oxide section includes a 20-foot intersection, starting at 120 feet, grading 0.054 oz/st gold and 3.3 oz/st silver. The sulfides are open to depth with the bottom 20 feet running 0.125 oz/st gold and 10.4 oz/st silver. Western is deepening the hole with core drilling.

This area has the potential to develop into a high grade gold-silver project.

El Sotol

The El Sotol fault, located 1.5 miles northwest of Chile Colorado, comprises a wide zone of alteration that was identified by Kennecott’s shallow rotary air blast program. S-15 intersected a thick zone of both oxide and sulfide mineralization and bottomed in mineralization. The results from S-15 tie closely with previous holes drilled 800 to 1,200 feet to the southeast.

La Palma

La Palma, which is located to the north of Chile Colorado and east of Outcrop, was discovered in the previous round of drilling. Four holes drilled north of La Palma tested discrete geochemical anomalies for potential high grade structures similar to the intercept in the discovery hole WC-63. Hole S-12 drilled to the northwest of WC-63 intersected low grade oxide mineralization. Other holes drilled to the north and northeast of the WC-63 did not contain significant values.

Western plans additional shallow drilling to further define the scope of La Palma before recommencing core drilling.

Colorado Sur

Colorado Sur is located approximately 2,500 feet southwest of Chile Colorado. The shallow drilling intersected two zones of Chile Colorado-style mineralization. Western Silver intends to drill a series of shallow holes to define the size of the target and identify locations for deeper core drilling.

Cedros

Cedros is the first significant step out from the Chile Colorado/Azul/Outcrop area that has been the focus of activity so far. Four holes were drilled south of the village of Cedros, located about six miles west of Chile Colorado, each cutting thick intervals of a bedded breccia containing abundant quartz-feldspar intrusive material. Western is conducting a ground magnetics survey to define two potential Azul/Outcrop-style breccia targets for additional drilling.

99 Anomaly

The 99 Anomaly, located 1,000 feet southeast of Chile Colorado, was identified by Kennecott's rotary air blast program as a silver geochemical anomaly. Hole S-03 intersected 150 feet of Chile Colorado-style hydrothermal alteration with weak, irregular zinc-lead veinlets. Western is planning a series of reverse circulation holes to test the target and identify locations for deeper core drilling.

Current Plans

Western Silver is continuing an aggressive exploration program with one reverse circulation and one diamond core rig. The immediate focus is:

- Grid drilling Peñasco West adjacent to S-9.
- Deepening and offsetting S-15 at El Sotol.
- Core drilling La Palma to define the extent of high-grade mineralization.
- Additional drilling at Colorado Sur, Cedros and Anomaly 99.

CONCLUSION

Our May 20, 2003 Information Memorandum concluded that, "work to-date has established Chile Colorado as one of the world's largest silver deposits." The independent economic scoping study confirms and enhances the economic viability of that deposit. Chile Colorado remains open to expansion, which could improve the economics still further.

The shallow drilling program supports our belief that Peñasquito is developing into a major silver-gold district. As we stated in May, "[w]e believe that Western has better prospects to more than double its reserves/resources than any of its peer group and all of them may benefit from rising silver prices over the next several years."

Previous reports can be downloaded at:

July 2002 initial report: www.proteuscapital.com/Company Reports/Western_Copper/Proteus_WTC_InfoMemo_July02.pdf

October 2002 update: www.proteuscapital.com/Company Reports/Western_Copper/Proteus_WTC_Update_Oct02.pdf

January 2003 update: www.proteuscapital.com/Company Reports/Western_Copper/WTC_Proteus_Update_Jan03.pdf

February 2003 update: www.proteuscapital.com/Company Reports/Western_Copper/WTC_Proteus_Update_Feb03.pdf

May 2003 full report: www.proteuscapital.com/Company Reports/Western_Silver/WTZ_Proteus_May03.pdf