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**U.S. SILVER CORPORATION**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE PERIOD ENDED DECEMBER 31, 2006**

**DATED APRIL 30, 2007**

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**Disclosure Regarding Forward-Looking Statements**

This Management Discussion and Analysis contains forward-looking statements that include risks and uncertainties. Some factors that could cause actual results to differ materially from those indicated in such forward-looking statements include changes in the prevailing price of resources, commodities and unforeseen difficulties in operations, which would affect future revenue and costs of production. Other factors that could affect actual results are uncertainties pertaining to government regulations, both domestic as well as foreign, and the changes within the capital markets (see Item 10 below – Risk Factors). Other risks may be detailed from time to time in U.S. Silver Corporation’s public filings which are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

U.S. Silver Corporation  
Management Discussion and Analysis  
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*Unless otherwise indicated, in this Management Analysis and Discussion all reference to “dollar” or the use of the symbol “\$” are to the United States of America dollar and all references to “CA dollars” or “CA\$” are to the Canadian dollar.*

## **Management's Discussion and Analysis**

In this report management of U.S. Silver Corporation presents operating highlights from the past year as well as comments on plans for the future. The financial information is presented in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") which are also used in the presentation of financial statements for the fiscal period ended December 31, 2006. This report should be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2006 and the accompanying notes. The data on production is given in Imperial units which are used widely in the United States. Further information on U.S. Silver Corporation can be obtained from the website of SEDAR ([www.sedar.com](http://www.sedar.com)).

*The following text contains forward-looking information. Therefore, please read carefully the "Disclosure Regarding Forward-Looking Statements" on the cover page of this report.*

### **ITEM 1 - Overview**

U.S. Silver Corporation (the "Company" or "U.S. Silver") is principally engaged in the exploration, development and operation of silver mining properties in Northern Idaho. The Company is listed on the TSX Venture Exchange trading under the symbol "USA". The Company undertakes its business through two Delaware corporations, United States Silver, Inc. ("United States Silver") which was incorporated on April 7, 2006 and is wholly-owned by U.S. Silver, and U.S. Silver-Idaho, Inc. (formerly "Coeur Silver Valley, Inc.") which was incorporated in 1994, and is wholly-owned by United States Silver. On June 1, 2006, United States Silver purchased 100% of the outstanding shares of Coeur Silver Valley, Inc. (now called U.S. Silver-Idaho, Inc. or "USI") from Coeur d'Alene Mines Corporation. The primary assets of USI are the operating Galena Mine and the nearby Coeur Mine (which is on operating standby) in the Coeur d'Alene Mining District in Northern Idaho. These mines have a long mining history having a combined production of over 210 million ounces of silver and associated by-product metals of copper and lead over a modern production history of more than fifty years.

U.S. Silver went public on the TSX Venture Exchange on December 28, 2006 by way of a reverse takeover of a Capital Pool Company named Chrysalis Capital III Corporation ("Chrysalis") and began trading January 2, 2007. Chrysalis was incorporated on March 23, 2006 as an Ontario corporation. Subsequent to the reverse takeover, the name of Chrysalis was changed to U.S. Silver Corporation on February 28, 2007 at a special meeting of the shareholders of the Company. During 2006 the Company successfully raised approximately \$28 million in two financings. The first \$21 million was raised on June 1, 2006, and proceeds were used to purchase USI and for working capital. An additional \$7 million was raised in early December 2006, prior to the completion of the reverse takeover with Chrysalis. These proceeds were used for ongoing repair, development, and exploration. At December 31, 2006 year end the Company had cash and equivalents of approximately \$5.5 million.

The Company's primary operating objective is to return the Galena Mine to its optimal production level of 3.5 to 4.0 million ounces of silver per year along with associated by-product lead and copper, at cash operating costs in line with long term historical levels. A secondary operating objective is to undertake additional exploration and development in the Galena Mine to return reserves to historical norms of approximately five years of production. To reach this objective in part, the Company expects to drill over 80,000 feet of exploratory drilling and undertake over 10,000 feet of development drifting during 2007. A tertiary operating objective is to explore for additional mineral resources in the extensive North Idaho land package the Company now controls, and to make additional opportunistic acquisitions of mining properties, primarily within the Coeur d'Alene Mining District. Success in this exploration may lead to the possible reopening of the Coeur Mine which is currently on standby.

The Company's strategy over the next five years is to become a profitable, intermediate-sized North American mining company producing primary silver from several locations.

## **ITEM 2 - Selected Financial Information**

	<b>December 31, 2006</b>
Total net income (loss)	\$ (6,319,818)
Net income (loss) per common share basic and diluted	\$ (0.07)
Total assets	\$ 29,923,124
Total liabilities	\$ 9,734,197
Cash and cash equivalents	\$ 5,474,991
Marketable securities	\$ 965,211
Mineral properties and deferred exploration costs	\$ 14,761,207

### Analysis of Fiscal 2006

The Company recorded revenues of \$6,087,909 during the period of June 1, 2006 (the date the Company acquired USI) through December 31, 2006. The revenues were substantially lower than those anticipated to be achieved because of the intentional production reductions undertaken upon the acquisition of the mining properties. These reductions were taken to shift mine labour, equipment and hoisting activities to new reserve development.

At December 31, 2006 total assets of \$29,923,124 consisted primarily of mining properties of \$7,749,014, mineral reserves of \$7,515,895, cash of \$5,474,991, accounts and notes receivable of \$1,085,113, marketable securities of \$965,211, and metal and supply inventories of \$1,179,896 and \$1,423,966, respectively. The Company expects that assets in the form of mineral reserves and property will grow in 2007 as the Company continues its reserve definition and development activities.

At December 31, 2006 current liabilities were \$1,783,482. Long term liabilities of \$7,950,715 consisted primarily of a mine reclamation provision of \$6,743,394 and a post-retirement obligations of \$942,772. The Company does not expect either of these long-term liabilities to be reduced significantly in 2007. The reclamation provision is related to long-term shutdown costs which the Company does not anticipate will be incurred for the foreseeable future.

Revenue declined significantly after June 1, 2006 as a result of a substantially reduced output implemented by current management as part of a business strategy to redesign and improve the mining practices which were ongoing at the time of the acquisition, and to rebuild the reserves. Prior to June 1, 2006 the mine was operated at approximately 600 -700 tons per day but reserves had been depleted by the previous operator due to several years of generally low metal prices which did not justify investment in development of new reserves. After U.S. Silver acquired the property, and with the improved metal price environment, management substantially reduced output to approximately 200 tons per day to focus the workforce on redeveloping new reserves in the mine.

After the development work was completed, the output has been slowly increased such that the mine is currently (at the date of this report) operating at between 400-500 tons per day with management expecting production of 600-700 tons of silver-copper ore per day to be achieved during the 3rd quarter 2007.

In addition, the Company will start mining lead-silver ore later this year. The lead-silver ore bodies are newly discovered mineral systems found through an intensive exploration program which also began upon the acquisition. This ore will be hoisted and milled at the nearby Coeur Mine milling facilities which are about a mile and a half west of the Galena Mine facilities. Management expects lead-silver production to reach approximately 300-400 tons a day by year end 2007.

Company management have also focused on improving grade control at the Galena Mine. The long-term historical silver grades for the Galena Mine silver-copper ores were over 22 ounces per ton. These grades had declined significantly in the several years prior to mid 2006. This was mostly a result of excessive dilution caused by less than optimal mining practices and depletion of high quality reserves. Through a series of initiatives undertaken by the current management, the mined grades have now reached approximately the long-term historic grades. Management believes the results of all of these initiatives will have a positive impact on the Company's financial position during the second half of 2007.

#### Reserve and Resource Estimates

The tables below summarize the reserve and resource information as at November, 2006. The November, 2006 estimate was initially made by Coeur d'Alene Mines Corporation in the Coeur d'Alene Mines – Galena Mine Technical Report – January 2006 by Donald J. Birak (the “Birak Technical Report”). At such time, Dr. Birak was an employee of Coeur d'Alene Mines Corporation. The Company subsequently retained Chlumsky, Ambrust and Meyer, LLC (“CAM”) of Lakewood, Colorado to review the Coeur d'Alene reserve estimate. CAM submitted a report to the Company dated November 17, 2006 and entitled “Galena Mine Project, Idaho, U.S.A.” (the “CAM Technical Report”), prepared in accordance with National Instrument 43-101 of the Canadian Securities Administrators (“NI 43-101”), which confirmed the Coeur d'Alene technical report to within a small margin. Fred Barnard, Ph.D., Professional Geologist, who is the principal author of the CAM Technical Report, is a “qualified person” and an “independent person” each within the meaning of NI 43-101. For certain aspects of the data tested and analyzed by CAM for the CAM Technical Report, CAM relied upon portions of the Birak Technical Report.

#### November 2006 Estimate

<b>Copper-Silver</b>	Tons	Ag Grade (oz/t)	% Cu	Contained Ounces
Proven & Probable	444,003	24.50	0.86%	10,878,797
Measured & Indicated	1,170,046	15.87	0.65%	14,741,366
Inferred	558,379	16.90	0.73%	9,435,387
<b>Total Reserves &amp; Resources</b>	<b>2,172,428</b>			<b>35,055,550</b>

<b>Lead-Silver</b>	Tons	Ag Grade (oz/t)	% Pb	Contained Ounces
Measured & Indicated	316,548	9.13	10.30%	2,889,962
Inferred	541,075	5.01	5.70%	2,713,925
<b>Total Resources</b>	<b>857,623</b>			<b>5,603,887</b>

Subsequent to the end of the reporting period, the Company released a new internal estimate of reserves and resources which will be followed by a new NI 43-101 Technical Report.

**ITEM 3 - Results of Operations**Analysis of Fiscal 2006

The Company recorded revenues of \$6,087,909 for the period ended December 31, 2006. Revenues for the period were lower than previously planned as the Company decided to redeploy its resources to increase the reserves of its mine.

Operating expenses for the period ended December 31, 2006 were \$9,793,213, which consisted of \$9,153,460 in mining costs, \$493,893 in general and administrative, selling and marketing expenditures of \$145,861. Mining costs were lower than the previous year primarily as a result of a planned reduction in the production rate at the Galena Mine during a period of redevelopment of ore reserves. Additionally, improvements in productivity and grade control were brought upon by alterations of the mining methodology which reduced costs.

The operating loss for the period ended was \$3,705,304.

Amortization and depletion expense for the period was \$1,493,917.

Financing expense for the period was \$1,159,774, which included \$548,041 in non-cash charge relating to the issuance of securities as disclosed in the financial statements.

The net loss for the period was \$6,319,818. Based on a weighted average common shares outstanding of 112,865,316, the loss per share was \$0.07.

**ITEM 4 - Summary of Quarterly Results**Quarterly Summary

The following table sets forth for the three month period ended December 31, 2006 relating to the Company's revenue, net loss and loss per common share as prepared under generally accepted accounting principles in Canada.

Three months ended	Revenues	Net loss	Loss/share: basic and diluted
December 31, 2006 (unaudited)	\$2,616,401	\$1,938,483	\$0.02

Quarterly Analysis

During the quarter ended December 31, 2006, U.S. Silver recorded an operating loss of \$1,960,625 as it continued to invest to increase its reserves. Production costs for the quarterly period ending December 31, 2006 were \$1,498,659.

The Company anticipates the first quarter of 2007 will be very similar in operating results to the fourth quarter of 2006. The Company expects marginal operating improvements in the second quarter of 2007,

and substantial improvements in the remaining two quarters of the fiscal year as production increases continue and lead-silver ore production begins in the last quarter of the year.

## **ITEM 5 - Liquidity**

As of December 31, 2006, the Company's cash reserve was approximately \$5.5 million and working capital was approximately \$8.0 million. Current liabilities as of the year end were \$1,783,482. The Company requires about \$2 million in working capital at current production rates, which it currently exceeds. As production rates increase to near full production, working capital requirements are likely to rise to approximately \$2,500,000, which is also below the Company's current working capital levels.

In the short term, management believes it has sufficient cash flow to fund its operations, other than extraordinary capital projects and acquisitions which are discussed further in Item 6 – Capital Resources. In the longer term, as the Galena Mine returns to full production and additional production is undertaken from the lead-silver ore bodies, the Company believes that cash flows will be sufficient to not only fund ongoing operations, but also to pay for a significant portion, if not all, of development and exploration projects.

The Company is currently in the process of raising capital through an early exercise of warrants from its investors which is described more fully below (see Item 6) and in the financial notes (see Note 17). To date the warrant exercise program has successfully raised over \$9 million, which provides the Company with sufficient funds to continue its capital improvements at the properties, as well as fully fund its exploration and development programs which are planned in the future. All of the Company's leased mineral properties are currently in good standing with work planned on those that require it.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company is not exposed to significant interest, currency, or credit risk arising from financial instruments. The majority of the funds of the Company are held in interest bearing accounts at banks in Canada and the United States.

## **ITEM 6 - Capital Resources**

The Company currently has sufficient working capital to fund its operations. The Company's cash flow is dependent on delivery of its ore concentrate to its smelters in Canada. A majority of the revenues are received on the twenty-fifth day of the month following the month of delivery of the concentrate, with a following settling payment received generally within forty five days of the initial payment. The Company has not had any significant receivables problems collecting its payments from its smelter. However, this cash flow is dependent on continued mine production which is subject to interruption for a multitude of reasons (see Item 10 - Risk Factors) including fluctuations in metal prices.

Over the course of the past fiscal year the Company has experienced difficulty obtaining the required skilled labour force it needs to produce ore at the levels it desires. This had a negative impact on the Company's ability to achieve and maintain its working capital liquidity. The Company has experienced some improvement of this situation in the first quarter of 2007 and is attempting to make further progress through improved retention, a more aggressive recruitment campaign, as well as an intensive training program designed to teach mining skills to newly hired persons.

The Company is planning significant capital expenditures over fiscal year 2007 and into fiscal year 2008. These include the repair of the Galena Shaft estimated at about \$2 million, repair of the 3700 level between the Coeur Mine and the Galena Mine estimated at about \$500,000, rehabilitation of the Coeur Mill to process lead-silver ore of about \$250,000, and other projects totalling an additional \$1,000,000. Also, the Company is continuing with an aggressive exploration and development program at the Galena Mine totalling \$3 million and exploration on surrounding company owned property of \$500,000. Finally, expenditures are required on some of its surrounding leased properties to fulfill lease obligations which will require a maximum of \$200,000. The majority of these expenditures will occur in the second and third quarters of 2007.

To execute these programs and to meet the timelines planned by the Company, U.S. Silver has hired an outside mining contractor for the Galena Shaft repair and 3700 level repair. The Company also routinely uses outside drilling contractors to undertake its diamond drilling exploration programs at the Galena Mine, and will use outside contractors for work done on other exploratory properties. The cost of mining and drilling contractors is accelerating as the demand for these services continues to outpace the supply. As a result of these accelerating costs and the difficulty of finding skilled personnel, the Company may have to curtail some of its development and exploration plans in the future.

The Company is also planning several strategic acquisitions of additional mining properties in the Coeur d'Alene District of North Idaho as well as evaluating opportunities in other geographic locations. It is expected that these acquisitions will be funded, if they occur, with cash raised from outside investors through equity placements, or through direct issuances of the Company stock to the sellers.

As cash flows from the mine are not sufficient to fund all of these capital expenditures, possible acquisitions, and other discretionary programs, the Company will seek and utilize outside capital for these projects. The timing and ability to fulfill these objectives will depend on the liquidity of the financial markets as well as the willingness of investors to finance mining companies.

During the fiscal year ended December 31, 2006, U.S. Silver had the following capital transactions (all amounts are based on number of shares of United States Silver prior to giving effect to the reverse takeover to which the Company acquired all of the outstanding securities of United States Silver in consideration of three and one-tenth (3.1) common shares of the Company for each one (1) share of United States Silver common stock outstanding immediately prior to the reverse takeover):

1. In its initial capitalization in April 2006, the Company issued 8,635,000 shares of common stock for a total of \$9,050 in cash, \$60,000 in investments, and \$17,300 of consulting expense.
2. During the period ended June 30, 2006, the Company issued 25,991,350 units to investors at a price of \$0.80 per unit in a private placement. Each unit consisted of one share of common stock and one-half of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase, at a price of \$1.10 (now equivalent to an exercise price of \$0.355 per common share of the Company) one common share for a period of two years following a liquidity event (which occurred on December 29, 2006). The sales of these units generated cash proceeds of \$20,733,080 less a subscription receivable of \$55,200, minus fees of \$1,903,990. During this same period the Company issued 825,000 shares of its common stock as loan consideration valued at \$412,500. The Company also issued 567,885 shares of its common stock to for payment of debt and accrued interest in the amount of \$408,877.
3. During the period ended September 30, 2006, the Company issued 282,586 shares of common stock for convertible debt and interest in the amount of \$203,463, and cash

receipts of \$55,200 for a subscription receivable the was previously recorded in prior period.

4. During the period ended December 31, 2006, the Company issued 6,245,000 shares of common stock for convertible debt in the amount of \$6,869,500.

Subsequent to year end, the Company received stock exchange approval to offer an incentive to its shareholders for an early exercise of outstanding warrants. To date the warrant exercise program has successfully raised over \$9 million, could provide in excess of an additional \$5 million for an aggregate of over \$14 million of new capital into the Company which will be used for capital projects as well as added working capital.

**The following table sets out U.S. Silver's contractual obligations:**

<b>Contractual Obligations</b> <small>(expressed in U.S. dollars)</small>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
<b>Mining Leases<sup>1</sup></b>	\$2,177,560	\$78,235	\$13,860	\$9,240	\$2,076,225
<b>Mine Reclamation<sup>2</sup></b>	\$10,637,100	0	0	\$2,877,700	\$7,759,400
<b>Pension, Medical Benefits &amp; Defined Contribution Plans<sup>3</sup></b>	\$3,366,508	\$720,000	\$2,646,508	0	0
<b>Total Contractual Obligations</b>	\$16,181,168	\$798,235	\$2,660,368		\$9,835,625

<sup>1</sup> All mining leases can be cancelled upon proper notice periods by the Company

<sup>2</sup> Mine Reclamation obligations are incurred at or near mine shutdown. The above estimate is based upon reclamation beginning in 2011. This obligation may be further extended as the estimated life of the mine increases.

<sup>3</sup> Certain of these estimates are dependent on market conditions and assumed rates of return on assets. Therefore, the estimated obligation of the Company may vary over time.

## **ITEM 7 - Off-Balance Sheet Arrangement**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

## **ITEM 8 - Transactions With Related Parties**

During the period ended December 31, 2006, Golden Eagle Mining Company, Inc. borrowed \$90,000 from the Company. This unsecured note bears interest at 8% and is due on demand. Additionally, the Company paid on behalf of Golden Eagle Mining invoices of \$85,055. The total due to the Company by Golden Eagle Mining is \$179,915, which includes accrued interest. Golden Eagle Mining and U.S. Silver Corporation are related by a common officer and director.

These transactions are in the normal course of operations and have been valued at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## **ITEM 9 - Proposed Transactions**

The Company is not a party to any proposed transaction that may have an effect on the financial condition, results of operations or cash flows or proposed asset or business acquisition or disposition which management believes would require the intervention or approval of the Board of Directors of the Company.

## **ITEM 10 - Risk Factors**

### Metal Prices

The market price of silver and other metals are volatile. If U.S. Silver experiences low silver, copper and lead prices it may result in decreased revenues and decreased net income, or losses, and may negatively affect U.S. Silver's business. The majority of U.S. Silver's revenue is derived from the sale of silver ore concentrate and by-products of copper and in the near future, lead. Fluctuations in the prices of these commodities represent one of the most significant factors affecting U.S. Silver's results of operations and profitability. The price of silver and other metals are affected by numerous factors beyond U.S. Silver's control, including:

- levels of supply and demand;
- global or regional consumptive patterns;
- sales by government holders;
- metal stock levels maintained by producers and others;
- increased production due to new mine developments;
- and improved mining and production methods;
- speculative trading activities;
- inventory carrying costs;
- availability and costs of metal substitutes;
- international economic and political conditions;

- interest rates;
- currency values; and
- inflation

Declining market prices for silver and other metals could have a material adverse effect on U.S. Silver's results of operations and profitability.

The monthly average market price for silver for calendar year 2005 was \$8.83 per ounce and was \$12.62 for 2006. The price of silver may decline in the future. If the price of silver is depressed for a sustained period and net losses continue, U.S. Silver may be forced to suspend some or all of its mining until the price increases, and record asset impairment write-downs. Any lost revenues, continued or increased net losses or asset impairment write downs would adversely affect U.S. Silver's results of operations.

### Ore Reserves and Development

The estimation of ore reserves is imprecise and depends upon subjective factors. Estimated ore reserves may not be realized in actual production. U.S. Silver's operating results may be negatively affected by inaccurate estimates. The ore reserve figures presented in U.S. Silver's financial statements are estimates made by U.S. Silver's technical personnel. Reserve estimates are a function of geological and engineering analyses that require U.S. Silver to make assumptions about production costs and the market price of silver. Reserve estimation is based on available data which may be incomplete, and subject to engineering and geological interpretation, judgment and experience.

Assumptions about silver market prices are subject to great uncertainty as those prices have fluctuated widely in the past. Declines in the market price of silver may render reserves containing relatively lower grades of ore uneconomic to exploit, and the Company may be required to reduce reserve estimates, discontinue development or mining at one or more of U.S. Silver's properties, or write down assets as impaired. Should U.S. Silver encounter mineralization or geologic formations at any of its mines different from those predicted adjustments of reserve estimates may occur which could alter mining plans. Either of these alternatives may adversely affect U.S. Silver's actual production and operating results.

Significant investment risks and operational costs are associated with U.S. Silver's exploration, development and mining activities. These risks and costs may result in lower economic returns and may have a material adverse effect on U.S. Silver's business.

U.S. Silver's ability to sustain or increase present production levels depends in part on successful exploration and development of new ore bodies and/or expansion of existing mining operations. Mineral exploration, particularly for silver, involves many risks and is frequently unproductive. If mineralization is discovered, it may take a number of years until production is possible, during which time the economic viability of the project may change. Substantial expenditures are required to establish ore reserves, extract metals from ores and, in the case of new properties, to construct mining and processing facilities and infrastructure at any site chosen for mining. The economic feasibility of any development project is based upon, among other things, estimates of the size and grade of ore reserves, proximity to infrastructures and other resources (such as water and power), metallurgical recoveries, production rates and capital and operating costs of such development projects, and metals prices. Development projects are also subject to the completion of positive feasibility studies, issuance of necessary permits and receipt of adequate financing, which may be difficult to obtain on terms reasonably acceptable to U.S. Silver.

U.S. Silver's production of silver may decline due to a myriad of unpredictable operating problems, weather related problems, or equipment failures, reducing revenues and having a material adverse effect on its operating results.

U.S. Silver's future silver production may decline as a result of an exhaustion of reserves and possible closure of work areas. It is U.S. Silver's business strategy to conduct silver exploratory activities at U.S. Silver's existing mining operations as well as at new exploratory projects, and to acquire silver mining properties and businesses or reserves that possess mineable ore reserves and are expected to become operational in the near future. However, the Company can provide no assurance that its future silver production will not decline. Accordingly, U.S. Silver's revenues from the sale of silver may decline, which may have a material adverse effect on its results of operations.

#### General Risks of Mining Operations

There are significant hazards associated with U.S. Silver's mining activities, not all of which are fully covered by insurance. To the extent U.S. Silver must pay the costs associated with such risks, U.S. Silver's business may be negatively affected.

The mining business is subject to risks and hazards, including environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, flooding, earthquakes and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, reduced production and delays in mining, asset write downs, monetary losses and possible legal liability. Although U.S. Silver maintains insurance in an amount that U.S. Silver considers to be adequate, liabilities might exceed policy limits, in which event U.S. Silver could incur significant costs that could have a material adverse effect on U.S. Silver's results of operation. Insurance fully covering many environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to us or to other companies in the industry. The realization of any significant liabilities in connection with U.S. Silver's mining activities as described above could negatively affect U.S. Silver's results of operations.

#### Government Regulation and Environmental Compliance

U.S. Silver is subject to significant governmental regulations, and their related costs and delays may have a material adverse effect on U.S. Silver's business.

U.S. Silver's mining activities are subject to extensive federal, state, local and foreign laws and regulations governing environmental protection, natural resources, prospecting, development, production, post-closure reclamation, taxes, labour standards and occupational health and safety laws and regulations including mine safety, toxic substances and other matters related to U.S. Silver's business. Although these laws and regulations have never required U.S. Silver to close any mine, the costs associated with compliance with such laws and regulations are substantial. Possible future laws and regulations, or more restrictive interpretations of current laws and regulations by governmental authorities could cause additional expense, capital expenditures, restrictions on or suspensions of U.S. Silver's operations and delays in the development of U.S. Silver's properties. Moreover, governmental authorities and private parties may bring lawsuits based upon damage to property and injury to persons resulting from the environmental, health and safety impacts of U.S. Silver's past and current operations, which could lead to the imposition of substantial fines, penalties and other civil and criminal sanctions. Substantial costs and liabilities, including for restoring the environment after the closure of mines, are inherent in U.S. Silver's operations. Although U.S. Silver believes it is in substantial compliance with applicable laws and regulations, U.S. Silver can give no assurance that any such law, regulation, enforcement or private claim will not have a material adverse effect on U.S. Silver's business, financial condition or results of operations.

Some of U.S. Silver's mining wastes are currently exempt to a limited extent from the extensive set of federal Environmental Protection Agency ("EPA") regulations governing hazardous waste under the Resource Conservation and Recovery Act ("RCRA"). If the EPA designates these wastes as hazardous under RCRA, U.S. Silver would be required to expend additional amounts on the handling of such wastes and to make significant expenditures to construct hazardous waste disposal facilities. In addition, if any of these wastes causes contamination in or damage to the environment at a mining facility, such facility may be designated as a "Superfund" site under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). Under CERCLA, any owner or operator of a Superfund site since the time of its contamination may be held liable and may be forced to undertake extensive remedial cleanup action or to pay for the government's cleanup efforts. Additional regulations or requirements are also imposed upon U.S. Silver's tailings and waste disposal areas in Idaho under the federal Clean Water Act ("CWA"). Airborne emissions are subject to controls under air pollution statutes implementing the Clean Air Act in Idaho. Compliance with CERCLA, the CWA and state environmental laws could entail significant costs, which could have a material adverse effect on U.S. Silver's operations.

In the context of environmental permits, including the approval of reclamation plans, U.S. Silver must comply with standards and regulations which entail significant costs and can entail significant delays. Such costs and delays could have an adverse impact on U.S. Silver's operations.

In the ordinary course of business, U.S. Silver is required to obtain or renew governmental permits for the operation and expansion of existing mining operations or for the development, construction and commencement of new mining operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions which often involves public hearings and costly undertakings. The duration and success of U.S. Silver's efforts to obtain or renew permits are contingent upon many variables not within our control including the interpretation of applicable requirements implemented by the permitting authority. U.S. Silver may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what U.S. Silver believes it can recover from the property once in production. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could have a material adverse effect on U.S. Silver's operations and profitability.

#### Employee Recruitment, Retention, and Labour Relations

Recruiting and retaining qualified personnel is critical to U.S. Silver's success. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As U.S. Silver's business activity grows, U.S. Silver will require additional key executive, financial, operational, administrative and mining personnel. Although U.S. Silver believes that it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If U.S. Silver is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have a material adverse effect on U.S. Silver's results of operations and profitability.

U.S. Silver could experience labour disputes, work stoppages or other disruptions in production that could adversely affect its operations. The current collective bargaining agreement with the Galena workforce expired on September 1, 2006 and was renewed by amendment dated September 1, 2006. The current labour contract is due for renegotiation in the third quarter of 2010.

### Mining Property and Title Risks

Third parties may dispute U.S. Silver's unpatented mining claims, which could result in losses affecting U.S. Silver's business.

The validity of unpatented mining claims, which constitute a significant portion of U.S. Silver's property holdings in Idaho, is often uncertain and may be contested. Although U.S. Silver has attempted to acquire satisfactory title to undeveloped properties, U.S. Silver, in accordance with mining industry practice, do not generally obtain title opinions until a decision is made to develop a property. As a result, some titles, particularly titles to undeveloped properties, may be defective. Defective title to any of U.S. Silver's mining claims could result in litigation, insurance claims, and potential losses affecting U.S. Silver's business.

The validity of mining or exploration titles or claims, which constitute most of U.S. Silver's property holdings, can be uncertain and may be contested. U.S. Silver has used its reasonable commercial efforts to investigate its title or claims to its various properties and, to the best of its knowledge, except where U.S. Silver has otherwise noted, those titles or claims are in good standing. However no assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining titles or claims and that such exploration and mining titles or claims will not be challenged or impugned by third parties.

U.S. Silver has not conducted surveys of all the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. U.S. Silver's properties may be subject to prior unregistered liens, agreements or transfers, native land claims or undetected title defects.

### Competition

Competition in the mining sector is intense. Mines have limited lives and as a result, U.S. Silver may in the future seek to replace and expand its reserves through the acquisition of new properties. In addition, there is a limited supply of desirable mineral lands available in areas where U.S. Silver would consider conducting exploration and/or production activities. Because U.S. Silver faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does, U.S. Silver may be unable to acquire attractive new mining properties on terms that it considers acceptable. Competition in the mining business for limited sources of capital could adversely affect U.S. Silver's ability to acquire and develop suitable silver mines, silver developmental projects, silver producing companies or properties having significant exploration potential. As a result, there can be no assurance that U.S. Silver's acquisition and exploration plans will yield new mineral reserves to replace or expand current mineral reserves.

### Foreign Exchange Rate Fluctuations

Fluctuations in currency exchange rates, particularly the weakening or strengthening of the U.S. dollar (being the currency in which U.S. Silver's products are sold) against the Canadian dollar (used to pay certain corporate costs), could have a significant effect on U.S. Silver's results of operations. U.S. Silver may engage in hedging activities in connection with foreign currency requirements in order to minimize the effect of strengthening of foreign currencies on U.S. Silver's operating results.

Financing Risks

U.S. Silver has limited financial resources, has limited sources of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under applicable agreements. There can be no assurances that the Company will be able to obtain adequate funding in the future or that the terms of such financing will be favourable. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects and the possible loss of such properties. The Company has no history of earnings, has never paid a dividend, and does not anticipate paying dividends in the near future.

**ITEM 11 - Changes in Accounting Policies**

The Company would like to direct readers to its Audited Financial Statements, which are incorporated by reference and can be found on the regulator's web site at [www.sedar.com](http://www.sedar.com).

**ITEM 12 - Financial Instruments and Other Instruments**

The Company is not a party to any financial instrument, as the term is defined in National Instrument 51-102F1 paragraph 1.14.

**ITEM 13 - Capital Structure**

The Company is authorized to issue an unlimited number of common shares, where each common share provides the holder with one vote. As at December 31, 2006, there were 141,895,157 common shares issued and outstanding. As at the date of this Management Discussion and Analysis, there were 170,885,217 common shares issued and outstanding, inclusive of 28,470,060 common shares issued under the warrant exercise program.

In addition, the Company shall issue common shares upon the conversion, exercise or exchange of options and warrants which are issued.

The following table summarizes the stock options which are issued and outstanding as of December 31, 2006:

	Number	Weighted Average Exercise Price
Balance, April 7, 2006	Nil	N/A
Granted	11,651,500	\$0.38
Exercised	Nil	N/A
Cancelled	Nil	N/A
Balance, December 31, 2006	11,651,500	\$0.38

The following table summarizes the warrants which are issued and outstanding as of December 31, 2006:

<u>Number of Warrants</u>	<u>Exercise Price (CA\$)</u>	<u>Issuance Date</u>	<u>Expiry Date</u>
600,000	\$ 0.20	June, 2006	June 27, 2008
2,325,000	0.40	May , 2006	May 11, 2008
40,286,593	0.40	June , 2006	December 29, 2008
6,888,308	0.29	June , 2006	December 29, 2008
4,018,970	0.40	June , 2006	December 29, 2008
1,317,740	0.40	December, 2006	December 29, 2008

## **ITEM 14 - Other MD&A Requirements**

The Company is not required to file an Annual Information Form. Reference is made to the Corporation's Filing Statement dated December 18, 2006, prepared in accordance with the requirements of the TSX Venture Exchange in connection with the Company's Qualifying Transaction reverse takeover, has been filed with the TSX Venture Exchange and applicable Canadian securities regulators on SEDAR, and is available to be publicly accessed at [www.sedar.com](http://www.sedar.com).

## **ITEM 15 - Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As of April 30, 2007, the Company's management, with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and has concluded that such controls and procedures are effective.

In connection with the preparation of management discussion and analysis, our management, including our CEO and CFO, have evaluated the effectiveness of the disclosure controls and procedures as they related to the preparation of the annual financial information for the fiscal period ended December 31, 2006. In connection with the preparation of those financial statements, we recorded a small number of adjusting entries. As a result, we have concluded that our disclosure controls and procedures were effective as of December 31, 2006. Although we have concluded that our internal control process is effective, in the course of ordinary business we do plan to make changes to our internal control process and also in our disclosure controls and procedures. The following are the changes we plan to make in the near future:

- We will expand our systems and control procedures surrounding financial reporting by developing written accounting procedures and instituting monthly reviews of the financial statements by the members of the Audit Committee, CEO and President.
- Our Audit Committee and management will enhance the oversight from the Audit Committee and management by approving and overseeing the application of complex accounting policies.

- We have hired an experienced Chief Financial Officer who will begin as CFO on May 1, 2007 and who will reside at our Toronto, Ontario corporate head office location. The new CFO is conversant with applicable regulatory requirements and Canadian and US GAAP reporting requirements and will provide an additional level of review required of reporting documents. Additionally, it is anticipated that the bookkeeping functions of the parent company will be consolidated to the Toronto office.