

# **U.S. SILVER CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Of Results of Operations and Financial Condition**

**For the Three and Nine Months Ended September 30, 2009**

**Dated November 24, 2009**

#### **Disclosure Regarding Forward-Looking Statements**

The Management's Discussion and Analysis ("MD&A") 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's Discussion and Analysis  
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*Unless otherwise indicated in this Management Discussion and Analysis, 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. The data on production is given in Imperial units which are used widely in the United States.*

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

In this report the management of U.S. Silver Corporation presents operating highlights for the three and nine months ended September 30, 2009 as well as comments on plans for the future. This report should be read in conjunction with the Company's Unaudited Interim Consolidated Financial Statements for the nine months ended September 30, 2009, including the three months ended September 30, 2009 ("Q309") and the accompanying notes thereto ("FSQ309") which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, the following should be read in conjunction with the 2008 audited consolidated financial statements ("FS2008"), the related Management's Discussion and Analysis and the 2008 Annual Information Form as well as other information relating to U.S. Silver Corporation on file with the Canadian provincial securities regulatory authorities and on SEDAR at [www.sedar.com](http://www.sedar.com). This Management Discussion and Analysis has been prepared as of November 24, 2009.

*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 - Q309 Highlights and Overview**

#### **Highlights**

- Production of 558,071 ounces of silver in Q309, 8% higher than Q308 (518,058 ounces).
- Production of 1,092,864 pounds of lead in Q309, 27% higher than Q308 (858,282 pounds).
- Production of 268,781 pounds of copper in Q309, 15% higher than Q308 (234,545 pounds).
- Cash cost per silver ounce produced of \$13.37 in Q309, 6% higher than Q308 (\$12.67).
- Cash used in operating activities of \$0.4 million in Q309, \$2.6 million less favourable than cash provided by operating activities in Q308 (\$2.2 million).
- Net loss of \$0.3 million (\$0.00 per share) in Q309, \$0.2 million greater than the \$0.1 million net loss in Q308 (\$0.00 per share).
- Comprehensive loss of \$0.3 million in Q309, \$4.4 million more favourable than the \$4.7 comprehensive loss in Q308.
- In July 2009, the Company raised gross proceeds of CA\$4.6 million via the issuance of 35,385,500 units at a price of CA\$0.13 per unit, with each unit comprising one common share and one-half of a common share purchase warrant which can be exercised at \$0.155/share for five years.

Q309 was a disappointing quarter due to lower silver production than expected. Production for the quarter was 558,071 ounces or 42,000 ounces below target. The majority of the deficit occurred in July as seismic events (rock bursts) in a primary mining stope caused a loss of 10 days of production in that stope. This has since been mitigated by installing additional ground support.

An additional contributing factor was a reduction in head-grade compared to that forecast. The reduced head-grade reflects the mix of the mined stopes and is, to a large extent, a timing issue. The resulting cash cost per silver ounce was \$13.37 versus \$11.34 in Q2.

#### **Overview**

U.S. Silver Corporation (the "Company" or "U.S. Silver") is principally engaged in the production, exploration, and development of silver resources in northern Idaho, United States. The Company is listed on the TSX Venture Exchange trading under the symbol "USA" and also trades "over the counter" in the

United States of America on the “Pink Sheets” market under the symbol “USSIF” and in Germany on the Frankfurt Stock Exchange “DB Frankfurt” under the symbol “QE2”. 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 adjoining, but non-operating, Coeur Mine and Caladay Project in the Coeur d’Alene Mining District in northern Idaho. These mines have a long mining history with a cumulative production of over 216 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. 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. The Company also raised funds in two financings in 2007 through an accelerated warrant exercise program ending in May 2007 (approximately \$15 million) and a private placement of shares and share purchase warrants in December 2007 for gross proceeds of approximately \$24.5 million. No significant (i.e. greater than one million dollar) financings occurred in 2008. No financings occurred during the 6 months ended June 30, 2009. At June 30, 2009 the Company had cash and cash equivalents of \$2.1 million.

However, in July 2009 the Company raised gross proceeds of CA\$4,600,115 via the issuance of 35,385,500 Units at a price of CA\$0.13 per unit, with each unit comprising one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of CA\$0.155 per common share until July 16, 2014. In addition, the underwriters received 1,769,275 underwriter warrants, where each warrant entitles the holder to purchase one Unit prior to July 16, 2011 at \$0.16 per unit. The net proceeds are expected to be used for repair (including repair of the Galena shaft), development and exploration. As of November 24, 2009 the Company had cash and cash equivalents totaling \$ 2.6 million.

The Company underwent significant changes in the latter part of 2008 which positively impacted the performance of the Company in the first nine months of 2009. The Company’s primary operating objective continues to be to return the Galena Mine to its optimal production level of 2.5 to 3.5 million ounces of silver (“Ag”) per year along with associated by-product lead and copper, at cash operating costs in line with long-term historical levels, adjusted for inflation. A secondary operating objective is to undertake additional exploration and development in the Galena Mine to maintain reserves at historical norms of approximately five to seven years of production, an objective which is now substantially complete, given the current annual rate of Ag production. To maintain this objective, in part, the Company expects to conduct over 16,000 feet of exploratory drilling and undertake over 8,000 feet of development during 2009, having drilled 71,144 feet in 2007 and 68,365 feet in 2008. During the first nine months of 2009 the Company completed 1,640 feet of short definition drilling and 5,031 feet of exploration drilling for a total of 6,671 feet of diamond drilling.

During the first nine months of 2009 the Company completed of 4,554 feet of underground development, 6,671 feet of exploration drilling, 2,500 feet of drift repair and 190 feet of Galena shaft rehabilitation. Monthly production for the first nine months of 2009 averaged approximately 198,000 ounces of silver, 91,000 pounds of copper and 443,000 pounds of lead.

In late 2008, new Strategic and 2009 Operational Mine Plans were created. Implementation of the plans, beginning in the fourth quarter of 2008 and continuing into the first half of 2009, led to the restructuring and reduction of the Galena mine workforce, the termination of most contract workers, suspension of most capital projects including Galena Shaft repair, and the cessation of most exploration drilling. The Galena shaft repair re-commenced in late July 2009, and the Company expects the repair to be completed in first quarter of 2010. The Company continued to implement and recalibrate the 2009 Mine Plan throughout Q309.

**Operating highlights from the third quarter of 2009 included the following:**

- **Production** in the third quarter included ore from a new stope on the 2400 level and two recently redeveloped stopes on the 3000 level. Production from the 3700 level was negatively impacted by seismic activity in the higher grade 230 stope. On the 4600 level, the seismic activity also impacted the alternate stopes while the 146 stope was in the sand fill mode. On a positive note, a new ore grade vein was developed in the footwall of the 146 east stope. Sand backfill issues which hindered production in Q209 were significantly reduced by adding a third backfill shift and utilizing a sand reclamation system to increase the backfill capacity. Design work continues on a system to recover mill tailings from the Coeur mill for use as mine backfill.
- **Development** on the 2400 level included 569 feet of decline that is being driven to the next mining horizon of the 170 vein complex. New raises were started on the 3700 and 4000 levels. Total raise advance for the quarter was 296 feet. On the 4300 level, preparations for an Alimak raise were nearly completed and crews are expected to begin driving the raise in the fourth quarter of 2009. Development on the 4900 level included 330 feet of track drift to the next mining area on the high-grade 220 vein. Raise development is expected to begin there in the fourth quarter of 2009. On the 5200 level, the first of two raises on the 174 vein was driven 30 feet and the second raise is expected to begin in the fourth quarter of 2009.
- **Rehabilitation** on the 3400 level was completed to the prolific Silver Vein area in the third quarter and exploration began on 9 high-grade intercepts. Rail and drift repair on the 4600 level continued during the third quarter 2009. On the 5200 level, crews completed 1,100 of the 1,800 feet of rehabilitation to the east end of the mine.

**ITEM 2 - Selected Financial Information**

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Net income (loss)	\$ (1,409,905)	\$ (6,441,205)
Comprehensive income (loss)	(14,411,323)	(2,188,247)
Net income (loss) per common share basic and diluted	(0.01)	(0.04)
Comprehensive income (loss) per common share basic and diluted	(0.07)	(0.01)
Total assets	54,933,001	67,683,803
Total liabilities	11,258,929	11,165,002
Cash and cash equivalents	2,655,458	28,540,280
Marketable securities	2,123,684	3,598,520
Mining assets	35,131,508	23,616,962

The Company's 2008 audited consolidated financial statements ("FS2008"), the related 2008 Management's Discussion and Analysis and other information relating to U.S. Silver Corporation is on file with the Canadian provincial securities regulatory authorities and on SEDAR at [www.sedar.com](http://www.sedar.com). Please refer to the aforementioned information sources.

### ITEM 3 - Results of Operations

#### First Nine Months of 2009 Compared to the First Nine Months of 2008

The Company's net income of \$0.6 million (basic net income per common share of \$0.00) for the nine months ended September 30, 2009 was \$0.9 million higher than the net loss of \$0.3 million (basic net loss per common share of \$0.00) for the corresponding period in 2008. The \$0.9 million increase in net income was the result of higher revenue (\$5.4 million), lower exploration costs (\$1.1 million) and higher investment income (\$0.4 million), partly offset by higher mining costs (\$4.7 million), lower foreign exchange translation gains (\$0.7 million) and lower interest income (\$0.5 million).

- **Revenue** increased \$5.4 million (20%) from \$27.1 million in 9 months of 2008 to \$32.5 million in 2009 due primarily to selling 50% more silver ounces at lower prices (\$7.5 million) and selling more byproduct (\$0.8 million), partly offset by lower lead hedge revenues.
- **Cost of Mining** increased \$4.7 million (18%) from \$25.6 million in the 9 months of 2008 to \$30.3 million in 2009 due to the mining and milling of 21% more tons at lower average costs per ton.
- **Exploration** decreased \$1.1 million from \$1.5 million in 2008 to \$0.4 million in 2009 due to the Company's efforts to conserve cash in the first half of 2009 by deferring major exploration activities to the last half of the year.
- **Foreign Exchange Translation** gains decreased \$0.7 million from a gain of \$1.5 million in the 9 months of 2008 to a gain of \$0.8 million in 2009 due to fluctuations between the Canadian and US dollar. *However, the Foreign Exchange translation is related to USD advances to the Company's operating subsidiary. On April 1, 2009, it was determined that these advances are no longer considered short term in nature. As such, any future translation gains or losses related to the advances are, after March 31, 2009, included in Other Comprehensive Income.*
- **Interest Income** decreased \$0.5 million from \$0.5 million in 2008 to \$0.0 million in 2009 due to the decrease in cash and cash equivalents between the two periods.
- **Investment Income** increased \$0.4 million from \$0.0 million in 2008 to \$0.4 million in 2009 due to the realized gains on sales of investments which occurred in the first half of 2009.

	9 Months of 2009	9 Months of 2008
Mined and milled – total tons	157,063	130,122
Mined and milled – tons per day	796	666
Silver produced – ounces	1,776,315	1,226,233
Lead produced – pounds	3,984,149	2,717,961
Copper produced – pounds	820,352	624,992
Cash cost per silver ounce produced *	\$11.71	\$13.61
Full cost per silver ounce produced	\$13.85	\$15.37
Capitalized mine development	\$4,227,747	\$11,951,065
Purchases of fixed assets	\$1,127,096	\$3,604,254
Exploration	\$354,365	\$1,525,186

\* The Company reports the cash cost per ounce of silver produced in accordance with guidance provided by the Gold Institute utilizing the by-product method. This method is widely reported in the silver mining industry as a benchmark for performance

measurement. However, the method does not include depletion, depreciation, exploration or corporate administrative costs and is, therefore, not directly reconcilable to costs as reported under generally accepted accounting principles in Canada or the U.S.A.

Comprehensive loss of \$1.0 million for the first 9 months of 2009 was \$3.0 million lower than the \$4.0 million comprehensive loss for the first 9 months of 2008. This decrease in loss was primarily due to lower unrealized Foreign Exchange gain on self-sustaining operations (\$2.6 million) and higher net income (\$0.9 million); partly offset by lower unrealized gain on investments (\$0.3 million) and higher unrealized losses on by-product hedges (\$0.2 million).

#### ITEM 4 - Summary of Quarterly Results

<b>SUMMARY</b> <i>(\$ millions except "per" amts)</i>	<b>Q309</b>	<b>Q209</b>	<b>Q109</b>	<b>Q408</b>	<b>Q308</b>	<b>Q208</b>	<b>Q108</b>
<b>Net Sales Revenue</b>	\$11.1	\$10.3	\$11.1	\$1.6	\$9.7	\$10.1	\$7.3
Silver Ounces Produced	558,071	583,453	634,791	496,041	518,058	416,972	291,203
Lead Pounds Produced	1,092,864	1,833,638	1,057,647	1,462,899	858,282	1,037,045	822,634
Copper Pounds Produced	268,781	250,451	301,120	249,182	234,545	212,179	178,268
Cash Cost/Ag Oz Produced *	\$13.37	\$11.34	\$10.59	\$16.27	\$12.67	\$13.88	\$14.88
<b>Net Income (Loss)</b>	\$(0.3)	\$(0.5)	\$1.4	\$(1.1)	\$(0.1)	\$(0.9)	\$0.7
<b>Comprehensive Inc (Loss)</b>	\$(0.3)	\$(1.5)	\$0.8	\$(10.3)	\$(4.7)	\$1.6	\$(1.0)
<b>Net Income (Loss) per Share</b>	\$(0.00)	\$(0.00)	\$0.00	\$(0.05)	\$(0.00)	\$(0.00)	\$0.00
<b>Cash Equivalents, Beginning</b>	\$2.1	\$3.2	\$2.7	\$8.1	\$13.1	\$19.1	\$28.5
Cash Flow from Operations	\$(0.4)	1.5	0.4	1.8	1.4	(1.3)	0.4
Cash Flow from Financing	\$2.7	(1.3)	1.8	(0.5)	0.5	(0.2)	(0.4)
Cash Flow from Investing	\$(1.6)	(1.4)	(0.8)	(2.9)	(5.1)	(4.6)	(8.3)
Effect of Exchange Rates	\$0.3	0.1	(0.9)	(3.8)	(1.8)	0.1	(1.1)
<b>Cash and Equivalents, Ending</b>	\$3.1	\$2.1	\$3.2	\$2.7	\$8.1	\$13.1	\$19.1
<b>Total Assets (qtr end)</b>	\$59.3	\$55.3	\$58.0	\$54.9	\$64.2	\$67.8	\$67.1
<b>Total Liabilities (qtr end)</b>	\$13.0	\$12.2	\$13.4	\$11.2	\$10.5	\$9.6	\$11.3
<b>Total Equity (qtr end)</b>	\$46.3	\$43.1	\$44.6	\$43.7	\$53.7	\$58.2	\$55.8

\* The Company reports the cash cost per ounce of silver produced in accordance with guidance provided by the Gold Institute utilizing the by-product method. This method is widely reported in the silver mining industry as a benchmark for performance measurement. However, the method does not include depletion, depreciation, exploration or corporate administrative costs and is, therefore, not directly reconcilable to costs as reported under generally accepted accounting principles in Canada or the U.S.A.

#### **Q309 Compared to Q308**

The Company's net loss of \$0.3 million (basic net loss per common share of \$0.00) for the 3 months ended September 30, 2009 was \$0.2 million less favourable than the net loss of \$0.1 million (basic net loss per common share of \$0.00) for the corresponding period in 2008. The \$0.2 million increase in net loss was primarily due to higher mining costs (\$1.1 million) and lower foreign exchange translation gain (\$0.9 million); partly offset by higher revenues (\$1.5 million) and lower exploration costs (\$0.3 million).

- **Revenue** increased \$1.4 million (15%) from \$9.7 million in Q308 to \$11.1 million in Q309 due primarily to selling 17% more silver ounces at higher prices and higher byproduct sales, partly offset by lower lead hedge income.

- **Cost of Mining** increased \$1.1 million (12%) from \$9.4 million Q308 to \$10.5 million Q309 due to producing 8% more silver ounces and higher spending for materials, supplies and repair labour on certain repairs that were deferred from earlier in the year to the third quarter.
- **Foreign Exchange Gain** decreased \$0.9 million from \$0.9 million in Q308 to \$0.0 million in Q309 primarily due to the impact of fluctuations in the foreign exchange rates.
- **Exploration Costs** decreased by \$0.3 million from \$0.5 million in Q308 to \$0.2 million in Q309 due to efforts to control costs and better target exploration spending in 2009.

The Q309 comprehensive loss of \$0.3 million was \$4.4 million lower than Q308 comprehensive income of \$4.7 million primarily due to lower unrealized Foreign Exchange gain on self-sustaining operations (\$2.3 million), lower unrealized loss on investments (\$1.3 million), lower unrealized losses on by-product hedges (\$1.1 million) which were partially offset by a higher net loss (\$0.2 million).

### Q309 Compared to Q308

	Q309	Q308
Mined and milled – total tons	48,935	51,607
Mined and milled – tons per day	749	778
Silver produced – ounces	558,071	518,058
Lead produced – pounds	1,092,864	858,282
Copper produced – pounds	268,781	234,545
Cash cost per silver ounce produced*	\$13.37	\$12.67
Full cost per silver ounce produced	\$15.52	\$14.55
Capitalized mine development	\$1,324,792	\$3,761,283
Purchases of fixed assets	\$273,242	\$1,547,169
Exploration	\$194,862	\$530,083

\* The Company reports the cash cost per ounce of silver produced in accordance with guidance provided by the Gold Institute utilizing the by-product method. This method is widely reported in the silver mining industry as a benchmark for performance measurement. However, the method does not include depletion, depreciation, exploration or corporate administrative costs and is, therefore, not directly reconcilable to costs as reported under generally accepted accounting principles in Canada or the U.S.A.

The decrease in tons milled is the result of several factors including: loss of production headings due to seismic activity and removal of both low grade development and stockpile material from the mill feed. Removing low grade material from the ore mill feed resulted in lower than forecast throughput but at a higher head grade resulting in a higher number of ounces produced. Additional lead headings were moved into production during the third quarter and higher grade lead development material resulted in more lead tons milled and more lead produced. Higher costs were a result of increased infrastructure repair. Capitalized development and exploration expenditures were lower as a result of cash conservation initiatives introduced in late Q408 and continuing through Q209. The decrease in fixed asset purchases was mainly due to the long delivery time for purchases in Q208 whereas equipment requested in Q209 was more immediately available.

### Q309 Compared to Q209

The Company's net loss of \$0.3 million (basic net loss per common share of \$0.00) for Q309 was \$0.2 million lower than the Company's net loss of \$0.5 million for Q209 (basic net income per common share of \$0.00). The \$0.3 million decrease was primarily due to higher revenues (\$0.8 million) partly offset by higher mining costs (\$0.6 million).

- **Revenue** increased \$0.8 million (8%) from \$10.3 million in Q209 to \$11.1 million in Q309 primarily due to a selling 2% more ounces at metal prices that were approximately 7% higher.
- **Cost of Mining** increased \$0.5 million (6%) from \$10.0 million in Q209 to \$10.5 million in Q309 due to more materials, supplies and labor expended for repair activities in Q309 than Q209.

The Q309 comprehensive loss of \$0.3 million was \$1.2 million lower than the Q209 comprehensive loss of \$1.5 million. The change was primarily due to a lower unrealized loss on available-for-sale financial assets (\$0.9 million), higher unrealized foreign currency gain on self-sustaining operations (\$0.2 million) and lower net loss (\$0.2 million).

## **ITEM 5 - Liquidity**

As of September 30, 2009, the Company's cash and equivalents were \$3.1 million (\$2.7 million at December 31, 2008) and working capital totaled \$10.4 million (\$7.7 million at December 31, 2008). Current liabilities as of September 30, 2009 were \$4.3 million (\$2.6 million at December 31, 2008). The Company requires about \$8.0 million in working capital at expected production rates, which it currently maintains. The Company's liquidity had been greatly reduced over the course of 2008 and significant steps were taken to maintain necessary liquidity in the fourth quarter of 2008 and subsequently, in the first and second quarters of 2009. During the first nine months of the 2009, the Company provided cash from operations of \$1.8 million. On July 16, 2009 the Company completed an equity offering which resulted in the gross proceeds of CA\$4.6 million. With this infusion of capital, cash and cash equivalents totaled \$2.5 million on November 24, 2009.

In the short term, Management believes it has sufficient cash flow to fund its operations, given the success of the July 2009 equity offering, the more consistent production driven by the 2009 Mine Plan and investments being made to reduce the cost for ounces produced in the future. In the longer term, as the Galena Mine returns to full production, the Company believes that cash flows will be sufficient to fund ongoing operations. The July 2009 equity offering has been used to fund several key projects. However, other new capital projects will require either external funding or a combination of higher metals prices and/or production such that cash flow from operations increases substantially.

All of the Company's leased mineral properties, which it wishes to retain, are currently in good standing with work planned on those where required. Some work commitments on non-core properties are in arrears at the date of this report.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and the revolving advances facility. 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 generally held in interest bearing accounts at major banks in Canada and the United States. The Company has no exposure to asset-backed commercial paper and has incurred no losses or impairment due to such commercial paper.

As of the date of this report, the Company held no pledged cash deposits with counter parties to its Financial Instrument activities (See Item 12 below).

The Company's liquidity has been, and will continue to be, somewhat constrained by pension funding commitments as required by the terms of the defined benefit pension plans offered to both its hourly and salaried workers (See Note 7 in the FS2008). Although both pension plans are under-funded, as of the date of this report, the Company has funded, to at least the minimum levels required by applicable law,

the pension plans for both hourly and salaried employees. The Company currently estimates total annual funding requirements for both pension plans to be approximately \$1.2 million per year for each of the next 5 years. The Company made required pension deposits totaling \$0.6 million in the first nine months of 2009. The size and timing of the future funding requirements are such that, as of the date of this report, the Company is considering changes to the salaried employees' pension plan such that further pension benefits will cease to accrue with each additional month of employee service. This "freezing" action has not been decided upon at this time and if such a decision is made, the implementation of this action would require approval of the Internal Revenue Service of the United States, a probable increase to the 401(k) defined contribution retirement plans of salaried employees and a 15-day notification period to salaried employees. Furthermore, such freezing of future pension benefit accruals, should it be implemented, does not relieve the Company of its existing obligation to fund past service requirement earned by salaried employees up until the effective date of the freezing action currently under consideration. Please see Item 10 for further information on the defined benefit pension plans, the funding obligations of the Company and the Risks inherent in such matters.

In February 2009, the Company improved its liquidity position by means of an inventory and receivable monetization facility (shown as the Revolving Advances Facility on FSQ109) with Auramet LLC of Fort Lee, N.J., a precious metals trading and lending firm. This facility, which has a maximum potential usage of USD \$5 million, greatly reduces the time between shipping concentrate inventories and receipt of payment for such inventories, thereby making the Company's working capital more liquid. Please see the Company's press release dated February 26, 2009 at: [www.us-silver.com](http://www.us-silver.com). At March 31, 2009, the balance outstanding on this facility was \$1,448,593, equal to approximately 175,000 ounces of silver produced by the Corporation that had not yet been paid for by its smelter client. At June 30 and September 30, 2009 there were no advances outstanding under this facility, although this facility was utilized during the quarters ended June 30, 2009 and September 30, 2009 and is partially utilized as of the date of the this report.

#### **ITEM 6 - Capital Resources**

The Company currently has sufficient capital to fund its operations and, with the receipt of July 2009 equity offering proceeds, it is funding certain capital projects which had been deferred during the first half of 2009. For example, the repair of the Galena shaft was temporarily halted in January 2009 in order to extend cash resources. However, the project was restarted on July 27, 2009 and the Company expects to complete this project in the first quarter of 2010. The Company's cash flow is dependent on delivery of its ore concentrate to its two smelter clients in Canada. The Company's first smelter provider remits a provisional payment to the Company on the 27<sup>th</sup> day of the month following the month of delivery of the concentrate and a final payment is generally received 75 days after the provisional payment. The other smelter provider makes initial payment twice a month. Shipments delivered between the 1<sup>st</sup> and 15<sup>th</sup> of the month are paid the following week and shipments delivered between the 16<sup>th</sup> and end of the month are made the following week. The Company has not had any significant receivables problems collecting payments from its smelter providers in a reliable and timely manner and expects no such difficulties in the foreseeable future. However, this cash flow is dependent on continued mine production which can be subject to interruption for various reasons (see Item 10 - Risk Factors) including fluctuations in metal prices and concentrate shipment difficulties. Additionally, unforeseen cessation in smelter provider capabilities could severely impact the Company's capital resources. In this regard, the largest smelter utilized by the Company delivered in the first quarter of 2009 a "Force Majeure" notice to the Company in response to a notice it had received from its buyer of sulphuric acid. Notwithstanding the formal notice received relating to the very soft market conditions for sulphuric acid (a smelting by-product), the Company has, as of the date of this report, suffered no interruption in smelting services or payments and currently anticipates no such disruptions, viewing the notice as a precautionary measure.

During 2007 and much of 2008, the Company experienced difficulty obtaining the required skilled labour force it needed to produce ore at the levels it desired. This negative impact on the Company's ability to maintain its working capital and liquidity has been reduced due to improved labour market conditions and more effective management/labour relations.

The Company made significant capital expenditures in both 2007 and 2008 and is planning significantly reduced capital expenditures during fiscal years 2009 and 2010. Included in the desired capital expenditures for 2009 and 2010 are six projects totaling of \$3.8 million. The projects include: completion of the Galena Shaft repair, upgrade of the #3 hoist electrical system, two new air compressors to replace an obsolete compressor, installation of larger diameter compressed air line in both shafts, replacement of a drill jumbo and LHD loader and rebuild of the rail on the 4600 and 4900 levels. The Company used cash flow from operations and some of the July 2009 equity offering, to purchase the two new air compressors, the drill jumbo and the LHD loader. The proceeds from the July 2009 offering have allowed the Company to make progress on the four remaining projects. In addition, the Company has begun developing a plan to produce sufficient ore from the Galena mine to feed both the Coeur and Galena mills. This will require an increase in total mine production. Such an increase will require an estimated \$6-\$8 million in addition to the \$3.8 million discussed above. Such an expansion would clearly require additional capital to be raised. The Company plans to continue an underground exploration plan utilizing diamond core drilling. Capital expenditures are required on some of its surrounding leased properties to fulfill lease obligations.

As cash flows from the mine may not be sufficient to fund all of the planned capital expenditures, the Company may 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 growth oriented mining companies such as U.S. Silver.

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

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Mining Leases <sup>1</sup>	\$5,671,304	\$1,199,704	\$897,600	\$1,053,000	\$2,521,000
Mine Reclamation <sup>2</sup>	\$2,172,530	\$0	\$0	\$0	\$2,172,530
Pension, Medical Benefits & Defined Contribution Plans <sup>3</sup>	\$9,267,590	\$717,658	\$4,128,511	\$2,880,119	\$1,541,302
Mine & Office Equipment Leases	\$99,032	\$47,608	\$51,424	\$0	\$0
<b>Total Contractual Obligations</b>	<b>\$17,210,456</b>	<b>\$1,964,970</b>	<b>\$5,077,535</b>	<b>\$3,933,119</b>	<b>\$6,234,832</b>

<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 2016. This obligation may be further extended if 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 Arrangements**

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**

In 2007 Golden Eagle Mining borrowed \$90,000 from the Company and the Company paid a further \$91,485 to third parties on behalf of Golden Eagle Mining. On these amounts, the Company accrued interest of \$12,801 during 2007 and \$2,741 during 2008. The total amounts due at September 30, 2009, December 31, 2008 and December 31, 2007 were \$209,828, \$209,828 and \$194,286, respectively. These amounts are included on the balance sheet in receivables. At December 31, 2008 it was determined that it was then doubtful that the Company would receive full repayment, the Company recorded an allowance for doubtful accounts in 2008 of \$209,828. Golden Eagle Mining was no longer a Related Party at December 31, 2008 and continues to be an unrelated party as of the date of this report. Although the balance was reserved, the Company continues to pursue its right to full repayment of all funds due to the Company and is undertaking negotiations with Golden Eagle management in this respect. As of the date of this report, some progress has been made in the negotiations.

**ITEM 9 - Proposed Transactions**

As of the date of this report, the Company is not currently a party to any proposed transaction.

**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 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,
- 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 London Silver Spot price average, in USD per ounce, was \$7.31 in 2005, \$11.57 in 2006, \$13.39 in 2007, \$15.02 in 2008, and \$13.68 in the first nine months of 2009. The year to date average through November 13, 2009 is approximately \$14.21. The average silver price for each of the first 3 quarters of 2009 was \$12.62, \$13.76 and \$14.69, respectively. The price of silver may decline in the future and recent activity has shown silver, lead and copper to be unusually volatile. 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, 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 market prices of silver and other metals are subject to great uncertainty as those prices have fluctuated widely in the past. Declines in the market price of silver and other metals may render reserves containing relatively lower grades of ore uneconomic to extract, 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 different from those predicted adjustments of reserve estimates might 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, 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 wide range of unpredictable operating problems, including seismic, weather or equipment problems, thereby 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 operations. 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 costs and delays related to such regulations 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, 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 could be 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 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, Pension Funding 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 can be 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, training and retaining 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 expires on March 1, 2011.

The sharp declines of late 2008 and early 2009 in the equity markets and other financial impacts have affected the Company's costs and liquidity through increased requirements to fund the Company's defined benefit pension plans for its employees. Although it is expected that financial markets will recover in the future and have recovered somewhat over the course of the first nine months of 2009,

thereby reducing future pension funding requirements, there can be no assurance that such recovery and reduced funding requirements will happen in the foreseeable future. Furthermore, although the pension funding requirements are calculated by professional actuaries, there can be no assurance that unforeseen changes in pensioner longevity, government regulation or other financial market uncertainties will not further increase pension funding requirements. The Company intends to continue funding, at least up to the minimum level required by relevant law, the pension plan for hourly and salaried employees of the Company. However, at this time the Company is still considering whether it will continue with salaried employee's pension funding in exactly the same manner as it has done in the past. As of the date of this report, no decision has been made other than to continue to abide by all applicable laws while balancing the cash flow needs of the Company against the recruitment and retention consequences of changes to the retirement compensation offered to existing and future salaried employees. Please see Item 5.

### 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. All of U.S. Silver's current mining activities are on patented mining claims.

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, does 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 development 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 a limited 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 for the period ended December 31, 2008 and the Unaudited Interim Consolidated Financial Statements dated March 31, 2009, June 30, 2009 and September 30, 2009, 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 has in the past entered into financial instruments with a number of financial institutions in order to hedge underlying revenue and fair value exposures arising from certain commodity prices. Financial instruments which subject the Company to market risk consist primarily of derivative contracts for base metals and, potentially, certain precious metals. In late 2007 the Company had hedged for future periods exceeding three months the price of lead and did so on a rolling 12-month basis for a total of approximately 6,000,000 lbs of lead. However, no open lead hedge contracts are outstanding as of the date of this report. During Q109 the Company began to utilize the inventory and receivable monetization facility described in the Press Release dated February 26, 2009 (the "Facility"). The Facility includes the sale of the silver contained in the inventory and receivables that are monetized via the Facility. These sales of silver, conducted with the Facility counterparty, lock in the prices of most, but not necessarily all, of the silver that is shipped to the Xstrata smelter, usually for periods not exceeding two months into the future. Hence, the forward sale of silver does not normally exceed three months and is tied to financing activity under the Facility.

The Company's risk management policy attempts to mitigate, from time to time, the risks associated with fluctuating by-product prices. The Company may use both exchange-traded and over-the-counter swaps and forward contracts on metals and, from time to time, foreign exchange ("FX"), to hedge its net revenues from mining operations. These instruments are straightforward contracts and involve limited complexity. The Company can be exposed to credit risk in the event of non-performance by counterparties in connection with these hedging contracts. The Company does not obtain any security to support financial instruments subject to credit risk, but mitigates the risk by dealing with a diverse group of creditworthy counterparties and, accordingly, does not anticipate loss for non-performance by counterparty. The Company continually monitors the market risk of its hedging activities, both to ensure

that the hedging activities continue to provide the intended metal and FX price risk mitigation, and to monitor the amount of liquid assets the hedge contracts utilize in the form of interest-earning, margin deposits held with the counterparty.

### 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 September 30, 2009, there were 250,175,994 common shares issued and outstanding. As at the date of this Management's Discussion and Analysis, there were 250,625,994 common shares issued and outstanding. In addition, the Company shall issue common shares upon the conversion, exercise or exchange of options and warrants that are issued. The table that follows summarizes the outstanding and exercisable stock options at September 30, 2009.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life Years	Weighted Average Price CA\$	Quantity	Weighted Average Price CA\$
0.10	2,850,000	Nov 2013	4.2	0.10	1,485,000	0.10
0.13	400,000	Feb 2014	4.3	0.13	200,000	0.13
0.14	2,400,000	Jul 2014	4.8	0.14	1,200,000	0.14
0.14	400,000	Mar 2014	4.5	0.14	199,998	0.14
0.15	1,505,000	Feb 2014	4.4	0.15	2,500	0.15
0.40	4,169,475	Dec 2011	2.2	0.40	4,169,475	0.40
0.40	750,000	Jul 2013	3.8	0.40	450,000	0.40
0.73	660,000	Aug 2012	2.9	0.73	660,000	0.73
0.75	300,000	Mar 2012	2.4	0.75	300,000	0.75
0.79	300,000	Mar 2013	3.4	0.79	300,000	0.79
0.81	960,000	Nov 2012	3.1	0.81	960,000	0.81
1.19	<u>1,000,000</u>	Apr 2012	2.6	1.19	<u>1,000,000</u>	1.19
	15,694,475				10,926,973	

The following table summarizes the warrants issued and outstanding as of September 30, 2009.

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
12,235,000	\$ 1.250	Investor	December 2007	December 5, 2009	\$ 2,096,334
1,712,900	1.000	Broker Unit *	December 2007	December 5, 2009	333,518
856,450	1.250	Broker *	December 2007	December 5, 2009	123,637
17,692,750	0.155	Investors	July 2009	July 16, 2014	467,801
1,769,275	0.160	Broker Unit **	July 2009	July 16, 2011	32,955
884,638	0.155	Broker **	July 2009	July 16, 2014	29,598
<u>35,151,013</u>					<u>\$ 3,083,843</u>

\* These broker units consist of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.25 prior to December 6, 2009, at which time all unexercised Broker Units and Broker Warrants will expire.

\*\* Each two Broker Units, if and when exercised by the Unit holder, allow the holder to purchase two common shares at \$.16 per share and also entitles the Unit holder to one new Broker Warrant exercisable for one common share at \$.155 until July 16 2014.

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

The Company was not required to file an Annual Information Form (“AIF”) until the second quarter of 2009 when it filed its first AIF in advance of filing a Preliminary and, subsequently, Final Short Form Prospectus with applicable securities regulators in Canada. 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, which 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). Also available at [www.sedar.com](http://www.sedar.com) are the recent AIF, the aforementioned Final Short Prospectus and associated documents, and press releases.

#### **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), the Chair of the Audit Committee and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. As of November 24, 2009, 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, has evaluated the effectiveness of the disclosure controls and procedures as they related to the preparation of the financial information for the fiscal periods ended September 30, 2009. 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 September 30, 2009. Although we have concluded that our internal control process is effective, in the course of ordinary business we do make changes to our internal control process and also in our disclosure controls and procedures:

- We will expand our systems and control procedures surrounding financial reporting by developing enhanced accounting procedures and instituting monthly reviews of the financial statements by the members of the Audit Committee, CEO, CFO and Controller.
- 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 an experienced Chief Financial Officer who resides at our Toronto, Ontario corporate office. The CFO has been joined by an experienced Director and Audit Committee Chair to review, and strengthen the controls, procedures and documentation thereof. The CFO and Chair are conversant with applicable regulatory requirements and Canadian and US GAAP reporting requirements and provide an additional level of review required of reporting documents. Additionally, the bookkeeping functions of both the parent company in Canada and its US holding company subsidiary have been consolidated in the Toronto office. An experienced Controller, licensed as a C.P.A. in the state of Washington, was hired on June 1, 2009 and works in Wallace, Idaho to strengthen reporting and control capabilities at the Company’s main operation.
- In 2008, a new, more flexible accounting system was installed in our Wallace, Idaho office

leading to enhanced reporting and financial control capabilities.

Extensive preparations have begun for the introduction of the International Financial Reporting Standards (“IFRS”) with which the Company will comply before 2011. Preparations have included the review and eventual engagement of specialized, third-party consultants to review and support the planning and implementation of the transition to the Company’s opening IFRS balance sheet as of January 1, 2010. Tangible investments in training and appropriate investments in software have been made. Areas of expected or potential change from Canadian “GAAP” have been identified and studied for impact on the Company’s accounting policies and financial statements.