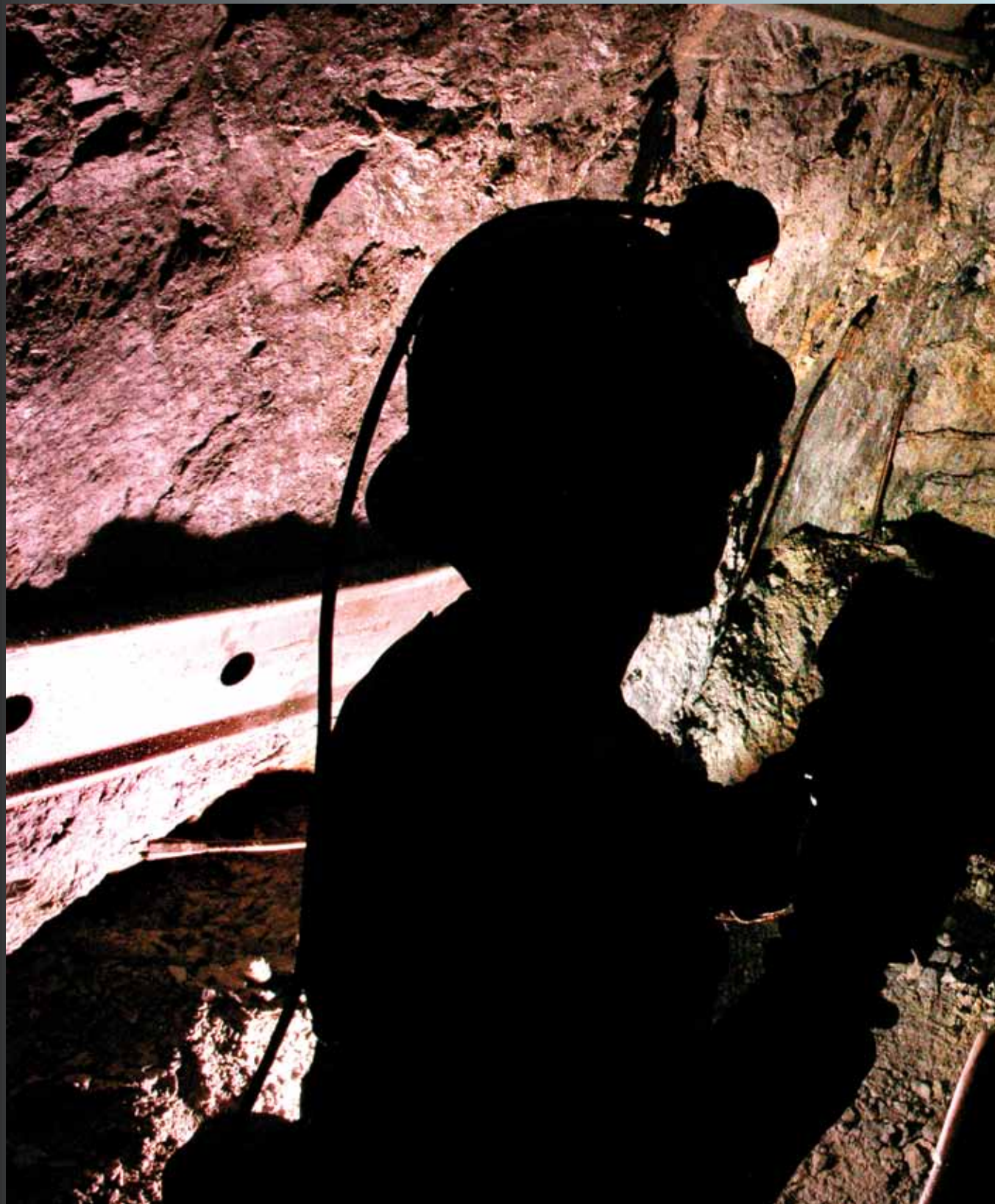




We believe in silver

Annual Report 2010

U.S. SILVER





2.3MM

OZ AG ANNUAL PRODUCTION

\$62.3MM in revenue, up 35%

85% revenue from silver production

\$8.9MM cashflow from operations

\$8.5MM cash at year end

We are

U.S. Silver Corporation, an established producer in the prolific Coeur d'Alene Mining District, commonly called the Silver Valley in northern Idaho.

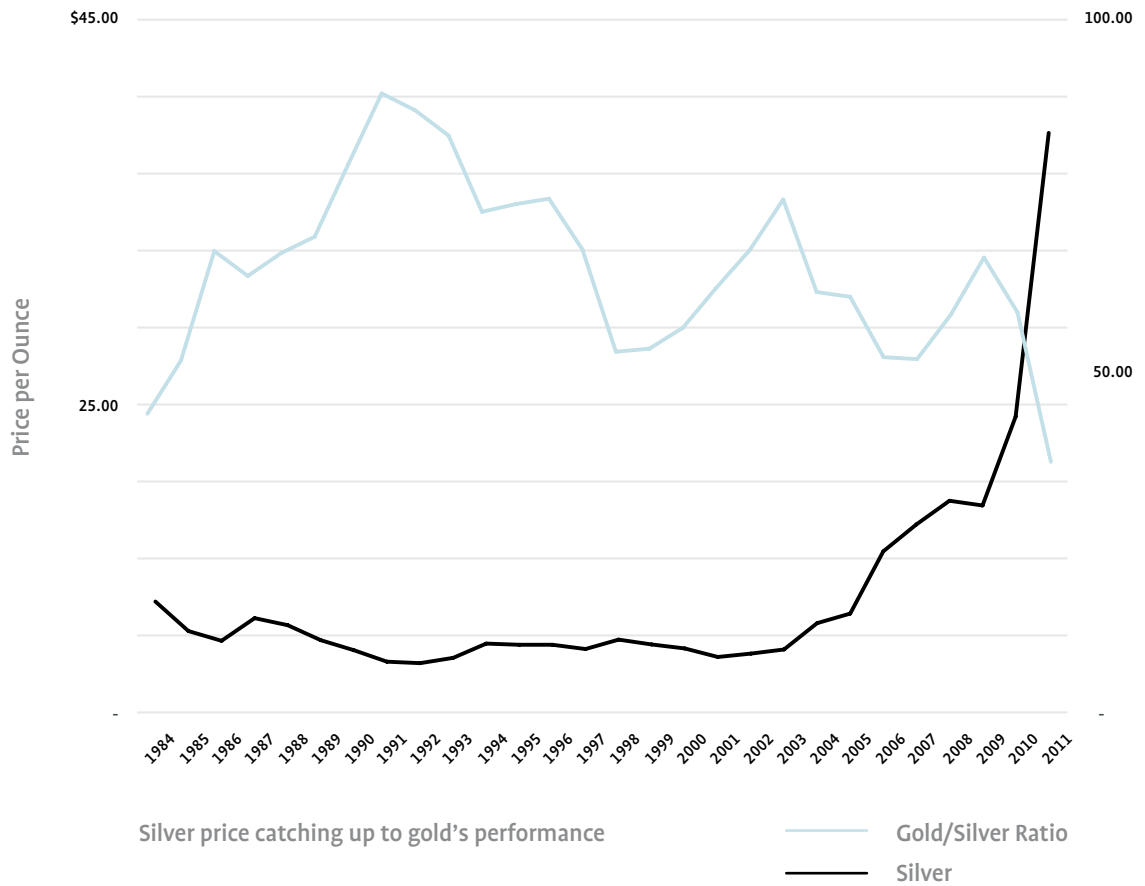
Throughout the long history of the Company's mineral rich properties, the mines have produced over 220 million ounces of silver, 161 million pounds of copper, and 28 million pounds of lead.

U.S. Silver owns and operates the second largest primary silver mine in US history – the Galena Mine. The Company also owns the non-producing Coeur Mine with active haulage and hoisting and an adjacent exploration property with one shaft, the Caladay Project. The Coeur Mine is undergoing a redevelopment program that will allow silver production in 2011 and beyond. Mills actively operate at both the Galena and Coeur mines with excess capacity available.

Strong cash flow permits funding an increasingly aggressive exploration program. The Company's underground exploration and development program is designed to upgrade current resources to reserves as well as to discover new mineralization.

A dominant regional land package of 11,000 acres of under-explored property provides U.S. Silver tremendous future potential reserve growth.

We believe in silver





122%

INCREASE IN PRICE OF SILVER SINCE 2010

300%	net imports of silver to China in 2010
40%	increase in investment demand in 2010
24%	increase in ETF holdings in 2010
20%	increase in industrial demand

Robust industrial and investment demand for silver around the world drove prices higher in 2010 and the trend is on track to continue in 2011 .

Growth in industrial demand has started to shift from western to developing economies, notably China and India. The future long-term growth prospects are clearly supported by the large population base of developing economies and the aggressive drive towards modernization.

While the surge in industrial demand has been strong as world economies recover, silver's unique industrial physical properties such as connectivity, reflectivity and anti-bacterial capabilities ensure a base level of demand that supports price levels. This also leads to supply shortages and price appreciation when other sources of demand such as investment increase.

Like gold, silver is expected to continue benefiting from its quasi-money status. Near-term investment demand for silver is currently driven by investor concerns around the viability of western world currencies, especially the U.S. dollar and the Euro. Investors are also worried aggressive quantitative easing will lead to public debt monetization and currency debasement. Other concerns include the arrival of higher inflation in western economies and significant political unrest in some parts of the world. All of these factors have fueled unprecedented investor appetite for silver-backed exchange traded funds (ETFs).

An impressive history





145

YEARS OF MINING HISTORY

1B historic oz Ag produced

\$6B historic metal value

TOP 10 mining district in world history

Idaho's Coeur d'Alene Mining District is a silver-producing district of long standing. It lies in the Bitterroot Mountains, a part of the Northern Rocky Mountains.

The district is hosted almost entirely within rocks of the Belt Supergroup, a sequence of sedimentary rocks of Middle Proterozoic Age, deposited 1.47 to 1.40 billion years ago. The sequence totals at least 21,000 feet in thickness in the Silver Valley.

The district has one of the world's largest known concentrations of silver metal along with major amounts of lead, zinc and copper. Total historical silver production of over 1.2 billion ounces ranks the Silver Valley as one of the most prodigious mining producing districts in the world.

The Silver Valley contains the largest underground mine in the United States (the Bunker Hill Mine, with over 150 miles of workings), the deepest mine (the Star-Morning Mine, at over 7,900 feet deep), and the richest silver mine (the Sunshine Mine, which produced nearly 400 million ounces of silver). The Coeur d'Alene mines produce more silver than all the rest of the states together.

In addition to its rich mineral reserves, the Silver Valley's abundant water resources, low-cost power, extremely well developed transportation systems, available skilled work force, and mining friendly jurisdiction provide the ideal framework for prosperous mineral extraction.





179MM

HISTORICAL OUNCES OF AG PRODUCED

2nd largest primary silver producer in the U.S.

21.9MM proven and probable oz Ag reserves

Galena mine

Boasting an impressive geology, the Galena Mine is a high-grade, narrow-vein deposit where mineralization occurs in more than 100 veins. For the past 57 years, one vein alone has produced in excess of 100 million ounces of silver and is still in production today. The vein mineralization is of two distinct types: silver-copper and silver-lead.

Total production at the Galena Mine only has exceeded 175 million ounces of silver, 116 million pounds of copper and 22 million pounds of lead. The historical average grade of the silver-copper ore is 22 ounces of silver per ton and 0.83% copper. The historical average grade of the silver-lead ore is 8.2 ounces silver per ton and 8.8% lead.

With the Galena shaft rehabilitation project now complete, the shaft is primarily used for hoisting men and materials. This significantly increases time available for ore and waste hoisting in the #3 Shaft and enhances access to a number of key silver-copper and silver-lead resources in the upper levels of the mine. Excess hoisting and milling capacity exist allowing U.S. Silver to cost effectively increase future production.

U.S. Silver has repeatedly and cost effectively added reserves well in excess of its production extending Galena's mine life. **Reserves to date have more than doubled since 2006.**





237

FULL-TIME EMPLOYEES

The right people

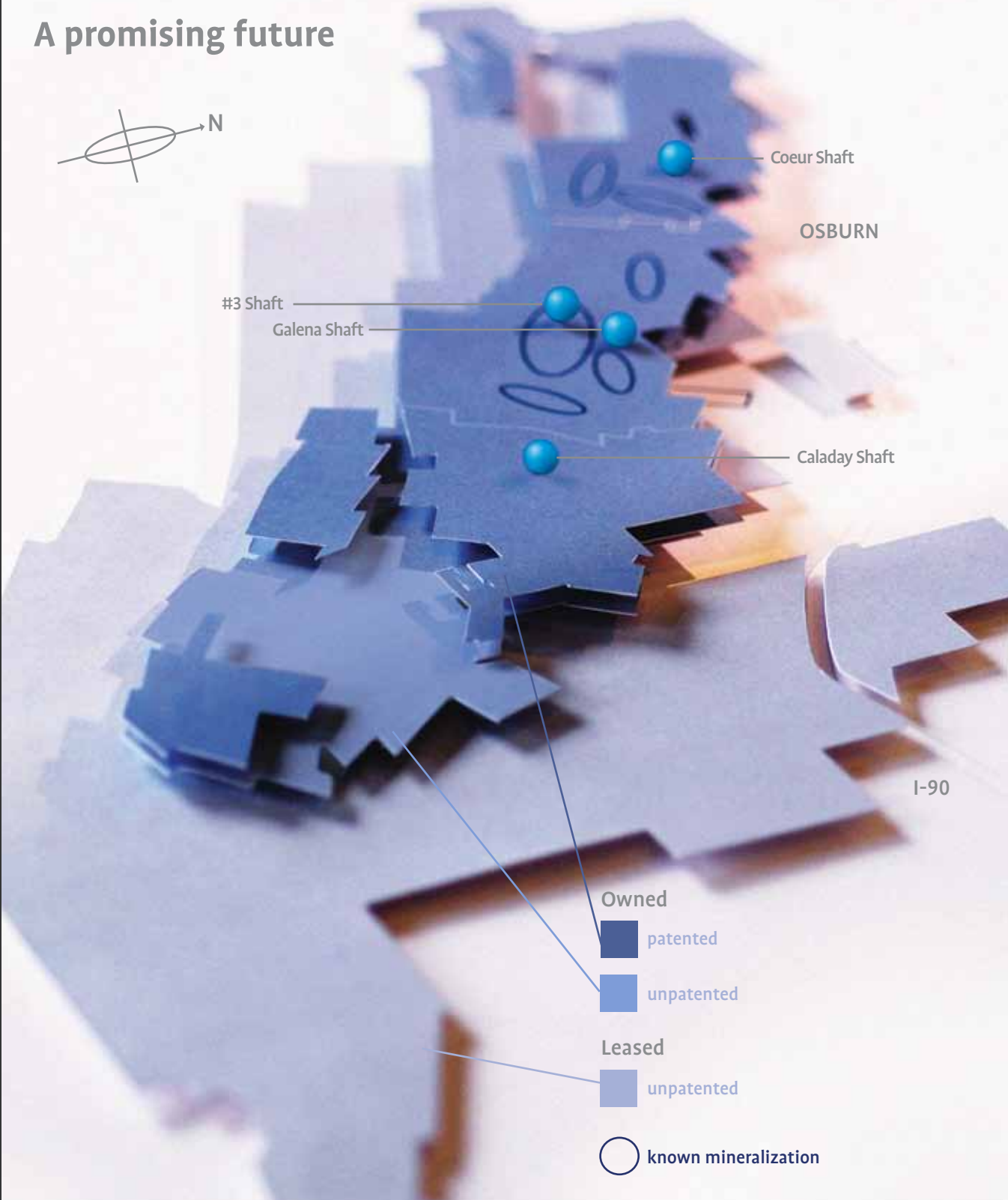
Dedicated management team with many years of operating experience strive to create a work place that is safe, sensitive to our community and local environment.

We are committed to a zero injury workplace and have undertaken significant initiatives over the years to instill an even greater focus on safety and culture. These steps and the commitment of our entire workforce are driving our safety results as we embark on our journey to safety excellence.

We are committed to the community in which we work. It is the responsibility of our corporation, employees and shareholders to support the many organizations that make the Silver Valley such a vibrant place to live. We support organizations working to assist and enrich the lives of individuals within the region.

We are committed to the environment. Our operations in beautiful Northern Idaho allow us to live and work in a place that affords us the opportunity for endless outdoor activities such as hunting, fishing, hiking, skiing and many others. It is our responsibility to protect the environment that we enjoy on a daily basis; a responsibility we take seriously.

A promising future





115%

INCREASE IN RESERVES SINCE 2006

11,000	acre under-explored land package
500,000	oz Ag of annual production anticipated at Coeur
275%	increase in exploration drilling

Strong operating cash flow and cash on hand are funding redevelopment work at the Coeur Mine and an increasingly aggressive exploration program.

Restarting the Coeur Mine is a major focus. The Coeur Mine is currently on care and maintenance but recent rehabilitation work permits Galena’s silver-lead ore to be trammed underground through an interconnected track haulage drift for hoisting and then processing at the Coeur mill.

The Coeur Mine mineralization generally resembles the Galena Mine in containing a complex vein set that holds significant potential exploration upside. Drilling is currently underway to further define the deposit and mining methods are being examined. Initial silver production at the Coeur Mine is expected later this year.

The existing mine and mill complex has produced an impressive amount of silver over the past sixty years and solid production and successful reserve replacement continues. The excess hoisting and milling capacity will allow the Company to cost effectively and easily increase future production as reserves are discovered and developed from an established deposit that should support future mining activities for many years to come.

In addition, U.S. Silver’s dominant land package in the prolific Silver Valley offers tremendous potential. The vast area is largely under-explored with modern exploration technology and is easily accessible. Numerous surface targets have recently been identified and are drill ready.

U.S. Silver holds considerable exploration upside and the potential to find significant new deposits is excellent.



Gordon Pridham
Chairman of the Board



Thomas Parker
Chief Executive Officer

2010 Key highlights

\$62.3 MM

Increased revenue by 35% in 2010.

2.3 MM

Oz of Ag produced / 5.6 M lb of Pb and 1.0 M lb of Cu.

21.9 MM oz

Of Ag proven and probable reserves at the end of 2010. We increased our reserves again in excess of production.

\$8.9 MM

Cashflow from operations.

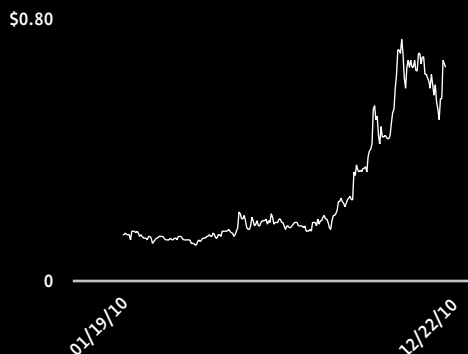
\$8.5 MM

Cash on hand plus strong operating cash flow finance an aggressive exploration program.

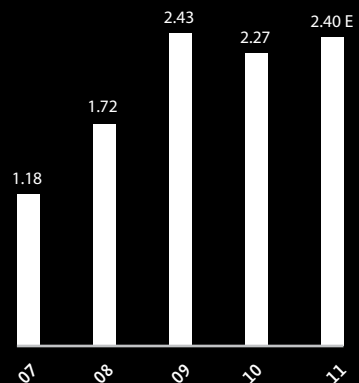
11,000 Acre

Dominant land position in the Silver Valley is the foundation upon which U.S. Silver will grow.

Share Price 2010



Silver Oz. Produced



Chairman's letter

U.S. Silver had a very good year in 2010. Rising silver prices led to record levels of profitability, cash flow and share price.

A number of important enhancements to our balance sheet, infrastructure, people and exploration and development were taken in the last 12 months to strengthen the Company and position it for future growth.

In August we raised \$7 million in a bought deal, which at year-end leaves the Company debt free and sitting with a cash position of \$8.5 million. This strong cash position along with improved cash flows enables the Company to expand the underground drilling program, increasing proven and probable reserves in excess of 2010 production to 21.9 million ounces.

The year also had some challenges. Narrow vein underground mining will give rise to grade variability and variability in production results. Our production levels fell short of expectations in the second half of the year and we have taken steps to address this by making adjustments to our mine plan.

At the Galena Mine, we continue developing mining areas and accessing new ore discoveries. With the shaft rehabilitation complete, we have ample hoisting capacity and our two operating mills have excess capacity. Our top priority is getting more ore out the mine and a number of initiatives are underway to accomplish this.

Tragically, a contractor suffered a fatality in June 2010 at the Galena mine. The Company worked diligently with regulators during the second half of the year to ensure all infrastructure was in good condition. Operating safety is U.S. Silver's main priority.

Work has begun on the restart of the Coeur mine where we expect to start production in early 2012 and will add an additional 500,000 ounces of annual silver production once fully operational. US Silver has a significant land position in the Silver Valley totaling over 11,000 acres. Exploration programs are being expanded and we plan to drill approximately 70,000 feet in the coming year, up 50% from 2010.

People are our most important asset. We have continued to strengthen the management team under the leadership of Tom Parker, CEO. In the last year we welcomed Chris Hopkins as Chief Financial Officer. In early 2011 Denis Asay joined us to head up our Human Resources activities and, most recently, Steve Long has joined us as Mine Manager and Chief Operating Officer. We also have a committed and experienced operating team at the Galena Mine, with many long serving employees helping to strengthen our efforts. I would like to express my sincere thanks to Bobby Cooper who stepped down as Chairman and whose guidance and mentorship will be missed.

I would also like to thank our Board of Directors who has worked tirelessly to build and improve our Company. And to you our shareholders, thank you for your continued confidence in us. We enter this year with certainty and optimism. While we expect to see continued volatility in silver prices, we are well positioned for the years ahead.

Yours sincerely,



Gordon Pridham
Chairman

Management Discussion and Analysis

For The Year Ended December 31, 2010 – Dated April 29, 2011

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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. Additionally, percentage changes in this Management Discussion and Analysis are based on dollar amounts before rounding.

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 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.

Management Discussion and Analysis

In this report the Management of U.S. Silver Corporation presents operating highlights for the three- month and twelve- month periods ended December 31, 2010 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 year ended December 31, 2010. This report should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the accompanying notes (“FS2010”). 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). This Management Discussion and Analysis has been prepared as of April 29, 2011.

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

Overview

U.S. Silver Corporation (the “Company” or “U.S. Silver”) is 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 OTCQX market under the symbol “USSIF” and in Germany on the Frankfurt Stock Exchange “DB Frankfurt” under the symbol “QE2”. The primary assets of U.S. Silver’s wholly-owned subsidiary, U.S. Silver-Idaho, Inc. (“USI”), are the operating Galena Mine and the adjoining, but non-operating, Coeur Mine and Caladay Project in the Coeur d’Alene Mining District of northern Idaho. These mines have a long mining history with a combined production of over 220 million ounces of silver and associated by-product metals of copper and lead over a modern production history of more than fifty years.

Recent Developments

Silver production totalled 2,275,817 ounces in 2010 which was 6.65% (151,339 ounces) lower than the 2009 production of 2,427,156 ounces during the same period. Lead production decreased 14.8% (833,167 pounds) from 6,446,856 pounds to 5,613,689 pounds and copper production decreased 11.2% (74,908 pounds) from 1,075,307 pounds to 1,000,319 pounds in the same period of 2009 and 2010, respectively. Lower production levels were the result of mining at lower head grades as consistent levels of tonnage were mined and milled (218,307 in 2009 vs. 219,082 in 2010). Production was negatively impacted by an underground accident and subsequent investigation as described below.

Cash cost per silver ounce produced increased 15.2% from \$11.67 per ounce in 2009 to \$13.50 per ounce in 2010. The primary causes for the higher costs were lower levels of production as described above, increased repair and maintenance work (which had been deferred in 2009 due to cash constraints), repairs related to seismic activity, short term production delays caused by the completion of the Galena shaft rehabilitation project, impacts to production in the third and fourth quarters following the June 2010 fatal accident involving an employee of one of the Company’s mining contractors and related impacts to production due to significantly increased MSHA inspection following the accident. The Company continued to make investments in infrastructure in the year with capital expenditures of \$8.3 million for mine development and \$1.8 million for fixed assets.

As a narrow vein mine, production will display a degree of variability depending on a number of timing factors, but in the longer term management is confident that production levels will average in excess of 2.4 million ounces per year under the current mine configuration exploiting the known resources as stated in the December 31, 2010 43-101 reserve estimate. Studies are currently underway to examine production expansion opportunities to better utilize milling capacity which, it is expected, will be funded and justified by current high silver prices and existing cash resources.

During 2010 the Company completed 1,099 feet of raise development, 3,430 feet of track development and 2,286 feet of mechanized development drifting compared with 1,121 feet of raise development, 2,582 feet of track development and 3,149 feet of mechanized development drifting during 2009.

The Company significantly increased the underground drilling program in 2010 as compared to 2009. Exploration drilling totalled 49,434 feet, compared to 13,669 feet in 2009. The Company plans to increase the rate of underground exploration diamond core drilling during 2011 by adding a third contract drill to the two contract drills and one in-house drill operating throughout 2010. The additional drill will be added in April which should enable the Company to complete approximately 70,000 feet of drilling during 2011. The 2011 drilling program is intended to define reserves, upgrade resources, and delineate new viable silver and lead veins.

Year end reserves have once again increased in excess of production and have reached 21.9 million of ounces of proven and probable silver reserves, an increase of 304,000 ounces after replacing production of 2.3 million ounces as detailed in the reserves and resources summary tables below. The exploration program continues to cost effectively add reserves at modest expenditure levels and the rate of reserve addition is expected to increase as the program is expanded in 2011. The company has increased proven and probable reserves by 102% since 2005.

The workforce had five lost time accidents in 2010 and, as of April 28, 2011, completed a total of 178 days since the last lost time accident which occurred on November 1, 2010. As noted above, on June 18, 2010, a fatal accident occurred in the Galena Mine which involved an employee of one of the Company's contractors. MSHA has issued a final report resulting in a single citation being issued to the Company. MSHA issued a proposed assessment of \$70,000 in connection with that citation. That amount represents the maximum amount that can be assessed as a regular assessment on a citation such as the one at issue. U.S. Silver has taken the necessary steps to preserve its rights of appeal of the citation and vigorously disputes the allegations contained in it. The Company disagrees with the findings of the report and is exercising its right to contest the citation. A series of health and safety initiatives, instituted during 2009 have continued through 2011 including in-house safety audits, increased presence of safety personnel in work areas, increased safety meetings and improving U.S. Silver's working relationships with regulatory agencies through constructive engagement.

Higher metal prices and consistent operating cost performance resulted in improvements in cash provided by operations that totalled \$8.9 million for the year ended December 31, 2010 compared to \$2.4 million in the same period in 2009 and working capital of \$23.7 million at December 31, 2010 compared to \$13.8 million at December 31, 2009.

On November 10, 2010 the Company entered into a forward sales agreement with Auramet Trading LLC for the sale of silver at a fixed price through 2011. U.S. Silver has secured a minimum price of silver at US\$27.50 per ounce on 500,000 troy ounces, representing approximately 20% of the estimated 2011 production. The 500,000 ounce program covers equal quantities of silver for each calendar month during 2011. As security, U.S. Silver has provided an interest earning cash collateral deposit of US\$3,000,000 and has been granted a margin credit facility. This margin requirement will decrease as silver volumes are delivered throughout the 2011 year. As of April 28, 2011 approximately 167,000 ounces of silver have been delivered. This was a risk mitigation strategy to cover costs related to the redevelopment of the Coeur mine while still providing upside on the remaining 80% of expected production. High volatility in the price of silver and uncertainty over the timing of future price movements during a period of mine development were important factors in this decision.

In September 2010, the Company raised gross proceeds of CA\$6.9 million through a bought deal private placement. The Company issued 26,565,000 units at a price of \$0.26 per unit with each unit consisting of one common share and one-half of one common share purchase warrant, each whole warrant, 13,282,500 issued in total, exercisable at any time for one share at a price of \$0.35 per share for a period of two years following closing. The Company has the right, commencing nine months after closing, to call the outstanding warrants for expiry, upon 30 days' notice should the shares close at or above \$0.45 for 20 consecutive trading days. Prior to nine months after closing the Warrants will not be callable for exercise by the Company. In addition, the underwriter was issued broker warrants equal to 6% of the number of units sold under the offering, or 1,593,900. Each broker warrant entitles the underwriter to purchase shares at \$0.26 per share for a period of two years following closing. The Company also has the right, commencing nine months after closing, to call the outstanding broker warrants for expiry, upon 30 days' notice should the Shares close at or above \$0.45 for 20 consecutive trading days. Prior to nine months after closing the broker warrants will not be callable for exercise by the Company. The proceeds will be used for the redevelopment of the Coeur mine as described further below.

The Company continues to plan for the re-development of the Coeur mine and has prepared initial development, mining and exploration plans. Work has been delayed while the issue of cost effective secondary escape ways is resolved, but repair and development are expected to begin during the second quarter of 2011. Additional exploration drilling to

better define the resource and optimize the development program has commenced. Expected costs are \$7 million and expected annual production once the mine is fully operational is expected to be 500,000 ounces of silver. The volumes can be easily accommodated within existing milling capacity.

U.S. Silver has enhanced mine management capabilities with the appointment of Steve Long as Chief Operating Officer and Mine Manager effective May 9th, 2011. Steve's vast experience in underground mining in various senior management roles over a 33 year career, most recently with Newmont Mining Corporation in Elko, Nevada and previously with Barrick, Echo Bay and Homestake Mining will be a most welcome addition to the management of the Company. Steve will be based in Wallace, Idaho at the Galena mine.

The consolidated financial statements as at and for the year ended December 31, 2009 have been restated for the correction of certain errors in the Corporation's accounting for income taxes. In 2010, the Corporation corrected an error that originated in 2009. The error arose as a result of the recording of a future tax liability in respect of certain unrealized foreign exchange gains arising on an inter-company balance which was determined, as at April 1, 2009, to be part of the Corporation's net investment in foreign subsidiaries such that it is unlikely that the temporary difference will reverse in the foreseeable future. The Corporation also corrected an error in its future income tax asset balance that arose as a result of certain errors in the tax basis used to determine the temporary differences associated with certain accounts. The effect of correcting these errors on the December 31, 2009 consolidated balance sheet was an increase to the future income tax asset of \$2.7 million and a corresponding increase of \$2.7 million in the future income tax recovery reported in the statement of operations and comprehensive income (loss) for the year ended December 31, 2009. The corresponding impacts to the statements of shareholders' equity and cash flows for the year ended December 31, 2009 were also corrected.

Results of Operations

ANALYSIS OF THE YEAR ENDED DECEMBER 31, 2010 VS. THE YEAR ENDED DECEMBER 31, 2009

The Company recorded net income of \$3.6 million for the year ended 2010 compared to a net income of \$6.8 million in the same period of 2009. The decrease was primarily attributable to higher sales (\$16.5 million) offset by higher cost of mining (\$7.1 million), higher general and administrative expense (\$0.9 million), higher exploration costs (\$0.9 million), higher loss on hedged derivatives (\$3.1 million), higher foreign exchange losses of (\$0.8) million and higher stock based compensation (\$0.3 million) and a large future income tax recovery (\$4.8 million in 2009 compared to a future income tax expense of \$1.6 million), each of which are described in more detail below:

- **Revenue** increased by \$16.5 million from \$45.9 million in 2009 to \$62.4 million in the same period of 2010. The 36% increase was due to higher metal prices partly offset by the sale of 6.2% fewer silver ounces (2,275,817 ounces in 2010 compared to 2,427,156 ounces sold in the same period of 2009). The timing of concentrate shipments influences the period in which revenue is recorded since sales are not recognized until shipments are received, weighed and sampled by the smelter. Revenues are recorded based on the provisional prices at the time of the initial acceptance by the customer. Variations between the price recorded at the initial acceptance date by the customer and the final price set under the contracts covering such sales are caused by the fluctuations in the market prices for copper, lead and silver and result in an embedded derivative. The Corporation records embedded derivatives at the fair value each period until final settlement occurs, with the changes in fair value recorded to net income. The average London Silver Spot price increased 38% to \$20.19 in 2010 from \$14.67 in the same period of 2009.
- **Cost of Mining** increased by \$7.1 million from \$39.3 million in 2009 to \$46.4 million in the same period of 2010. The 18% increase was primarily due to low costs incurred in the comparative period of 2009 related to cash conservation strategies and the deferral of certain infrastructure repairs and maintenance because of cash constraints.
- **General and Administrative** costs increased slightly due to increased investor relations activities that had been curtailed in the prior year and severance costs.
- **Exploration** costs increased \$0.9 million due to the deferral of the 2009 exploration program in order to conserve cash. There was no such deferral of the 2010 exploration program and overall activity increased substantially in 2010.

- **Foreign Exchange Gain** decreased \$0.8 million due to changes in the relationship of the Canadian dollar to the US dollar.
- **Loss on Hedged Derivatives** increased \$3.1 million in 2010 due to the impact of short-term hedges in 2010 when the price of silver was rising significantly, particularly in the fourth quarter of the year.
- **Stock Based Compensation** increased \$0.3 million compared to the prior year due to the assumptions and pricing parameters used the Black-Scholes valuation of the options granted in the period and the number of options issued.

ANALYSIS OF FOURTH QUARTER 2010 VS. FOURTH QUARTER 2009

The Company recorded net income of \$2.7 million in the fourth quarter of 2010 compared to \$6.3 million in the fourth quarter of 2009. Revenue increased to \$20.9 million from \$13.4 million due to higher prices received for stable levels of silver production. The fourth quarter of 2009 benefitted from an increase in future taxes recoverable resulting in an abnormally high net income. Cash costs per ounce increased in the quarter due to lower silver production while maintaining consistent cost levels. Cash flow from operations increased to \$1.8 million in the fourth quarter of 2010 compared to \$1.2 in 2009 for the same period.

OPERATIONAL MATTERS

Company management continues to focus on improving grade control at the Galena Mine. The long-term historical silver grades for the Galena Mine silver-copper ores were 22 ounces per ton. These grades had declined in the several years prior to mid 2006 to below 12 ounces per ton. Much of this was a result of excessive dilution caused by less than optimal mining practices and depletion of high quality reserves. Additionally, grade has dropped as a result of mining more tons from the larger, lower grade, higher volume stopes found on the 4600 level. The medium term goal for mill head grades is 15 ounces per ton.

The rehabilitation of the Galena Shaft was substantially complete in 2010. A fully operational shaft significantly increases overall hoisting capacity at the mine, reduces travel time to certain areas of the mine, allows substantially more shaft maintenance time in the #3 shaft, provides access to a number of key silver-lead and silver-copper resources on upper levels of the mine and substantially helps with the ventilation of the lower working areas of the mine. Maintenance and clean down of the shaft has been completed to the 5200 level and the focus is now on upgrading utilities and completing repairs in specific areas of the 5500 foot shaft to facilitate continued use. The focus will soon shift to installing shaft pockets to accommodate ore hoisting from certain levels of the mine. The shaft is being used to service the 3400 level and to move men and supplies between levels above 5200.

The Company is subject to regulation from various local, state and federal agencies. Chief among these is the federal Mine Safety and Health Administration (“MSHA”) for safety issues and the Environmental Protection Agency (“EPA”) and the Idaho Department of Environmental Quality (“IDEQ”) for environmental issues. The Company has ongoing negotiations with both MSHA and EPA concerning citations or potential citations and associated financial penalties. Since the end of June, the Company has seen an increased level of MSHA activities and visits at the Galena and continues to work with investigators across a variety of issues. The Company expects to resolve such negotiations without disruption of production or material financial consequences. In the third quarter the Board of Directors established a separate Environmental, Health and Safety (“EH&S”) Sub-committee of the Board to ensure effective oversight of EH&S issues.

Summary of Quarterly Results

QUARTERLY SUMMARY

The following table sets forth trends in the Company's quarterly results as then presented for the most recent eight quarters ending with December 31, 2010 as prepared under generally accepted accounting principles in Canada.

(\$ in millions except "per" amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 ²	Q3 2009 ²	Q2 2009 ²	Q1 2009 ²
Net Sales Revenue	\$ 20.9	\$ 12.0	\$ 14.5	\$ 15.0	\$ 13.4	\$ 11.1	\$ 10.3	\$ 11.1
Silver Ounces Produced	569,997	507,368	563,291	635,161	650,841	558,071	583,453	634,791
Lead Pounds Produced	1,452,694	1,424,637	1,268,909	1,467,449	2,462,707	1,092,864	1,833,638	1,057,647
Copper Pounds Produced	276,218	224,243	250,644	249,214	254,955	268,781	250,451	301,120
Cash Cost/Ag Oz Produced ¹	\$ 15.05	\$ 13.57	\$ 12.90	\$ 12.59	\$ 11.56	\$ 13.37	\$ 11.34	\$ 10.59
Net Income (Loss)	\$ 2.7	\$ 0.2	\$ 0.2	\$ 0.5	\$ 6.2	\$ (0.3)	\$ (0.5)	\$ 1.4
Comprehensive Income (Loss)	\$ 1.9	\$ 0.2	\$ 0.1	\$ 0.5	\$ 7.2	\$ (0.3)	\$ (1.5)	\$ 0.8
Net Income (Loss) per Share	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.03	\$ (0.00)	\$ (0.00)	\$ 0.01
Cash Equivalents, Begin	\$ 8.1	\$ 2.3	\$ 3.5	\$ 2.5	\$ 3.1	\$ 2.1	\$ 3.2	\$ 2.7
Cash Flow from Operations	1.8	1.8	1.8	3.5	0.9	(0.4)	1.5	0.4
Cash Flow from Financing	0.5	7.0	(0.1)	(0.3)	1.1	2.7	(1.3)	1.8
Cash Flow from Investing	(5.3)	(2.9)	(2.8)	(2.2)	(3.1)	(1.6)	(1.4)	(0.8)
Effect of Exchange Rates	0.2	(0.1)	(0.1)	0.0	0.5	0.3	0.1	(0.9)
Cash and Equivalents, End	\$ 5.4	\$ 8.1	\$ 2.3	\$ 3.5	\$ 2.5	\$ 3.1	\$ 2.1	\$ 3.2
Current Assets (qtr end)	\$ 31.0	\$ 22.8	\$ 15.2	\$ 16.2	\$ 18.7	\$ 14.7	\$ 10.9	\$ 13.5
Current Liabilities (qtr end)	\$ 7.3	\$ 5.7	\$ 3.3	\$ 4.4	\$ 4.8	\$ 4.3	\$ 3.4	\$ 4.4
Working Capital (qtr end)	\$ 23.7	\$ 17.1	\$ 11.9	\$ 11.8	\$ 13.9	\$ 10.4	\$ 7.5	\$ 9.1
Total Assets (qtr end)	\$ 78.5	\$ 70.5	\$ 61.5	\$ 61.9	\$ 64.3	\$ 59.3	\$ 55.3	\$ 58.0
Total Liabilities (qtr end)	\$ 14.4	\$ 12.2	\$ 9.9	\$ 11.0	\$ 11.2	\$ 13.0	\$ 12.2	\$ 13.4
Total Equity (qtr end)	\$ 64.1	\$ 58.3	\$ 51.6	\$ 50.9	\$ 53.1	\$ 46.3	\$ 43.1	\$ 44.6

- 1 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.
- 2 Unaudited amounts as stated in unaudited interim financial statements. Impacts of restatements presented in the unaudited fourth quarter totals so that the full year reflects restatements.

Liquidity

As of December 31, 2010, the Company's cash and cash equivalents totalled \$5.4 million which was \$2.9 million higher than the December 31, 2009 balance of \$2.5 million. Working capital improved by \$9.8 million to \$23.7 million as at December 31, 2010. Current liabilities as at December 31, 2010 were \$7.3 million which was \$2.5 million higher than December 31, 2009. The Company estimates that it requires about \$8.0 million in working capital at expected production rates, far less than the \$23.7 million it held at year end. The Company's liquidity has improved over the course of 2010 and continues to improve in the first part of 2011 as silver prices reach 30 year highs and costs remain consistent.

In February 2009, the Company negotiated an inventory and receivable monetization facility with a precious metals trading and lending firm. This facility, which has a maximum potential usage of \$5.0 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 refer to the Company's press release dated February 26, 2009 at: www.us-silver.com. This facility provides flexibility for the changes in cash needed to fund operations. The balance outstanding under the facility decreased from \$0.7 million at December 31, 2009 was fully paid off such that no advances were outstanding at December 31, 2010.

In the short term, Management is extremely confident it has sufficient cash flow to fund its operations and development and exploration plans given cash on hand, expected production volumes in 2011, continued high commodity prices and the availability of revolving advances. (see Capital Resources). In the longer term, as the Galena Mine is optimized and the outlook for silver prices remains positive, the Company believes that cash flows will be sufficient to fund ongoing operations.

In 2010, the Company elected to record an unrealized loss through other comprehensive income for its investment in Atlas Precious Metals Inc. While the potential for this investment to contain value in the future as properties are developed it was considered appropriate to reduce the carrying value of the investment until such value could be properly determined and verified.

All of the Company's leased mineral properties, which it wishes to retain, are currently in good standing with work planned on those where it is required. Some work commitments on non-core properties are in arrears at the date of this report but the leases remain in good standing with no short term requirement to fulfill these commitments.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and other assets, investments, restricted cash, revolving advances, accounts payable and accrued liabilities, derivative-related liabilities, and capital lease obligations. 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 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.

The Company's liquidity has been, and will continue to be, impacted 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 9 in the audited 2010 Financial Statements). Although both pension plans are under-funded, the Company intends to fund to the minimum levels required by applicable law, both the hourly and salary employee's pension plans. The Company currently estimates total annual funding requirements for both pension plans to be approximately \$1.0 million per year for each of the next 5 years. Effective July 25, 2010 the Company modified the salaried employees' pension plan and 401(k) plan in order to provide the Company with more alternatives to reduce future costs. The changes to the salaried employees' pension plan do not relieve the Company of its existing obligation to fund past service requirement earned by salaried employees through July 24, 2010. There were no changes made to the hourly employees' pension plan and 401(k) plan since these are negotiated in the collective bargaining agreement. Please see Risk Factors for further information on the defined benefit pension plans, the funding obligations of the Company and the risks inherent in such matters.

Capital Resources

The Company currently has sufficient capital to fund its operations and complete all currently identified capital projects. The Company's cash flow is dependent on delivery of its ore concentrate to two smelters in Canada. The Company's first smelter provider remits payment to the Company on the 27th day of the month following the month of delivery of the concentrate, with final settlement payments generally received within 90 days of the initial payment. The second smelter

provider remits payments twice per month, within 10 days of the delivery of a lot. Two lots are shipped to this smelter each month, with the first lot consisting of the concentrate delivered between the 1st and 15th and the second lot consisting of the concentrate shipped between the 16th and the last day of the month. The Company has not had any problems collecting payments from smelters 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 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.

The Company made capital expenditures of \$1.9 million in 2010 and \$1.9 million for the same period of 2009. The Company expects to spend \$5.5 million in 2011. All of these projects are dependent upon the Company maintaining a strong capital position. The Company plans to continue an underground exploration plan utilizing diamond core drilling. The planned program will consist of approximately 69,000 feet of drilling to upgrade the category of reserves and resources and to test for new mineable veins. This drilling program is expected to cost approximately \$2.4 million in 2011.

The Company also has plans to redevelop the Coeur mine in 2011 for an estimated cost of \$7 million. The current cash position and the cash generated from operations are expected to be sufficient to fund this project.

The following table sets out U.S. Silver's contractual obligations as of December 31, 2010:

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Asset retirement obligation	\$ 2,380,404	\$ –	\$ –	\$ –	\$ 2,380,404
Capital leases	26,262	15,375	10,877	–	–
Derivative-related liabilities	3,639,213	3,639,213	–	–	–
Accounts payable and accrued liabilities	3,419,863	3,419,863	–	–	–
Other long term liabilities	265,212	–	–	–	265,212
Total	\$ 9,730,954	\$ 7,074,451	\$ 10,877	\$ –	\$ 2,645,616

1 All mining leases can be cancelled upon proper notice periods by the Company.

2 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 as the estimated life of the mine increases.

3 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.

Selected Annual Financial Information

Year Ended December 31, (Dollars in millions except per share amounts)	2010	2009
Revenues	\$ 62.4	\$ 45.9
Net income (loss)	3.6	6.8
Comprehensive income (loss)	2.7	6.2
Net income (loss) per common share – basic	\$ 0.01	\$ 0.03
Net income (loss) per common share – diluted	0.01	0.03
Cash flow – operating activities	\$ 8.9	\$ 2.4
Cash flow – financing activities	7.1	4.3
Cash flow – investing activities	(13.2)	(6.9)
Cash cost per silver ounce produced ¹	\$ 13.50	\$ 11.67
Ounces sold – silver	2,275,817	2,427,156
Pounds sold – copper	1,000,319	1,075,307
Pounds sold – lead	5,613,689	6,446,856

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.

At December 31, (Dollars in millions except per share amounts)	2010	2009
Cash and cash equivalents	\$ 5.4	\$ 2.5
Receivables and related embedded derivatives	12.7	5.7
Investments	–	1.0
Inventory (concentrates and supplies)	5.8	6.0
Property, plant and equipment, net	6.7	6.7
Mining assets, net	40.6	36.8
Current assets	31.0	18.7
Current liabilities	7.3	4.9
Working capital	23.7	13.8
Total assets	78.5	64.3
Total liabilities	14.4	11.2

RESERVE AND RESOURCE ESTIMATES

The tables below summarize the reserve and resource information as at December 31, 2010. This is compared to the December 31, 2009 estimate. There was a 3% increase in total proven and probable reserves (contained ounces) from December 2009 to December 2010. The Company has released an estimate of reserves and resources in a NI 43-101 compliant Technical Report. This report was independently prepared by Chlumsky, Armbrust & Meyer, LLC (CAM), a Denver based consulting firm.

DECEMBER 2010 ESTIMATE

	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
Copper-Silver Ore				
Proven & Probable Reserves	1,066,100	16.74	17,851,200	0.52%
Measured & Indicated Resources ¹	489,400	16.39	8,020,300	0.49%
Inferred Resource	480,000	18.68	8,965,400	0.56%
	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
Lead-Silver Ore				
Proven & Probable Reserves	549,600	7.38	4,057,200	7.79%
Measured & Indicated Resources ¹	71,200	10.14	721,700	10.14%
Inferred Resource	546,300	8.68	4,743,400	9.45%

¹ Measured & Indicated Resources do not include Proven & Probable Reserves

DECEMBER 2009 ESTIMATE

	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
Copper-Silver Ore				
Proven & Probable Reserves	748,200	22.70	16,984,200	0.69%
Measured & Indicated Resources ¹	446,100	17.18	7,662,400	0.56%
Inferred Resource	556,900	19.24	10,715,700	0.57%
	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
Lead-Silver Ore				
Proven & Probable Reserves	516,900	9.06	4,681,500	9.66%
Measured & Indicated Resources ¹	78,800	10.48	825,900	10.62%
Inferred Resource	705,200	8.73	6,154,700	9.47%

¹ Measured & Indicated Resources do not include Proven & Probable Reserves

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.

Transactions with Related Parties

As of the date of this report, the Company does not have any transactions with related parties to report.

Proposed Transactions

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

Risk Factors

METALS PRICES

The market price of silver and other metals is 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 consumption 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.

London Silver Spot price average, in USD per ounce

2005	\$	7.31
2006	\$	11.57
2007	\$	13.39
2008	\$	14.49
2009	\$	14.65
2010	\$	20.19

The price of silver may decline in the future and recent activity has shown silver, lead and copper to be very volatile. If the price of silver is depressed for a sustained period and net losses occur, 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. As a producer with costs higher than its peers, U.S. Silver faces a greater impact during periods of low prices.

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 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 the 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 events, 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 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 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 cause 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 government 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 a material 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 U.S. Silver's 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 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 March 1, 2011 but the agreement has been extended while negotiations continue.

The sharp declines of 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 during 2009 and the first half of 2010, thereby reducing future pension funding requirements, there can be no assurance that such recovery and reduced funding requirements will continue within 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. Effective July 25, 2010 the Company modified the salaried employees' pension plan and 401(k) plan in order to provide the Company with more alternatives to reduce future costs. The changes to the salaried employees' pension plan do not relieve the Company of its existing obligation to fund past service requirement earned by salaried employees through July 24, 2010. There were no changes made to the hourly employees' pension plan and 401(k) plan since these are negotiated in the collective bargaining agreement.

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 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 noted otherwise, 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 an 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 the 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 the delay or indefinite postponement of further exploration and the 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.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

All of the Company's significant accounting policies and estimates are discussed in Note 2 of the Audited Financial Statements, which are incorporated by reference and can be found on the regulator's website at www.sedar.com. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies and estimates have been identified as being critical:

- Carrying Values of Property, Plant and Equipment and Mining Assets
- Depletion of Mining Assets
- Asset Retirement Obligations
- Income Taxes
- Stock-based Compensation

CARRYING VALUES OF PROPERTY, PLANT AND EQUIPMENT AND MINING ASSETS

The Company reviews and evaluates its mining assets for impairment at least annually or when events and changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. Estimated undiscounted future net cash flows for properties in which a mineral resource has been identified are calculated using estimated future production, commodity prices, operating and capital costs and reclamation and closure costs. Undiscounted future cash flows for

exploration stage mineral properties, when reasonably estimable, are estimated by reference to the timing of exploration and/or development work, work programs proposed, the exploration results achieved to date and the likely proceeds receivable if the Company sold specific properties to third parties. If it is determined that the future net cash flows from a property are less than the carrying value, then an impairment loss is recorded to write down the property to fair value.

DEPLETION OF MINING ASSETS

Net mining assets comprised approximately 52% of the Company's total assets at December 31, 2010 and December 31, 2009. As such, the depletion of these assets has a significant effect on the Company's financial statements. Upon the commencement of commercial production, depletion is calculated for mining assets associated with property in commercial production on the unit-of-production basis using estimated proven and probable reserves. Additionally, plant and equipment used in the mine are depreciated, following the commencement of commercial production, over their expected economic lives using the unit-of-production method. Capital projects in progress are not depreciated until the underlying capital assets have been put into production.

The reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets or could result in impairment resulting in a write-down of the assets. The December 31, 2010 assessment of mineral reserves resulted in an increase in proven and probable reserves which resulted in an increase to the total remaining units used in the units-of-production calculation commencing January 1, 2011.

ASSET RETIREMENT OBLIGATIONS

The Company has obligations for site restoration and decommissioning related to its mining properties. The Company using mine closure plans and other similar studies that outline the requirements planned to be carried out, estimates the future obligations from mine closure activities. Since the obligations are dependent on the laws and regulations of the country in which the mine operates, the requirements could change resulting from amendments to those laws and regulations relating to environmental protection and other legislation affecting resource companies.

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of mining property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recorded at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit-of-production method. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

Since the estimate of obligations is based on future expectations, in the determination of closure provisions, management makes a number of assumptions and judgments. The liability is accreted over time to that amount ultimately payable through periodic charges to earnings. The undiscounted amount of the estimated cash flows required to settle the Company's estimated obligations is discounted using a credit adjusted risk free rate of 10%. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods could differ materially from the discounted future value estimated by the Company at December 31, 2010.

INCOME TAXES

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed at least annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax payable requires management to exercise judgment and to make assumptions about the future performance of the Company. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

STOCK-BASED COMPENSATION

The Company uses the Black-Scholes Option Pricing Model. Option pricing models require the input of subjective assumptions including the expected price volatility, interest rates and expected life of the option granted. Changes in the input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide an accurate single measure of the actual fair value of the Company's stock options granted during the year.

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 website at www.sedar.com.

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. During the first quarter of 2009, the Company began to utilize an 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 the partial monetization of receivables 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 in the silver-copper concentrate that is shipped to the 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 has locked in the price of a portion of its 2011 production at a price of \$27.50 at the rate of 41,667 ounces of silver per month, whether or not funds are utilized under the facility.

The Company's risk management policy attempts to mitigate the risks associated with fluctuating metal prices in only the very short term future via the use of both exchange-traded and over-the-counter swaps and forward contracts on metals and, from time to time, foreign exchange ("FX"). These products are intended to give short-term hedges for 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 counterparties. 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 utilized in the form of interest-earning margin deposits held with the counterparty.

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, 2010, there were 286,643,329 common shares issued and outstanding. As at the date of this Management Discussion and Analysis, there were 292,644,207 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 following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2010:

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Options Exercisable	Weighted Average Price CA\$
\$ 0.10	1,090,000	Nov. 2013	2.9	0.10	1,090,000	\$ 0.10
0.13	25,000	Feb. 2014	3.1	0.13	25,000	0.13
0.13	2,675,000	Oct. 2014	3.8	0.13	891,653	0.13
0.13	2,000,000	July 2014	3.5	0.13	2,000,000	0.13
0.14	400,000	Mar. 2014	3.2	0.14	400,000	0.14
0.15	1,500,000	Feb. 2014	3.1	0.15	1,000,000	0.15
0.18	200,000	Dec. 2014	4.0	0.18	200,000	0.18
0.225	5,698,760	June 2015	4.5	0.225	1,519,576	0.225
0.235	33,334	Aug. 2015	4.6	0.235	0	0.235
0.40	2,341,975	Dec. 2011	1.0	0.40	2,341,975	0.40
0.40	350,000	Jul. 2013	2.5	0.40	350,000	0.40
0.73	660,000	Aug. 2012	1.6	0.73	660,000	0.73
0.75	300,000	Mar. 2012	1.2	0.75	300,000	0.75
0.79	200,000	Mar. 2013	2.2	0.79	200,000	0.79
0.81	780,000	Nov. 2012	1.9	0.81	780,000	0.81
1.19	1,000,000	Apr. 2012	1.3	1.19	1,000,000	1.19
	19,254,069				12,758,204	

The following table summarizes the warrants issued and outstanding at December 31, 2010:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
13,695,250	0.155	Investors	July 2009	July 16, 2014	\$ 374,173
707,710	0.160	Broker Unit ¹	July 2009	July 16, 2011	17,326
353,886	0.155	Broker ¹	July 2009	July 16, 2014	15,035
13,282,500	0.350	Investor ²	Sept. 2010	Sept. 29, 2012	1,500,922
1,593,900	0.260	Broker ²	Sept. 2010	Sept. 29, 2012	263,471
29,633,246					\$ \$2,170,927

¹ Each two Broker Units, if and when exercised by the Unit holder, allow the holder to purchase two common shares at CA\$0.16 per share and also entitles the Unit holder to one new Broker Warrant exercisable for one common share at CA\$0.155 until July 16, 2014.

² Subsequent to June 29, 2011, the Corporation has the right upon 30 days notice, should the common shares close at or above \$0.45 for 20 consecutive trading days, to call these warrants.

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 April 28, 2011, 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 statements for the year ended December 31, 2010. 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, 2010. 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 continue to expand our systems and control procedures surrounding financial reporting by developing enhanced accounting procedures and instituting quarterly reviews of the financial statements by the members of the Audit Committee, CEO, CFO and Controller.
- Our Audit Committee and Management continues with an enhanced oversight from the Audit Committee and management by approving and overseeing the application of complex accounting policies.
- We have an experienced Chief Financial Officer at our Toronto, Ontario corporate office, 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 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 U.S. holding company subsidiary have been consolidated in the Toronto office
- Increasing complexity relating to the accounting for income taxes has led management and the Audit Committee to conclude that the assistance of outside expertise, independent from the Company's external auditors will be engaged to assist with this work

International Financial Reporting Standards

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its year beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, reconciliation from equity under Canadian GAAP to IFRS at the date of transition (January 1, 2010) and reconciliation from profit and loss under Canadian GAAP to IFRS for the prior year comparable quarter and year to date for 2010.

PROJECT UPDATE

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has established a dedicated IFRS changeover resource to lead this process. The audit committee of the Company is kept informed of management's decisions on accounting policy choices under IFRS, project status and IFRS developments. The Company completed a work plan for the design and implementation phases of the project which are underway.

Key activities that have commenced and will continue in 2011 include:

- Revision of accounting policies – The project lead is in the process of drafting accounting papers to document IFRS policy decisions made. These accounting position papers will serve to document the Company's new accounting policies, procedures and changes in controls.
- Preparation of draft IFRS financial statements templates, disclosures and related decisions – This activity has not yet commenced and is scheduled for execution and completion by Q1 of 2011.
- Dual reporting – Management has determined that changes to existing financial reporting systems are not required to handle the 2010 dual reporting period. IFRS adjustments for the comparative quarters will not be numerous or overly complex. As a temporary solution, comparative 2010 interim and annual consolidated financial statements and disclosure data are being compiled using end user computing tools. The project will cut over to the Company's existing financial systems effective January 1, 2011. At that time new accounts required for IFRS will be opened in the charts of accounts and the 2010 IFRS adjustments to opening balances will be made.

- People – All personnel impacted by the IFRS changeover will receive training appropriate to their role on some or all of the following:
 - IFRS technical topics
 - New accounting and reporting procedures
 - Changes in processes and controls
- Communication programs – The project lead regularly communicates project status and significant impacts of transition to affected parties.

IMPACT OF IFRS ON THE 2011 CONSOLIDATED FINANCIAL STATEMENTS

The Company has identified the following significant differences between its current accounting policies and those required or expected to apply in preparing IFRS consolidated financial statements. This list is not meant to be comprehensive but reflects the differences management has determined to be the most relevant at this time.

Standards	IFRS accounting differences	Preliminary findings
Mineral assets (Included in IFRS 6, IAS 16 and IAS 38)	Under IFRS a distinction is made between tangible and intangible assets such as mining concession rights and other licenses. Such assets are not separately presented but are included as asset classes under property, plant and equipment and intangible assets.	The Company has determined that this change will likely result in certain reclassifications between mining assets and intangible assets. The net impact is currently being assessed by the Company.
Property, plant and equipment (PPE) (IAS 16)	After initial recognition, there is the option to measure PPE using the cost model or the revaluation model under IAS 16. IAS 16 is more explicit in how to separately account for the significant parts of an asset and about the treatment of costs incurred subsequently to add to, replace part of, or service an item.	The Company will continue to use the cost model. There is no impact on the consolidated financial statements. The Company is currently assessing will need to be re-componentized as of the transition date. The net impact is not known at this time.
Impairment of assets (IAS 36)	IAS 36 does not include a separate “trigger” for recognizing impairment losses based on an assessment of undiscounted cash flows. Instead a single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required. In addition, future cash flows used to determine the value of assets for impairment testing are discounted.	Impairments are likely to occur more often under IFRS as the undiscounted cash flow assessment is removed and assets are assessed directly at their recoverable amount (fair value). The Company has determined that there is one CGU as the unique features of the 3 mines is the sharing of exiting underground access. Management is currently assessing the impact of this fact.
Decommissioning liability (asset retirement obligation) (IAS37)	IAS 37 requires the use of management’s best estimate of the enterprise’s cash outflows, rather than fair value measurement on initial recognition, and requires the use of current interest rates in each estimate. Present value should be used only where the effect of the time value of money is material.	The Company has determined that this change will likely increase the decommissioning liability. There will be a corresponding increase in PPE (mine assets). The net impact is currently being assessed by the Company.
Earnings per share (EPS) (IAS 33)	IAS 33 has a different method for calculating the number of incremental shares to be included in determining year-to-date EPS. Dilution under IAS 33 is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, options or warrants are exercised, or ordinary shares are issued upon the satisfaction of specified conditions. The treasury stock method is not used.	As the treasury stock method assumes that only “in the money” option proceeds are used to purchase registered shares of the Company at the average market price during the year, the number of shares used to compute diluted EPS will be greater; all incremental shares will be included. The Company has determined that this change in measurement will slightly increase the dilution of EPS. The net impact is currently being assessed by the Company.
Income taxes (IAS 12)	Although the broad principles are the same, there are numerous specific differences under IAS 12. In addition the tax aspects of each accounting policy choice and requirement as well as each IFRS 1 election set out below will need to be considered.	The net impact is currently being assessed by the Company.

The Company has assessed other relevant standards, including, but not limited to, IAS 18 *Revenue*, IAS 23 *Borrowing Costs*, IAS 24 *Related Party Disclosures*, IAS 27 *Consolidated and Separate Financial Statements*, IFRS 2 *Share-based Payments*, IFRS 3 *Business Combinations* and a group of standards covering *Financial Instruments*, IAS 32, IAS 39 and IFRS 7.

The Company has also chosen certain exemptions from the retrospective applications of IFRS at the transition date that are provided by IFRS 1. The selections that are relevant to the Company are set out in the following table. The Company's current intentions are also indicated.

Optional exemption	Company's election
<i>Business combinations</i>	A first time adopter may elect not to retrospectively restate any business combinations prior to the date of transition (i.e. prospective application of IFRS 3). For many Canadian entities that have completed acquisitions since inception electing to apply this exemption may save a lot of time, costs and resources. The Company intends to use this exemption.
<i>Share-based payment transactions</i>	A first time adopter is encouraged but not required to retrospectively apply IFRS 2 to equity instruments (equity settled transactions) granted on or before November 7, 2002. Similarly, a first time adopter is encouraged but not required to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and that vested before the date of transition to IFRS. The Company intends to use this exemption.
<i>Fair value or revaluation as deemed cost</i>	This exemption allows the Company to initially measure an item of Property, Plant or Equipment on transition to IFRS at fair value or a previous valuation under Canadian GAAP. The Company may selectively apply this exemption when historical information is not available for specific assets.
<i>Cumulative translation differences</i>	A first time adopter is permitted to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings of the opening balance sheet. This exemption allows entities to avoid the adjustments to the balance which would be required as a result of the IFRS transition adjustments of foreign operations. The Company intends to use this exemption.
<i>Decommissioning liabilities included in the cost of property, plant and equipment</i>	An entity may elect not to apply the requirements of IFRIC 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> retrospectively in determining the IFRS carrying amount of the assets to which the decommissioning liabilities relate. Adopting this option would provide relief because the Company will not have to attempt to determine when and how the changes in estimates arose. Instead, it will have to recalculate the liability in accordance with IFRS at the transition date and then adjust the cost of the asset and accumulated depreciation. The Company intends to use this exemption.
<i>Borrowing costs</i>	This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS balance sheet. The Company intends to use this exemption.

The IFRS accounting differences, preliminary findings concerning accounting policies and the IFRS 1 selections set out above are based on current IFRS which are subject to change. The Company's reporting under IFRS in 2011 will be based on the standards effective for that year. Accordingly, the Company continues to monitor standards development by the International Accounting Standards Board and the AcSB.

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

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Management's Responsibility for Financial Reporting

The financial statements, including the notes thereto, were prepared by Management and are in accordance with Canadian generally accepted accounting principles. The financial statements, where necessary, include amounts that are based on the best estimates and judgements of Management. Financial information presented throughout the Annual Report has likewise been prepared by Management and is consistent with the data in the financial statements.

Management is responsible for the integrity and the objectivity of the financial reporting process and maintains the necessary accounting and administrative controls that provide reasonable assurance that transactions are authorized, assets are safeguarded, records are properly maintained and reliable financial information is produced. Management is also responsible for selecting accounting principles and methods that are appropriate to the Company's circumstances, and for making decisions affecting the measurement of transactions in which estimates or judgements are required in determining amounts to be reported.

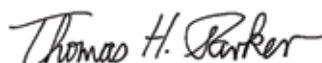
External auditors appointed by the shareholders have audited the financial statements. Their report outlines the scope of their audit and gives their opinion on the financial statements. The auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit findings.

The Board of Directors is responsible for overseeing Management's performance of the above- noted responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board exercises this responsibility principally through the Audit Committee, which meets periodically with Management and the external auditors to satisfy itself that each party is properly discharging its responsibilities.

The Audit Committee reviews the annual financial statements and recommends them to the Board for approval. The Audit Committee also reviews and monitors weaknesses in the Company's internal controls as reported by Management or the external auditors.



Christopher Hopkins,
Chief Financial Officer
April 29, 2011



Thomas Parker,
Chief Executive Officer

Independent Auditor's Report

TO THE SHAREHOLDERS OF U.S. SILVER CORPORATION

We have audited the accompanying consolidated financial statements of U.S. Silver Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of U.S. Silver Corporation as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

OTHER MATTER

As explained in Note 23 to the consolidated financial statements, the accompanying consolidated financial statements of U.S. Silver Corporation as at December 31, 2009 and for the year then ended have been restated. We therefore withdraw our previous report dated May 5, 2010 on those consolidated financial statements, as originally filed.



Chartered Accountants
Licensed Public Accountants
April 29, 2011
Toronto, Canada

Consolidated Balance Sheets

(Expressed in United States Dollars, except number of common shares)

As at December 31,	2010	2009
		As Restated (See Note 23)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,435,159	\$ 2,509,680
Restricted cash (Notes 2 and 12)	3,016,288	–
Receivables and related embedded derivatives (Note 21(a))	12,677,519	5,729,781
Investments (Note 5)	–	1,019,112
Derivative-related assets (Note 12)	–	118,015
Inventory (Note 6)	5,786,381	5,987,708
Future income tax asset – net (Note 18)	3,893,432	3,091,390
Prepaid expenses	204,750	200,678
	31,013,529	18,656,364
Property, plant and equipment (Note 7)	6,743,769	6,702,611
Mining assets (Note 8)	40,602,884	36,753,945
Future income tax asset – net (Note 18)	–	2,052,591
Restricted cash (Note 2)	115,000	115,000
TOTAL ASSETS	\$ 78,475,182	\$ 64,280,511
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 3,419,863	\$ 2,896,925
Revolving advances facility (Note 12)	–	688,144
Income taxes payable	227,768	62,266
Derivative-related liabilities (Note 12)	3,639,213	1,178,361
Capital lease obligation – current (Note 14)	15,375	15,375
	7,302,219	4,841,071
Capital lease obligation – long-term (Note 14)	10,887	23,766
Long-term retirement obligations (Note 9)	4,792,489	4,681,652
Asset retirement obligations (Note 10)	1,502,319	1,458,563
Other long-term liabilities (Note 13)	265,212	224,306
Future income tax liability – net (Note 18)	479,626	–
TOTAL LIABILITIES	14,352,752	11,229,358
CAPITAL STOCK (Note 15)		
Issued and outstanding 286,643,329 (2009 – 250,625,994)	70,598,120	63,729,937
CONTRIBUTED SURPLUS	7,865,595	6,315,944
Accumulated other comprehensive loss (Note 17)	(9,812,773)	(8,901,484)
Accumulated deficit	(4,528,512)	(8,093,244)
	(14,341,285)	(16,994,728)
TOTAL SHAREHOLDERS' EQUITY	64,122,430	53,051,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 78,475,182	\$ 64,280,511
Commitments and contingencies (Note 19)		

See Accompanying Notes to the Consolidated Financial Statements

Approved on behalf of the Board


James Macintosh
Director


Thomas Parker
Director

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in United States Dollars)

As at December 31,	2010		2009	
				As Restated (See Note 23)
REVENUES	\$	62,383,977	\$	45,901,857
EXPENSES				
Cost of mining		46,376,586		39,301,817
General and administrative		3,690,155		2,763,120
Exploration costs		1,670,486		735,547
Selling and marketing		239,537		78,885
		51,976,764		42,879,369
INCOME BEFORE UNDERNOTED		10,407,213		3,022,488
Depreciation related to corporate overhead		(11,695)		(15,486)
Interest expense		(46,307)		(61,468)
Foreign exchange (loss) gain		(55,140)		735,455
Interest income		18,058		12,929
Loss on hedged derivatives (Note 21(a))		(4,818,924)		(1,696,117)
Stock based compensation		(569,580)		(267,784)
Gain on sale of investments		-		146,216
Gain on sale of assets		-		290,032
Write-down of exploration assets (Note 8)		-		(126,015)
INCOME BEFORE INCOME TAXES		4,923,625		2,040,250
Recovery of current income taxes		211,925		-
(Provision for) recovery of future income taxes		(1,570,818)		4,756,991
Total income tax (provision) recovery (Note 18)		(1,358,893)		4,756,991
NET INCOME		3,564,732		6,797,241
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized (loss) on available-for-sale investments, net of taxes of \$nil (2009 - \$nil)		(1,010,888)		(341,080)
Unrealized foreign currency gain (loss) on self-sustaining operations, net of taxes of \$nil (2009 - \$nil)		99,599		(226,266)
Total other comprehensive loss		(911,289)		(567,346)
COMPREHENSIVE INCOME	\$	2,653,443	\$	6,229,895
NET INCOME PER COMMON SHARE (Note 15)				
Basic	\$	0.01	\$	0.03
Diluted	\$	0.01	\$	0.03

See Accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Expressed in United States Dollars, except number of common shares)

	Number of Common Shares	Amount of Share Capital	Contributed Surplus	Total Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, January 1, 2009 (As Restated See Note 23)	214,723,827	\$ 60,672,075	\$ 5,507,063	\$ (8,334,138)	\$ (14,890,485)	\$ 42,954,515
Issuance of shares and warrants for cash, net of share issue costs	35,385,500	2,972,460	564,290			3,536,750
Issuance of shares for cash upon the exercise of options	516,667	85,402	(23,193)			62,209
Vesting of granted stock options			267,784			267,784
Other comprehensive loss (Note 17)				(567,346)		(567,346)
Net income for the year					6,797,241	6,797,241
Balance, December 31, 2009 (As Restated See Note 23)	250,625,994	\$ 63,729,937	\$ 6,315,944	\$ (8,901,484)	\$ (8,093,244)	\$ 53,051,153
Balance, January 1, 2010	250,625,994	\$ 63,729,937	\$ 6,315,944	\$ (8,901,484)	\$ (8,093,244)	\$ 53,051,153
Issuance of shares and warrants for cash, net of share issue costs	26,565,000	4,678,426	1,450,216			6,128,642
Issuance of shares for cash upon the exercise of options	3,862,488	1,178,168	(312,392)			865,776
Issuance of shares for cash upon the exercise of warrants	5,589,847	1,011,589	(157,753)			853,836
Vesting of granted stock options			569,580			569,580
Other comprehensive loss (Note 17)				(911,289)		(911,289)
Net income for the year					3,564,732	3,564,732
Balance, December 31, 2010	286,643,329	\$ 70,598,120	\$ 7,865,595	\$ (9,812,773)	\$ (4,528,512)	\$ 64,122,430

See Accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

(Expressed in United States Dollars)

	2010	2009
		As Restated (See Note 23)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 3,564,732	\$ 6,797,241
Add (deduct)		
Depreciation and depletion	6,185,707	6,364,045
Asset retirement obligation – accretion (Note 10)	160,065	118,660
Future income taxes	1,730,175	(4,756,991)
Foreign exchange loss (gain)	55,140	(735,455)
Gain on sale of assets	–	(290,032)
Gain on sale of investments	–	(146,216)
Write down of exploration assets	–	126,015
Long term retirement obligations	110,675	(1,009,016)
Stock-based compensation	569,580	267,784
Non-cash interest on revolving advances	–	21,412
Unrealized loss on hedged derivatives	2,578,867	1,514,754
	14,954,941	8,272,201
Change in working capital items		
Receivables and related embedded derivatives	(6,947,738)	(4,491,248)
Inventory	201,327	(1,523,126)
Prepaid expenses	(4,072)	10,340
Accounts payable and accrued liabilities	522,938	547,446
Income taxes payable	165,502	(427,679)
Cash provided by operating activities	8,892,898	2,387,934
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving advances facility, advances	18,445,292	15,756,229
Revolving advances facility, repayments	(19,133,436)	(15,068,085)
Capital lease obligation, repayments	(12,879)	(11,953)
Proceeds from equity offering, net of costs	6,128,642	3,598,959
Proceeds from exercise of options and warrants	1,719,612	–
Cash provided by financing activities	7,147,231	4,275,150
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,862,511)	(1,865,980)
Proceeds from sale of property, plant and equipment	–	290,032
Investments in mining assets	(8,329,602)	(6,195,155)
Restricted cash provided as security	(3,016,288)	–
Proceeds from sale of marketable securities	–	827,982
Cash used in investing activities	(13,208,401)	(6,943,121)
Effect of exchange rate on cash and cash equivalents	93,751	134,259
Increase (decrease) in cash and cash equivalents for the year	2,925,479	(145,778)
CASH AND CASH EQUIVALENTS		
Beginning of the year	2,509,680	2,655,458
End of the year	\$ 5,435,159	\$ 2,509,680
Supplemental cash flow information (Note 4)		

See Accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of the Business and Continuing Operations

NATURE OF THE BUSINESS

U.S. Silver Corporation (“U.S. Silver” or the “Corporation”) is a mineral exploration and mining company and is engaged primarily in the exploration for and mining of copper-silver and lead-silver deposits at the Galena Mine located in the Silver Valley in Shoshone County in Idaho, USA.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with GAAP as prescribed by the Canadian Institute of Chartered Accountants (“CICA”) and include the following significant policies:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of U.S. Silver and those of its wholly-owned subsidiaries, United States Silver, Inc. (“USSI”) and U.S. Silver Idaho Inc. (“Silver Idaho”). All intercompany balances and transactions have been eliminated on consolidation.

CURRENCY PRESENTATION

The consolidated financial statements are reported in United States dollars which reflects the predominantly United States dollar-based revenue, operations and assets of the Corporation.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods reported. Actual results could differ from those estimates.

Significant items that require estimates include the valuation of mining assets, accruals, the timing and valuation of asset retirement obligations, income taxes, the valuation of derivative-related assets and liabilities, the effectiveness of hedges, the assumptions used in determining the funding and expense for pension obligations, the assumptions used in determining stock-based compensation expense, and the depreciation, depletion and amortization of the Corporation’s assets.

FOREIGN CURRENCY TRANSLATION AND REPORTING CURRENCY

The functional currency of U.S. Silver, the Canadian domiciled parent company, is the Canadian dollar. The Corporation accounts for USSI and Silver Idaho as self-sustaining foreign operations. These subsidiaries’ functional currency is the United States dollar. The reporting currency of the consolidated Corporation is the United States dollar.

Transactions in foreign currencies are translated into the currency of measurement of the recording entity at the exchange rate in effect at the time of the transaction. Monetary items expressed in foreign currencies are translated into the currency of measurement of the reporting entity at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income (loss).

Transactions of self-sustaining foreign operations are translated into United States dollars using the current-rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items (including depreciation, depletion and amortization) are translated at the average rates of exchange

prevailing during the period. Exchange gains and losses that result from the translation are deferred and disclosed as a component of accumulated other comprehensive income (loss). When there is a reduction in the Corporation's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation adjustment is removed from accumulated other comprehensive income (loss) and included in the determination of consolidated net income (loss).

Transactions in foreign currencies are translated into the related entity's currency of measurement at the rate of exchange at the time of such transaction.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposits with banks, money market accounts, and other short-term investments with original maturities of 90 days or less. Balances of cash and cash equivalents in financial institutions may at times exceed the government-insured limits.

RESTRICTED CASH

Short term restricted cash includes an interest bearing security deposit with a metals trader as security for a forward sale hedge commitment of 500,000 ounces of silver which is deliverable at the rate of 41,667 ounces per month until December 2011 at which time the deposit will be returned.

Long term restricted cash includes two certificates of deposits in the aggregate amount of \$115,000 as at December 31, 2010 and 2009 which are restricted pursuant to the requirements with the Idaho Department of Water in connection with a mine tailings reclamation bond. Restricted cash is classified as non-current as the period of restriction extends beyond twelve months subsequent to the Corporation's year end.

INVENTORY

Inventory includes concentrate ore, ore in stockpiles and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore in stockpiles and in concentrates are sampled for silver, lead and copper content and are valued based on the lower of actual costs or fair market value based upon the period ending prices of silver, lead and copper. Material that does not contain a minimum quantity of silver, lead and copper to cover estimated processing expense to recover the contained silver, lead and copper is not classified as inventory and is assigned no value. Metal inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. Metal inventory includes concentrates at the mine and concentrates in transit, and are also valued at lower of cost or net realizable value. Metal inventory costs are recorded using the full cost method which aggregates direct labour, materials, depletion and amortization as well as certain administrative overhead costs relating to mining activities.

Supplies inventory is recorded at the lower of cost or net realizable value, where cost is determined using the average cost method. The Corporation recognized cost of inventory sold, which is included within the cost of mining on the consolidated statements of operations and comprehensive income (loss), for the year ended December 31, 2010 of \$36,612,810 (2009 – \$29,438,181).

RECEIVABLES

The Corporation carries its receivables at net realizable value. The Corporation traditionally transacts business primarily with a limited number of smelters, and management assesses the need for allowance for doubtful accounts regularly. If a smelter's ability to pay was determined to be an issue, then the Corporation can require a provisional payment before shipment is released.

The Corporation extends credit to its customers for which no credit insurance is available. The Corporation establishes an allowance for doubtful accounts to the extent determined necessary upon evaluation that collectability is not reasonably assured.

INVESTMENTS

The Corporation's investments are classified as available-for-sale or held-to-maturity.

Available-for-sale investments are non-derivative financial assets not included in held-to-maturity and comprise certain investments in equity instruments, including the Corporation's investment in private and public companies. When the financial instruments have a quoted market value in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income (loss). When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in net income (loss).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Corporation's management has the positive intention and ability to hold to maturity, and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less any provision for impairment.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost including interest capitalized on assets under construction, if any. Repair and maintenance expenditures are charged to expense; major betterments and replacements are capitalized.

Depreciation rates are as follows:

Building and structural components	Straight-line basis over a 7-30 year period
Computer equipment	Straight-line basis over a 3-10 year period
Leasehold improvements	Straight-line basis over the life of the lease
Machinery and equipment	Units of production based upon estimated total proven and probable reserves and straight-line basis over 3-30 year period
Office equipment	Straight-line basis over a 3-7 year period
Office furniture	Straight-line basis over a 3-7 year period and 30% declining balance
Vehicles	Straight-line basis over a 3 year period

MINING ASSETS

The costs of mineral properties and related exploration, development and pre-production operating costs are capitalized and deferred until the properties to which they relate are placed into production, abandoned or sold. These costs are then amortized over the estimated useful life of the properties following the commencement of commercial production or written down if the properties are subsequently sold or abandoned. Depletion of deferred exploration and development costs associated with producing properties is determined using the units-of-production method, based on units of production over the total proven and probable reserves.

Expenditures made to keep properties in good standing are capitalized to the corresponding property, except when the property has been fully written down, in which case the expenditures are charged to expense in the period incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment and mining assets, are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment is indicated if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of the impairment loss, if any, is determined as the amount by which the long-lived asset's carrying value exceeds its fair value.

FINANCIAL INSTRUMENTS AND DERIVATIVES

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition in the consolidated balance sheets. Measurement subsequent to initial recognition depends on the financial instruments classification which is determined by the purpose for which the instrument was acquired or issued, the instruments' characteristics and the Corporation's designation of the instrument. Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of associated transaction costs, using the effective interest method. The Corporation includes transaction costs associated with the origination of interest-bearing financial assets and liabilities as a component of the initial carrying amount of the instrument, except for held-for-trading financial instruments, for which the transaction costs are expensed. Available-for-sale financial assets are measured at fair value with changes therein recognized in other comprehensive income (loss).

The following is a summary of the accounting classification and measurement of the Corporation's financial assets and financial liabilities:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Receivables and related embedded derivatives	Loans and receivables/Held-for-trading	Amortized cost / Fair value
Investments	Available-for-sale	Fair value
Revolving advances facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Derivative-related assets/liabilities	Held-for-trading	Fair value

The Corporation enters into commodity contracts, primarily forward contracts, to manage exposure to fluctuations in silver metal prices. In the case of forward contracts, these contracts are intended to reduce the risk of declining silver prices on future sales. The Corporation recognizes the fair value of the financial instruments on the balance sheet and records changes in the fair value in current period net income (loss).

Proceeds received from the sale of silver concentrate metals are based on provisional prices at the time of preliminary acceptance by the customer. Variations between the price recorded at this date and the actual final price set under the contracts covering such sales are caused by fluctuations in the market prices for copper, lead and silver, and result in an embedded derivative. The embedded derivative is recorded at fair value each period until final settlement occurs, with the changes in fair value recorded to revenues until the final settlement with the customer.

CAPITAL LEASES

The Corporation's policy is to record capital leases, which transfer substantially all benefits and risks incidental to ownership of property, as acquisitions of property, plant and equipment and to record the incurrence of corresponding obligations as liabilities. Obligations under capital leases are reduced by rental payments net of imputed interest.

ASSET RETIREMENT OBLIGATIONS

The estimated fair value of an asset retirement obligation is recognized as a liability in the period incurred. A corresponding amount is added to the carrying amount of the associated mining asset when incurred and depreciated over the asset's estimated useful life. The liability is accreted over time through charges to earnings to reflect changes in its present value. Actual expenditures incurred are charged against the accumulated asset retirement obligation. The asset retirement obligation is reviewed by management annually and revised for changes in future estimated costs and regulatory requirements.

In view of the uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of the future asset retirement liabilities is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement obligations, if any, may have a significant impact and would be reflected prospectively, as a change in accounting estimate.

PENSION AND POST-RETIREMENT BENEFITS

Pension expense, based on management's assumptions, consists of: actuarially computed costs of pension benefits in respect of the current year's service; imputed returns on plan assets and imputed interest on pension obligations; full recognition each period of experience gains and losses, and assumption changes; curtailment gains and losses are recognized when the curtailment event occurs; settlement gains and losses are recognized when the settlement amount exceeds the current year interest cost and service cost; past service cost is recognized on an actuarially determined basis and amortized over the period to full eligibility of the related employee group.

INCOME TAXES

The Corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Corporation establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

SHARE CAPITAL COSTS

Share issue expenses include legal, professional fees and agent fees associated with the raising of equity. Until the financing transaction has been completed, these costs are capitalized as deferred costs. Upon completion of the financing transaction, costs associated with the issuance of share capital are charged against share capital within the consolidated statement of shareholders' equity.

REVENUE RECOGNITION

The Corporation's primary products are a concentrate containing silver and copper, and a concentrate containing silver and lead. These two concentrates are refined at separate smelters.

Revenue arising from the sale of metals contained in concentrates is recognized when the significant risks and rewards of ownership and the title have been transferred to the customer, the price is reasonably determinable and collectability is reasonably assured in accordance with the terms of the Corporation's sales agreements. Revenues are recorded based on the provisional prices at the time of the initial acceptance by the customer. Variations between the price recorded at the initial acceptance date by the customer and the final price set under the contracts covering such sales are caused by the fluctuations in the market prices for copper, lead and silver and result in an embedded derivative. The Corporation records embedded derivatives at the fair value each period until final settlement occurs, with the changes in fair value recorded to net income.

Payments received from customers prior to the revenue recognition criteria being met are presented as deferred revenue.

STOCK-BASED COMPENSATION

The Corporation maintains a stock option plan, which is described in Note 16. In accordance with GAAP, the Corporation uses the fair value method to account for stock-based transactions. Accordingly, all stock-based compensation awards are expensed in the consolidated financial statements on a straight-line basis over the vesting period. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

The Corporation uses the Black-Scholes Option Pricing Model to calculate the fair value of stock options and broker warrants rights. This model requires the input of highly sensitive assumptions. Changes in these subjective input assumptions can materially affect the fair value estimate.

BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are determined using the weighted-average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted-average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Corporation at the average market value of the participating shares during the year.

3. Future Accounting Policy Changes

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Effective January 1, 2011, Canadian publicly accountable entities are required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”). Accordingly, the Corporation will transition to IFRS on January 1, 2011 with restatements of comparative amounts for the year ended December 31, 2010.

4. Supplemental Cash Flow Information

December 31	2010	2009
Cash	\$ 5,435,159	\$ 1,755,973
Cash equivalents	–	753,707
Interest received	16,859	12,929
Interest paid	986	19,008
Income taxes paid	342,681	444,739

The revision of estimate relating to the asset retirement obligation of \$116,309 has been included in investment in mining assets on the Consolidated Statements of Cash Flows.

5. Investments

The Corporation’s investments are classified as follows:

December 31	2010	2009
Available-for-sale	\$ –	\$ 1,019,112
Held-to-maturity	–	–
Held-for-trading	–	–
	\$ –	\$ 1,019,112

6. Inventory

The Corporation’s inventory is classified as follows:

December 31	2010	2009
Raw materials and supplies	\$ 2,011,645	\$ 1,915,617
Concentrate inventory	3,774,736	4,072,091
	\$ 5,786,381	\$ 5,987,708

7. Property, Plant and Equipment

	2010			2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Building and structural components	\$ 3,305,933	\$ 706,736	\$ 2,599,197	\$ 2,504,091	\$ 225,269	\$ 2,278,822
Computer and office equipment	451,112	132,783	318,329	439,626	205,392	234,234
Machinery and equipment	8,031,965	4,251,987	3,779,978	7,814,267	3,645,156	4,169,111
Leasehold improvements	7,138	7,138	-	7,138	5,155	1,983
Office furniture	45,686	34,706	10,980	48,839	30,378	18,461
Vehicles	49,811	14,526	35,285	15,959	15,959	-
	\$ 11,891,645	\$ 5,147,876	\$ 6,743,769	\$ 10,829,920	\$ 4,127,309	\$ 6,702,611

Depreciation expense for the year ended December 31, 2010 was \$1,821,353 (2009 – \$2,000,189), of which \$1,811,298 (2009 – \$1,984,703) was included in cost of mining within the consolidated statement of operations and comprehensive income (loss).

8. Mining Assets

	Galena Mine & Mill	Coeur Mine & Mill	Caladay Property	Other Properties	Total
Balance, January 1, 2010	\$ 40,407,380	\$ 4,915,598	\$ 27,047	\$ 1,030,343	\$ 46,380,368
Additions to capitalized costs	8,155,865	-	-	57,428	8,213,293
	48,563,245	4,915,598	27,047	1,087,771	54,593,661
Less: accumulated depreciation and depletion	(13,527,448)	(436,282)	(27,047)	-	(13,990,777)
Balance, December 31, 2010	\$ 35,035,797	\$ 4,479,316	\$ -	\$ 1,087,771	\$ 40,602,884
	Galena Mine & Mill	Coeur Mine & Mill	Caladay Property	Other Properties	Total
Balance, January 1, 2009	\$ 34,407,843	\$ 4,915,598	\$ 27,047	\$ 1,043,587	\$ 40,394,075
Additions to capitalized costs	5,999,537	-	-	112,771	6,112,308
Write-down of exploration assets	-	-	-	(126,015)	(126,015)
	40,407,380	4,915,598	27,047	1,030,343	46,380,368
Less: accumulated depreciation and depletion	(9,163,094)	(436,282)	(27,047)	-	(9,626,423)
Balance, December 31, 2009	\$ 31,244,286	\$ 4,479,316	\$ -	\$ 1,030,343	\$ 36,753,945

Depletion expense for the year ended December 31, 2010 was \$4,364,354 (2009 – \$4,363,856), which has been included in cost of mining within the consolidated statements of operations and comprehensive income (loss).

9. Long-term Retirement Obligations

DEFINED BENEFIT PLANS

The Corporation maintains two non-contributory defined benefit pension plans covering substantially all employees at its U.S. operating subsidiary, U.S. Silver Idaho, Inc. One plan covers salaried employees and one plan covers hourly employees. Benefits for the salaried plan are based on salary and years of service. Hourly plan benefits are based on negotiated benefits and years of service. The Corporation's funding policy is to contribute annually the minimum amount prescribed, as specified by applicable regulations. The expected average service life of the active plan participants as at December 31, 2010 is 9.36 years (2009 – 9.77).

ACTUARIAL PRESENT VALUE OF PROJECTED BENEFIT OBLIGATION:

The actuarial present value of our projected benefit obligations has been determined by using the following assumptions:

Factors	2010	2009
Discount Rate for Benefit Obligations determined by reference to the yield at the end of the year on high quality U.S. corporate bonds (Moody's AAA, plus or minus up to 0.5%)	5.75%	5.75%
Rate of Compensation Increase	5.00%	5.00%

EXPECTED RATE OF RETURN ON PLAN ASSETS:

The expected rate of return on the Silver Idaho plan assets for purposes of the actuarial valuation was assumed to be 5.75% (2009 – 5.75%) and is based on the plan's experience and asset mix of the portfolio, as well as taking into consideration the fact that no lump sum distributions are paid from the plan. The plan had an expected return on plan assets of \$0.4 million and \$0.3 million for 2010 and 2009, respectively. The actual return on plan assets was \$0.7 million for 2010 and \$0.9 million for 2009.

PLAN ASSETS AND DETERMINATION OF FAIR VALUE:

The fair value of plan assets is determined using the market value of the investments held by the plan at December 31 of each year as quoted in public equity and bond markets. The asset mix is in accordance with the plan's investment policy which allows for 60% equity investments, 35% fixed income investments and 5% cash and cash equivalents. The investment portfolio for the funded portion of the obligation is held in a trust. The Corporation's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements as set forth in the United States Employee Retirement Income Security Act of 1974 plus such additional tax deductible amounts as may be advisable under the circumstances. U.S. Silver had funded \$1.0 million in 2010 and \$0.8 million in 2009, respectively, toward the obligation. U.S. Silver expects to contribute approximately \$1.0 million annually for each of the next four years. The plan assets are invested principally in commingled stock funds, mutual funds and securities issued by the U.S. government.

Pursuant to the plan's investment policy, the plan adopts more specific investment directives from time to time. The plan's current investment asset mix targets are 60% equity investments, 35% fixed income investments and 5% in cash and cash equivalents. Based on this current investment directive, the plan's actual portfolio at December 31, 2010 had 54% equity investments, 44% fixed income investments and 2% cash investments. Since the performance of each asset class of the portfolio within any measurement period will impact its relative weight in the portfolio, the actual percentage of each asset class in the portfolio may not match to the current asset mix targets.

The expected long-term rates of return for each asset class within the portfolio, and therefore the portfolio weighted average, is based on an estimate of the return for each of the securities within an asset class, which are currently benchmarked at 7.7% for equity investments, 3.0% for fixed income investments and 2% for cash and cash equivalents. For each type of investment within the trust's portfolio structure, the trustees evaluate both returns and the relationship between risk and return. The expectation is that each asset class will produce a superior risk-adjusted return over a market cycle.

The following table shows the expected long-term rates of return associated with each asset class and the weighted average determined by reference to the target mix:

Asset Class	Actual Mix	Target Mix	Expected Long Term Rates of Return
Equity investments	54%	60%	7.7%
Fixed income investments	44%	35%	3.0%
Cash and cash equivalent	2%	5%	2.0%
Weighted average			5.75%

The components of net periodic benefit cost were as follows:

Net Periodic Benefit Cost and Pension Expense (Income)	2010	2009
Discount rate	5.75%	6.00%
Components of net periodic benefit cost:		
Employer service cost	\$ 489,275	\$ 369,075
Interest cost	700,647	639,001
Expected return on plan assets	(415,461)	(339,094)
Amortization of prior service cost	73,250	68,986
Actuarial loss (gain)	320,200	(945,919)
Total pension expense (income)	\$ 1,167,911	\$ (207,951)

The change in accrued benefit obligation and plan assets and a reconciliation of funded status are as follows:

Change in Accrued Benefit Obligation	2010	2009
Accrued benefit obligation, January 1	\$ 11,897,619	\$ 11,809,417
Employer service cost	489,275	369,075
Interest cost	700,647	639,001
Benefits paid	(539,434)	(530,368)
Plan amendments	(487,910)	41,661
Actuarial loss (gain)	557,263	(431,167)
Accrued benefit obligation, December 31	\$ 12,617,460	\$ 11,897,619

Change in Plan Assets	2010	2009
Fair value of plan assets, January 1	\$ 6,966,589	\$ 5,842,047
Actual return on plan assets	652,524	853,845
Actual contributions by employer	1,057,074	801,065
Benefits paid	(539,434)	(530,368)
Fair value of plan assets, December 31	8,136,753	6,966,589
Expected value of plan assets, December 31	7,899,690	6,451,838
Actuarial gain on assets	\$ (237,063)	\$ (514,751)

Reconciliation of the funded status to the amounts recorded in the consolidated balance sheet as at December 31,	2010	2009
Funded status, December 31	\$ (4,480,707)	\$ (4,931,030)
Unrecognized prior service cost, December 31	(311,782)	249,378
Accrued benefit obligation, December 31	\$ (4,792,489)	\$ (4,681,652)

Unrecognized Prior Service Cost	2010	2009
Prior Service Cost, January 1	\$ (249,378)	\$ (276,703)
New service cost in the year	487,910	(41,661)
Amount recognized during year	73,250	68,986
Prior Service Cost, December 31	\$ 311,782	\$ (249,378)

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2010, and the next required valuation will be as at December 31, 2012.

During the year ended December 31, 2010 the Corporation recognized pension expense of \$1,167,911 (2009 income of – \$207,951) and contributed \$1,057,074 (2009 – \$801,065) towards the Corporation’s long-term retirement benefit plans. The Corporation does not have an accrued benefit asset recorded as at December 31, 2010 or 2009, and accordingly is not required to record a valuation allowance.

401(K) PLAN

The Corporation maintains a retirement savings plan in the United States (which qualifies under Section 401(k) of the U.S. Internal Revenue code) covering all eligible U.S. employees. Under the plan, employees may elect to contribute up to 100% of their cash compensation, subject to ERISA limitations. The Corporation is required to make matching cash contributions equal to 100% of the employees’ contribution, up to a maximum of 4% of the employees’ compensation for salaried employees. The Corporation matches 50% of the hourly employees’ contribution, up to a maximum of 4% of the hourly employees’ compensation. Under the 401K plan the Corporation contributed \$90,733 (2009 – \$65,029) to salaried employees, and \$102,458 (2009 – \$59,851) to hourly employees.

10. Asset Retirement Obligations

The asset retirement obligations are recorded based principally on legal and regulatory requirements to remediate the Galena Mine site. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Corporation uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Corporation’s current mining plan and the best available information for making such estimates.

The asset retirement obligation is measured using the following factors: 1) expected materials and labour costs; 2) allocated overhead and equipment charges; 3) contractor mark-up; 4) inflation adjustment; 5) market risk premium. The sum of all these costs is discounted, using the Corporation’s initial credit adjusted risk-free interest rate of approximately 10%, from the time we expect to pay the retirement obligation to the time we incur the obligation. The measurement objective is to determine the amount a third party would demand to assume the asset retirement obligation.

The following is a description of the changes to the Corporation’s asset retirement obligations:

	2010		2009	
Balance, January 1,	\$	1,458,563	\$	1,266,377
Revision to estimate for liabilities incurred		(116,309)		73,526
Accretion expense		160,065		118,660
Balance, December 31,	\$	1,502,319	\$	1,458,563

The determination of the asset retirement obligation assumes undiscounted cash flows needed to settle the liability incurred of approximately \$2,311,072, which are expected to be expended up to the end of the current estimated mine life of the Galena Mine in 2018. These estimated future cash flows have been discounted at a credit-adjusted risk-free rate of approximately 10%.

11. Related Party Transactions

Transactions between the Corporation and entities controlled by shareholders, officers or directors of the Corporation are disclosed as related party transactions. Amounts due to or receivable from related parties are typically non-interest bearing, unsecured and not subject to specific terms of repayment unless stated otherwise.

In February 2010, the Corporation received 500,000 common shares of Silver Verde May Mining Company to fully settle a related party receivable for \$209,828 which was outstanding as at December 31, 2009. These shares were restricted from trading until December 31, 2010. Silver Verde May Mining Company, Inc. is traded on the over-the-counter market in the United States. The Corporation recorded these shares as available-for-sale with no value in investments in the consolidated balance sheets and has the intention of divesting them.

12. Revolving Advances Facility

In February 2009, the Corporation entered into a master inventory and receivable monetization agreement with a precious metals trading and lending firm to finance the Corporation's shipments of concentrate inventory prior to ultimate sale to its customers. During 2009, the Corporation entered into a Silver Purchase Agreement (the "Agreement") with the same precious metals trading and lending firm. Pursuant to the Agreement, the Corporation may sell up to 100% of the silver in the silver-copper concentrate produced at its Galena Mine and mill complex for the following year and this Agreement is renewable annually thereafter. The Agreement, provides for up to a maximum amount of \$5,000,000 through a revolving silver-based advance facility (the "Facility") for the Corporation, whereby the Corporation receives up to 80% of the sales value of silver produced, sold and shipped by the Corporation under the terms of its existing smelter contract. The silver is priced at market prices as negotiated and is subject to deductions for financing charges based on LIBOR plus 4.75% per annum for the applicable financing period. Financing costs are amortized in accordance with the effective interest rate method for each advance. As at December 31, 2010, the Corporation had no amount outstanding under the facility (2009 – \$688,144).

As part of the Agreement, the Corporation enters into short term forward contracts for the sale of silver concentrate from the Galena Mine and mill complex with the precious metals trading and lending firm. The hedging program, currently utilizing only short term forward contracts, is put in place to lock-in a forward price for the silver concentrate for the Corporation to manage the Corporation's cash flows, thus allowing the Corporation to manage volatility in silver prices. The Corporation has entered into short term forward contracts covering 41,667 ounces of silver deliverable monthly through regular silver concentrate sales in 2011 at a price of \$27.50. The Corporation recognizes the fair value of these financial instruments at the balance sheet date and records the changes in the fair value in the current period statement of operations and comprehensive income (loss). The fair value of the Corporation's derivatives instruments is based on the quoted market prices for similar instruments and on market prices at the valuation date. As at December 31, 2010, the Corporation had derivative-related assets of \$nil (2009 – \$118,015) and derivative-related liabilities of \$3,639,213 (2009 – \$1,178,361). The Corporation recognized an unrealized loss for the year ended December 31, 2010 of \$3,639,213 (2009 – \$1,060,346) that was recorded in loss on hedged derivatives within the consolidated statements of operations and comprehensive income (loss).

On November 10, 2010 the Corporation entered into a forward sales agreement with Auramet Trading LLC for the sale of silver at a fixed price through 2011. U.S. Silver has secured a minimum price of silver at US\$27.50 per ounce on 500,000 troy ounces, representing approximately 20% of the Corporation's estimated 2011 production. The 500,000 ounce program covers equal quantities of 41,667 ounces of silver for each calendar month during 2011. As security, U.S. Silver has provided an initial interest earning cash collateral deposit of US\$3,000,000 that has been classified as short term restricted cash and has been granted a margin credit facility. All interest earned in this restricted deposit accrues to the Corporation.

13. Other Long-Term Liabilities

The Corporation's hourly employees have negotiated a severance benefit in the collective bargaining agreement. Upon completion of two years of service, hourly employees become eligible for the severance benefit. The benefit payout is calculated as 1% of average annual earnings multiplied by the number of years of service, plus \$25 for each year of service. Employees that are separated for any reason other than lay off, retirement, permanent and total disability or death, shall not receive any severance benefit payment. The accrued obligation was \$265,212 as at December 31, 2010 (2009 – \$224,306).

14. Capital Lease Obligation

December 31,	2010	2009
Conditional sales contract for equipment originally valued at \$77,900, secured with the equipment, 7.49% annual interest rate on the outstanding loan balance and repayable in monthly instalments of \$1,281, maturing in October 2012	\$ 26,262	\$ 39,141
Less: Current portion	15,375	15,375
Capital lease obligation, net of current portion	\$ 10,887	\$ 23,766

15. Share Capital

COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares without par value. Each common share entitles the holder to one vote.

During the year ended December 31, 2010, the Corporation had the following share capital transactions:

1. Issued 26,565,000 units at a price of CA\$0.26 per unit, with each unit consisting of one common share of the Corporation and one-half of one common share purchase warrant. Each warrant is exercisable for one common share at a price of \$0.35 per share for a period of two years following closing. The Corporation has the right, commencing nine months after closing to call the outstanding warrants should the Corporation's common share price close at or above \$0.45 for 20 consecutive trading days. The underwriter was issued broker warrants equal to 6% of the number of units sold. Each broker warrant entitles the underwriter to purchase shares at \$0.26 per share for a period of two years following closing. The Corporation also has the right, commencing nine months after closing, to call the outstanding broker warrants, should the Corporation's common share price close at or above \$0.45 for 20 consecutive trading days. Issue costs totalled \$820,165 for these units, of which \$255,330 relates to broker warrants as a non-cash charge to share capital.
2. Issued 3,862,488 common shares upon the exercise of previously issued stock options.
3. Issued 5,589,847 common shares upon the exercise of previously issued warrants.

During the year ended December 31, 2009, the Corporation had the following share capital transactions:

1. Issued 516,667 common shares upon the exercise of previously issued stock options.
2. Issued 35,385,500 units at a price of CA\$0.13 per unit, with each unit ("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 Corporation at a price of CA\$0.155 per common share until July 16, 2014. Issue costs totalled \$622,611 for these Units, of which \$80,899 relates to broker warrants as a non-cash charge to share capital.

EARNINGS (LOSS) PER SHARE

Net income per share and weighted average common shares outstanding are calculated as follows:

December 31,	2010	2009
Net income (loss) available to common shareholders	\$ 3,564,732	\$ 6,797,241
Weighted average shares outstanding – basic	259,628,626	231,186,915
Unexercised weighted average dilutive stock options and warrants	12,422,912	10,863,606
Weighted average shares outstanding – diluted ¹	272,051,538	242,050,521

¹ The diluted weighted average shares outstanding in 2010 excludes 18,914,475 (2009 – 7,563,321) options and warrants as they would have been anti-dilutive.

16. Stock Options and Warrants

The Corporation's Stock Option Plan (the "Plan") provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal to or greater than the market price of the Corporation's common shares on the date of the grant to directors, officers, employees and consultants to the Corporation. Options that are granted under the Plan have expiry dates of up to 5 years from the grant date. Plan options may be issued as immediately exercisable or may contain provisions which specify vesting over several years, as well as performance based. Each stock option is exercisable into one common share of the Corporation at the price specified in the terms of the option.

The Corporation uses the Black-Scholes option pricing model to value the options granted at the time of grant, and the assumptions used within the model, and resulting weighted average fair value estimate per option, are as follows:

	2010		2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, January 1,	17,629,475	CA\$ 0.34	16,864,475	CA\$ 0.44
Granted	7,468,750	0.22	7,800,000	0.13
Exercised	(3,862,488)	0.22	(516,667)	0.11
Cancelled	(1,261,666)	0.42	(5,839,150)	0.39
Forfeited	(720,002)	0.17	(679,183)	0.36
Balance, December 31	19,254,069	CA\$ 0.32	17,629,475	CA\$ 0.34

	2010	2009
Number of options granted	7,468,750	7,800,000
Exercise price	CA\$0.18 – 0.235	CA\$0.13 – 0.15
Weighted average expected life	3.0 years	2.4 years
Weighted average risk-free interest rate	1.78%	0.72%
Weighted average expected volatility	78%	82.1%
Weighted average dividend yield	0.0%	0.0%
Weighted average fair value	\$0.11	\$0.05074

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility. The stock options granted to key employees, officers, and directors have characteristics significantly different from those of traded options, and changes in subjective input assumptions can materially affect the fair value estimate.

The Corporation recognizes over the vesting period, as compensation costs arise from stock option awards, the fair value of stock options at the date of grant, and has included these costs in general and administrative expenses within the consolidated statement of operations. The fair value of stock options vested during the year ended December 31, 2010, less the fair value of options cancelled and forfeited, amounts to \$569,580 (2009 – \$267,784).

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2010.

Exercise Price CA\$	Options Outstanding	Expiry Date	Weighted Average Remaining Life (Years)	Outstanding	Exercisable	
				Weighted Average Price CA\$	Options Exercisable	Weighted Average Price CA\$
0.10	1,090,000	Nov. 2013	2.9	0.10	1,090,000	0.10
0.13	25,000	Feb. 2014	3.1	0.13	25,000	0.13
0.13	2,675,000	Oct. 2014	3.8	0.13	891,653	0.13
0.13	2,000,000	July 2014	3.5	0.13	2,000,000	0.13
0.14	400,000	Mar. 2014	3.2	0.14	400,000	0.14
0.15	1,500,000	Feb. 2014	3.1	0.15	1,000,000	0.15
0.18	200,000	Dec. 2014	4.0	0.18	200,000	0.18
0.225	5,698,760	June 2015	4.5	0.225	1,519,576	0.225
0.235	33,334	Aug. 2015	4.6	0.235	0	0.235
0.40	2,341,975	Dec. 2011	1.0	0.40	2,341,975	0.40
0.40	350,000	Jul. 2013	2.5	0.40	350,000	0.40
0.73	660,000	Aug. 2012	1.6	0.73	660,000	0.73
0.75	300,000	Mar. 2012	1.2	0.75	300,000	0.75
0.79	200,000	Mar. 2013	2.2	0.79	200,000	0.79
0.81	780,000	Nov. 2012	1.9	0.81	780,000	0.81
1.19	1,000,000	Apr. 2012	1.3	1.19	1,000,000	1.19
	19,254,069				12,758,204	

The warrants that are issued and outstanding as at December 31, 2010 are as follows:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
13,695,250	0.155	Investors	July 2009	July 16, 2014	\$ 374,173
707,710	0.160	Broker Unit ¹	July 2009	July 16, 2011	17,326
353,886	0.155	Broker ¹	July 2009	July 16, 2014	15,035
13,282,500	0.350	Investor ²	Sept. 2010	Sept. 29, 2012	1,500,922
1,593,900	0.260	Broker ²	Sept. 2010	Sept. 29, 2012	263,471
29,633,246					\$2,170,927

- Each two Broker Units, if and when exercised by the Unit holder, allow the holder to purchase two common shares at CA\$0.16 per share and also entitles the Unit holder to one new Broker Warrant exercisable for one common share at CA\$0.155 until July 16, 2014.
- Subsequent to June 29, 2011, the Corporation has the right upon 30 days notice, should the common shares close at or above \$0.45 for 20 consecutive trading days, to call these warrants.

17. Accumulated Other Comprehensive Loss

	Unrealized Gains(losses) on Available-for-Sale Securities	Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2009	\$ (1,125,764)	\$ (7,208,374)	\$ (8,334,138)
Unrealized loss on available-for-sale securities ¹	(341,080)	–	(341,080)
Unrealized foreign currency loss on self-sustaining operations	–	(226,266)	(226,266)
Balance, December 31, 2009	\$ (1,466,844)	\$ (7,434,640)	\$ (8,901,484)
Balance, January 1, 2010	\$ (1,466,844)	\$ (7,434,640)	\$ (8,901,484)
Unrealized loss on available-for-sale securities ¹	(1,010,888)	–	(1,010,888)
Unrealized foreign currency loss on self-sustaining operations	–	99,599	99,599
Balance, December 31, 2010	\$ (2,477,732)	\$ (7,335,041)	\$ (9,812,773)

- During the years ended December 31, 2010 and 2009, realized gains (losses) of \$-- and \$146,216 respectively, were reclassified to gain on sale of investments within the consolidated statement of operations and comprehensive income (loss). The net unrealized loss for the year ended December 31, 2010 was \$1,005,429.

18. Provision for Income Tax

The Corporation files Canadian income tax returns for its Canadian operations. Consolidated income tax returns are filed in the United States, and the foreign rates are different than those applicable in Canada.

The total provision for income taxes differs from that amount which would be computed by applying the Canadian income tax rate to income (loss) before provision for income taxes. The reasons for these differences are as follows:

	2010	2009
		As Restated (See Note 23)
Income (loss) before income taxes	\$ 4,923,625	\$ 2,040,250
(Provision for) recovery of income taxes based on statutory rates	(1,921,198)	(796,024)
Net adjustment for:		
Stock-based compensation and other permanent items	513,212	–
Reversal of deferred taxes on foreign exchange related to investment	–	2,197,467
Other non-deductible permanent items	(131,246)	(4,185)
Taxes, refunds and reserves	180,339	–
Recognition of prior years' losses and other tax assets	–	3,359,733
Income taxes (provision) recovery	\$ (1,358,893)	\$ 4,756,991

The Corporation recognizes future tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities and net operating loss carry-forwards. Future tax assets and liabilities are as follows:

	2010	2009
		As Restated (See Note 23)
Net operating losses	\$ 4,492,826	\$ 2,700,193
Contracts and foreign exchange	(412,186)	413,704
Other	(187,208)	(22,507)
	3,893,432	3,091,390
Valuation allowance	-	-
Net future income tax asset (liability) – current	\$ 3,893,432	\$ 3,091,390

	2010	2009
		As Restated (See Note 23)
Investments	\$ 1,105,323	\$ 1,023,780
Property, plant and equipment and mining assets		(1,235,772)
Net operating losses	(546,388)	3,461,531
Contracts and foreign exchange	-	(200,410)
Other	66,762	27,242
Future income tax asset (liability)	625,697	3,076,371
Valuation allowance	(1,105,323)	(1,023,780)
Net future income tax (liability) asset – long-term	\$ (479,626)	\$ 2,052,591

At December 31, 2010, the Corporation had cumulative net operating loss carry-forwards of approximately, all within the United States. These amounts will expire in various years through 2029, as follows:

	Canada	United States	Total
2023	\$ -	\$ 955,874	\$ 955,874
2025		2,612,073	2,612,073
2026		315,495	315,495
2027		3,665,039	3,665,039
2028		3,966,861	3,966,861
Total	\$ -	\$ 11,515,342	\$ 11,515,342

19. Commitments and Contingencies

From time to time, the Corporation may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Corporation. As of December 31, 2010 and 2009, no material claims were outstanding.

20. Capital Management and Liquidity

The Corporation manages its cash and cash equivalents, common shares, retained earnings, stock options and warrants as capital. The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Corporation prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Corporation does not pay out dividends. The Corporation's investment policy, in general, is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The nature of the industry in which the Corporation operates is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures.

The Corporation's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through its revolving advances facility. Revenue, available cash balances, draws on the revolving advances credit facility and financing of indebtedness are the Corporation's principal sources of capital used to pay operating expenses and recurring capital and leasing costs in its business. There has been no change in the year in the Corporation's approach to its capital management.

The principal liquidity needs for periods beyond the next twelve months are for non-recurring capital expenditures, development costs and potential mining expansion. The Corporation's strategy is to meet these needs with one or more of the following:

- cash flows from operations;
- common share and warrants offering;
- proceeds from sales of assets;
- revolving advances facility.

The following table presents the contractual maturities of the Corporation's financial liabilities:

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Asset retirement obligation	\$ 2,380,404	\$ –	\$ –	\$ –	\$ 2,380,404
Capital leases	26,262	15,375	10,877	–	–
Derivative-related liabilities	3,639,213	3,639,213	–	–	–
Accounts payable and accrued liabilities	3,419,863	3,419,863	–	–	–
Other long term liabilities	265,212	–	–	–	265,212
Total	\$ 9,730,954	\$ 7,074,451	\$ 10,877	\$ –	\$ 2,645,616

21. Financial Instruments

The Corporation's operations expose the Corporation to market risk, credit risk, and liquidity risk. The Corporation manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Corporation's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

(a) Derivatives and Hedging Activities

The Corporation uses derivative and non-derivative instruments to manage financial risks, including commodity, interest rate, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. The Corporation does not use derivatives for speculative purposes.

The Corporation has used in 2010 the following derivative instruments to manage these risks:

- Forward contracts to hedge exposures to fluctuations in metal prices (See Note 12)

For the year ended December 31, 2010, the Corporation recorded a hedge loss of \$4,818,924 (2009 – \$1,696,117).

For 2011, the Corporation has sold forward 500,000 ounces of silver at an average price of \$27.50 per ounce with 41,667 ounces being deliverable each month from January 2011 until December 31, 2011. All contracts have been designated as normal purchase and sale contracts with the Corporation's existing trading firm (See Note 12). Accordingly, the effects of these contracts are accounted for in the period they are settled.

EMBEDDED DERIVATIVES

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the shipment date and the actual final price set under the relevant contracts are caused by fluctuations in the market prices for copper, lead and silver, and result in an embedded derivative. The embedded derivative is recorded at fair value each period until settlement occurs, with the changes in fair value recorded to revenues. As at December 31, 2010, the Corporation has recorded embedded derivatives in the amount of \$12,176,362 in receivables and related embedded derivatives within the consolidated balance sheet (December 31, 2009 – \$5,682,134) related to these embedded derivatives. Currently, two customers represent 100% of the Corporation's trade receivables which contains the embedded derivative.

(b) Fair Value of Non-Derivative Financial Instruments

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. The carrying value and fair value of financial instruments are as follows:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	\$ 5,435,159	\$5,435,159	\$ 2,509,680	\$ 2,509,680
Receivables and related embedded derivatives	12,677,519	12,677,519	5,729,781	5,729,781
Investments	–	–	1,019,112	1,019,112
Derivative-related assets	–	–	118,015	118,015
Restricted cash	3,131,288	3,131,288	115,000	115,000
Financial liabilities				
Revolving advances facility	–	–	688,144	688,144
Accounts payable and accrued liabilities	3,419,863	3,419,863	2,896,925	2,896,925
Derivative-related liabilities	3,639,213	3,639,213	1,178,361	1,178,361
Capital lease obligations	26,262	26,262	39,141	39,141
Other long-term liabilities	265,212	265,212	224,306	224,306

(c) Fair Value Hierarchy

The Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The following table outlines financial assets and liabilities measured at fair value in the consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 5,435,159	\$ –	\$ –	\$ 5,435,159
Restricted cash	3,131,288	–	–	3,131,288
Investments	–	–	–	–
Derivatives-related assets	–	–	–	–
Embedded derivatives within Receivables and related embedded derivatives	–	12,677,519	–	12,677,519
Total Assets	\$ 8,566,447	\$ 12,677,519	\$ –	\$ 21,243,966
Liabilities				
Derivative-related liabilities	\$ –	\$ 3,639,213	\$ –	\$ 3,639,213
Total Liabilities	\$ –	\$ 3,639,213	\$ –	\$ 3,639,213

(d) Market Risk

Market risk is the risk that changes in market price, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net income or the value of financial instruments. These risks are generally outside the control of the Corporation. The objectives of the Corporation are to mitigate market risk exposure within acceptable limits, while maximizing returns.

FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign currency fluctuations as the Corporation holds Canadian dollars, and these consolidated financial statements are presented in U.S. dollars. As at December 31, 2010 the Corporation had approximately CA\$3.2 million (December 31, 2009 – CA\$0.2 million) in cash with no forward foreign exchange contracts in place.

COMMODITY RISK

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of copper, lead and silver. As at December 31, 2010, the Corporation has committed to deliver 500,000 ounces of silver at a price \$27.50 per ounce as detailed in Notes 12 and 23. The Corporation is particularly exposed to the risk of movements in the price of silver. Declining market prices for silver could have a material effect on the Corporation's profitability, and the Corporation's policy is not to hedge a large portion of its exposure to silver in accordance with shareholders' preference. The London Silver Spot price average, in USD per ounce, was \$14.65 in 2009 and \$20.19 in 2010.

The Corporation estimates that an increase (decrease) in all of these commodity prices by 10% with all other variables held constant, would result in a increase (decrease) in net income of approximately \$3.3 million

(e) Credit Risk

Credit risk related to accounts receivable arises from the possibility that customers may be unable to fulfill their commitments. The Corporation mitigates this risk by regularly monitoring the financial health and aging of any amounts due from its customers. Currently two customers represent 100% of the Corporation's revenue. As at December 31, 2010, the Corporation is exposed to a maximum credit risk of \$12,677,519 (2009 – \$5,729,781).

The majority of the Corporation's trade receivables are collected within 60 days. The balance of accounts receivable past due is not significant.

22. Segmented Information and Major Customers

The Corporation's operations comprise a single reporting segment engaged in exploration and exploitation of the Corporation's mineral assets within the United States. As these operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements for revenue, income before income tax, amortization and total assets also represent segmented amounts, with the exception of the following which are in Canada: Cash of approximately \$3,476,031 (2009 – \$2,415,000).

The Corporation had sales to two customers which individually each exceeded 10% of revenues in the year ended December 31, 2010 and in the prior year ended December 31, 2009. Those sales were approximately 80% (2009 – 75%) and 20% (2009 – 25%) respectively of total sales for the periods.

Although the Corporation's revenues are primarily derived from two customers, the risk of economic dependency is limited as its product is a commodity and can be sold to a number of other potential customers on similar commercial terms.

23. Correction of an Error

The consolidated financial statements as at and for the year ended December 31, 2009 have been restated for the correction of certain errors in the Corporation's accounting for income taxes.

In 2010, the Corporation corrected an error that originated in 2009. The error arose as a result of the recording of a future tax liability in respect of certain unrealized foreign exchange gains arising on an inter-company balance which was determined, as at April 1, 2009, to be part of the Corporation's net investment in foreign subsidiaries such that it is unlikely that the temporary difference will reverse in the foreseeable future. The Corporation also corrected an error in its future income tax asset balance that arose as a result of certain errors in the tax basis used to determine the temporary differences associated with certain accounts.

The effect of correcting these errors on the December 31, 2009 consolidated balance sheet was an increase to the future income tax asset of \$2.7 million and a corresponding increase of \$2.7 million in the future income tax recovery reported in the statement of operations and comprehensive income (loss) for the year ended December 31, 2009. The corresponding impacts to the statements of shareholders' equity and cash flows for the year ended December 31, 2009 were also corrected.

Corporate Information

Annual General Meeting

Turf Lounge
330 Bay Street,
Toronto, Ontario M5H 2S8
Thursday, June 23, 2011
at 4:00 pm (EDT)

Corporate Office

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Galena Mine

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Tel: 208.752.1116

Auditors

Deloitte & Touche LLP
Toronto, Ontario

Bankers

Scotiabank
Wells Fargo

Legal Counsel

Gowlings, Lafleur, Henderson LLP
Toronto, Ontario

Transfer Agent

Valiant Trust Company

Share Listings

The TSX Venture Exchange: USA
US OTC Markets: USSIF
DB Frankfurt: QE2

Issued & Outstanding Shares

292,386,707

Board of Directors & Senior Management

Board of Directors

Gordon Pridham
Chairman of the Board

Thomas Parker
Chief Executive Officer

Bobby Cooper

John Brock
Chairman, Corporate Governance Committee

James Macintosh
Chairman, Audit Committee

Kevin Stulp
Chairman, Compensation Committee

Senior Management

Thomas Parker
Chief Executive Officer

Steve Long
Chief Operating Officer

Christopher Hopkins
Chief Financial Officer

Matt O'Reilly
Chief Engineer

Mark Bren
Mine Superintendent

Greg Nickel
Chief Geologist

