
U.S. SILVER CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
DATED NOVEMBER 26, 2010

Disclosure Regarding Forward-Looking Statements

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

U.S. Silver Corporation
Management Discussion and Analysis
Table of Contents

Management Discussion and Analysis	1
Overview	1
Recent Developments	1
Results of Operations	4
Summary of Quarterly Results.....	7
Liquidity	7
Capital Resources.....	9
Selected Annual Financial Information	10
Off-Balance Sheet Arrangements	12
Transactions With Related Parties	12
Proposed Transactions	12
Risk Factors	12
Critical Accounting Policies and Estimates	17
Changes in Accounting Policies	20
Financial Instruments and Other Instruments	20
Capital Structure	20
Other MD&A Requirements	22
Disclosure Controls and Procedures	22
International Financial Reporting Standards.....	23

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.

Management Discussion and Analysis

In this report the Management of U.S. Silver Corporation presents operating highlights for the three-month and nine-month periods ended September 30, 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 three-month and nine-month periods ended September 30, 2010. This report should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and the accompanying notes (“FS2009”). 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 November 26, 2010.

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 217 million ounces of silver and associated by-product metals of copper and lead over a modern production history of more than fifty years.

The Company underwent significant changes in the latter part of 2008 which positively impacted the Company’s performance in 2009 and the first half of 2010. U.S. Silver’s operations started to realize the benefits that were the result of changes in management and operating philosophy initiated in the fourth quarter of 2008. With new management in place, wage and salary concessions from employees and price concessions from contractors and vendors; significant gains were realized operationally. Additionally, new smelter contracts were negotiated and put in place for both smelters used by the Corporation. New work areas in the mine were opened up for both silver-copper and silver-lead ores. At the beginning of the third quarter 2009, work resumed on the Galena shaft rehabilitation project. Major rehabilitation of the shaft was substantially completed by the end of the first quarter 2010. Additionally, contractors began increasing the number of raises (vertical underground excavations accessing to ore reserve blocks) being developed and U.S. Silver crews began rehabilitating infrastructure throughout the mine

Recent Developments

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.

Silver production during the first nine months of 2010 totalled 1,705,820 ounces which was 4.13% (70,495 ounces) lower than the 2009 production of 1,776,315 ounces during the same period. Lead production increased 4.44% (176,846 pounds) from 3,984,149 pounds to 4,160,995 pounds and copper production decreased 11.73% (96,251 pounds) from 820,352 pounds to 724,101 pounds in the same nine month periods of 2009 and 2010, respectively. Silver production averaged 189,536 ounces of silver per month during the first three quarters of 2010 compared to 197,368 per month for the same period of 2009. Lower silver and copper production levels were the result of mining at lower head grades even though 4.29% more tons were mined and milled (157,063 in first nine months of 2009 vs. 163,801 in the same period of 2010). Production continued to be negatively impacted by an underground accident and subsequent investigation as described below. Cash cost per silver ounce produced increased 15.8% from \$11.70 per ounce in the first nine months of 2009 to \$12.94 per ounce in the first nine months of 2010. The primary causes for the higher costs were the continuation of 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 quarter 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 days following the June 2010 fatal accident. The Company continued to make investments in infrastructure in the first nine months of 2010 with capital expenditures of \$6.1 million for mine development and \$1.7 million for fixed assets. Additionally, targeted repairs and maintenance were made to improve the Galena Mine during the nine months ended September 30, 2010.

During the first three quarters of 2010 the Company completed 796 feet of raise development, 2,566 feet of track development and 1,311 feet of mechanized development drifting compared with 628 feet of raise development, 1688 feet of track development and 2238 feet of mechanized development drifting during the same period of 2009. Raise and track development footage increased 27% and 52% respectively, while mechanized drifting decreased 41% during the reporting period. In the first nine months of 2010, the Company completed 35,470 feet of underground exploration drilling, compared to 6,630 feet of exploration drilling in the first nine months of 2009. After curtailing diamond drilling during the first half of 2009 to conserve cash, a single core drill resumed drilling in July 2009 and a second drill was added in November. In addition, the Company operates a small, portable core drill for nearby exploration targets, mine planning and development purposes. The Company plans to continue the current rate of underground exploration diamond core drilling, with two contract drills and one in-house drill, throughout the remainder of the year. Utilizing the three drills, the Company has budgeted for a total of 47,124 feet of drilling to upgrade reserves and resources and to delineate new viable silver and lead veins.

In the first nine months of 2010, the workforce had four lost time accidents and, as of November 10, 2010, completed a total of 9 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. The incident investigation is ongoing and MSHA has not issued a final report. A series of health and safety initiatives were instituted during 2009 which continued into 2010, 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.

The Company has a revolving advances agreement in order to advance funds against concentrate shipments on an as-needed basis which was in place and has been periodically utilized throughout the first three quarters of 2010. At December 31, 2009 outstanding revolving advances totalled \$688,144. At September 30, 2010, 811,765 of advances were outstanding under this facility.

Higher metal prices and the financial results of the changes noted above were demonstrated by improvements in cash provided by operations (\$7.1 million in the first three quarters of 2010 compared to \$1.2 million in the same period in 2009) and working capital (\$17.1 million at September 30, 2010 compared to \$11.6 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. 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. The Company remains completely un-hedged after 2011.

The Company continues to plan for the re-development of the Coeur mine and has prepared initial development, mining and exploration plans that are currently being reviewed by 3rd party independent engineers. Work will commence in the early part of 2011 with first production expected toward the end of 2011. Expected costs are \$6 million and expected annual production once the mine is fully operational is expected to be 500,000 ounces of silver. The volumes can be accommodated within existing milling capacity.

In the course of the preparing the Company's consolidated financial statements for the year ended December 31, 2009, management identified errors in accounting for its long-term retirement plans and in its accounting for income taxes. As a result, the Company has restated its consolidated balance sheet as at December 31, 2008, as well as its consolidated statements of operations and comprehensive income (loss) and cash flows for the year then ended. The restatement is more fully described in Note 24 to the 2009 Financial Statements and the impact of the restatement of first half of 2009 is described in Note 19 to the unaudited financial statements for the nine months ended September 30, 2010.

Results of Operations

Analysis of First Nine Months 2010 vs. First Nine Months 2009

The Company recorded net income of \$0.9 million in the first three quarters of 2010 compared to a net income of \$0.5 million in the same period of 2009. The \$0.4 million increase was primarily attributable to higher sales (\$7.2 million) offset by higher cost of mining (\$3.2 million), higher general and administrative expense (\$0.8 million), higher exploration costs (\$0.7 million), higher loss on hedged derivatives (\$0.6 million) and higher foreign exchange losses of \$0.8 million each of which are described in more detail below:

- *Revenue* increased by \$7.2 million from \$34.3 million in first nine months of 2009 to \$41.5 million in the same period of 2010. The 21.1% increase was due to higher metal prices partly offset by the sale of 6.4% fewer silver ounces (1,753,174 sold in the first nine months of 2010 compared to 1,872,797 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, weighted and sampled by the smelter. The average London Silver Spot price increased 32.0% to \$18.06 in the first three quarters of 2010 from \$13.68 in the same period of 2009.
- *Cost of Mining* increased by \$3.3 million from \$30.4 million in the first nine months of 2009 to \$33.6 million in the same period of 2010. The 10.5% increase was primarily due to low costs incurred in the period-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 \$0.7 million from \$0.4 million in the first three quarters of 2009 to \$1.1 million in the first three quarters of 2010 due to the deferral of the 2009 exploration program in order to conserve cash. There was no such deferral of the 2010 exploration program.
- *Foreign Exchange Gain* decreased \$0.8 million from a gain of \$0.8 million in the first nine months of 2009 to a small loss in the same period of 2010 due to changes in the relationship of the Canadian dollar to the US dollar.
- *Loss on Hedged Derivatives* increased \$0.5 million from a \$1.5 million loss in the first nine months of 2009 to a \$2.1 million loss in the same period of 2010 due to the impact of short-term hedges in 2010 when the price of silver was rising.
- *Stock based compensation* increased \$0.6 million compared to the prior year due to the increased volatility assumptions and pricing parameters used the Black-Scholes valuation of the options granted in the period.

Analysis of Third Quarter 2010 vs. Third Quarter 2009

The Company recorded net income of \$0.3 million in the third quarter of 2010 compared to a net loss of \$0.3 million in the third quarter of 2009. The \$0.6 million increase in net income was primarily attributable to a lower cost of mining (\$2.0 million), offset by lower sales (\$0.6 million), higher general and administrative costs (\$0.3 million), higher exploration costs (\$0.3 million) and higher income tax expense (\$0.2 million) each of which are described in more detail below:

- *Revenue* decreased by \$0.6 million from \$12.6 million in Q3-2009 to \$12.0 million in Q3-2010. The 4.6% decrease was due to fewer silver ounces sold offset by higher metal prices (439,608 sold in Q3-2010 compared to 573,106 sold in Q3-2009). The timing of concentrate shipments influences the period in which revenue is recorded since sales are not recognized until shipments

are received, weighted and sampled by the smelter. The average London Silver Spot price increased 28.9% to \$18.95 in Q3-2010 from \$14.70 in Q3-2009.

- *Cost of Mining* decreased by \$2.0 million from \$10.5 million in Q3-2009 to \$8.5 million in Q3-2010. The 20% decrease was primarily due to lower volumes in the quarter which led to higher unit costs per ton of material mined.
- *General and Administrative* costs increased slightly due to increased investor relations activities that had been curtailed in the previous period and severance costs.
- *Exploration* costs increased from \$0.2 million in Q3-2009 to \$0.5 million in Q3-2010 due to the resumption of normal exploration activities in 2010 following a deferral of the 2009 exploration program in order to conserve cash.
- *Stock based compensation* increased \$0.6 compared to the prior year due to the increased volatility assumptions and pricing parameters used the Black-Scholes valuation of the options granted in the period.
- *Income Tax Expense* increased \$0.2 million due to moving from accruing income taxes on a loss before taxes in Q3-2009 to accruing taxes on income before taxes in Q3-2010.

Operating highlights from the third quarter of 2010 included the following:

- Production continued to be negatively impacted by seismic activity, an increased regulatory agency presence, and lower than expected head grade. On the 3700 level, repair from a seismic event continued at 281 stope. On the 4000, 4300 and 4900 levels, repair work continues to impact production from the 204, 274, 310 and 352 stopes. Head grade continues to be an issue in several work areas, including the 4600 mechanized stope area which accounts for nearly 30% of the mill feed. Production and exploration I-drifting continued in multiple areas of the mine, including the 4000, 4900 and 5200 levels, further delineating existing stopes and future work areas.
- Development on the 3700 level of two high grade zones on the 117 and 215 veins continued with 238 feet of drift and a shop completed. On the 4000 level, 404 feet of track drift was completed in the Argentine Vein to access a resource block and two drill-indicated veins, and on the 5200 level 411 feet of track drift were completed. Work continued in the 204 raise on the 4300 level to access reserve blocks on the 215 vein. On the 5200 level the 354 raise prep was completed. Raise activity in the 34-287 and 43-204, suspended under order of MSHA to review operations plans, was continued. The 204 raise activity has been restarted and the 287 raise was completed in September. The second Alimak raise, some 220 feet in length, has been delayed by equipment failures, and should be completed late in the fourth quarter.
- Rehabilitation of the 281 stope on the 3700 level continued. Repair of the 3000 level drifts connecting the working headings to the Galena shaft station was completed. Repair activities on 3400, 4000, 4300 and 4900 were initiated.

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 significantly 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 at the end of first quarter 2010. A fully operational Galena shaft allows for hoisting of personnel and materials, significantly increase overall hoisting capacity at the mine, significantly reduced travel time to certain areas of the mine, allow substantially more shaft maintenance time in the #3 shaft, provide access to a number of key silver-lead

and silver-copper resources on upper levels of the mine and substantially help 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 would be 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 June 30, 2010 as prepared under generally accepted accounting principles in Canada. We really need this table, how about we delete the rows that changed and leave the rest.

SUMMARY (\$ in millions except "per" amounts)	Q3 2010	Q2 2010	Q1 2010	Q4 2009 ²	Q3 2009 ²	Q2 2009 ²	Q1 2009 ²	Q4 2008 ²
Net Sales Revenue	12.0	\$14.5	\$15.0	\$13.4	\$11.1	\$10.3	\$11.1	\$1.6
Silver Ounces Produced	507,368	563,291	635,161	650,841	558,071	583,453	634,791	496,041
Lead Pounds Produced	1,424,637	1,268,909	1,467,449	2,462,707	1,092,864	1,833,638	1,057,647	1,462,899
Copper Pounds Produced	224,243	250,644	249,214	254,955	268,781	250,451	301,120	249,182
Cash Cost/Ag Oz Produced ¹	\$13.57	\$12.90	\$12.59	\$11.56	\$13.37	\$11.34	\$10.59	\$16.27
Net Income (Loss)	\$0.2	\$0.2	\$0.5	\$3.5	\$(0.3)	\$(0.5)	\$1.4	\$(1.1)
Comprehensive Income (Loss)	\$0.1	\$0.1	\$0.5	\$4.6	\$(0.3)	\$(1.5)	\$0.8	\$(10.3)
Net Income (Loss) per Share	\$0.00	\$0.00	\$0.00	\$0.02	\$(0.00)	\$(0.00)	\$0.01	\$(0.01)
Cash Equivalents, Begin	2.3	\$3.5	\$2.5	\$3.1	\$2.1	\$3.2	\$2.7	\$8.1
Cash Flow from Operations	1.8	1.8	3.5	\$0.9	\$(0.4)	1.5	0.4	(5.2)
Cash Flow from Financing	7.0	(0.1)	(0.3)	\$1.1	\$2.7	(1.3)	1.8	1.6
Cash Flow from Investing	(2.9)	(2.8)	(2.2)	\$(3.1)	\$(1.6)	(1.4)	(0.8)	(3.2)
Effect of Exchange Rates	(0.1)	(0.1)	0.0	\$0.5	\$0.3	0.1	(0.9)	1.4
Cash and Equivalents, End	8.1	\$2.3	\$3.5	\$2.5	\$3.1	\$2.1	\$3.2	\$2.7
Current Assets (qtr end)	\$22.8	\$15.2	\$16.2	\$16.5	\$14.7	\$10.9	\$13.5	\$10.7
Current Liabilities (qtr end)	\$5.7	\$3.3	\$4.4	\$4.8	\$4.3	\$3.4	\$4.4	\$3.0
Working Capital (qtr end)	\$17.1	\$11.9	\$11.8	\$11.7	\$10.4	\$7.5	\$9.1	\$7.7
Total Assets (qtr end)	\$70.5	\$61.5	\$61.9	\$61.6	\$59.3	\$55.3	\$58.0	\$53.2
Total Liabilities (qtr end)	\$12.2	\$9.9	\$11.0	\$11.2	\$13.0	\$12.2	\$13.4	\$10.2
Total Equity (qtr end)	\$58.3	\$51.6	\$50.9	\$50.4	\$46.3	\$43.1	\$44.6	\$43.0

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 September 30, 2010, the Company's cash and equivalents totalled \$8.1 million which was \$5.8 million higher than the December 31, 2009 balance of \$2.5 million. Working capital improved by \$5.5 million. September 30, 2010 working capital totalled \$17.1 million compared to December 31, 2009 working capital of \$11.6 million. Current liabilities as of the September 30, 2010 were \$5.7 million which was \$0.9 million higher than the \$4.8 million balance at December 31, 2009. The Company estimates that it requires about \$8.0 million in working capital at expected production rates, which it currently maintains. The Company's liquidity has improved over the course of 2009 and the first three quarters of 2010.

In February 2009, the Company improved its liquidity position by means of 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 see 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 September 30, 2010.

In the short term, Management believes it has sufficient cash flow to fund its operations, given availability of revolving advances, cash on hand and expected production volumes in 2010 (see Item 6 - Capital Resources). In the longer term, as the Galena Mine returns to full production, the Company believes that cash flows will be sufficient to fund ongoing operations.

The Company received \$3.6 million of net proceeds from an equity offering in July 2009 and a further \$6.2 million in September 2010. The Company believes it has sufficient cash resources to fund all identified capital projects and working capital requirements through the coming year.

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.

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 10 in the audited 2009 Financial Statements). Although both pension plans are under-funded, as of the date of this report, the Company intends to fund to the minimum levels required by applicable law the hourly and salary employee's pension plan. 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 (\$0.2 million was deposited during the first quarter of 2010). 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 Item 10 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 Item 10 - Risk Factors) including fluctuations in metal prices and concentrate shipment difficulties. Additionally, unforeseen cessation in smelter provider capabilities could severely impact the Company's capital resources.

The Company made capital expenditures the first three quarters of 2010 (\$7.9 million) and for the same period of 2009 (\$4.1 million) and is planning to spend approximately \$2.3 million in the fourth quarter. 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 47,000 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 \$1.5 million in 2010.

The Company also has plans to redevelop the Coeur mine in 2001 for an estimated cost of \$6 million. The current cash position and the cash generated from operations is expected to be sufficient to fund this project.

The following table sets out U.S. Silver's contractual obligations as of September 30, 2010:

Contractual Obligations (in U.S. dollars)	Total	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Asset Retirement Obligation ²	\$2,311,072	\$0	\$0	\$0	\$2,311,072
Capital Leases	32,031	15,375	16,656	0	0
Derivative-related Liability	1,470,053	1,470,053	0	0	0
Long-term Retirement Obligation ³	6,272,786	991,030	3,040,768	1,373,499	867,489
Mining Leases ¹	5,577,104	1,249,704	1,657,400	294,700	2,375,300
Operating Leases	125,430	59,882	65,548	0	0
Revolving Advances Facility	811,765	811,765	0	0	0
Severance Liability	534,588	0	0	0	534,588
Total Contractual Obligations	\$17,134,829	\$4,597,809	\$4,780,372	\$1,668,199	\$6,244,404

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)	2009	2008 As Restated
Revenues	\$45.9	\$28.7
Net income (loss)	\$4.1	\$(1.4)
Comprehensive income (loss)	\$3.6	\$(14.4)
Net income (loss) per common share – basic	\$0.02	\$(0.01)
Net income (loss) per common share – diluted	\$0.02	\$(0.01)
Cash flow – operating activities	\$2.4	\$(3.7)
Cash flow – financing activities	\$4.3	\$0.8
Cash flow – investing activities	\$(6.9)	\$(21.4)
Cash cost per silver ounce produced ¹	\$11.67	\$14.07
Ounces sold – silver	2,416,259	1,601,833
Pounds sold – copper	1,087,049	821,097
Pounds sold – lead	6,482,277	4,080,819

At December 31, (Dollars in millions except per share amounts)	2009	2008 As Restated
Cash and cash equivalents	\$2.5	\$2.7
Receivables and related embedded derivatives	\$5.7	\$1.2
Investments	\$1.0	\$1.7
Inventory (concentrates and supplies)	\$6.0	\$4.5
Property, plant and equipment, net	\$6.7	\$6.9
Mining assets, net	\$36.8	\$35.1
Current assets	\$16.5	\$10.7
Current liabilities	\$4.9	\$3.0
Working capital	\$11.6	\$7.7
Total assets	\$61.6	\$53.2
Total liabilities	\$11.2	\$10.2

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.

Reserve and Resource Estimates

The tables below summarize the reserve and resource information as at December 31, 2009. This is compared to the December 31, 2008 estimate. There was a 3% increase in total proven and probable reserves (contained ounces) from December 2008 to December 2009. The Company has released an updated internal estimate of reserves and resources in a new NI 43-101 compliant Technical Report, "Revised Technical Report, Galena Mine Project, Shoshone County, Idaho", dated June 14, 2010. This report was independently prepared by Chlumsky, Armbrust & Meyer, LLC (CAM), a Denver based consulting firm. As stated in the report, "This Technical Report replaces an earlier one prepared by CAM and dated April 13, 2010. The sole reason for this revision is to modify Tables 19-10 and 19-11 in the previous report, as those two tables contained some out-of-date economic input. This revision does not affect in any way the mineral resources or reserves disclosed in the previous Technical Report. The newly-stated cash flows in Table 19-10 continue to be positive in every year and every case, except Year 1 only in the most pessimistic case. There are no other material changes in this revised Technical Report."

December 2009 Estimate

Copper-Silver Ore	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
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%

Lead-Silver Ore	Tons	Ag Grade (oz/t)	Contained Ounces	% Pb
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

December 2008 Estimate

Copper-Silver Ore	Tons	Ag Grade (oz/t)	Contained Ounces	% Cu
Proven & Probable Reserves	722,500	23.41	16,912,100	0.70%
Measured & Indicated Resources ¹	458,700	18.32	8,403,200	0.61%
Inferred Resource	557,900	19.49	10,874,200	0.58%

Lead-Silver Ore	Tons	Ag Grade (oz/t)	Contained Ounces	% Pb
Proven & Probable Reserves	426,300	9.53	4,064,600	10.16%
Measured & Indicated Resources ¹	75,000	10.69	801,500	10.87%
Inferred Resource	689,100	8.94	6,158,600	9.45%

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 to date	\$19.09

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

The 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.

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 expires on March 1, 2011.

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. Please see Item 5 above and Note 10 in the accompanying FS2009.

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 web site 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
- Hedge Accounting

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.

The Company completed an impairment review of its property, plant and equipment, and mining assets at December 31, 2009. The estimates used by management were subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in property, plant and equipment, and mining assets. As a result of this assessment, the Company wrote-down \$126,015 of mining assets in 2009 (\$Nil – 2008).

The Company has reviewed the aforementioned impairment calculations again as of September 30, 2010 and it believes that no further write-downs were needed at that time.

Depletion of Mining Assets

Net mining assets comprised approximately 60% of the Company's total assets at September 30, 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 additionally 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, 2009 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, 2010.

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, 2009 or September 30, 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. 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.

Hedge Accounting

The Company has considered CICA 3865 – Hedges, which specifies the conditions under which hedge accounting is appropriate and includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting. Based on CICA 3865, the Company's conclusion is that the short-term forward contracts associated with its revolving credit facility for the sale of silver do not qualify for hedge accounting. As a result, the Company is required to recognized mark-to-market valuations of its open forward contract positions through net income (loss) at the end of each period.

Changes in Accounting Policies

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

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'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 September 30, 2010, there were 279,019,660 common shares issued and outstanding. As at the date of this Management Discussion and Analysis, there were 284,618,610 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 September 30, 2010:

Exercise Price CA\$	Options Outstanding	Expiry Date	Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Options Exercisable	Weighted Average Price CA\$
\$ 0.10	2,090,000	Nov. 2013	3.2	0.10	2,090,000	\$ 0.10
0.13	325,000	Feb. 2014	3.3	0.13	325,000	0.13
0.13	2,200,000	July 2014	3.8	0.13	2,200,000	0.13
0.13	2,675,000	Oct. 2014	4.0	0.13	0	0.13
0.14	400,000	Mar. 2014	3.5	0.14	400,000	0.14
0.15	1,505,000	Feb. 2014	3.4	0.15	505,000	0.15
0.18	200,000	Dec. 2014	4.3	0.18	150,000	0.18
0.18	400,000	Apr. 2015	4.5	0.18	400,000	0.18
0.225	6,615,416	Jun. 2015	4.7	0.225	2,222,898	0.225
0.235	50,000	Aug 2015	4.9	0.235	16,666	0.235
0.40	3,004,475	Dec. 2011	1.2	0.40	3,004,475	0.40
0.40	750,000	Jul. 2013	2.8	0.40	650,000	0.40
0.73	660,000	Aug. 2012	1.9	0.73	660,000	0.73
0.75	300,000	Mar. 2012	1.4	0.75	300,000	0.75
0.79	200,000	Mar. 2013	2.4	0.79	200,000	0.79
0.81	835,000	Nov. 2012	2.1	0.81	835,000	0.81
1.19	1,000,000	May 2012	1.6	1.19	1,000,000	1.19
	<u>23,209,891</u>				<u>14,959,039</u>	

The following table summarizes the warrants issued and outstanding at September 30, 2010:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
16,075,750	0.155	Investors	July 2009	July 16,2014	\$ 439,212
1,769,275	0.160	Broker Unit ⁽¹⁾	July 2009	July 16,2011	43,315
884,638	0.155	Broker ⁽¹⁾	July 2009	July 16,2014	37,584
13,282,500	0.35	Investor ⁽²⁾	September 2010	September 2012	362,897
1,593,900	0.26	Broker ⁽²⁾	September 2010	September 2012	273,991
<u>33,606,063</u>					<u>\$ 1,156,999</u>

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.

Other MD&A Requirements

The Company was not required to file an Annual Information Form (“AIF”) until the second quarter of 2009 when it filed its first Annual Information Form in advance of filing a preliminary and, subsequently, Final Short Form Prospectus with applicable securities regulators in Canada. Reference is made to that AIF and to the Corporation’s Filing Statement dated December 18, 2006, prepared in accordance with the requirements of the TSX Venture Exchange, in connection with the Company’s Qualifying Transaction reverse takeover, which has been filed with the TSX Venture Exchange and applicable Canadian securities regulators on SEDAR, and is available to be publicly accessed at www.sedar.com. In April, 2010 the Company posted on SEDAR notice that it would withdraw its intent to be qualified to file a short form prospectus under NI-101. Therefore, the Company may not file a new AIF in the future.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”), the Chair of the Audit Committee and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure. As of November 24, 2010, 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 quarter ended September 30, 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 June 30, 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 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 will enhance the oversight from the Audit Committee and management by approving and overseeing the application of complex accounting policies.
- We have an experienced Chief Financial Officer 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 and US GAAP reporting requirements and provide an additional level of review required of reporting documents. Additionally, the bookkeeping functions of both the parent company in Canada and its US holding company subsidiary have been consolidated in the Toronto office

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 2010 include:

- Revision of accounting policies – The project lead is in the process of drafting accounting papers to document IFRS decisions made. These accounting papers will serve to document the Company’s new accounting policies, procedures and changes in controls.
- Preparation and auditor procedures on the IFRS opening balance sheet for January 1, 2010 — Significant differences between Canadian GAAP and IFRS impacting the Company’s opening balance sheet for January 1, 2010 are in the process of being measured. The Company’s external auditor will perform procedures on the IFRS opening balance sheet early next year.
- 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.

In addition to the early-stage progress made on these aspects of the project, it is expected and planned that significant progress to completing the steps above will occur in the remainder of 2010.

Impact of IFRS on the 2011 Consolidated Financial Statements

The Company has identified the following major 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 each separate mine property will be a CGU. Management is currently assessing the consequent 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.

Optional exemption	Company's election
<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.