



Annual Report 2010



Dear Fellow Shareholders,

2010 was an exciting year of development and growth at Silvermet. Our 2009 acquisition of a shuttered zinc plant in Iskenderun Turkey, which we restarted in May 2009, continued to improve and produce high quality zinc concentrate through the balance of 2009 and 2010. It was Silvermet's management objective to become a zinc producer in Turkey, a country with tremendous growth potential for the business of recycling Electric Arc Furnace Dust ("EAFD"), since it is one of the largest electric arc steel producers in the world.

During 2010, Silvermet also made the strategic move to sign a joint venture agreement with the pre-eminent EAFD recycler in the world, Befesa Medio Ambiente, S.A. With Befesa's expertise in this business combined with their financial strength, Silvermet positioned itself as a serious player in the EAFD business in Turkey.

It is the intention of the new Befesa-Silvermet joint venture to significantly expand the processing capacity of the company in Turkey, both by continued refurbishment and modernization of the existing Iskenderun plant, but also by constructing a new state of the art facility. To this end, the partners are now aggressively seeking locations to begin the process of engineering and constructing a new facility.

The present Iskenderun kiln has been recently relined with new refractory bricks and sixty other improvements have been implemented at the site. Silvermet reported its first profitable year as an operating company in 2010, a scant 5 years after its incorporation in 2005.

Management feels confident in the continuing strength of the zinc market, with many primary zinc producing mines nearing the end of their economic life.

Our supply of EAFD in Turkey is substantial and without the risk of mining primary ore. We feel confident in the viability, profitability and growth potential of this business and look forward to updating shareholders throughout the year with ongoing developments.

We wish to thank our shareholders, partner, suppliers and contractors for their support and confidence.

On behalf of the Board

A handwritten signature in blue ink, appearing to read 'S. Roman', with a long horizontal line extending to the right.

Stephen G. Roman
Chairman, President & CEO

SILVERMET INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2010 & 2009**

(EXPRESSED IN UNITED STATES DOLLARS)

Management's Responsibility for Consolidated Financial Statements

The accompanying audited consolidated financial statements of Silvermet Inc. (the "Company" or "Silvermet") were prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for the presentation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments, and policies that it believes reasonable in the circumstances.

The consolidated financial statements were prepared by the management of Silvermet Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

May 2, 2011

"Stephen G. Roman"
Stephen G. Roman
Chairman & CEO

"Ian D. Atacan"
Ian D. Atacan
Chief Financial Officer

May 2, 2011

Independent Auditor's Report

**To the Shareholders of
Silvermet Inc.**

We have audited the accompanying consolidated financial statements of Silvermet Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of net income (loss) and comprehensive income (loss), deficit, cash flows and changes in shareholders' equity for the years then ended, and the related notes including a summary of significant accounting policies.

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 audits 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 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 Silvermet Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Silvermet Inc.**Consolidated Balance Sheets**
(Expressed in United States Dollars)

	As at December 31, 2010	As at December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,188,247	\$ 46,169
Credit facility receivable (note 10)	2,597,324	-
Accounts receivable (note 15)	1,121,559	1,081,508
Inventory	246,886	1,521,980
Investments (note 5)	52,821	62,537
Prepaid expenses	29,004	419,276
	<hr/> 5,235,841	<hr/> 3,131,470
Property and equipment (note 6)	4,365,142	7,075,330
	<hr/> \$ 9,600,983	<hr/> \$ 10,206,800
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ -	\$ 41,000
Accounts payable and accrued liabilities	1,050,009	2,797,906
Unearned revenue	-	749,437
Bank loan (note 12)	181,588	1,130,800
Convertible debenture (note 13)	392,855	-
Tax payable	142,952	-
Current portion of long-term liabilities	218,050	450,203
	<hr/> 1,985,454	<hr/> 5,169,346
Long-term liabilities (note 14)	751,170	1,886,540
	<hr/> 2,736,624	<hr/> 7,055,886
Non-controlling interest (note 7)	-	1,267,004
Shareholders' equity	6,864,359	1,883,910
	<hr/> \$ 9,600,983	<hr/> \$ 10,206,800

Commitments and contingent liabilities (note 23)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Stephen G. Roman"
Stephen G. Roman

"Douglas Scharf"
Douglas Scharf

Silvermet Inc.**Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)****(Expressed in United States Dollars)****For the year ended December 31**

	For the year ended December 31,	
	2010	2009
Revenue		
Gross sales revenue	\$ 14,276,672	\$ 4,531,233
Treatment and transportation costs	(4,363,839)	(1,682,398)
Net revenue	9,912,833	2,848,835
Direct operating costs	7,839,763	2,860,796
Amortization - Turkey	351,602	310,699
Income from Operations	1,721,468	(322,660)
Expenses		
General and administration	1,169,156	1,127,518
Interest and financing (notes 9, 11 & 12)	120,594	89,062
Amortization - Canada	9,985	9,482
Investment and other (gain) loss	16,766	5,217
Foreign exchange loss (gain)	259,984	(55,752)
Stock option expense (note 17)	377,193	150,078
Accretion of liabilities	291,097	237,801
Pre-operating costs	-	542,289
Gain on dilution (note 7)	(1,593,898)	(1,591,456)
	650,877	514,239
Net income (loss) before income taxes	1,070,591	(836,899)
Current Income tax	(132,062)	-
Future income tax (expense) recovery (note 24)	(13,255)	57,701
	925,274	(779,198)
Non-controlling interest in net income of consolidated affiliates (note 7)	94,547	144,131
Net income (loss) available to common shareholders	1,019,821	(635,067)
Other Comprehensive Income	-	-
Comprehensive income/(loss)	1,019,821	(635,067)
Basic income/(loss) per share	\$0.008	(\$0.006)
Diluted income/(loss) per share	\$0.008	(\$0.006)
Basic weighted-average number of shares outstanding	131,591,447	112,097,156
Diluted weighted-average number of shares outstanding	133,206,460	112,097,156

See accompanying notes to consolidated financial statements

Silvermet Inc.

Consolidated Statements of Deficit
(Expressed in United States Dollars)
For the year ended December 31

	Year ended December 31,	
	2010	2009
Balance, Beginning of year	\$ (16,629,065)	\$ (15,993,998)
Net income (loss) for the year	1,019,821	(635,067)
Balance, end of year	\$ (15,609,244)	\$ (16,629,065)

See accompanying notes to the consolidated financial statements.

Silvermet Inc.**Consolidated Statements of Cash Flows****(Expressed in United States Dollars)****For the year ended December 31****Year ended December 31,
2010 2009****Cash generated (used by)****Operating activities**

Net income (loss)	1,019,821	\$ (635,067)
Deferred taxes	13,255	(57,701)
Stock option expense	377,193	150,078
Investment and other loss (gain)	16,766	7,467
Accrued interest	-	47,672
Unrealized foreign exchange loss (gain)	(27,091)	-
Accretion	291,097	237,801
Amortization	361,587	320,181
Gain on dilution	(1,593,898)	(1,591,456)
Non-controlling interest in consolidated affiliates	(94,547)	(144,131)
	364,183	(1,665,156)

Non-cash working capital items:

Note receivable		
Accounts receivable	(40,051)	(929,886)
Prepaid expenses	390,272	(378,216)
Inventory	1,275,094	(1,521,980)
Unearned revenue	(749,437)	749,437
Bank Indebtedness	(41,000)	41,000
Change in income tax liability	142,952	-
Accounts payable and accrued liabilities	(1,747,897)	(325,850)
	(405,884)	(4,030,651)

Financing activities

Shares issued for cash	1,953,247	1,829,398
Share issue costs	(42,502)	(34,970)
Bank loan repayments	(718,212)	-
Loan payable repayments	(932,000)	-
Loan payable proceeds	932,000	2,000,000
Cash received for loan receivable from joint venture	255,000	-
Convertible debenture	474,900	-
Fixed payments	(128,000)	(400,000)
Net cash received on entering joint venture agreement	2,638,957	-
Warrants and options exercised	1,487,181	-
	5,920,571	3,394,428

Investing activities

Issue note receivable to joint venture partner	(2,597,324)	-
Cash paid on closing of Turkish acquisition	-	(727,710)
Investment in joint venture	(1,953,247)	-
Proceeds from dilution and sale of investment	518,333	1,000,000
Acquisition of equipment - net of cash received on disposals	(336,788)	(460,112)
	(4,369,026)	(187,822)

Net change in cash and cash equivalents	1,145,661	(824,045)
Effect of exchange rate changes on cash and cash equivalents	(3,583)	(6,951)
Cash and cash equivalents, beginning of period	46,169	877,165
Cash and cash equivalents, end of period	\$ 1,188,247	\$ 46,169

Interest paid during the year	\$ 120,594	\$ 47,079
Interest received during the year	\$ 6,430	\$ -
Non-cash transactions - Shares issued for interest (note 16)	-	\$ 47,672

See accompanying notes to the consolidated financial statements.

Silvermet Inc.**Consolidated Statements of Changes in Shareholders' Equity
(Expressed in United States Dollars)**

	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	12,848,956	349,706	3,105,947	(15,993,998)	273,890	584,501
Issue of units for cash	1,794,428	-	-	-	-	1,794,428
Allocated to warrants	(192,718)	192,718	-	-	-	-
Allocated to broker warrants	(3,215)	3,215	-	-	-	-
Unit and broker warrants expired	-	(349,706)	349,706	-	-	-
Stock option expense	-	-	150,078	-	-	150,078
Issued for interest payment on loan	47,671	-	-	-	-	47,671
Tax effect on expiry of warrants	-	-	(57,701)	-	-	(57,701)
Loss for the year	-	-	-	(635,067)	-	(635,067)
Balance, December 31, 2009	\$ 14,495,122	\$ 195,933	\$ 3,548,030	\$ (16,629,065)	\$ 273,890	\$ 1,883,910
Issue of shares for cash	1,953,247	-	-	-	-	1,953,247
Exercise of unit warrants	1,603,860	(126,293)	-	-	-	1,477,567
Share issue costs	(42,502)	-	-	-	-	(42,502)
Warrants issued	-	176,868	-	-	-	176,868
Warrants expired	-	(8,546)	8,546	-	-	-
Stock option expense	-	-	377,193	-	-	377,193
Convertible debt - equity component	-	-	18,255	-	-	18,255
Income for the year ended December 31, 2010	-	-	-	1,019,821	-	1,019,821
Balance, December 31, 2010	\$ 18,009,727	\$ 237,962	\$ 3,952,024	\$ (15,609,244)	\$ 273,890	\$ 6,864,359

See accompanying notes to the consolidated financial statements.

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

1. Nature of Operations and Basis of Presentation

Silvermet Inc. (the “Company” or “Silvermet”) is a corporation incorporated under the laws of Ontario. Its principal business activity is the processing of electric arc furnace dust (“EAFD”) obtained from steel companies through a Waelz kiln to recover zinc concentrates that are then treated by zinc smelters. The Company’s Waelz kiln facility is located in Turkey and has been operational since May 2009.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”). Certain comparative figures have been reclassified to conform to current period financial statement presentation.

These consolidated financial statements include the accounts of the Company and its subsidiaries. The interest in the joint venture, Befesa Silvermet Turkey S.L. (“BST”), has been accounted for using the proportionate consolidation method, under which the Company includes in its accounts the Company’s proportionate share of assets, liabilities, revenues and expenses, since the formation of BST on October 27, 2010 (note 8). The Company’s operating results for 2010 therefore include the BST joint venture at 100% for the first 10 months and at 49% for the last 2 months. The balance sheet at December 31, 2010 reflects the impact of proportionate consolidation in which each asset and liability of the BST joint venture is included on a 49% basis.

The reporting currency of the Company is the United States (“US\$”) dollar.

2. Significant Accounting Policies

(a) Change in reporting currency

Effective January 1, 2009, the Company changed its reporting currency from the Canadian dollar (“C\$”) to the United States (“US\$”) dollar. The change in reporting currency was undertaken to better reflect the Company’s business activities. Prior to December 31, 2008, the Company reported its annual and quarterly consolidated balance sheet and the related consolidation statements of operations and cash flows in Canadian dollars.

In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (“EIC”) of the CICA set out in EIC-130, “Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency”. In accordance with EIC-130, the financial statements for all the years presented have been translated into the new reporting currency using the current rate method.

Under this method, the statements of operations and cash flows for each year were translated into the reporting currency using the average exchange rates prevailing during each reporting period (fiscal 2008 – 1.0671; fiscal 2007 – 1.0742; fiscal 2006 – 1.1344 and from January 31, 2005 to December 31, 2005 – 1.2101). All monetary assets and liabilities were translated using the exchange rate prevailing at the consolidation balance sheet dates (December 31, 2008 – 1.2344; December 31, 2007 – 1.0031; December 31, 2006 – 1.1528; and December 31, 2005 – 1.1613). Shareholders’ equity transactions since January 31, 2005 were translated using the average exchange rates prevailing during each reporting period. All resulting exchange differences arising

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

from the translation were included as a separate component of other comprehensive income. As at December 31, 2010 the translation of the prior year balances yielded an accumulated gain due to foreign currency translation adjustment of \$273,890 (2009 - \$273,890).

(b) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The more significant estimates related to the accrued liabilities, contingencies and fair value estimates for stock options. Actual results could be materially different from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and liquid cash investments with an original term to maturity of 90 days or less. Cash and cash equivalents exclude cash subject to restrictions (note 5).

(d) Inventory

Finished products, work in process and raw material inventories are valued at the lower of cost and net realizable value. Work in process inventory includes inventory at various stages of completion at the kiln site. Work in process and finished product inventories include all direct costs incurred during production including direct labour and materials.

(e) Investments

The Company's investments are recorded at fair value, determined based on quoted market prices.

(f) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets over their estimated useful lives. Property, plant and equipment are stated at cost less accumulated amortization. Amortization of assets is calculated using the straight line basis over the estimated life of the specific asset (for leasehold improvements, over the term of the lease), as follows:

Land	- Not applicable
Building	- 20 years
Land improvements	- 20 years
Machinery and equipment	- 10 years
Capitalized leases	- 10 years
Vehicles	- 5 years
Office equipment	- 5 years
Computer equipment	- 2 years
Software	- 1 year

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

(g) Revenue recognition

Sales of zinc concentrate are recognized in revenue on a provisional pricing basis when title transfers, collectability is reasonably assured, and the rights and obligations of ownership pass to the customer, which can occur at different times depending on the contract. Final pricing is not determined until after the zinc concentrate has been received at the destination port. Accordingly, revenue in any period is based on provisional prices for sales occurring in the period and forward prices for ongoing pricing adjustments from sales that are still subject to final pricing. These pricing adjustments result in additional revenues in a rising price environment and reductions to revenue in a declining price environment. The effect of these adjustments on earnings is mitigated by the effect that changing commodity prices have on treatment charges.

(h) Functional currency and foreign currency translations

The functional currency of the Company is the United States Dollar. For integrated foreign operations, monetary assets and liabilities are translated into US dollars at the balance sheet date rate of exchange and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates. Foreign exchange gains and losses are recorded on the consolidated statement of net and comprehensive loss as they occur.

(i) Stock based compensation

The Company has a stock option plan which is described in note 17. Stock based compensation is accounted for at fair value. The fair value of stock options issued is estimated based on the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

(j) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be recognized.

(k) Earnings (loss) per common share

Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the treasury stock method, whereby all "in-the-money" options, warrants and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the year. Dilution for convertible bonds and debentures is calculated on an if-converted basis.

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

(l) Segment disclosures

The Company operates in a single reportable operating segment.

(m) Financial Instruments

All financial instruments, including derivatives, are included on the Company's balance sheet and measured either at fair value or amortized cost. Changes in fair value are recognized in the net earnings (loss) or accumulated other comprehensive income, depending on the classification of the related instruments. Transaction costs are expensed as incurred for financial instruments.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the asset or liability. All financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings (loss).
- Available-for-sale financial assets are measured at fair value. Changes in fair value are included in other comprehensive income (loss) until the gain or loss is recognized in net earnings (loss) or if impairment is determined to be other than temporary.
- Held-for-trading financial instruments are measured at fair value. All changes in fair value are included in net earnings (loss) in the period in which they arise.
- All derivative financial instruments are measured at fair value, even when they are part of a hedging relationship. Changes in fair value are included in net earnings (loss) in the period in which they arise, except for cash flow hedge transactions which qualify for hedge accounting treatment in which case gains and losses are recognized in other comprehensive income (loss).

The Company had classified its financial instruments as follows:

Financial Instrument	Classification	Measurement
Cash and cash equivalents	Held-for-Trading	Fair Value
Credit facility receivable	Loans and Receivables	Fair Value
Settlements receivables	Loans and Receivables	Amortized cost
Investments	Held-for-Trading	Fair Value
Bank indebtedness	Loans and Receivables	Amortized cost
Accounts payable and accrued liabilities	Other Financial Liability	Amortized cost
Loan payable	Other Financial Liability	Amortized cost
Bank loan	Other Financial Liability	Amortized cost
Convertible debenture	Loans and Receivables	Amortized cost
Current portion of long-term liabilities	Other Financial Liability	Amortized cost
Long-term liabilities	Other Financial Liability	Amortized cost

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

3. Changes in Accounting Policies

New Accounting Standards Adopted:

As a result of the Company entering the BST joint venture on October 27, 2010 (note 8), the Company has adopted the following CICA Section 3055 "Interests in Joint Ventures" on a prospective basis. Accordingly, the Company's interests in jointly controlled assets are accounted for using proportionate consolidation. The Company combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. The Company recognizes the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other venturers. The Company does not recognize its share of profits or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

New Accounting Standards Not Yet Adopted:

The AcSB issued CICA Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These new Sections replace existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These Sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently.

4. Waelz Kiln Acquisition

On February 16, 2009, the Company acquired the assets of a Waelz kiln operation located in Iskenderun, Turkey. The gross purchase price was approximately \$7.7 million, which fair value was estimated to be approximately \$6.9 million. Payment of the purchase price comprised cash, the assumption of certain liabilities and bank debts of the vendor, a loan payable to the vendor over two years of \$960,000 and contingent consideration of up to \$2.3 million. A summary of the acquisition is as follows:

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

Purchase Price

Cash Payments	\$	727,710
Loan Payable over two years ⁽¹⁾		849,735
Assumed liabilities		3,669,006
Contingent consideration ⁽¹⁾		1,649,207
	\$	6,859,658

Assets acquired

Land	\$	3,147,636
Building		877,210
Land improvements		285,725
Machinery and equipment		2,478,687
Capitalized leases		92,379
Software		5,830
Vehicles		4,372
Office equipment		3,819
	\$	6,895,658

(1) See note 14

5. Investments

(a) Until its sale on April 16, 2010, the Company held an investment in Logan Resources Ltd. ("Logan"), which trades on the TSX Venture Exchange. The investment had been classified as a held-for-trading instrument. The Company recorded a gain of \$4,028 on its sale.

(b) In connection with its MuskoX exploration work, the Company held an Inuit Owned Lands ("IOL") license, issued by the Kitikmeot Inuit Association ("KIA"). The Company provided a letter of credit for \$50,000 (C\$) to KIA. The KIA may draw upon the letter of credit if certain environmental conditions of the license are breached. The letter of credit has not been drawn upon and no conditions of the license have been breached. The company expects to close out the letter of credit over the next twelve months. The \$50,270 (C\$ 50,000) has been placed on deposit with the financial institution that issued the letter of credit and is recorded as an investment at December 31, 2010.

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

6. Property and Equipment

(proportionally consolidated at 49%)			
December 31, 2010	Cost	Accumulated amortization	Net carrying Value
Turkey			
Land	\$ 1,542,342	\$ -	\$ 1,542,342
Building	445,297	39,941	405,356
Land improvements	140,005	12,834	127,171
Machinery and equipment	2,479,883	263,669	2,216,214
Capitalized leases	45,266	9,053	36,213
Software	4,182	3,022	1,160
Vehicles	8,786	2,776	6,010
Office equipment	34,739	11,117	23,622
Furniture, fixtures and other	1,650	660	990
	\$ 4,702,150	\$ 343,072	\$ 4,359,078
Canada			
Furniture and fixtures	\$ 5,444	\$ 5,444	\$ -
Office equipment	13,066	9,458	3,608
Computer equipment	5,107	2,652	2,455
Leasehold improvements	2,574	2,574	-
	\$ 26,192	\$ 20,128	\$ 6,064
	\$ 4,728,342	\$ 363,200	\$ 4,365,142

Silvermet Inc.
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
Year ended December 31, 2010

Property and equipment (continued)

(consolidated at 100%) December 31, 2009	Cost	Accumulated amortization	Net carrying Value
Turkey			
Land	\$ 3,147,636	\$ -	\$ 3,147,636
Building	877,210	36,550	840,660
Land improvements	285,725	11,905	273,820
Machinery and equipment	2,884,839	236,105	2,648,734
Capitalized leases	92,379	9,238	83,141
Software	5,830	4,858	972
Vehicles	14,811	2,469	12,342
Office equipment	57,445	9,574	47,871
Furniture and fixtures	2,424	485	1,939
Other	944	189	755
	7,369,243	311,373	7,057,870
Canada			
Furniture and fixtures	5,444	2,916	2,528
Office and computer equipment	28,679	15,367	13,312
Leasehold improvements	2,754	1,134	1,620
	36,877	19,417	17,460
	\$ 7,406,120	\$ 330,790	\$ 7,075,330

7. Non-Controlling Interest

On February 21, 2009, the Company entered into a financing with Cooper Island Investments, LLC. ("Cooper Island"), a company related to a major shareholder, Greyling Investments Inc. Subsequently, this financing was amended. The amended financing was a loan of up to \$4,000,000 to be released in tranches of \$500,000. The loan bore interest at 12%, matured at February 21, 2010, and was repayable at any time without penalty. The Company drew down \$500,000 in February 2009, \$500,000 in March 2009 and \$1,000,000 in April 2009 under the loan facility.

Additionally, Cooper Island was entitled to receive 3.4 warrants per \$1 advanced. In connection with the cumulative \$2,000,000 advanced on the loan, the Company contracted to issue to Cooper Island 6.8 million warrants, exercisable at a price of \$0.10 (C\$) per share for the lesser of the term of the loan or 5 years, should there be any loan maturity extensions. The exercise price per share of warrants to be issued in connection with subsequent tranches, if any, was to be the greater of \$0.10 (C\$) and the market price of the Company's common shares at the time of the grant.

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On July 27, 2009, the Company transferred its investment in the Company's Turkish Waelz kiln business (the "Turkish Operations"), along with the associated rights and obligations, including the \$2,000,000 Cooper Island financing to one of its wholly-owned subsidiaries in exchange for equity. On July 28, 2009, the Cooper Island financing was exchanged for an indirect equity position in the Turkish Operations which had previously been approved and confirmed by the shareholders on June 10, 2009. At the date of conversion, all advances under the Cooper Island loan facility were converted to 6.25% equity in the Turkish Operations per \$500,000 amount. The \$2,000,000 advanced through April was therefore converted to a 25% equity position in the Turkish Operations. In connection with such conversion, the warrants that had been contracted for under the loan facility were never issued. Additionally, Silvermet issued 367,000 shares to Cooper Island as payment for interest of \$47,672 up to the date of conversion.

At any time prior to March 31, 2010 Silvermet could call on Cooper Island to make additional equity investments in its Turkish Operations in \$250,000 tranches up to an aggregate of \$2,000,000. Silvermet had the right to maintain its interest by contributing its proportionate share of additional capital within 60 days of Cooper Island's investment. This facility expired on March 31, 2010.

During 2009, \$1,000,000 was drawn on this facility. In the same year, the Company raised \$531,048 to offset a portion of the resulting dilution. During the three months ended March 31, 2010, a further \$500,000 was drawn and as a result Cooper Island's interest rose to 41.5% (35.2% at December 31, 2009) in the Turkish Operations.

On the conversion of the \$2,000,000 advances to equity and on subsequent drawdowns under the Cooper Island facility, the Company recognized gains on dilution of its ownership in the subsidiary totaling \$1,591,456 in 2009 and \$70,078 in 2010. Cooper Island's interest in the Turkish Operations was shown as a Non-controlling interest on the balance sheet and a Non-controlling interest in net losses (income) of consolidated affiliates in the income statement.

On October 27, 2010, in connection with the formation of the BST joint venture, the Company acquired Cooper Island's 41.5% interest in the Turkish Operations for \$4,000,000 (see note 8).

8. Joint Venture

On October 27, 2010, Silvermet and Befesa Medio Ambiente, S.A. ("Befesa") established a joint venture known as Befesa Silvermet Turkey, S.L. ("BST") to hold the shares of the Company's Turkish subsidiary, SYI Metalurji Madencilik Sanayi ve Ticaret A.S. ("SYI"). The Company's Turkish Operations were conducted entirely through SYI, subject to certain additional liabilities, that were also transferred to the BST joint venture.

The resulting ownership of the BST joint venture is 51% to Befesa and 49% to Silvermet. The BST joint venture is governed by the Shareholders Agreement between the joint venture partners that requires unanimous approval for certain key strategic, operating, investing and financing policies of the BST joint venture.

As its contribution to the BST joint venture, Befesa invested \$10,000,000 directly and indirectly. Befesa acquired a 10% shareholding in Silvermet by completing a private placement of 16 million shares at C \$0.125 per share (C \$2,000,000), which funds were then invested in BST joint venture.

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Befesa advanced \$4,000,000 to the Company, which funds were used to acquire Cooper Island's 41.5% interest in the Turkish Operations. The balance of the \$10,000,000 was invested directly into the BST joint venture by Befesa.

Upon the completion of the BST joint venture formation, BST held 100% of the shares of SYI and \$6,000,000 cash, subject to a \$500,000 note payable to Silvermet, \$445,000 loan payable and \$1,500,000 contingent consideration payable to the original vendor of the Turkish Waelz kiln assets (see notes 9 and 14). A gain of \$1,486,497 was recognized on the Company's contribution to the BST joint venture based on the 51% investment by Befesa.

The Company's 49% interest in the assets and liabilities of the BST joint venture as at December 31, 2010 are as follows:

As at December 31, 2010		
ASSETS		
Current assets	\$	3,854,048
Property and equipment		4,359,078
LIABILITIES		
Current liabilities	\$	1,297,692
Long-term liabilities		751,170

Included within the Company's consolidated statements of net income (loss) and comprehensive income (loss) for the year ended December 31, 2010 is the Company's 49% interest in the operations of the BST joint venture since inception on October 27, 2010. This 49% interest is summarized as follows:

Two month period ended December 31, 2010		
Revenues	\$	1,557,973
Treatment and transportation costs		433,480
Operating expenses		710,855
Amortization		32,998
Other expenses		178,797
Net income before taxes	\$	201,843

Included within the cash flows of the Company for the year ended December 31, 2010, is the Company's 49% interest in the cash flows of the BST joint venture. This 49% interest is summarized as follows:

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		Two month period ended December 31, 2010
Operating activities	\$	432,221
Investing activities		(2,597,324)
Financing activities		2,695,000

9. Promissory Note Receivable

In connection with the issuance of the Convertible Debenture (note 13), the Company advanced \$500,000 for use in the Turkish Operations by way of a demand promissory note bearing interest at 13.2% per annum. On its formation, the BST joint venture assumed this liability to Silvermet. On December 22, 2010, BST paid \$500,000 plus interest of \$9,734 to Silvermet to extinguish the liability under this promissory note.

10. Credit Facility Receivable

The cash invested by Befesa into the BST joint venture was intended to fund major capital improvements on the existing plant as well as expansion capital expenditures. The working capital position of the Turkish Operations was very strong at the end of 2010 and no immediate projects existed that would require funding out of the cash in the BST joint venture. Accordingly, a decision was made to repay the Silvermet promissory note of \$500,000 (note 9) and \$5,300,661 of the remaining cash was therefore advanced to Befesa under a credit facility (Silvermet's proportionate share being \$2,597,324). The credit facility provides that Befesa will accrue interest payable to the BST joint venture at an annual rate of 8.35% and calculated on the daily balances advanced under the credit facility. The accrued interest is payable to the BST joint venture at the earlier of its cancellation or the end of the fiscal year. The BST joint venture may cancel the credit facility at any time with no penalty and upon so doing, the principal plus accrued interest must be paid to the BST joint venture by Befesa within two days.

11. Loan Payable

On January 17, 2010 (and as subsequently amended on February 24, 2010), the Company borrowed \$932,000 from Cooper Island, bearing interest at 10% and convertible into common shares of a subsidiary company under certain circumstances. The loan was securitized by the residual receivables from sales of zinc concentrate to third parties and was to be paid down out of such residual receivable payments, with a maturity date of July 15, 2010. On June 18, 2010, Cooper Island assigned the remaining loan balance of \$417,565 to one of the Company's directors, who extended the maturity date to August 31, 2010, with all other terms and conditions remaining unchanged. Subsequently on October 8, 2010, the loan and accrued interest were paid off completely.

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12. Bank Loan

Pursuant to the acquisition of its Turkish Operations the Company assumed a term loan from a financial institution in Turkey in the amount of \$1,130,800 as part of the \$3,669,006 assumed liabilities (note 3). The term loan had an interest rate of 10% and matured on February 17, 2010. Interest payments were due quarterly, with the principal due at maturity. On April 5, 2010 the Company repaid \$430,800 and extended the remaining \$700,000 for 18 months, payable in equal monthly installments and bearing interest at 12%. The loan is secured by land, building and equipment of the Turkish Operations. The outstanding balance at December 31, 2010 was \$370,588 and the Company's proportionate share was \$181,588.

13. Convertible Debenture

On July 23, 2010, the Company completed a 13.2% convertible debenture financing for \$483,700 (C\$ 500,000), C\$ 250,000 of which was placed with one of the Company's directors. The debentures are convertible into common shares of the Company at a price of \$0.10 (C\$) per share any time prior to their maturity of June 30, 2011. In connection with this financing, the Company also issued 5,000,000 warrants to acquire common shares at \$0.10 (C\$) per share at any time prior to June 30, 2011. The convertible debenture was recorded with liability and equity components. At the time, the liability component was recorded as debt at its net present fair value of \$288,577 (C\$ 299,745). The equity component consisted of a value conversion component (valued at \$18,255) and a cost of issuance of the convertible debenture of \$176,868 (C\$ 182,000) representing the valuation of 5,000,000 warrants at C\$ 0.036 per unit. In relation to this convertible debenture an accretion expense of \$89,963 (C\$ 91,000) was booked in 2010. The convertible debenture and accrued interest were paid off completely on February 9, 2011 (see note 25).

14. Long-Term Liabilities

The acquisition of the Waelz kiln assets included the assumption of a loan payable of \$960,000 plus contingent consideration up to a maximum of \$2,348,372 (see note 4).

The loan payable was payable in 24 monthly installments of \$40,000 through March 16, 2011. No interest was payable on the loan payable and the Company recorded the total payable at its estimated fair value of \$849,735 at February 16, 2009 based on a credit-adjusted interest rate of 12% used to discount the payments. Accretion expense was recorded in the income statement to accrete the loan payable back to its face value over its term.

The contingent consideration was payable based on 25% of earnings before interest, taxes, depreciation and amortization after the Company had recovered its acquisition costs and future capital expenditures in Turkey plus a 12% per annum return. Any amount not paid within 5 years of the acquisition date of February 16, 2009 is not required to be paid. The ultimate amount of the contingent consideration is therefore dependent on the performance of the operations during this earn-out period. Based on expected operating results at the time of the acquisition, the contingent consideration was estimated to have a fair value of \$1,649,207 at February 16, 2009, using a credit-adjusted interest rate of 12% to discount estimated cash flows related to this contingent

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liability. Accretion expense was recorded in the income statement to accrete the contingent consideration back to its undiscounted value over time.

In view of the actual performance of the Turkish Operations since their acquisition and estimated future operating results, management revised its estimate of the fair value of the contingent consideration on the formation of the BST joint venture to an estimated amount of \$1,500,000. At that date, the accreted balance of the contingent consideration was \$1,964,707. The recorded balance of the contingent consideration was reduced to the \$1,500,000. The difference of \$464,707 was recorded as a reduction of the fixed assets at that date and a new accretion schedule developed.

The liabilities under both the loan payable and contingent consideration were assumed by the BST joint venture as of October 27, 2010. The Company's proportionate share of the liabilities at December 31, 2010 is summarized as follows:

	As at December 31, 2010 (proportionally consolidated at 49%)	As at December 31, 2010 (at 100%)	As at December 31, 2009
Turkey			
Loan payable ^(a)	\$218,050	\$445,000	\$522,036
Contingent consideration ^(b)	751,170	1,533,000	1,814,707
	969,220	1,978,000	2,336,743
Due in twelve months	218,050	445,000	450,203
	\$751,170	\$1,533,000	\$1,886,540

(a) At December 31, 2010, management estimates that the total undiscounted amount of the estimated cash flows required to settle the Company's loan payable is \$448,000 (2009 - \$560,000). In connection with its acquisition, the Company had the right to discontinue payments on the loan payable and contingent consideration if the vendor had not resolved certain retained liabilities. As these liabilities were not resolved within the requisite period, the Company discontinued further payments in April 2010, pending resolution of these retained liabilities.

(b) At December 31, 2010, management estimates that the total undiscounted amount of estimated cash flows required to settle the Company's contingent consideration is approximately \$2.3 million. No amounts of contingent consideration have been paid to the vendor.

15. Related Party Transactions

(a) During the year ended December 31, 2010 the Company received reimbursement for rent and other expenses from companies with a director, or directors, in common to Silvermet, as well as reimbursing such other companies for certain expenses incurred on behalf of Silvermet. These transactions were conducted in the normal course of business on terms that approximate market value and measured at the exchange amounts. The Company charged a total of \$119,329 to the related companies concerning these expenses for the year ended December 31, 2010 (2009 -

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\$77,724). Included in receivables is \$49,177 (\$54,139 at December 31, 2009) related to these amounts which are due on demand.

(b) During the year ended December 31, 2010 the Company accrued or paid \$455,064 to related parties or companies controlled by related parties for management services provided to the Company (2009 - \$340,206). There were no amounts payable or accrued at December 31, 2010 or 2009 related to these amounts. These transactions were in the normal course of operations and recorded at exchange value.

(c) On June 18, 2010, a director of the Company assumed the remaining balance of \$417,565 on the Cooper Island loan (see note 11) and extended its maturity. On July 23, 2010 this same director participated in C \$250,000 of the C \$500,000 convertible debenture financing (see note 13).

16. Share Capital

- a) Authorized - Unlimited number of common shares
- b) Common shares issued

	Number of Shares	Amount
Balance, December 31, 2008	87,709,216	\$ 12,848,956
Issue of units for cash ⁽ⁱ⁾	14,386,000	555,040
Issue of units for cash ⁽ⁱⁱ⁾	16,850,000	718,776
Issue of units for cash ⁽ⁱⁱⁱ⁾	4,000,000	360,412
Issue of units for cash ^(iv)	1,800,000	160,200
Shares issued for payment of interest ^(v)	367,000	47,671
Allocated to warrants	-	(195,933)
Balance, December 31, 2009	125,112,216	\$ 14,495,122
Exercise of unit warrants ^(vi)	15,018,000	1,587,322
Issue of shares for cash	16,000,000	1,910,745
Exercise of options for cash	166,667	16,538
Balance, December 31, 2010	156,296,883	\$ 18,009,727

(i) On March 23, 2009, the Company completed the first tranche of a private placement of up to \$1.6 million in units. Each unit was issued at \$0.05 (C\$) per unit and comprised one common share and one-half warrant, with each whole warrant being exercisable for one common share at a price of \$0.10 (C\$) per share for a term of 18 months, which term can be accelerated if the Company's shares trade above \$0.20 (C\$) per share for 20 days. The Company issued 14,386,000 units under the first tranche of the private placement for gross proceeds of \$563,077 (\$719,300 C\$). Consulting fees of \$8,037 (\$10,000 C\$) cash plus 200,000 warrants were paid in connection with this private placement. The estimated fair value of the warrants was \$59,976 (note 12 (i)) which has been allocated to the warrant component of the Units.

(ii) On May 6, 2009, the Company completed its second tranche of the private placement financing and sold an additional 16,850,000 units at a price of \$0.05 (C\$) per unit for additional proceeds of \$722,697 (\$842,500 C\$). Each unit was comprised of one common share and one-half warrant, with each whole warrant being exercisable for one common

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share at a price of \$0.10 (C\$) per share for a term of 18 months, which term can be accelerated is Silvermet shares traded above \$0.20 (C\$) per share for 20 days. Consulting fees of \$3,921 (\$4,571 C\$) cash were paid in connection with this private placement. The estimated fair value of the warrants was \$110,906 (note 12(ii)) which has been allocated to the warrant component of the Units.

(iii) On August 20, 2009, the Company completed the first tranche of a private placement of up to 5.8 million units. Each unit was issued at \$0.10 (C\$) per unit and comprised one common share and one-half warrant, with each whole warrant being exercisable for one common share at a price of \$0.20 (C\$) per share for a term of 18 months, which term can be accelerated is the Company's shares trade above \$0.30 (C\$) per share for 20 days. The Company issued 4,000,000 units under this first tranche of the private placement for gross proceeds of \$360,412 (\$400,000 C\$). The estimated fair value of the warrants was \$20,348 (note 12(iii)) which has been allocated to the warrant component of the Units.

(iv) On September 16, 2009, the Company completed its second tranche of the private placement financing and sold an additional 1,800,000 units at a price of \$0.10 (C\$) per unit for additional proceeds of \$160,200 (\$180,000 C\$). Each was comprised of one common share and one-half warrant, with each while warrant being exercisable for one common share at a price of \$0.20 (C\$) per share for a term of 18 months, which term can be accelerated is Silvermet shares trade above \$0.30 (C\$) per share for 20 days. The estimated fair value of the warrants was \$4,703 (note 12(iv)) which was allocated to the warrant component of the Units.

(v) On July 28, 2009 Silvermet issued 367,000 common shares to Cooper Island at a price of \$0.1454 (C\$) per share to satisfy accrued interest on the \$2,000,000 loan.

(vi) On January 21, 2010, the Company issued 100,000 common shares in exchange for 100,000 warrants at C\$ 0.10 per share. On May 6, 2010, the Company issued 200,000 common shares in exchange for 200,000 warrants at C\$ 0.10 per share. On September 20, 2010, the Company issued 8,993,000 common shares in exchange for 8,993,000 warrants and broker warrants at C\$ 0.10 per share. On November 5, 2010, the Company issued 5,725,000 common shares in exchange for 5,725,000 warrants at C\$ 0.10 per share.

17. Stock Options

The following table reflects the continuity of stock options for the year ended December 31, 2010:

	Number of Stock options	Weighted average exercise price (C\$)
Balance, December 31, 2008	5,270,000	0.33
Expired	(3,150,000)	0.28
Granted ^{(i) (ii) (iii) (iv)}	6,950,000	0.11
Balance, December 31, 2009	9,070,000	0.18
Expired / Forfeited	(3,370,000)	0.15
Exercised	(166,667)	0.10
Granted ^{(a) (b)}	3,750,000	0.15
Balance, December 31, 2010	9,283,333	0.18

(i) On March 12, 2009, the Company granted 6,100,000 options to management, directors and consultants, exercisable at \$0.10 (C\$) per common share through March 12, 2014. These options vest as to 3,233,334 immediately, 1,433,333 at the end of 12 months and 1,433,333 at the end of 24 months. Using Black-Scholes valuation method, the options were valued at \$133,532. The following assumptions were used to determine the value: expected volatility of 185% and an expected maturity of 5 years. For the year ended December 31, 2009, \$69,462 was expensed to the statement of operating loss and comprehensive loss.

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(ii) On June 10, 2009, the Company granted 600,000 options to directors of the Company, exercisable at \$0.20 (C\$) per common share through June 10, 2014. These options vested immediately. Using the Black-Scholes valuation method, the options were valued at \$72,359. The following assumptions were used to determine the value: expected dividend yield of 0%, risk free interest rate of 2.82%, expected volatility of 190% and an expected maturity of 5 years. For the year ended December 31, 2009, \$73,340 was expensed to the statement of operating loss and comprehensive loss.

(iii) On November 19, 2009, the Company granted 250,000 options to an officer of the Company, exercisable at \$0.15 (C\$) per common share through November 19, 2014. These options vest as to 83,334 immediately, 83,333 at the end of 12 months and 83,333 at the end of 24 months. Using the Black-Scholes valuation method, the options were valued at \$8,838. The following assumptions were used to determine the value: expected dividend yield of 0%, risk free interest rate of 2.58%, expected volatility of 190% and an expected maturity of 5 years. For the year ended December 31, 2009, \$7,276 was expensed to the statement of operating loss and comprehensive loss.

(iv) The grant date weighted average fair value of the total options granted during the year ended December 31, 2009 was \$0.04 (\$0.04 C\$).

(a) On September 1, 2010 the Company granted 3,250,000 options to directors and officers of the Company, exercisable at \$0.15 (C\$) per common share through September 1, 2015. These options vest as to 2,150,000 immediately, 550,000 at the end of 12 months and 550,000 at the end of 24 months. Using the Black-Scholes valuation method, the options were valued at \$390,000. The following assumptions were used to determine the value: expected dividend yield of 0%, risk free interest rate of 2.10%, expected volatility of 192% and an expected maturity of 5 years.

(b) On November 25, 2010 the Company granted 500,000 options to a director of the Company, exercisable at \$0.15 (C\$) per common share through November 25, 2015. These options vested immediately. Using the Black-Scholes valuation method, the options were valued at \$72,080. The following assumptions were used to determine the value: expected dividend yield of 0%, risk free interest rate of 2.10%, expected volatility of 192% and an expected maturity of 5 years.

The following table reflects the actual stock options issued and outstanding as of December 31, 2010:

Expiry Date	Exercise price (C\$)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (Exercisable)	Number of Options Unvested
May 31, 2012	0.50	1.42	1,300,000	1,300,000	-
July 24, 2013	0.15	2.56	250,000	250,000	-
March 12, 2014	0.10	3.20	3,683,333	2,800,000	883,333
June 10, 2014	0.20	3.44	300,000	300,000	-
September 01, 2015	0.15	4.67	3,250,000	2,150,000	1,100,000
November 25, 2015	0.15	4.90	500,000	500,000	-
	0.18	3.55	9,283,333	7,300,000	1,983,333

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18. Warrants

The following table reflects the continuity of warrants for the year ended December 31, 2010:

	Number of warrants	Value (\$)	Weighted average exercise price (C\$)
Balance, December 31, 2008	7,507,151	349,706	0.26
Unit and broker warrants expired	(7,507,151)	(349,706)	(0.26)
Unit warrants issued	18,518,000	192,718	0.12
Broker warrants issued	300,000	3,215	0.10
Balance, December 31, 2009	18,818,000	195,933	0.12
Unit warrants issued ^(a)	5,000,000	176,868	0.10
Broker warrants exercised	(300,000)	(3,215)	(0.10)
Unit warrants expired	(900,000)	(8,546)	(0.10)
Unit warrants exercised	(14,718,000)	(123,078)	(0.10)
Balance, December 31, 2010	7,900,000	237,962	0.14

(a) The fair market values of the 5,000,000 unit warrants which represent a cost of issuance for the convertible debenture (see Note 13) are estimated at \$176,868 using the Black-Scholes option pricing model with the following assumptions as appropriate at the specific dates:

Risk-free interest rate	1.15%
Expected dividend yield	nil
Expected stock price volatility	94%
Expected Life	12 months

The following table reflects the actual warrants issued and outstanding as of December 31, 2010:

Expiry Date	Exercise Price (C\$)	Type	Number of Warrants
February 25, 2011	0.20	Unit warrants	2,000,000
March 16, 2011	0.20	Unit warrants	900,000
June 30, 2011	0.10	Unit warrants	5,000,000
	0.14		7,900,000

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19. Segmented Information

The Company's assets by geographic area are as follows:

	December 31, 2010	December 31, 2009
Canada	\$ 1,335,690	\$ 363,249
Turkey	8,264,791	9,829,288
Singapore	502	14,263
	\$ 9,600,983	\$ 10,206,800

The Company's revenues by geographic area are as follows:

	2010	2009
Canada	\$ -	\$ -
Turkey	14,276,672	4,531,233
Singapore	-	-
	\$ 14,276,672	\$ 4,531,233

20. Capital Management

In managing its capital, the Company's objective is to ensure the Company is able to continue its operations and that it has sufficient ability to satisfy its capital obligations and ongoing operational expenses. The Company considers the components of shareholders' equity, as its capital (managed capital), which at December 31, 2010 totaled \$6,864,359 (December 31, 2009 - \$1,883,910).. Management adjusts the capital structure as necessary in order to support its business strategy. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

21. Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rates, foreign exchange rates and commodity and equity price risks).

Credit Risk

The Company's credit risk is attributed to cash, notes and accounts receivable. The Company has a concentration of credit risk within the international zinc smelting industry which resulted in

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approximately 83% of sales from one account in 2010 (2009 – 87%). Cash is held with reputable financial institutions, from which management believes the risk of loss to be minimal. The BST joint venture has advanced excess funds to Befesa under a credit facility receivable, which funds can be demanded for payment with two day notice. Management believes the risk of loss to be minimal. Account receivables include expenses paid on behalf of related companies, sales tax receivables from the Turkish and Canadian governments and sales receivables from various smelters. Accounts receivables are in good standing as at December 31, 2010. Management believes that the credit risk concentration with respect to accounts receivable is mitigated by the use of provisional payments made against shipments.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company’s liquidity and operating results may be adversely affected if the Company’s access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities and kiln operations. As at December 31, 2010 the Company had a cash and cash equivalents balance of \$1,188,247 (December 31, 2009 - \$46,169) and a credit facility receivable of \$2,597,324 to settle current liabilities of \$1,985,454 (December 31, 2009 - \$5,169,346). The Company utilizes planning, budgeting and forecasting processes to help ensure that funding requirements for contractual and other obligations are met. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

The following are the principal contractual maturities of financial liabilities:

As of December 31, 2010	Contractual Obligations		2011
Accounts payable and accrued liabilities	\$	1,050,009	\$ 1,050,009
Bank loan		181,588	\$ 181,588
Convertible debenture		483,700	\$ 483,700
Current portion of long-term liabilities		448,000	\$ 448,000
Total financial liabilities	\$	2,163,297	\$ 2,163,297

Market Risk

(a) Interest rate risk

At December 31, 2010, the Company had a credit facility receivable bearing a fixed interest rate. Debt balances bear interest at either fixed or no rates of interest. Accordingly, the Company was not exposed to any significant interest rate risks at December 31, 2010.

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(a) Foreign currency risk

The Company's operations are based in Turkey and the majority of expenses are incurred in Turkish lira. Sales are made outside Turkey and are denominated in US dollars. The Turkish Operations are therefore subject to foreign currency risk in the US dollar versus the Turkish lira. Additionally, the Company's head office is located in Canada, so corporate overhead costs expose the Company to changes in the US dollar versus the Canadian dollar. Sensitivity to a plus or minus 5% change in all foreign currencies against the US dollar with all other variables held constant as at December 31, 2010 would have an impact of approximately \$11,000.

Balances in non-US dollar currencies are as follows:

As of December 31, 2010	Canadian Dollar	Turkish Lira
Cash and Cash Equivalents	\$ 589,858	69,762
Accounts receivable	135,619	1,130,391
Accounts payable and accrued liabilities	(753,220)	(1,499,138)

(c) Commodity price risk

The Company sells zinc concentrates and is exposed to changes in the price of international zinc prices as quoted on the London Metals Exchange ("LME"). Sales of zinc concentrate are recognized in revenue on a provisional pricing basis when title transfers and the rights and obligations of ownership pass to the customer, which can occur at different times depending on the contract. Final pricing is typically not determined until a subsequent date. Accordingly, revenue in any period is based on current prices for sales occurring in the period and ongoing pricing adjustments from sales that are still subject to final pricing. These pricing adjustments result in additional revenues in a rising price environment and reductions to revenue in a declining price environment. The effect of these adjustments on earnings is mitigated by the effect that changing commodity prices have on treatment charges, taxes and non-controlling interests. For the year ending December 31, 2010, a plus or minus 10% change in the price of zinc, if all other variables were held constant would affect net and comprehensive income by approximately \$990,000.

22. Financial Instruments

Certain of our financial assets and liabilities are measured at fair value and are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

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Cash and demand deposits are valued at face value. Marketable equity securities are valued using quoted market prices in active markets, obtained from securities exchanges and accordingly, are included in Level 1 of the fair value hierarchy.

Settlements receivable, which is included under accounts receivable, from provisional pricing on concentrate sales are included in Level 2 of the fair value hierarchy as they are valued using a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, and yield curves. These inputs are obtained from or corroborated with the market where possible.

Long-term liabilities are included in Level 3 of the fair value hierarchy as their value were determined as part of the purchase price (see notes 4 and 14). Management reviews the fair value of these instruments periodically and estimate any change required based on management's best estimates, which are unobservable inputs.

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at December 31, 2010 and 2009:

	Level 1	Level 2	Level 3	2010 Total
Financial assets				
Cash and equivalents	\$ -	\$ 1,188,247	\$ -	\$ 1,188,247
Credit facility receivable	-	2,597,324	-	2,597,324
Restricted investments	-	52,821	-	52,821
Settlements receivable	-	601,655	-	601,655
	\$ -	\$ 4,440,047	\$ -	\$ 4,440,047
Financial liabilities				
Long-term liabilities	\$ -	\$ -	\$ 969,220	\$ 969,220
	\$ -	\$ -	\$ 969,220	\$ 969,220

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	Level 1	Level 2	Level 3	2009 Total
Financial assets				
Cash and equivalents	\$ -	\$ 46,169	\$ -	\$ 46,169
Marketable securities	14,272	-	-	14,272
Restricted investments	-	48,265	-	48,265
Settlements receivable	-	368,549	-	368,549
	\$ 14,272	\$ 462,983	\$ -	\$ 477,255
Financial liabilities				
Long-term liabilities	\$ -	-	2,336,743	\$ 2,336,743
	\$ -	\$ -	\$ 2,336,743	\$ 2,336,743

The following table reconciles the Company's Level 3 fair value measurements from December 31, 2009 to December 31, 2010:

	Fair value measurements using Level 3 inputs
	Long-term liabilities
Balance at December 31, 2009	\$ 2,336,743
Accretion included in net income	201,134
Payments made during the year	(128,000)
Determination of fair value at joint venture transaction date	(448,707)
Proportional consolidation at 49%	(991,950)
Balance at December 31, 2010	\$ 969,220

23. Commitments and Contingent Liabilities

The Company is involved in various legal proceedings and claims, which arise in the ordinary course of its business. The Company believes these claims are without merit and is vigorously defending them. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, results of operations or cash flow of the Company. Provisions for all outstanding and pending legal claims are considered by the Company to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2010, or with respect to future claims, cannot be predicted with certainty.

The Company has entered into an office lease agreement for a period of five years commencing July 1, 2007 and ending June 30, 2012. On April 23, 2009, the Company entered into a sublease arrangement for a portion of the office space. The sublease commenced on July 1, 2009, for a period of three years.

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The gross annual commitments, sublease amounts and net commitment are estimated as follows:

	Gross	Sublease	Net
2011	\$255,127	\$(178,200)	\$76,927
2012	\$127,564	\$(89,100)	\$38,464

Companies with a director or directors in common with the Company share the office space and reimburse the Company for a share of the rent.

24. Income Taxes

The Company's income tax provision (recovery) has been calculated as follows:

	2010	2009
Net income (loss) for the year	\$ 1,165,138	\$ (692,768)
Income tax (recovery) provision at Canadian federal and provincial statutory rates	\$ 361,193	\$ (228,613)
Effect of change in temporary differences not recognized	(2,215,516)	21,321
Permanent differences	712,345	(415,267)
Impact of foreign exchange	(17,656)	134,593
Reversal of unrecognized asset	1,763,364	-
Utilization of losses not previously recorded	(252,347)	-
Difference in foreign tax rates	(217,651)	100,835
Change in tax rates	11,585	329,430
Provision for (recovery of) income taxes	\$ 145,317	\$ (57,701)

The Company's income tax expense is split as follows:

	2010	2009
Current tax expense	\$ 132,062	\$ -
Future tax expense (recovery)	13,255	(57,701)
Total tax expense (recovery)	\$ 145,317	\$ (57,701)

The Company's future income tax assets and liabilities as at December 31, 2010 and 2009 are summarized as follows:

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	2010	2009
Non-capital losses	1,418,213	1,326,553
Capital loss	9,140	-
Capital assets	14,431	19,470
Investments	6,143	10,625
Reclamation and asset retirement	13,724	-
Share issue costs	49,226	102,117
	1,510,877	1,458,765
Unrealized gain on sale of investment	(367,255)	-
Mineral properties	169,921	2,070,295
Valuation allowance	(1,313,543)	(3,529,060)
Net future income tax asset	\$ -	\$ -

Income taxes (continued)

At December 31, 2010, the Company has available total non-capital loss carry forwards for Canadian income tax purposes of \$5,976,095 which expire as follows:

Year of expiry:	
2014	\$ 54,706
2015	556,277
2026	1,806,001
2027	841,576
2028	1,456,475
2029	868,241
2030	392,819
	\$ 5,976,095

The Company has available \$7,053,456 in foreign exploration expenses which can be deducted for Canadian income tax purposes at a rate of 10% per annum, on a declining balance basis.

25. Subsequent Events

On February 9, 2011, the Company repaid the C\$ 500,000 convertible debenture plus accrued interest of C\$ 33,000.

SILVERMET INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**FOR THE YEAR ENDED
DECEMBER 31, 2010**

Dated May 2, 2011

Silvermet Inc.

Management's Discussion and Analysis For the year ended December 31, 2010

(All amounts in United States Dollars, unless otherwise stated)

Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Silvermet Inc. (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2010. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2010, together with the notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts referred to in this MD&A are in United States dollars unless otherwise specified. Information contained herein is presented as at May 2, 2011, unless otherwise indicated.

Further information about the Company and its operations can be obtained from the offices of the Company, at www.silvermet.ca or from www.sedar.com.

Caution Regarding Forward-looking Statements

Except for statements of historical fact relating to the Company, certain information contained in this MD&A constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the potential of the Company's assets; the future prices of zinc; capital expenditure requirements; requirements for additional capital and other statements relating to the financial and business prospects of the Company. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during permitting; the possibility that future exploration results will not be consistent with the Company's expectations; timing and availability of external financing on acceptable terms and in light of the current decline in global liquidity and credit availability; future prices of zinc; currency exchange rates; government regulation; failure of equipment or processes to operate as anticipated; risks inherent in manufacturing and processing operations, including environmental hazards or industrial accidents; and uncertain political and economic environments. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

The Company is a reporting issuer under applicable securities legislation in the provinces of Alberta, British Columbia and Ontario and its outstanding shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "SYI".

Silvermet Inc.

Management's Discussion and Analysis

For the year ended December 31, 2010

(All amounts in United States Dollars, unless otherwise stated)

Overview

All amounts are stated in US dollars unless otherwise noted.

In 2009, the Company successfully transitioned from an exploration and development company to an operating company. The Company's Waelz kiln operation in Turkey recovers zinc from zinc-bearing electric arc furnace dust ("EAFD") that is produced as a waste product by local steel mills.

In October 2008, the Company entered into an agreement to acquire the land and equipment of an existing Waelz kiln located in Iskenderun, Turkey. This facility had not been operational since September 2008. The acquisition closed on February 16, 2009 at a purchase price of approximately \$7.7 million. The purchase price was paid by cash of \$727,710, the assumption of certain liabilities and bank debts of the vendor of \$3,669,006, a fixed payment to the vendor over two years of \$960,000, and a contingent payment to the vendor of up to \$2,348,372 over the next five years, dependent on the performance of the operations.

Financing of the Waelz kiln acquisition and start-up of operations came from funds on hand, private placements of equity and an investment by Cooper Island Investments, LLC ("Cooper Island"), a company related to a major shareholder of the Company, Greyling Investments Inc. By February 2010, Cooper Island had invested \$3.5 million and had earned a 41.5% interest in the Company's Turkish Waelz kiln business (the "Turkish Operations").

On October 27, 2010, Silvermet and an affiliate of Befesa Medio Ambiente, S.A. ("Befesa"), a Spanish company that operates a number of Waelz kilns throughout Europe, established a new joint venture known as Befesa Silvermet Turkey, S.L. ("BST") to hold the Turkish Operations. In conjunction with the formation of the joint venture, Befesa invested \$10 million directly and indirectly. Befesa acquired a 10% shareholding in Silvermet by completing a private placement of 16 million shares at C \$0.125 per share (C \$2 million), which funds were then invested in BST. Befesa advanced \$4,000,000 to the Company to fund the acquisition of Cooper Island's 41.5% interest and Befesa invested the balance of the \$10 million directly into BST. The Turkish Operations were transferred to BST, which included 100% of the shares of the Turkish operating company and the assumption of certain related liabilities.

As a result of these transactions, BST is held 51% by Befesa and 49% by the Company. On closing of the transactions, BST held 100% of the Turkish Operations and assumed the related liabilities. BST began operations with a cash balance of \$6 million.

Upon entering the BST joint venture, the Company adopted the proportionate consolidation method for accounting for its interest in the Turkish Operations, under which the Company includes in its accounts the Company's proportionate share of assets, liabilities, revenues and expenses of the BST joint venture. The Turkish Operations had been consolidated in the Company's accounts at 100% until this time and the Company's operating results for 2010 therefore include the Turkish operations at 100% for the first 10 months and at 49% for the last 2 months. The balance sheet at December 31, 2010 reflects the impact of proportionate consolidation in which each asset and liability of the Turkish Operations is included on a 49% basis.

Highlights

The highlights of the Company's 2010 results include the following:

- Achieved cash flow positive operations in Q3 2010.
- Production in 2010 more than doubled to 11,548 DMT (Dry Metric Tonnes zinc concentrate containing 68% zinc on average) from 5,484 DMT in 2009.

Silvermet Inc.

Management's Discussion and Analysis

For the year ended December 31, 2010

(All amounts in United States Dollars, unless otherwise stated)

- Sales volumes tripled to 12,581 DMT in 2010 from 3,903 DMT in 2009. Silvermet's share of sales was 11,427 DMT, being ten months at 100% and two months at 49%.
- Revenues more than tripled to \$16.0 million (at 100%) in 2010 (Silvermet's share - \$14.3 million) from \$4.5 million in 2009 as a result of the combination of improved shipments and improved zinc prices.
- 2010 Q4 production improved to 3,652 DMT from 3,615 DMT in Q3, despite a 10 day planned shutdown in October for maintenance.
- Increased production from 713 DMT (dry metric tonnes) per month of zinc concentrate in the first half of 2010 to an average 1,211 DMT per month in the second half of 2010.
- Improved cost structure for coke began toward the end of August.
- Successful conversion from zinc clinker production to washed Waelz oxide, a more marketable form of zinc concentrate.
- Entered multi-year smelter contracts with two of the largest global zinc smelter groups which helped secure the market for our production.
- Smelter treatment charges in 2010 were much more favourable than they were in 2009.
- Experienced significant downtime for modifications and maintenance of the kiln, as well as a flood in the first half of 2010.
- From the beginning of July 2010 through the end of the year, there were not any unplanned major shutdowns.
- A number of management changes were made at the Turkish Operations throughout 2010.
- Borrowed \$932,000 from Cooper Island in January 2010, which was repaid out of smelter receivables over the subsequent months through October 2010.
- The Company drew down a further \$500,000 on the Cooper Island equity facility on February 23, 2010, increasing the Cooper Island interest in the Turkish Operations to 41.5% from 35.2% at the end of 2009.
- On July 23, 2010, the Company completed a convertible debenture financing of C \$500,000, in which a director participated as to C \$250,000. The convertible debenture was repaid in February 2011.
- The Company entered discussions with Befesa in the spring of 2010, culminating in the formation of the BST joint venture on October 27, 2010.
- In connection with the BST joint venture, the Cooper Island interest in the Turkish Operations was acquired by Befesa and Befesa acquired a 10% interest in Silvermet. The BST joint venture began operations with \$6 million cash.
- The BST joint venture is owned 51% by Befesa and 49% by Silvermet.
- 8,993,000 warrants were exercised on September 20, 2010 for proceeds of C \$899,300. Subsequently, 5,725,000 warrants were exercised on November 5, 2010 for proceeds of C \$572,500.

The following table summarizes comparative annual results and reconciles net earnings, a GAAP measure, to EBITDA. The 2010 figures reflect operational results for the first ten months at 100% and the remainder of the year at a proportionally consolidated level of 49%.

Silvermet Inc.

Management's Discussion and Analysis

For the year ended December 31, 2010

(All amounts in United States Dollars, unless otherwise stated)

For the year ended December 31,			
	2010 100%	2010 proportional	2009 100%
Gross sales revenues	\$ 15,936,718	\$ 14,276,672	\$ 4,531,233
Direct operating costs	8,677,653	7,839,763	2,860,796
Treatment & transportation	4,815,012	4,363,839	1,682,398
General and administration	1,169,156	1,169,156	1,127,518
EBITDA⁽¹⁾	\$ 1,274,897	\$ 903,914	\$ (1,139,479)
Interest and financing		120,594	89,062
Amortization - Turkey		351,602	310,699
Amortization - Canada		9,985	9,482
Investment & other (gain) loss		16,766	5,217
Foreign exchange loss		259,984	(55,752)
Stock option expense		377,193	150,078
Accretion of liabilities		291,097	237,801
Pre-operating costs		-	542,289
Gain on dilution		(1,593,898)	(1,591,456)
Income tax		132,062	-
Future income tax expense (recovery)		13,255	(57,701)
Non-controlling interest in net income of consolidated affiliates		(94,547)	(144,131)
Net income (loss) available to common shareholders		\$ 1,019,821	\$ (635,067)

- (1) EBITDA is a non-GAAP measure, does not have a standardized meaning prescribed by GAAP and may not be comparable to similar terms and measures presented by other issuers. EBITDA comprises net income (loss) before income taxes, interest and financing expense (including accretion of liabilities), amortization expense, gain on dilution, non-controlling interest and stock option expense. The Company believes it is appropriate to exclude stock option expense, gain on dilution and non-controlling interest from EBITDA as a measure of operating performance that excludes non-recurring items.

Selected Quarterly Financial Information

	Gross Sales Revenue	Net Income (loss)	Net Income (loss) per share
2010			
Q4 ⁽¹⁾	\$ 3,068,906	\$ 1,294,710	\$ 0.009
Q3	4,753,062	200,675	0.002
Q2	2,109,494	(363,362)	(0.003)
Q1	4,345,210	(112,202)	(0.001)
2009			
Q4	2,104,903	273,603	0.002
Q3	1,589,329	908,670	0.008
Q2	837,001	(1,105,101)	(0.010)
Q1	-	(496,388)	(0.006)
2008			
Q4	-	(690,587)	(0.008)

- (1) Q4 figures reflect October values at 100% and November, December values at 49% proportional interest as a result of the joint venture with Befesa.

Silvermet Inc.

Management's Discussion and Analysis For the year ended December 31, 2010

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The quarterly results of the Company have not been comparable as the Company began operations in Q2 2009 and only stabilized operations beginning in Q3 2010. The various trends impacting operations are discussed in greater detail hereafter. However, major items affecting quarterly comparisons can be highlighted as follows:

- Prior to Q2 2009, there were no revenues as operations of the Waelz kiln had not started.
- Q2 2009 results included significant start-up costs.
- Q3 2009 continued to experience operating problems as we became more familiar with the kiln, but these results were offset by the gain on dilution resulting from the sale of an equity position to Cooper Island.
- Although operations improved somewhat in Q4 2009, production was paid for on a provisional basis by a trader but sales were delayed until January 2010, thus increasing Q1 2010 sales.
- Q1 2010 results were negatively affected by a major maintenance shut down during the month of February.
- Q2 2010 results were negatively affected by a combination of reduced zinc prices, maintenance shutdowns and a flood.
- Operations began to stabilize in Q3 2010 and have continued this trend since then.
- Operations continued to show significant improvement in Q4 2010. However, the effect on revenues and net income is offset to some degree as a result of the conversion to proportionate consolidation upon the formation of the BST joint venture on October 27, 2010. Additionally, the Company recorded a significant gain on dilution on entering the BST joint venture.

Operations

Waelz Kiln Re-Commissioning

Upon closing the acquisition of the Turkish Waelz kiln assets in February 2009, the Company began the process of re-commissioning the plant, which had been closed since September 10, 2008. Until operational, certain repair and maintenance requirements on the plant could not be specifically quantified. The plant operations commenced in late May 2009 and in the subsequent months, certain further repairs were required on components that could not be identified through visual inspection prior to start up.

In re-commissioning the plant, numerous changes were introduced, including a complete change to the mix of feedstock to the kiln. The result was a significant improvement in kiln throughput from that achieved by the former owners. However, in making such changes, it also became apparent that bottlenecks existed in the production process after the zinc oxide exits from the kiln and various programs were put in place to improve the production process.

The plant was able to hire back much of the same work force as had previously been in place; however, the multitude of changes introduced to the processes required an on-going need to train the employees on new product mix and operating procedures. Recovery rates continue to be significantly lower than the rates experienced in other Waelz kiln operations (in the range of 60% as compared to 90% in European and North American facilities). Management attributes this to the on-going need for training in new procedures, improving the consistency of feed mix, various capital expenditure improvements and the addition of new measurement and process monitoring equipment.

Production

The Company's operations currently comprise the Turkish Waelz kiln plant which recovers the zinc content from EAFD.

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The Waelz kiln operation processes EAFD obtained from steel mills and targets the recovery of the zinc content of the EAFD. EAFD is readily available from the existing steel mills near the Iskenderun plant. EAFD is a waste product of the steel mills, which they are obligated to dispose of properly in accordance with Turkish regulations and therefore, is available from the steel mills at no cost.

The EAFD is then blended with lime and coke (or anthracite) to produce pellets. The pellets plus additional coke / anthracite are fed into the kiln and with the application of heat, volatilized gases are created that contain most of the zinc from the EAFD. The gases are cooled and Waelz oxide is produced. The Waelz oxide is further processed by washing it with soda ash to produce washed Waelz oxide. Prior to December 2009, the Waelz oxide was processed through a second kiln into a zinc clinker. When the Waelz oxide is processed into a zinc clinker, a by-product of lead oxide is produced. The Company's products during 2009 therefore included washed Waelz oxide, zinc clinker and lead oxide. Since mid-December 2009, the Company's production has been exclusively washed Waelz oxide.

Revenues

	For the year ended December 31,	
	2010	2009
Revenue		
Gross sales revenue	\$ 14,276,672	\$ 4,531,233
Treatment and transportation costs	(4,363,839)	(1,682,398)
Net Revenue	9,912,833	2,848,835

Revenues are recognized when title transfers, the rights and obligations of ownership pass to the customer and the price is reasonably determinable. Under the Company's smelter contracts, this occurs when the zinc concentrate has been loaded onto a vessel.

Under smelter payment terms, the Company is paid for a percentage of the zinc metal content in either washed Waelz oxide or zinc clinker, referred to as payable zinc. Payment for the payable zinc is then made in two components: a provisional payment and a settlement payment. A partial payment (typically 85%) is received on a provisional pricing basis once the product is either at the port or loaded on vessels, depending on the contract. Final settlement payment is determined based on zinc prices for a period (one to three months) after the month of shipment or receipt at its destination port, depending on the contract terms, and final assay results. Accordingly, a portion of the final revenue is not determinable until sometime after title has passed.

The revenues for 2009 are not comparable to 2010 revenues as during the first three quarters of 2009 the Company was in start-up phase. The Company recognized its first revenue in June 2009 after shipping 979 tonnes of zinc clinker.

The variance in quarterly revenues since start-up of operations in June 2009 has been due to a number of different factors:

Silvermet Inc.

Management's Discussion and Analysis

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Inventory

- 1,581 DMT inventory on hand at December 31, 2009 in respect of 2009 production was shipped in early January resulting in revenues of \$1,925,000 being included in the first quarter of 2010.
- Production in 2010 was 11,548 DMT and sales were 11,000 DMT, excluding the 1,581 DMT sold out of inventory at the beginning of the year.
- Inventory on hand as of December 31, 2010 was 548 DMT, largely composed of a shipment that took place in the first few days of January 2011.

Production

- A three week planned shutdown took place in February 2010 to modify and perform maintenance on the kiln, including expanding the drying capacity to support the production of washed Waelz zinc oxide.
- Until March 2010, most EAFD processed had been the EAFD that was stored on the property when acquired. In March 2010, the Company began receiving its entire EAFD supply from the steel mills. Production was affected over several weeks as the new logistical requirements of direct receipts were organized.
- In May 2010, the plant experienced a flood, which caused a two week shut down.
- During the first half of 2010, the Company experienced problems with the specified carbon content of coke and anthracite used in its production process, causing low recoveries and excessive shutdowns to remove accretions. This supply issue was addressed during the second quarter of 2010 and additional changes were introduced in the third quarter.
- The impact of these factors was that average monthly production was only 713 DMT for the first half, well below expectations.
- The Company was able to address many of the production issues and the benefits were realized in the second half of the year, during which the Company produced approximately 1,211 DMT per month.

Price

- During 2010, the price of zinc fluctuated significantly. Quarterly averages were \$1.04 per pound in the first quarter, \$0.92 in second quarter, \$0.91 per pound in the third quarter, and \$1.05 per pound in the fourth quarter.
- Within these averages, prices were as low as \$0.72 per pound and as high as \$1.19 per pound during 2010.
- Shipments are priced on a provisional basis using the London Metal Exchange ("LME") zinc price on the shipment date. A final settlement is made several months later, based on a subsequent monthly average zinc price.
- Because of the lag between shipment date and final settlement pricing, the revenues that are recognized at the time of the shipment will subsequently be adjusted upward or downward, dependent on what has happened to zinc prices in the interim period.

Treatment and Transportation Charges

The Company did not incur any treatment or transportation charges during the first quarter of 2009. Production and shipments started late in the second quarter of 2009; therefore, 2009 treatment and transportation charges were approximately \$1.7 million while in 2010 the Company incurred treatment and transportation charges of approximately \$4.4 million.

During 2009, the Company introduced its product to a number of smelters for testing and negotiated treatment charges. During the second quarter of 2009 smelter demand globally was low and as a result the Company incurred unusually high smelter costs relative to its production. During the balance of

Silvermet Inc.

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2009, the Company experienced declining smelter treatment charges for its concentrates, as a number of smelters increased their capacity utilization and demand for secondary products.

Benchmark smelter treatment charges are determined annually, normally in February. Based on improved demand for zinc, smelter production increased in 2009 and significant reductions to benchmark treatment charges were established in February 2009. Upon this development, the Company entered negotiations with smelters for shipments and treatment charges, with the result that treatment charges declined significantly for some of the March 2010 shipments and all shipments thereafter.

Direct Operating Costs and Amortization

	For the year ended December 31,	
	2010	2009
Direct costs	\$ 7,839,763	\$ 2,860,796
Amortization - Turkey	351,602	310,699

Direct Operating Costs

The operating costs consist of raw materials (primarily coke, anthracite and lime), labour, utilities (natural gas and electricity), maintenance expenses and plant overhead costs. During 2010, direct operating costs were \$7.8 million. The Company incurred operating costs of approximately \$2.9 million during 2009 as it commenced operations in late May 2009 and there were no direct operating costs in the first quarter of 2009. The operating costs booked in 2010 versus 2009 are not comparable as the information for 2010 relates to twelve months of expenses while the 2009 information relates to the period after the commencement of operations in May 2009.

A major component of direct operating costs during 2010 was maintenance costs. Numerous modifications and maintenance projects were undertaken to improve throughput and operating performance of the plant. In addition to costs that were capitalized, approximately \$0.6 million maintenance costs were expensed in 2010.

During the second quarter of 2010 approximately \$0.2 million of insurance proceeds were received as compensation for flood damage that Turkish Operations suffered. This amount has been included as part of the direct operating costs in the income statement.

Amortization Expense

Amortization of the assets at the operating facility in Iskenderun, Turkey is recorded as a direct operating cost and amounted to approximately \$0.35 million in 2010 and \$0.3 million in 2009. No amortization was booked during the first quarter of 2009. The amortization booked during 2010 versus 2009 are not comparable as the information for 2010 relates to twelve months of amortization while the 2009 information relates to the period after the commencement of operations in May 2009.

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Expenses

	For the year ended December 31,	
	2010	2009
Expenses		
General and administration	\$ 1,169,156	\$ 1,127,518
Interest and financing	120,594	89,062
Amortization - Canada	9,985	9,482
Investment and other (gain) loss	16,766	5,217
Foreign exchange loss (gain)	259,984	(55,752)
Stock option expense	377,193	150,078
Accretion of liabilities	291,097	237,801
Pre-operating costs	-	542,289
Gain on dilution	(1,593,898)	(1,591,456)
	<u>\$ 650,877</u>	<u>\$ 514,239</u>

General and Administration

General and administration expenses include general office and management expenses, the costs of maintaining a public listing at TSX-V, professional fees, legal, accounting, tax and consultants' costs, insurance, travel and other miscellaneous office expenses. For 2010 such costs were approximately \$1.2 million compared to \$1.1 million in 2009. Significant legal and accounting costs were incurred in 2010 in connection with the acquisition of Cooper Island's interest and the BST joint venture formation. Such high levels of professional fees are not expected to be recurring in 2011.

Interest and Financing

Interest and financing costs for 2009 include interest on the \$1.1 million bank debt that was assumed as part of the liabilities on the acquisition of the Turkish Waelz kiln as well as interest on advances received from Cooper Island prior to the conversion of Cooper Island's advances to equity in July 2009. Interest and financing costs for the 2010 include interest payments on the bank debt of \$1.1 million during the first quarter of 2010, which was subsequently reduced to \$0.7 million and declined on a monthly basis thereafter, interest expense on the loan from Cooper Island that was advanced in January 2010 and interest on the convertible debenture that was issued in July 2010.

Foreign Exchange Loss (Gain)

Foreign exchange gains and losses are incurred due to fluctuations in foreign exchange rates between the US dollar, Turkish Lira and Canadian dollar. While revenues are received in US dollars, there is a significant Turkish Lira exposure since most Turkish operating costs are incurred in Turkish Lira. Additionally, there is Canadian dollar exposure due to corporate transactions and related corporate overhead costs in Canada. The Company is therefore subject to gains and losses due to fluctuations in the US dollar against the two other currencies. The Turkish Lira and Canadian dollar exchange rates in 2010 are summarized as follows:

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Turkish Lira per US \$	Quarter Average	Quarter End
2010 Q1	1.51	1.52
2010 Q2	1.54	1.58
2010 Q3	1.51	1.45
2010 Q4	1.46	1.54

Canadian \$ per US \$	Quarter Average	Quarter End
2010 Q1	1.04	1.02
2010 Q2	1.03	1.06
2010 Q3	1.04	1.03
2010 Q4	1.01	0.99

Stock Option Expense

Stock option expense is allocated based on the vesting provisions of the options, where 100% of the expense is recognized for options that vest immediately, and a portion of the expense is recognized each period for options that vest over time. Stock option expense is recorded based on fair value calculations determined using the Black-Scholes valuation method. In 2010, 3,750,000 stock options were granted (2009 – 6,950,000). During 2010 the Company booked \$0.4 million stock option expense compared to \$0.15 million in 2009. The difference largely reflects the impact of the higher market trading price of the Company's shares offset by a lower number of stock options granted.

Accretion of Liabilities

In 2010 and 2009, respectively, accretion of liabilities of approximately \$0.2 million were booked, mainly representing the current year portion of the discount applied to the future obligations which were incurred on acquisition of the Waelz kiln assets. In addition, during the second half of 2010 a \$0.1 million accretion expense was booked in relation to the convertible debenture (see below - Convertible debenture).

Pre-operating Costs

Pre-operating costs of approximately \$0.5 million for 2009 include legal and due diligence costs required to complete the acquisition plus the initial labour and materials expenses associated with cleaning and repairing the existing plan through to the start up of operations and re-commissioning of the Waelz kiln assets. There were no such costs in 2010.

Gain on Dilution

During the third quarter of 2009, the Company sold a portion of its interest in the Turkish Operations to Cooper Island, with further sales in the fourth quarter. As a result, the Company recognized a gain on dilution of its interest in the subsidiary of \$1.5 million during 2009. During the first quarter of 2010, the Company drew down its final tranche of \$0.5 million on the Cooper Island financing and recognized a further gain on dilution of its interest in the subsidiary.

Upon the completion of the BST joint venture formation, a gain of \$1.5 million on the Company's contribution to the BST joint venture was recognized based on the 51% investment by Befesa.

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Liquidity and Financial Position

Working Capital

The working capital of the Company was in a surplus of \$3.25 million at December 31, 2010 compared to a deficit of \$2.0 million at December 31, 2009. The various components of working capital are discussed hereafter.

Credit facility receivable

The working capital position of the Turkish Operations was very strong at the end of 2010 and no immediate projects existed that would require funding out of the cash in the BST joint venture. Accordingly, a decision was made to advance repay the Silvermet promissory note of \$0.5 million and \$5.3 million of the remaining cash was advanced to Befesa under a credit facility (Silvermet's proportionate share being \$2.6 million). The credit facility provides that Befesa will accrue interest payable to the BST joint venture at an annual rate of 8.35% and calculated on the daily balances advanced under the credit facility. The accrued interest is payable to the BST joint venture at the earlier of its cancellation or the end of the fiscal year. The BST joint venture may cancel the credit facility at any time with no penalty and upon so doing, the principal plus accrued interest must be paid to the BST joint venture by Befesa within two days.

Promissory note receivable

In July 2010, the Company raised C \$0.5 million by way of a convertible debenture (see subsequent discussion) and in turn, the Company advanced \$0.5 million for use in the Turkish Operations by way of a demand promissory note bearing interest at 13.2% per annum. On its formation, the BST joint venture assumed this liability to Silvermet. On December 22, 2010, BST paid \$0.5 million plus interest to Silvermet to extinguish the liability under this promissory note.

Accounts receivable

Accounts receivable comprise primarily smelter and tax receivables. Smelter receivables account for \$0.6 million and include residual payments to be received subsequent to year end once final pricing is determined on a number of shipments. As such, the receivable represents amounts to be received based on zinc prices as they existed at December 31, 2010 and is subject to adjustment for future zinc price changes.

Accounts receivable at December 31, 2010 include \$0.4 million for Value Added Taxes ("VAT") in Turkey. VAT is payable at a rate of 18% of most input costs and is subsequently recovered by the Company after product has been exported. However, there is a significant lag between the export date and the date on which the VAT refund is actually received. The balance of receivables is made up of related party receivables, HST and advances.

Inventories

Inventories were reduced from \$1.5 million at December 31, 2009 to \$0.5 million (Silvermet's proportionate share being \$0.25 million) at December 31, 2010. The 2009 year-end inventory was unusually high, as the agent being used at the time had delayed shipments until January 2010.

Accounts payable and accrued liabilities

The main components of the accounts payable and accrued liabilities relate to \$1.3 million (Silvermet's proportionate share being \$0.8 million) operating trade accounts. Accrued liabilities of \$0.4 million

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(Silvermet's proportionate share being \$0.2 million) comprise accruals related to personnel, social security and tax liabilities, which are held as an offset to the VAT receivables. The purchase price for the Turkish assets included the assumption of certain liabilities owing by the previous owners. The balance of such liabilities at December 31, 2009 was approximately \$0.4 million, which was paid out completely in 2010.

Bank loan

Pursuant to the acquisition of its Turkish Operations, the Company assumed a term loan from a financial institution in Turkey in the amount of \$1.1 million. The term loan had an interest rate of 10% and matured on February 17, 2010. The term loan called for interest payments every calendar quarter with the principal due at maturity. On April 5, 2010 the Company repaid \$0.4 million and extended the remaining \$0.7 million for 18 months, payable in equal monthly instalments and bearing interest at 12%. The loan is secured by land, building and equipment of the Turkish Operations. The outstanding balance at December 31, 2010 was \$0.4 million (Silvermet's proportionate share being \$0.2 million).

Convertible debenture

On July 23, 2010, the Company completed a 13.2% convertible debenture financing for \$0.5 million, half of which was placed with one of the Company's directors. The debentures were convertible into common shares of the Company at a price of \$0.10 (C\$) per share any time prior to their maturity of June 30, 2011. In connection with this financing, the Company also issued 5,000,000 warrants to acquire common shares at \$0.10 (C\$) per share at any time prior to June 30, 2011. The convertible debenture was recorded with liability and equity components. The liability component was recorded as debt at its net present fair value of \$0.3 million, including a \$0.1 million accretion expense booked during the year. The equity component consisted of a value conversion component and a share issue cost of \$0.82 million representing the valuation of 5,000,000 warrants at C \$0.036 per unit. The convertible debenture and accrued interest were paid off completely on February 9, 2011.

Tax payable

The tax payable of approximately \$0.3 million (Silvermet's proportionate share being approximately \$0.15 million) represents current year income tax payable for the Turkish Operations.

Current portion of long term liabilities

The current portion of long term liabilities is the amount due within 12 months to the vendors of the Turkish plant as part of their fixed payment amount. At December 31, 2010, the gross payable amount remaining under this fixed payment arrangement was \$0.45 million (Silvermet's proportionate share being \$0.2 million). In connection with its acquisition, the Company had the right to discontinue payments on the loan payable and contingent consideration if the vendors had not resolved certain retained liabilities. As these liabilities were still unresolved, the Company discontinued further payments in April 2010, pending resolution of these retained liabilities. The amount recorded on the balance sheet is Silvermet's proportionate share of the present value of the liability at a discount rate of 12%.

Long-term liabilities

Long-term liabilities consist of the contingent consideration payable to the vendors. The contingent consideration is based on earnings, after the Company has recovered its investment in the Turkish assets plus a return thereon. In view of the actual performance of the Turkish Operations since their acquisition and estimated future operating results, management revised its estimate of the fair value of the contingent consideration on the formation of the BST joint venture to an estimated amount of \$1.5

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million. At that date, the accreted balance of the contingent consideration was approximately \$1.95 million. The difference was recorded as a reduction to the carrying cost of fixed assets.

The liabilities under both the loan payable and contingent consideration were assumed by the BST joint venture as of October 27, 2010. The Company does not expect to make any payments of contingent consideration during 2011 and this liability should therefore have no impact on the Company's liquidity during this period.

Capital resources

The Company has various capital expenditure projects underway and planned, which will eliminate bottlenecks, improve throughput and plant performance. Additionally, the Company is seeking to build a second kiln, as the market demand exists for such additional capacity. The execution of all such plans will require financing in addition to cash flows generated from operations.

Capital management

In managing its capital, the Company's objective is to ensure the Company is able to continue its operations and that it has sufficient ability to satisfy its capital obligations and ongoing operational expenses. The Company considers the components of shareholders' equity, as well as its cash and equivalents, notes receivable, credit facilities and long-term loan obligations as capital. Management adjusts the capital structure as necessary in order to support its business strategy. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate, and commodity and equity price risk).

Credit risk

The Company's credit risk is attributed to cash, notes and accounts receivable. The Company has a concentration of credit risk with a small number of customers. Cash is held with reputable financial institutions, from which management believes the risk of loss to be minimal. The BST joint venture has advanced excess funds to Befesa under a credit facility receivable, which funds can be demanded for payment with two days notice. Management believes the risk of loss to be minimal. Account receivables include expenses paid on behalf of related companies, sales tax receivables from the Turkish and Canadian governments and sales receivables from various smelters. Accounts receivables are in good standing as at December 31, 2010. Management believes that the credit risk concentration with respect to accounts receivable is mitigated by the use of provisional payments made against shipments.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities and kiln operations. As at December 31, 2010 the Company had a cash and cash equivalents balance of \$1.2 million (December 31, 2009 - \$0.05 million) and a credit facility receivable of \$2.6 million to settle current liabilities of approximately \$2.0 million

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(December 31, 2009 - \$5.2 million). The Company utilizes planning, budgeting and forecasting processes to help ensure that funding requirements for contractual and other obligations are met. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Market risk

(a) Interest rate risk

At December 31, 2010, the Company had a credit facility receivable bearing a fixed interest rate. Debt balances bear interest at either fixed or no rates of interest. Accordingly, the Company was not exposed to any significant interest rate risks at December 31, 2010.

(b) Foreign currency risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the US dollar. Revenues are received in US dollars and significant purchases are transacted in US dollars. Additionally, a part of operating costs are incurred in Turkish lira and some of the assumed liabilities on the acquisition of the Turkish Operations are denominated in Turkish lira. The Company is therefore subject to gains and losses due to fluctuations in the US dollar against the Turkish Lira. Sensitivity to a plus or minus 5% change in the Turkish Lira against the US dollar with all other variables held constant as at December 31, 2010 would have an impact of approximately \$11,000.

(c) Commodity price risk

The Company sells zinc concentrates and is exposed to changes in the price of international zinc prices as quoted on the London Metals Exchange ("LME"). Sales of zinc concentrate are recognized in revenue on a provisional pricing basis when title transfers and the rights and obligations of ownership pass to the customer, which can occur at different times depending on the contract. Final pricing is typically not determined until a subsequent date. Accordingly, revenue in any period is based on current prices for sales occurring in the period and ongoing pricing adjustments from sales that are still subject to final pricing. These pricing adjustments result in additional revenues in a rising price environment and reductions to revenue in a declining price environment. The effect of these adjustments on earnings is mitigated by the effect that changing commodity prices have on treatment charges, taxes and non-controlling interests. For the year ending December 31, 2010, a plus or minus 10% change in the price of zinc, if all other variables were held constant would affect net and comprehensive income by approximately \$1.0 million.

Related Party Transactions

(a) During the year ended December 31, 2010 the Company received reimbursement for rent and other expenses from companies with a director, or directors, in common to Silvermet, as well as reimbursing such other companies for certain expenses incurred on behalf of Silvermet. These transactions were conducted in the normal course of business on terms that approximate market value and measured at the exchange amounts. The Company charged a total of \$0.1 million to the related companies concerning these expenses for the year ended December 31, 2010 (2009 - \$0.08 million). Included in receivables is \$0.05 million (\$0.05 million at December 31, 2009) related to these amounts which are due on demand.

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(b) During the year ended December 31, 2010 the Company accrued or paid \$0.45 million to related parties or companies controlled by related parties for management services provided to the Company (2009 - \$0.34 million). There were no amounts payable or accrued at December 31, 2010 or 2009 related to these amounts. These transactions were in the normal course of operations and recorded at exchange value.

(c) On June 18, 2010, a director of the Company assumed the remaining balance of \$0.4 million on the Cooper Island loan and extended its maturity. On July 23, 2010 this same director participated in C\$ 0.25 million of the C\$ 0.5 million convertible debenture financing.

Off Balance Sheet Transactions

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, and without limitation, such considerations as liquidity and capital resources.

Financial Instruments

(a) Until its sale on April 16, 2010, the Company held an investment in Logan Resources Ltd. ("Logan"), which trades on the TSX Venture Exchange. The investment had been classified as a held-for-trading instrument. The Company recorded a gain of \$5,000 on its sale.

(b) In connection with its Muskox exploration work, the Company held an Inuit Owned Lands ("IOL") license, issued by the Kitikmeot Inuit Association ("KIA"). The Company provided a letter of credit for \$50,000 (C\$) to KIA. The KIA may draw upon the letter of credit if certain environmental conditions of the license are breached. The letter of credit has not been drawn upon and no conditions of the license have been breached. The company expects to close out the letter of credit over the next twelve months. The C\$ 50,000 has been placed on deposit with the financial institution that issued the letter of credit and is recorded as an investment at December 31, 2010.

Accounting Policies and Critical Accounting Estimates

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in Canada. The preparation of the Company's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company lists its significant accounting policies in Note 2 of its audited consolidated financial statements for the year ended December 31, 2010.

Changes in Accounting Policies

New Accounting Standards Adopted:

As a result of the Company entering the BST joint venture on October 27, 2010 (note __), the Company has adopted the following CICA Section 3055 "Interests in Joint Ventures" on a prospective basis. Accordingly, the Company's interests in jointly controlled assets are accounted for using proportionate consolidation. The Company combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. The Company recognizes the portion of gains or losses on the sale of assets by the

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Company to the joint venture that is attributable to the other venturers. The Company does not recognize its share of profits or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

New Accounting Standards Not Yet Adopted:

The AcSB issued CICA Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. These new Sections replace existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These Sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently.

International Financial Reporting Standards (IFRS)

The Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011, with a transition date of January 1, 2010 (the "Transition Date"). Accordingly, the Company will issue its first IFRS annual consolidated financial statements for the year ended December 31, 2011, with statements of comparative balance sheets as at December 31, 2010 and January 1, 2010 and restatement of earnings for the year ended December 31, 2010. During the year ended December 31, 2011, the Company will issue interim consolidated financial statements prepared in accordance with IAS 34 – Interim Financial Reporting ("IAS 34") for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011, with restatement of comparative balance sheets as at December 31, 2010 and January 1, 2010, and statements of earnings for the comparative periods presented.

The Company's analysis of IFRS and comparison with GAAP has identified a number of differences which are discussed under the heading "Impact of adoption of IFRS on Financial Reporting" below.

First-time Adoption of International Financial Reporting Standards

IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), sets forth guidance for the initial adoption of IFRS. Commencing for the period ended March 31, 2011 the Company will restate its comparative fiscal 2010 financial statements for annual and interim periods to be consistent with IFRS. In addition, the Company will reconcile equity and net earnings from the previously reported fiscal 2010 GAAP amounts to the restated 2010 IFRS amounts. IFRS generally requires that first-time adopters retrospectively apply all IFRS standards and interpretations in effect as at the first annual reporting date. IFRS 1 provides for certain mandatory exceptions and optional exemptions to this general principle. The Company anticipates using the following IFRS 1 optional exemptions:

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- to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;
- to apply the requirements of IFRS 2, Share-based Payments, to equity instruments granted which had vested as of the Transition Date;
- to apply the borrowing cost exemption and apply IAS 23, Borrowing Costs, prospectively from the Transition Date; and
- to elect not to comply with IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, for changes in such liabilities that occurred before the Transition Date.

Changes to estimates previously made are not permitted. The estimates previously made by the Company under GAAP will not be revised for application of IFRS except where necessary to reflect any changes resulting from differences in accounting policies.

Impact of Adoption of IFRS on Financial Reporting

While GAAP is in many respects similar to IFRS, conversion will result in differences in recognition, measurement, and disclosure in the financial statements. Based on a Company's scoping and analysis, the following financial statement areas are expected to be significantly impacted:

Property, Plant and Equipment (PP&E)

Under IAS 16, Property, Plant and Equipment, are recognized initially at cost if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Costs include all expenditures directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Under IAS 16, each part of an item of PP&E with a cost that is significant in relation to the total cost of the item shall be depreciated separately. In order to meet this requirement, componentization is generally required. The Company does not currently componentize to the same level as would be required under IFRS. Componentization would be required only to the extent that different depreciation methods or rates are appropriate and those components are material. In addition, major inspections or overhaul costs are identified and accounted for as a separate component under IFRS if that component is used for more than one period. The Company does not currently have a policy for major overhaul costs. Practically, this should be factored into the determination of the components of PP&E.

The Company's componentization analysis determined that the level of componentization of assets under the Company's policies under GAAP also meets the IFRS requirements and therefore there are no GAAP differences.

Income Taxes

IAS 12, Income Taxes, requires the recognition of deferred tax assets or liabilities for all deductible and taxable temporary differences except for temporary differences created in a transaction that is:

- (a) not a business combination and
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit.

In addition, a deferred tax asset is recognized to the extent it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Under GAAP, tax assets are recognized if it is more likely than not to be realized. Probable is not defined in IAS 12. However, entities have often used a definition of more likely than not similar to GAAP. However, IAS 12 does not

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preclude a higher threshold. Accordingly, a difference will not result as long as the Company uses more likely than not as its definition of probable.

Impairment of Assets

Per IAS 36, Impairment of Assets, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable amount of the asset. The indicators of impairment are generally consistent with those of GAAP. An asset should be written down to its recoverable amount if the recoverable amount is less than its carrying value.

The recoverable amount is equal to the higher of the fair value less cost to sell and its value in use. It is not necessary to determine both if one indicates no impairment exists. The value in use is based on a discounted cash flow model. This approach is different than GAAP (i.e. one step model under IFRS compared to two step model under GAAP).

To the extent possible, individual assets should be tested for impairment. However, if it is not possible to determine the recoverable amount of an individual asset, an entity should determine the recoverable amount of the Cash Generating Unit ("CGU") to which the asset belongs. The definition of a CGU is different from the Canadian definition of an Asset Group. However, no difference between asset groups previously classified under GAAP and CGU's have been identified.

The Company has in the past written down mineral property balances for certain mineral properties. Under IAS 36, the Company would be required to reconsider whether there is any indication that an impairment loss recognized in a prior period may no longer exist or has decreased on transition and thereafter on an annual basis. If such indicators exist, a new recoverable amount should be calculated and all or part of the impairment charge should be reversed to the extent the recoverable amount exceeds its carrying value. This is different than GAAP where write ups are not permitted.

Share-based Payments

Currently, the Company measures stock-based compensation related to stock-options at the fair value of the options granted using the Black-Scholes option pricing formula and recognizes this expense over the vesting period of the options. For the purpose of accounting for share-based payment transactions, an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to contractors and consultants are measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2, similar to GAAP, requires the Company to measure stock-based compensation related to stock options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for options granted to non-employees, IFRS requires that stock-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured. For the purpose of accounting for share-based payment transactions an individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. This definition of an employee is broader than that currently applied by the Company and will result in certain contractors and consultants being classified as employees under IFRS.

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Based on the IFRS definition of an employee, the Company will reclassify a number of individuals previously classified as non-employees to employees. For the stock options granted to the individuals reclassified, changes in fair value after the grant date previously recognized for GAAP purposes will be adjusted. The effect of the above difference is yet to be finalized.

Foreign Exchange

There are significant changes to foreign exchange accounting under IFRS. We have concluded that the functional currency of our Turkish Operations as conducted by the Turkish operating company is the Turkish Lira, the functional currency of transactions at the BST joint venture is the US dollar and the functional currency of our Canadian operations is the Canadian dollar. The presentation currency of our financial statements is the US dollar. IFRS 1 provides that a company may elect to reset its cumulative translation account to zero on the transition date with the amount being adjusted to opening retained earnings. We will be electing on this basis. Accordingly, the Company expects that on transition to IFRS on January 1, 2010, shareholders' equity will increase.

Risks and Uncertainties

Equipment failures: The Company's equipment is complex and has many components. Equipment failures can occur due the failure of individual components, such as electric motors, causing a temporary halt in operations while repairs are made. Equipment downtime may also be experienced due to over-heating of the kiln, requiring a period of cooling for a few days before re-start. Catastrophic failures would include failures of the kiln shell, the failure of the kiln's brick lining or the failure in the primary drive gears. Catastrophic failures would result in an extended period of shut down while repairs are made, including the lead time required to order and receive replacement equipment.

Energy costs: The major cost components to the Company's process relate to energy – coke, coal, natural gas, diesel fuel and electricity. The costs of natural gas and electricity are out of the Company's control, being largely regulated in Turkey. In the case of coke and coal, costs are driven by global events that impact these commodities and transportation costs. Significant changes to such costs could impact the ability of the Company to operate profitably. The lack of supply of these energy inputs to the Company's plant would result in cessation of operations until such supplies resumed.

Uncertainty due to foreign legal and political factors: Risks may include political unrest, corruption, civil disturbances and terrorist actions, arbitrary changes in law or policies, changes to government regulation, foreign taxation, price and currency controls, delays in obtaining, or the inability to obtain necessary governmental permits, limitations on foreign ownership, limitations on the repatriation of earnings and increased financing costs.

Environmental regulations: The Company's business is subject to a variety of environmental regulations. Failure to properly process and handle EAFD in accordance with such regulations could expose the Company to liabilities and/or result in a withdrawal of operating permits. The Company has procedures in place to help ensure compliance with environmental regulations. However, new laws and regulations could be passed at any time that could materially affect the Company's operations.

Raw material supply: The Company requires a steady supply of EAFD in order to continue operating at an optimum level and to maintain profitable output levels. The Company relies on the continuing operations of the local steel mills at reasonable levels in order to meet its EAFD requirements. The closing of one or more local steel mills would have an adverse impact on the available supply.

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Additional funding: The Company anticipates the need for additional funding to support capital expenditures to improve the acquired Waelz kiln facility and to support planned expansions at this and other sites in Turkey. Failure to obtain such additional funding at critical times could lead to delay or indefinite postponement of such projects. There is no assurance that such funding will be available or that it will be obtained on favourable terms.

Dependence on Key Personnel: The development of the Company's business is and will continue to be dependent on its ability to attract and retain highly qualified management personnel. The Company faces competition for personnel from other employers.

Price volatility: Prices of commodities can fluctuate widely and are affected by numerous factors including demand, inflation, strength of various currencies, interest rates, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, commodities prices are sometimes subject to rapid short-term changes because of speculative activities. The success of the Company's Waelz kiln operations is dependent on market prices for zinc and the related treatment charges from smelters.

Currency risk: The Company's activities are primarily carried on in Turkey. All revenues and some items of cost are U.S. dollars based. Most operating expenses are incurred in Turkish Lira and head office relate costs are incurred in Canadian dollars. Such activities are subject to risks associated with fluctuations in the rate of exchange of these foreign currencies.

Critical Accounting Estimates: Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of the value of stock-based compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of Company's shares and financial objectives of the holders of the options. The Company has used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock-based compensation and hence results of operations, there is no impact on the Company's financial condition.

Outstanding Share Data

As at May 2, 2011 the outstanding common shares, share purchase warrants and stock options are:

Common shares outstanding	156,380,216
Share purchase warrants	5,000,000
Options	<u>9,200,000</u>
Fully diluted shares outstanding	<u>170,580,216</u>

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Management's Responsibility for Financial Information

The Company's financial statements are the responsibility of the Company's management, and have been approved by the board of directors. The consolidated financial statements were prepared by the Company's management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Disclosure of Internal Controls

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements, and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Company utilizes the Venture Issuer Basic Certificate, which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, the certifying officers filing the certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Outlook

The joint venture with Befesa was the most exciting development in 2010. Befesa have expertise in operating and building Waelz kiln plants throughout Europe. With the introduction of their expertise to our Turkish Operations, the training of our personnel and improvements to our operating facilities have accelerated. The joint venture currently has a credit facility receivable balance of \$5.3 million, to be used as needed for capital improvements to the existing facility or to progress with a new kiln. We expect the joint venture with Befesa will enable us to achieve our goals of expanding operations in Turkey on an accelerated basis.

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Additional Information

Additional information can be accessed at the Company's website www.silvermet.ca or through the Company's public filings at www.sedar.com.

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"Stephen G. Roman"

Stephen G. Roman
Chairman, President & Chief Executive Officer

"Ian D. Atacan"

Ian D. Atacan
Chief Financial Officer

May 2, 2011