
U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2006

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
(Expressed in United States Dollars)

DECEMBER 31, 2006

CONTENTS

Page

Consolidated Financial Statements:

Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Operations and Deficit	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 25

AUDITORS' REPORT

To the Shareholders of
U.S. Silver Corporation

We have audited the consolidated balance sheet of U.S. Silver Corporation as at December 31, 2006 and the consolidated statements of operations and deficit and cash flows for the period from April 7, 2006 to December 31, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
April 28, 2007

Mintz & Partners LLP
CHARTERED ACCOUNTANTS
Licensed Public Accountants

U.S. SILVER CORPORATION.
(formerly Chrysalis Capital III Corporation)

CONSOLIDATED BALANCE SHEET
(All Amounts are in United States Dollars)

As at December 31, 2006

ASSETS

CURRENT

Cash and cash equivalents	\$ 5,474,991
Receivables	1,085,113
Inventory	1,179,896
Supplies	1,423,966
Prepaid expenses and other assets	<u>648,971</u>
	9,812,937

PROPERTY, PLANT AND EQUIPMENT (Note 5)	3,911,891
MINING ASSETS (Note 6)	14,761,207
EXCESS PENSION CONTRIBUTION (Note 7)	356,878
INVESTMENTS, at fair value (cost \$557,985)	965,211
RESTRICTED CASH	<u>115,000</u>
	<u>\$ 29,923,124</u>

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	<u>\$ 1,783,482</u>
	1,783,482

LONG TERM LIABILITIES - POST RETIREMENT OBLIGATIONS (Note 13)	942,772
MINE RECLAMATION OBLIGATION (Note 8)	6,743,394
SEVERANCE LIABILITY (Note 13)	<u>264,549</u>
	<u>9,734,197</u>
COMMITMENTS AND CONTINGENCIES (Note 13)	

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 10)	
Common Stock - Issued and Outstanding 141,895,205	18,820,266
CONTRIBUTED SURPLUS (Note 10)	7,274,156
COMPREHENSIVE INCOME	414,323
DEFICIT	<u>(6,319,818)</u>
	<u>20,188,927</u>
	<u>\$ 29,923,124</u>

Approved on behalf of the Board

/s/ Bruce Reid
Director

/s/ John Ryan
Director

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
(All Amounts are in United States Dollars)

For the period from April 7 to December 31, 2006

REVENUES	<u>\$ 6,087,909</u>
EXPENSES	
Cost of mining	9,153,460
General and administrative	493,892
Selling and marketing	<u>145,861</u>
	<u>9,793,213</u>
LOSSES BEFORE UNDERNOTED	(3,705,304)
AMORTIZATION	(1,493,917)
INTEREST INCOME	39,177
FINANCING EXPENSE	<u>(1,159,774)</u>
NET LOSS	(6,319,818)
DEFICIT - Beginning of Period	<u>---</u>
DEFICIT - End of Period	<u>\$ (6,319,818)</u>
LOSS PER COMMON SHARE	
Loss per Common Share	<u>\$ (0.07)</u>
Weighted average Common Shares outstanding	<u>112,865,316</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS
(All Amounts are in United States Dollars)

For the period from April 7 to December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Loss for the period	\$ (6,319,818)
Items not affecting cash	
Amortization	1,493,917
Asset retirement obligation	300,159
Excess pension contribution	189,891
Non-cash financing expense	<u>548,041</u>
	(3,787,810)
Net change in non-cash operating items	
Change in accounts receivable	1,193,581
Change in inventory	(750,942)
Change in prepaid and sundry assets	(292,464)
Accounts payable and accrued liabilities	<u>835,327</u>
CASH FLOWS PROVIDED BY	
OPERATING ACTIVITIES	<u>(2,802,308)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from cash advances	8,071,832
Reimbursements of cash advances	(600,500)
Long term liability – retirement obligations	(392,490)
Severance liability	(26,207)
Major transaction costs	(1,778,428)
Issuance of capital stock	<u>18,893,339</u>
CASH FLOWS PROVIDED BY	
FINANCING ACTIVITIES	<u>24,167,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in property and equipment	(201,298)
Investment in mining assets	(412,694)
Investment in subsidiary	(16,082,604)
Investment in restricted cash	<u>(115,000)</u>
CASH FLOWS USED IN	
INVESTING ACTIVITIES	<u>(16,811,596)</u>
INCREASE IN CASH AND	
CASH EQUIVALENTS FOR THE PERIOD	4,553,642
CASH ACQUIRED UPON MAJOR TRANSACTION	917,529
EFFECT OF EXCHANGE RATE	<u>3,820</u>
NET INCREMENTAL CASH AND CASH EQUIVALENTS	
- Cash and cash equivalent	<u>\$ 5,474,991</u>
SUPPLEMENTAL INFORMATION	
Interest received	\$ 4,120
Interest paid	---
Income taxes paid	---

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

1. Organization and Basis of Presentation

Description of the Business

U.S. Silver Corporation (formerly Chrysalis Capital III Corporation) (the "Company") is incorporated under the Business Corporations Act (Ontario) and is engaged in the exploration and production of mining properties.

Basis of Consolidation

Effective December 28, 2006, the Company completed a transaction with U.S. Silver Corporation ("US Silver") of Delaware, USA, which subsequently changed its name to United States Silver, Inc. This transaction was accounted for as a reverse takeover as the control of the Company was acquired by the former shareholders of US Silver. After this transaction, the Company's name was changed to U.S. Silver Corporation from Chrysalis Capital III Corporation on February 28, 2007. Therefore, these consolidated financial statements include the accounts of the Company and its subsidiaries for period as of April 7, 2006, date of incorporation of US Silver. Although legally, U.S. Silver Corporation (formerly Chrysalis Capital III Corporation) is regarded as the parent or continuing company, US Silver, whose shareholders now hold more than 50% of the voting shares of the Company, is treated as the acquirer under Canadian generally accepted accounting principles. Consequently, U.S. Silver Corporation (formerly Chrysalis Capital III Corporation) is deemed a continuation of US Silver and control of the assets and business of U.S. Silver Corporation (formerly Chrysalis Capital III Corporation) is deemed to have been acquired in consideration for the issuance of the shares.

All significant inter-company accounts and transactions have been eliminated on consolidation.

Currency Presentation

All amounts in these financial statements are in United States dollars unless indicated with a "CA" to represent a Canadian dollar denominated amount.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash includes two certificates of deposits in the aggregate amount of \$115,000 as December 31, 2006 which are pledged to the Idaho Department of Water in connection with a mine tailings reclamation bond.

Accounts Receivable

The Company carries its accounts receivable at net realizable value. The Company traditionally does business with a limited number of large reputable smelters and does not normally experience non-payment problems from its customers. If a smelter's ability to pay was determined to be an issue, then the Company can acquire a 100% provisional payment before shipment is released.

Investments

The Company's securities are classified as available for sale, which are recorded at fair value in investments on the balance sheet, with the change in fair value during the period excluded from earnings and recorded net of tax as a component of comprehensive income. The Company has no securities classified as trading securities.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Concentration of Credit, Foreign Currency and Volatility of Metal Prices

The Company extends credit to its customers for which no credit insurance is available. To date the Company has not incurred any loss due to this activity, however, if such occurrence was to occur, the loss may have an adverse effect on the financial position of the Company.

The Company's operations are within North America where it holds substantial cash balances in both US dollars and Canadian dollar denominations with major financial institutions in North America, and generally its balance exceeds that of the government insured level. Therefore, the Company is exposed to foreign currency risks as it reports in US dollars. As at December 31, 2006, the Company held CA\$1,069,288.

The Company's revenues are based on metal prices which fluctuate considerably.

Capital Leases

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

Property and Equipment

Property and equipment are recorded at cost including interest capitalized on assets under construction, if any. Repairs and maintenance expenditures are charged to income; major betterments and replacements are capitalized. Depreciation and amortization rates are as follows:

Building and structural components	Straight line basis over a 7-31 year period
Computer equipment	Straight line basis over a 3-13 year period
Leasehold improvements	Straight line basis over the life of the lease
Machinery and equipment	Units of productions based up on estimated total proven and probable reserves
Office furniture & equipment	Straight line basis over a 3-7 year period
Vehicles	Straight line basis over a 3 year period

Metal and other Inventory

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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Mining Assets

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no minable ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures to develop new mines, to define further mineralization in existing ore bodies and to expand the capacity of operating mines, are capitalized and amortized on a unit of production basis over proven and probable reserves.

Should a property be abandoned, its capitalized costs are charged to operations. The Company charges to operations the allocable portion of capitalized costs attributable to properties sold. Capitalized costs are allocated to properties sold based on the proportion of claims sold to the claims remaining within the project area.

Reclamation and Redemption Costs

The Company recognizes the fair value of its Asset Retirement Obligation ("ARO") liabilities associated with tangible properties in the period in which the liability arises and when reasonable estimates of this fair value can be made. The fair value of this liability is calculated as the present value of the expected future costs of abandonment of such property. The liability is recorded as a long-term liability with a corresponding increase to the carrying amount of the related asset. The liability is increased each reporting period through the accretion of interest up to the future amount of the liability. The accretion is recorded as an expense in the Company's financial statements. The addition to the carrying amount of the asset is depleted on the same basis as the corresponding asset. Revisions to the estimated amount or timing of the obligations are reflected as increases or decreases to the recorded liability and related asset. Actual costs incurred upon settlement of the abandonment obligation are charged against the liability as incurred.

In certain instances, the Company may pre-pay its ARO. In those instances, the amount paid for the ARO is capitalized and included in the depletable cost pool.

Impairment Charges

At least annually and when events and circumstances warrant a review, the Company evaluates the carrying value of its assets for potential impairment. An impairment loss is recognized when the estimated net realizable value of any asset is less than its carrying value. Any impairment in assets is written down and charged to earnings in the year of the impairment.

Revenue Recognition

Sales are recognized and revenue is recorded based on current market prices when title and rights and obligations of ownership are transferred to the customer, collection is reasonably assured and the price is reasonably determinable.

Cost of Mining

Cost of revenues is determined by the total costs that are transferred to inventory for the month, which includes direct labour, materials, depreciation, depletion and amortization, as well as administrative overhead costs relating to mining activities (in effect, using the full cost method). The inventory layer costs are then allocated to the lots that are sold during the month based on the weight (dry short tons) of the concentrate.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Income taxes

The Company follows the asset and liability approach to accounting and reporting for income taxes. The income tax provision differs from that calculated by applying the statutory rates in all jurisdictions due to the changes in current or future income tax assets or liabilities during the period.

Current income taxes payable differ from the total tax provisions as a result of changes in taxable and deductible temporary differences between the tax basis of assets or liabilities and their carrying amounts in the balance sheet.

Deductible temporary differences arise from the ability to deduct for income tax purposes share issue costs over five years and the carry forward of unused tax losses available to apply against future taxable income. Future income tax assets are recorded to the extent that management believes that it is more likely than not that such losses will be able to be used in the carry-forward periods.

Taxable temporary differences arise from differences between the recording of amortization of capital assets for accounting and income tax purposes. Accordingly, future income tax liabilities are recorded to recognize these differences.

A valuation allowance is established to reduce future tax assets if it is more likely than not that a future tax asset will not be realized.

Use of Estimates

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

Accordingly, the Company's measurements are based upon management's best estimates based on existing knowledge, which reflect the Company's planned courses of action and probable economic conditions; however, it is possible that actual events may be different from those anticipated. Accordingly, such differences could impact the carrying values of assets as well as future results of operations and cash flows.

Costs of Raising Capital

Incremental costs incurred in respect of raising capital are charged against equity proceeds raised.

Translation of Foreign Currencies

The transactions concluded in foreign currencies are translated according to the current rate method. Therefore foreign currencies are translated using the average rate for the period for items included in the consolidated statement of operations and deficit and the rate in effect at the balance sheet date for monetary assets and liabilities. Foreign exchange gains and losses are included in comprehensive income.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Fair Value of Financial Instruments

The Company estimates the fair value of its financial instruments based on current interest rates, quoted market values or the current price of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of financial instruments, especially those with current maturities such as cash and cash equivalents, restricted cash, short-term investments, accounts and other receivables, and accounts payable and accrued liabilities are considered to approximate their fair values.

Stock-Based Compensation Plan

When the Company issues stock based compensation, it accounts for them using the fair value method for stock based compensation as recommended by the Canadian Institute of Chartered Accounts Handbook, Section 3870. The fair value of stock options is determined by using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and expected life of the options. The fair value of direct awards of stock options is determined by quoted market price of the Company's common stock.

Earnings (Loss) per Share

The basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by weighted average of common shares outstanding during the period. Fully diluted earnings per share reflects the maximum possible dilution that could occur from common shares issuable through the exercise of conversion of stock options, restricted stock awards, warrants and convertible securities. Loss per share is not shown where it would be anti-dilutive.

Comprehensive Income

The Company has early adopted CICA Handbook section 1530 (Comprehensive Income) and 3855 (Financial Instrument). Accordingly, the Company has classified its investments portfolio as "available for sale" and accordingly the unrealized gain on its investments of \$412,653 is recorded as Comprehensive Income. This also, includes unrecognized gains and losses on foreign currency translation of the Company's Canadian legal parent of \$1,670. Total Comprehensive Income is therefore \$414,323

3. Acquisition – Reverse Takeover

On December 28, 2006, the Company (formerly Chrysalis Capital III Corporation) executed a share purchase agreement pursuant to which it acquired all of the issued and outstanding common shares of US Silver in consideration for 131,895,145 common shares of the Company in a reverse take over transaction. In addition, the Company assumed the obligation to issue common shares upon the exercise of the following warrants that were previously issued by US Silver.

Quantity	Exercise Price CA\$	Exercise Price US\$	Expiry Date
2,325,000	\$ 0.40	\$ 0.355	May 11, 2008
40,286,593	0.40	0.355	December 29, 2008
6,888,308	0.29	0.258	December 29, 2008
3,444,154	0.40	0.355	December 29, 2008
574,818	0.40	0.355	December 29, 2008
1,717,540	0.40	0.355	December 29, 2008

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

3. Acquisition – Reverse Takeover - continued

The exercise price is in US\$ for those who continue to hold the original US Silver warrant and in CA\$ for those holders who have exchanged the warrants for new warrants of the Company.

This transaction has been recorded as a reverse takeover.

The net liabilities of Chrysalis Capital III Corporation at December 28, 2006 were as follows:

Cash	\$ 917,529
Receivables	21,592
Accounts payable and accrued liabilities	(63,862)
Other	<u>(1,671)</u>
Purchase Price (Note10)	<u>\$ 873,588</u>

The purchase value is based on the fair value of the legal parent's assets and liabilities.

4. Acquisition of Coeur Silver Valley Inc.

On June 1, 2006, U.S. Silver acquired all of the issued and outstanding shares of U.S. Silver-Idaho, Inc. (formerly Coeur Silver Valley, Inc.) ("Silver-Idaho") for an initial payment of \$15,000,000 in cash and the subsequent payment of \$1,082,604 in cash in July 2006. Silver-Idaho is a silver and copper mining company established in 1994 and is located in Wallace, Idaho. On June 21, 2006, Coeur Silver Valley, Inc. changed its name to U.S. Silver-Idaho, Inc.

The purchase price was allocated as follows:

Mineral reserves	\$ 7,515,895
Cash	300
Accounts receivable	2,453,749
Prepaid expenses	26,218
Inventory	1,852,920
Supplies and other assets	1,953,834
Property, plant & equipment	4,391,258
Operational mining property	<u>7,725,620</u>
Total Assets Acquired	<u>25,919,794</u>
Current liabilities	(539,532)
Employee benefit accrual	(398,212)
Post retirement benefit obligation	(1,335,261)
Asset retirement liability	(7,119,801)
Other liabilities	<u>(444,384)</u>
Total Liabilities Assumed	<u>(9,837,190)</u>
Cash considerably being net assets acquired	<u>\$ 16,082,604</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

5. Property, Plant and Equipment

	December 31, 2006		
	Costs \$	Accumulated Amortisation \$	Net Book Value \$
Building and structural components	755,926	19,726	736,200
Computer equipment	76,574	8,546	68,028
Machinery & Equipment	3,725,282	644,131	3,081,150
Leasehold improvements	2,000	25	1,975
Office furniture	21,077	472	20,605
Vehicles	11,697	7,764	3,933
	<u>4,592,556</u>	<u>680,665</u>	<u>3,911,891</u>

Depreciation expense for the period ending December 31, 2006 was \$680,665.

6. Operational Mining Property and Mine Development

Costs incurred to develop new properties are capitalized as incurred, where it has been determined that the property can be economically developed. At the Company's underground mines, these costs include the cost of building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development. All such costs are based on recoverable ounces to be mined from proven and probable reserves. Interest expense allocable to the cost of developing mining properties and to construct new facilities is capitalized until assets are ready for their intended use. Gains or losses from sales or retirement of assets are included in other income or expense. Costs incurred during the start-up phase are expensed as incurred. On going mining expenditures on producing properties are charged against earnings as incurred. Major development expenditures incurred to increase production or extend the life of the mine are capitalized. Mineral exploration costs are expensed as incurred.

The following is a summary of the Company's mining properties:

Operational mining property	\$ 7,749,014
Asset retirement obligation	323,968
Mineral reserves	<u>7,515,895</u>
	15,588,877
Less: accumulated depreciation and depletion	<u>(827,670)</u>
Net mining properties	<u>\$ 14,761,207</u>

Depreciation and depletion expense for the period ending December 31, 2006 was \$827,670.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans

Defined Benefit Plan

In connection with the acquisition of Silver-Idaho, the Company is required to maintain non-contributory defined benefit pension plans covering substantially all employees. Benefits for salaried plans are based on salary and years of service. Hourly plans are based on negotiated benefits and years of service. The Company's funding policy is to contribute annually the minimum amount prescribed, as specified by applicable regulations. Prior service costs and actual gains and losses are amortized over plan participants' expected future period of service using the straight-line method.

Since the plan is an ongoing benefit assumed by the Company the numbers presented represent the full year of activity, not just the period since the Company assumed the responsibility of the plan on June 1, 2006 via its acquisition of Silver-Idaho.

Actuarial Present Value of Projected Benefit Obligation:

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

Factors	2006
Discount Rate for Benefit Obligations	6.00%
Expected Return on Plan Assets	6.00%
Rate of Compensation Increase	5.00%

Expected rate of return on plan assets:

The expected rate of return on the Silver-Idaho plan assets for purposes of the actuarial valuation was assumed to be 6% and is based on the plan's experience and asset mix of the portfolio, as well as taking into consideration the fact that no lump sum distributions are paid from the plan. The plan had an expected return on plan assets of \$0.3 million and \$0.3 million for 2006 and 2005, respectively. The actual return on plan assets was \$0.5 million and \$0.2 million for 2006 and 2005, respectively. The discount rate was determined based on Moody's Aaa bond rating

Plan assets and determination of fair value:

The fair value of plan assets is determined using the market value of the investments held by the plan at December 31 of each year as quoted by public equity and bond markets. The asset mix is in accordance with the plan's investment policy which allows for 60% equity investments, 35% fixed income investments and 5% cash and cash equivalents. The investment portfolio for the funded portion of the obligation is held in a trust. The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements as set forth in the United States Employee Retirement Income Security Act of 1974 plus such additional tax deductible amounts as may be advisable under the circumstances. Silver-Idaho had funded \$0.7 million and \$0.7 million in 2006 and 2005, respectively, toward the obligation. The Company expects to contribute approximate \$0.7 million annually for each of the next five years. The plan assets are invested principally in commingled stock funds, mutual funds and securities issued by the United States government.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans - continued

Pursuant to the plan's investment policy, the plan adopts more specific investment directives from time to time. The plan's current investment directives are 60% equity investments, 35% fixed income investments and 5% in cash and cash equivalents. Based on this current investment directive, the plan's actual portfolio at December 31, 2006 had 63% equity investments and 37% fixed income investments. Since the performance of each asset class of the portfolio within any measurement period will impact its relative weight in the portfolio, the actual percentage of each asset class in the portfolio may not match to the current directive.

The expected long-term rates of return for each asset class within the portfolio, and therefore the portfolio weighted average, is based on an estimate of the return for each of the securities within an asset class, which are currently benchmarked at 10.0% for equity investments, 3.0% for fixed income investments and 2% for cash and cash equivalents. For each type of investment within the trust's portfolio structure, the trustees evaluate both returns and the relationship between risk and return. The expectation is that each asset class will produce a superior risk-adjusted return over a market cycle.

The following table shows the expected long-term rates of return associated with each asset class:

Asset Class	Actual Mix	Target Mix	Expected Long Term Rates of Return
Equity investments	63.0%	60.0%	10.0%
Fixed income investments	37.0%	40.0%	3.0%
Cash and cash equivalent	0.0%	5%	2.0%
Weighted average			7.2%

The Trustees evaluate the level of volatility within the total Trust and each of its component investments. The Trustees have set maximum volatility thresholds for each class of investment, which consist of 16% for equity investments, 7.25% for fixed income investments and 1% for cash and cash equivalents, with the total portfolio volatility expected to not exceed 11%. The Trustees then compare how these specific investments perform against other indexed funds and other managed portfolios with similar objectives. The specific criterion used to measure the performance is as follows:

- 1) A targeted 7-11% average annualized return based on long-term historical market data;
- 2) Expected returns over a market cycle that exceed the total portfolio indexed benchmark;
- 3) Volatility that is not substantially greater than the portfolio indexed benchmark volatility of 11%; and
- 4) Risk adjusted returns that are comparable with indexed benchmarks. The components of net periodic benefit costs are estimated as follows for the period ended September 30, 2006:

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans - continued

Assumptions	
Discount rate	6.00%
Components of net periodic benefit costs:	
Service costs	\$ 347,000
Interest costs	502,000
Expected return on plan assets	(298,000)
Amortization of prior service cost	59,000
Recognized actuarial loss	<u>326,000</u>
Net periodic benefit cost	<u>\$ 936,000</u>

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

Change in benefit obligation	
Projected benefit obligation as of January 1, 2006	<u>\$ 8,405,000</u>
Service costs	347,000
Interest cost	502,000
Benefit paid	(396,000)
Actuarial loss	<u>161,000</u>
Projected benefit obligation as of December 31, 2006	<u>\$ 9,019,000</u>
Accumulated benefit obligation	<u>\$ 7,283,000</u>
Change in plan assets	
Fair value of plan assets as of January 1, 2006	\$ 4,806,000
Actual return on plan assets	522,000
Employer contributions	720,000
Benefits paid	<u>(396,000)</u>
Fair value of plan assets as of December 31, 2006	<u>\$ 5,652,000</u>
Reconciliation of funded status	
Funded status	\$ (3,366,000)
Unrecognized actuarial loss	3,414,000
Unrecognized prior service cost	<u>309,000</u>
Net asset reflected in the consolidated balance sheet	<u>\$ 357,000</u>
Weighted average assumptions	
Discount rate	6.00%
Expected long term rate of return on plan assets	6.00%
Rate of compensation increase	5.00%

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans - continued

Post Retirement Medical Benefits

In connection with the acquisition of Silver-Idaho, the Company reimburses Asarco, Inc. ("Asarco"), the a previous owner, for certain healthcare benefits for retired employees and their dependents who retired before September 9, 1999. There are currently ten active hourly and salaried employees of Silver-Idaho, and three inactive participants eligible under Asarco's post-retirement medical benefits plan. These post-retirement medical benefits are self-insured by the plan's prior owner. The actuarial present value of the post retirement benefit obligation is determined as of December 31 for each of the years presented.

Since the plan is an ongoing obligation assumed by the Company the values presented represent the full year of activity not just the period since the Company assumed the responsibility of the plan on June 1, 2006 (Note 4).

Actuarial Present Value of Projected Benefit Obligation:

The discount rate was determined based on Moody's Aaa Bond Rating as reported on the last business day of the plan year plus 0.50%. The Company amortizes its unrecognized, unfunded accumulated post-retirement benefit obligation using a straight-line method over a 3-year period. The 3-year estimate is based on the average remaining service period of the active participants.

Expected long-term rate of return on plan assets

No assets are held in a trust for the post retirement health care plan; therefore, there is no expected long-term rate of return assumption. A "pay as you go" funding method is utilized for this plan. The Company did not contribute anything in 2006. The Company expects to contribute to the plan approximately \$0.02 million each year for the next five years.

The following table sets forth the actuarial present value of postretirement medical benefit obligations and amounts recognized in the Company's financial statements at December 31, 2006:

Assumptions	
Discounted rate	6.00%
 Change in benefit obligation	
Net benefit obligation as of January 1, 2006	\$ 356,000
Service cost	0
Interest cost	0
Prior service cost (credit)	0
Actuarial (gain) loss	0
Benefits paid	0
Net benefit obligation as of December 31, 2006	<u>\$ 356,000</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans - continued

Change in plan assets	
Assets as of January 1, 2006	\$ 0
Benefits paid	0
Contributions	<u>0</u>
Assets as of December 31, 2006	<u>\$ 0</u>
Reconciliation of funded status	
Funded status as of January 1, 2006	\$ (356,000)
Unrecognized net actuarial (gain) loss	(313,143)
Unrecognized prior service cost (credit)	<u>(100,667)</u>
Net amount recognized as of December 31, 2006 (recorded as accrued benefit cost in the accompanying balance sheet)	<u>\$ (769,810)</u>

The components of net periodic benefit costs are as follows for the period ended December 31, 2006.

Assumptions:

Discount rate	6%
---------------	----

Components of net periodic benefit cost:

Service cost	\$ 0
Interest cost	0
Amortization of prior service cost	(163,681)
Amortization of actuarial gain	<u>(509,159)</u>
Net periodic pension cost (benefit)	<u>\$ (672,840)</u>

As, the amortization of prior service cost of \$0.4 million and the unrealized actuarial gain of \$1.2 million is greater than 10% of the benefit obligation the gain must be amortized over the average remaining service period of the active participants which currently estimated to be approximately 3.1 years. The amortization of the unrealized gain is included as a component on net periodic benefit cost. The Company also amortizes the unrecognized actuarial gain over the same period.

A 1% change in assumed medical trend rates would have the following effects: (in thousands)

	1% Increase <u>2006</u>	1% Decrease <u>2006</u>
Effect on total of service and interest cost components	\$ 2	\$ (2)
Effect on postretirement benefit obligation	\$ 22	\$ (19)

Postretirement benefits include medical benefits for retirees and their dependents.

In December 2003, The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The Company's accumulated postretirement benefit obligation and net periodic postretirement obligation do not reflect the effects that the requirements of this law since eligibility under this plan ends at age 65.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, Post-Retirement Medical Benefit, Defined Contribution and 401(k) Plans - continued

Defined Contribution Plan

The Company provides a non-contributory defined contribution retirement plan for all eligible U.S. employees. Total contributions charged to expense were \$720,000 for 2006, and are based on a percentage of the salary of eligible employees.

401(k) Plan

The Company maintains a retirement savings plan in the United States (which qualifies under Section 401(k) of the U.S. Internal Revenue code) covering all eligible U.S. employees. Under the plan, employees may elect to contribute up to 100% of their cash compensation, subject to ERISA limitations. The Company is required to make matching cash contributions equal to 50% of the employees' contribution, up to a maximum of 3% of the employees' compensation.

8. Reclamation and Remediation Costs

Reclamation and remediation costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Company uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Company's current mining plan and the best available information for making such estimates. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

The Company has section 3110 of the CICA handbook, "Asset Retirement Obligations" and is required to recognize the full discounted estimated future reclamation liability and set up a corresponding asset to be amortized over the life of the mine on a units-of-production basis.

The Asset Retirement Obligation is measured using the following factors: 1) expected labour costs; 2) allocated overhead and equipment charges; 3) contractor mark-up; 4) inflation adjustment; 5) market risk premium. The sum of all these costs is discounted, using the Company's initial credit adjusted risk-free interest rate of 7.5%, from the time we expect to pay the retirement obligation to the time we incur the obligation. The measurement objective is to determine the amount a third party would demand to assume the asset retirement obligation.

Upon initial recognition of a liability for an asset retirement obligation, the Company capitalizes the asset retirement cost as an increase in the carrying amount of the related long-lived asset. The Company depletes this amount using the units-of-production method. The Company is not required to re-measure the obligation at fair value each period, but the Company is required to evaluate the cash flow estimates at the end of each reporting period to determine whether the estimates continue to be appropriate. Upward revisions in the amount of discounted cash flows are discounted using a current credit-adjusted risk-free rate. Downward revisions are discounted using the credit-adjusted risk-free rate that existed when the original liability was recorded.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

8. Reclamation and Remediation Costs - continued

The following is a description of the changes to the Company's asset retirement obligations for the period ending December 31:

	<u>2006</u>
Asset retirement obligation liability upon acquisition of Silver-Idaho	\$ 7,119,801
Accretion	300,128
Adjustment based on post acquisition review	<u>(676,535)</u>
Asset retirement obligation	<u>\$ 6,743,394</u>

9. Related Party Transactions

Amounts due to the related parties, are payable to entities controlled by shareholders, officers or directors of the Company as are transactions with these related parties. These amounts are non-interest bearing, unsecured and not subject to specific terms of repayment unless stated otherwise.

During the period ended December 31, 2006, Golden Eagle Mining borrowed \$90,000 from the Company. This unsecured note bears interest at 8% and is due on demand. Additionally, the Company paid invoices on behalf of Golden Eagle Mining a total of \$85,055. The total due to the Company by Golden Eagle Mining is \$179,915, which is included in prepaid expenses and other assets and includes accrued interest of approximately \$4,860. Golden Eagle Mining and the Company's are related by an officer and director in common.

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

10. Capital Stock

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

During the period US Silver had the following capital transactions:

1. In its initial capitalization in April, 2006, the Company issued 8,635,000 shares of common stock for a total of \$9,050 in cash, \$60,000 in investments, and \$17,300 of consulting expense.
2. During the period ended June 30, 2006, the Company issued 25,991,350 "units" to investors at a price of \$0.80 per unit in a private placement. Each unit consists of one share of common stock and one-half of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase, at a price of \$1.10, one common share for a period of two years following a liquidity event. The liquidity event occurred upon the issuance of the TSX Venture Bulletin approving the reverse take over on December 29, 2006. Sales of these units generated cash proceeds of \$20,733,080 less a subscription receivable of \$55,200, minus fees of \$1,903,990. During this same period the Company issued 825,000 shares of its common stock as loan consideration valued at \$412,500. The Company also issued 567,885 shares of its common stock to for payment of debt and accrued interest in the amount of \$408,877.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

10. Capital Stock - continued

3. During the period ended September 30, 2006, the Company issued 282,586 shares of common stock for convertible debt and interest in the amount of \$203,463, and cash receipts of \$55,200 for a subscription receivable that was previously recorded in prior period.
4. During the period ended December 31, 2006, the Company issued 6,245,000 shares of common stock for convertible debt in the amount of \$6,869,500.

Share capital of U.S. Silver Inc. (legal subsidiary - Note 1 and 3) prior to the reverse takeover:

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, April 7, 2006	---	\$ ---	\$ ---
Issuance for cash	34,816,821	19,275,165	7,618,415
Issuance for services	1,730,000	17,300	---
Issuance for investments	6,000,000	60,000	---
Issuance of broker warrants on QT	---	---	28,382
Balance as at December 31, 2005	<u>42,546,821</u>	<u>\$ 19,352,465</u>	<u>\$ 7,646,797</u>

During the period ending December 31, 2006, the legal parent had the following capital transactions:

1. issued 131,895,205 common shares for the acquisition of U.S. Silver Corporation, the legal subsidiary; and
2. issued 10,000,000 common shares for gross proceeds of \$1,600,000, in addition 600,000 broker warrants were issued in conjunction with this financing, where each broker warrant provides the holder the option to acquire one (1) common share for a price of \$0.20.

Share Capital of U.S. Silver Corporation, as a result of the reverse takeover:

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Issuance of shares in exchange for shares of legal subsidiary to effect the reverse takeover	131,895,205	\$ 19,352,465	\$ 7,646,797
Fair value of the net liabilities of the legal parent attributed to issued shares of legal parent at date of reverse takeover and debt settlement (Note 3)	10,000,000	1,246,229	(372,641)
Major transaction costs and impact of reverse takeover	---	(1,778,428)	---
Balance as at December 31, 2006	<u>141,895,205</u>	<u>\$ 18,820,266</u>	<u>\$ 7,274,156</u>

11. Options and Warrants

The Company's Stock Option Plan ("the "Plan") provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal or greater than the market price of the Company's common shares on the date of the grant to directors, officers, employees and consultants to the Company. The option period for options granted under the Plan is for a maximum period of 5 years. Options granted may be vested over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

11. Options and Warrants - continued

The stock options activity is summarized below:

	December 31, 2006 Number	Weighted Average Exercise Price
Balance, April 7, 2006	Nil	N/A
Granted	11,651,500	\$ 0.38
Exercised	Nil	N/A
Cancelled	Nil	N/A
Balance, end of the period	<u>11,651,500</u>	<u>\$ 0.38</u>

Of the stock options issued and outstanding, 100,000 have been granted to a charitable organization outside of the stock option plan as permitted by the policies of the TSX Venture Exchange.

During the period ending December 31, 2006, the stock options granted by the Company were not expensed due to the fact that: (i) 1,100,000 was granted by the legal parent prior to the Qualifying Transaction and (ii) 10,551,500 stock option was granted concurrently with the Qualifying Transaction and therefore was deemed as a cost of the transaction and not as a compensation item. These amounts have been reflected in the balance sheet as contributed surplus and reflect the fair value of the options granted using the Black Scholes option pricing model with the following assumptions:

	December 2006	June 2006
Number of Options	10,551,500	1,100,000
Exercise price	CA\$ 0.40	CA\$ 0.20
Expected option life	2.5 years	2.5 years
Risk free interest rate	5.0%	2.91%
Volatility	50.0%	10.0%
Dividend yield	0.0%	0.0%

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2006.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable		
			Weighted Average Remaining Life	Weighted Average Price	Weighted Average Price	Quantity	Weighted Average Price
\$ 0.20	1,100,000	June 2011	4.5 years	CA\$ 0.20	1,100,000	CA\$ 0.20	
0.40	10,551,500	Dec. 2011	5.0 years	0.40	10,551,500	0.40	

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

11. Options and Warrants - continued

The warrants that are issued and outstanding are as follows:

<u>Number of Warrants</u>	<u>Exercise Price (CA\$)</u>	<u>Type</u>	<u>Issuance Date</u>	<u>Expiry Date</u>
600,000	\$ 0.20	Broker Warrants	June, 2006	June 27, 2008
2,325,000	0.40	Broker Warrants	May , 2006	May 11, 2008
40,286,593	0.40	Broker Warrants	June , 2006	December 28, 2008
6,888,308	0.29	Broker Warrants	June , 2006	December 28, 2008
4,018,970	0.40	Broker Warrants	June , 2006	December 28, 2008
1,317,740	0.40	Broker Warrants	December, 2006	December 28, 2008

The fair value of the warrants was based on the Black Scholes option pricing model. The following assumptions were used to value the warrants:

<u>Type</u>	<u>Broker Units</u>	<u>Broker Units</u>
Exercise price	CA\$ 0.29 - \$0.40	CA\$ 0.20
Expected option life	2 years	1.5 years
Risk free interest rate	5.0%	2.91%
Volatility	50.0%	10.0%
Dividend yield	0.0%	0.0%

12. Provision for Income Tax

The Company files Canadian income tax returns for its Canadian operations. Separate income tax returns are filed, as locally required, for each of its foreign subsidiaries.

There was no provision for income taxes for the period ended December 31, 2006 and 2005.

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

	December 31, 2006	
	<u>Amount</u>	<u>%</u>
Statutory income tax rate (recovery)	\$ (2,148,738)	(34.0)
Non deductible items	<u>629,794</u>	<u>10.0</u>
Net taxes and effective rate	\$ (1,518,944)	(24.0)
Valuation Allowance	<u>1,518,944</u>	<u>24.0</u>
Net taxes and effective rate	<u>\$ 0</u>	<u>0.0</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

12. Provision for Income Tax - continued

The Company recognizes future tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities and net operating loss carry-forwards. Temporary differences which give rise to future tax assets and liabilities, are as follows:

	December 31, 2006	
	Component	Tax Effect
Future tax asset	\$ 6,724,338	\$ 2,353,518
Less valuation allowance	<u>(6,724,338)</u>	<u>(2,353,518)</u>
Net deferred assets	<u>\$ 0</u>	<u>0</u>

At December 31, 2006, the Company had cumulative net operating loss carry-forwards of approximately \$42,340 and \$6,682,000 in Canada and the United States respectively. These amounts will expire in various years through 2026. The related deferred tax assets have been completely offset by a valuation allowance, as the Company is not able to determine that it is more likely than not to have taxable income to be offset by the effect of the above losses in the carried forward period. The Company has no significant future tax liabilities.

13. Commitments and Contingencies

a) Commitments

The Company has entered into various operating leases and is responsible for minimum principal payments. The Company's minimum future payments as at December 31, 2006 are approximately as follows:

Fiscal 2007	13,375
Fiscal 2008	9,720
Fiscal 2009	5,864
Fiscal 2010	---
Fiscal 2011	---
Thereafter	<u>---</u>
	<u>\$ 28,959</u>

In addition, upon the acquisition of Silver-Idaho, the Company assumed severance obligations (Note 7).

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

13. Commitments and Contingencies - continued

b) Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company.

On March 22, 1996, an action was filed in the United States District Court for the District of Idaho by the United States against various defendants, including the previous owner of Silver-Idaho, Coeur d'Alene Mines Corporation ("CDA"), asserting claims under CERCLA and the Clean Water Act for alleged damages to federal natural resources in the Coeur d'Alene River Basin of Northern Idaho. The damages related to alleged releases of hazardous substances from mining activities conducted in the area since the late 1800's.

The action resulted in a decree, with an effective date of May 14, 2001, which affected CDA, then owner of Silver-Idaho. The decree provides for the payment of \$3,000,000 to the United States. The decree lapses at the earliest of: (i) the full payment is made or (ii) 20 years after the effective decree date. As of June 1, 2006, Silver-Idaho is obligated, under the decree, to pay a royalty to CDA each month based on an amount for 2% of the net smelter return on silver plus \$5 an ounce on gold which represents its share of this decree until it is paid in full. The total expense incurred for the period ended December 31, 2006 was \$101,234, of which \$44,552 was unpaid at year end. This amount was paid in January 2007. In February 2007, a final payment of \$19,271 was made.

14. Financial Instruments

Fair Value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities approximates their fair value because of the short-term nature of these instruments.

Interest rate, currency and credit risk

The Company is subject to interest risks, or currency risk and credit risk arising from these financial instruments in the normal course of business. (See Note 2)

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
DECEMBER 31, 2006
(All Amounts are in United States Dollars)

15. Segmented Information

The Company's operations comprise of a single reporting segment engaged in mining. As the operations comprise a single reporting segment, amounts disclosed in the financial statements for sales, earnings before income tax, amortization and total assets also represent segmented amounts.

The sales are to two (2) customers which represent 100% of the Company's revenues. Customer A represents 53% (approximately \$3,225,000) and customer B represents 47% (approximately \$2,860,000) of the Company's sales.

Significantly, all of the Company's property and equipment and operations are situated in North America, which management considers a single geographical reporting segment.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to current period's financial statement presentation.

17. Subsequent Event

As of February 2007, the obligation described in note 13(b) has been satisfied.

On March 27, 2007, the Company obtained authorization from the TSX Venture Exchange to offer a bonus of 10% in common stock to certain warrant holders who exercise their option to acquire common stock of the Company during the early warrant exercise period. The early warrant exercise period is from April 12, 2007 to May 11, 2007.