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**U.S. SILVER CORPORATION**  
**(formerly Chrysalis Capital III Corporation)**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

**These Financial Statements have not been reviewed or audited by the Auditors of US Silver Corporation**

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

**SEPTEMBER 30, 2007**

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

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

**As at** **September 30, 2007**      **December 31, 2006**

**ASSETS**

**CURRENT**

Cash and cash equivalents	\$ 9,810,757	\$ 5,474,991
Receivables	3,272,943	1,085,113
Inventory	1,485,494	1,179,896
Supplies	1,537,285	1,423,966
Prepaid expenses and other assets	<u>445,393</u>	<u>648,971</u>
	16,551,872	9,812,937

PROPERTY, PLANT AND EQUIPMENT (net of depreciation of \$1,474,351 (2006 - \$680,665) (Note 5))	3,482,291	3,911,891
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MINING ASSETS (net of depreciation and deletion of \$1,828,244 (2006 - \$827,670) (Note 6))	22,060,398	14,761,207
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EXCESS PENSION CONTRIBUTION	304,117	356,878
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INVESTMENTS, at fair value (cost \$693,224, 2006 - \$557,985)	1,104,631	965,211
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RESTRICTED CASH	<u>115,000</u>	<u>115,000</u>
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	<u>\$ 43,618,309</u>	<u>\$ 29,923,124</u>
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**LIABILITIES**

**CURRENT**

Accounts payable and accrued liabilities	<u>\$ 3,775,215</u>	<u>\$ 1,783,482</u>
	<u>3,775,215</u>	<u>1,783,482</u>

POST RETIREMENT OBLIGATIONS	637,683	942,772
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MINE RECLAMATION OBLIGATION (Note 7)	7,122,352	6,743,394
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SEVERANCE LIABILITY (Note 13)	<u>264,549</u>	<u>264,549</u>
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	<u>11,799,799</u>	<u>9,734,197</u>
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COMMITMENTS AND CONTINGENCIES (Note 13)

**SHAREHOLDERS' EQUITY**

CAPITAL STOCK (Note 9)		
Common Stock - Issued and Outstanding 186,078,202, 2006 - 141,895,205	39,583,961	18,820,266

CONTRIBUTED SURPLUS (Note 9)	1,855,380	7,274,156
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ACCUMULATED COMPREHENSIVE INCOME	1,863,939	414,323
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DEFICIT	<u>(11,484,770)</u>	<u>(6,319,818)</u>
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	<u>31,818,510</u>	<u>20,188,927</u>
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	<u>\$ 43,618,309</u>	<u>\$ 29,923,124</u>
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**U.S. SILVER CORPORATION**  
(formerly Chrysalis Capital III Corporation)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**  
(All Amounts are in United States Dollars)

to September 30,	For the three Months Ending		For the nine Months Ending	For the period from April 7
September 30,	2007	2006	2007	2006
REVENUES	\$ 4,550,216	\$ 4,936,423	\$ 14,149,333	\$ 4,968,253
EXPENSES				
Cost of mining	3,805,990	5,234,489	12,786,896	5,916,076
General and administrative	1,171,646	482,201	4,170,704	1,003,981
Selling and marketing	<u>5,574</u>	<u>---</u>	<u>109,951</u>	<u>---</u>
	<u>4,983,210</u>	<u>5,716,690</u>	<u>17,067,551</u>	<u>6,920,057</u>
LOSSES BEFORE UNDERNOTED	<u>(432,994)</u>	<u>(780,267)</u>	<u>(2,918,218)</u>	<u>(1,951,804)</u>
AMORTIZATION	(928,683)	(411,685)	(2,168,598)	(734,744)
MISCELLANEOUS ITEMS	---	2,705	---	(1,388)
INTEREST INCOME	141,938	1,976	292,077	1,976
FINANCING EXPENSE	<u>(4,162)</u>	<u>(26,266)</u>	<u>(370,213)</u>	<u>(582,076)</u>
NET LOSS	(1,223,901)	(1,213,537)	(5,164,952)	(3,268,036)
DEFICIT - Beginning of Period	<u>(10,260,869)</u>	<u>(2,054,499)</u>	<u>(6,319,818)</u>	<u>---</u>
DEFICIT - End of Period	<u><u>\$(11,484,770)</u></u>	<u><u>\$(3,268,036)</u></u>	<u><u>\$(11,484,770)</u></u>	<u><u>\$(3,268,036)</u></u>
LOSS PER COMMON SHARE				
Loss per Common Share	<u><u>\$ (0.01)</u></u>	<u><u>\$ (0.01)</u></u>	<u><u>\$ (0.03)</u></u>	<u><u>\$ (0.04)</u></u>
Weighted average Common Shares outstanding	<u><u>185,686,993</u></u>	<u><u>111,659,629</u></u>	<u><u>166,497,226</u></u>	<u><u>85,913,563</u></u>

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(All Amounts are in United States Dollars)

to September 30,	For the three Months Ending		For the nine Months Ending from April 7	
2007	2006	2007	2006	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (1,223,901)	\$ (1,215,537)	\$ (5,164,952)	\$ (3,268,036)
Items not affecting cash				
Amortization	928,683	411,685	2,168,598	734,744
Excess pension contribution	---	46,723	---	122,297
Non-cash compensation	226,123	---	1,277,964	---
Non-cash financing expense	---	3,463	---	479,215
Other non-cash transactions	---	21,419	---	66,850
	<u>(69,095)</u>	<u>(730,247)</u>	<u>(1,718,390)</u>	<u>(1,864,930)</u>
Net change in non-cash operating items				
Change in accounts receivable	(280,914)	(380,605)	(2,187,830)	1,003,176
Change in notes receivable	---	---	---	(91,485)
Change in inventory	(73,796)	(265,726)	(305,598)	(91,062)
Change in supplies	40,721	(316,383)	(113,319)	(1,421,981)
Change in prepaid and sundry assets	218,223	36,119	203,578	(353,369)
Accounts payable and accrued liabilities	<u>812,804</u>	<u>(716,321)</u>	<u>1,991,733</u>	<u>769,219</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>647,942</u>	<u>(2,373,163)</u>	<u>(2,129,826)</u>	<u>(2,050,432)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Long term liability – retirement obligations	(98,952)	(168,210)	(305,089)	(224,280)
Reclamation costs	126,320	128,627	378,958	171,502
Borrowings	---	1,083,104	---	2,284,936
Issuance of common stock	<u>432,551</u>	<u>55,200</u>	<u>14,004,324</u>	<u>18,893,339</u>
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>459,919</u>	<u>1,098,721</u>	<u>14,078,193</u>	<u>21,125,497</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in property and equipment	(258,457)	(454,284)	(364,086)	(523,334)
Investment in mining assets	(4,310,722)	(1,082,604)	(8,299,765)	(16,082,604)
Investments	118,940	7,055	(139,420)	7,055
Pension contribution	49,156	19,667	52,761	---
Investment in restricted cash	---	---	---	(115,000)
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(4,401,083)</u>	<u>(1,510,166)</u>	<u>(8,750,510)</u>	<u>(16,713,883)</u>
<b>EFFECT OF EXCHANGE RATE</b>	<u>(247,867)</u>	<u>---</u>	<u>1,137,909</u>	<u>---</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	<u>(3,541,089)</u>	<u>(2,784,608)</u>	<u>4,335,766</u>	<u>2,361,182</u>
<b>CASH AND CASH EQUIVALENT</b>				
Opening balance	<u>13,351,846</u>	<u>5,145,790</u>	<u>5,474,991</u>	<u>---</u>
Closing balance	<u>\$ 9,810,757</u>	<u>\$ 2,361,182</u>	<u>\$ 9,810,757</u>	<u>\$ 2,361,182</u>

**U.S. SILVER CORPORATION**  
**(formerly Chrysalis Capital III Corporation)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**  
**(All Amounts are in United States Dollars)**

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**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 interim 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**

The management of the Company has prepared these interim condensed financial statements in accordance with generally accepted accounting principles in Canada. These interim financial statements, which have not been reviewed or audited and should be read in conjunction with the audited financial statements for the period ended December 31, 2006. The methods and policies set forth in the audited financial statements are followed in these interim condensed financial statements.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these interim financial statements, however, operating results for the period presented are not indicative of the results that may be expected for the current full fiscal year.

*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 of \$115,000 as September 30, 2007 (December 31, 2006 - \$115,000) is pledged to the Idaho Department of Water in connection with a mine tailings reclamation bond.

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

**(All Amounts are in United States Dollars)**

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**2. Summary of Significant Accounting Policies - continued**

*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.

*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 September 30, 2007, the Company held CA\$4,326,258 (December 31, 2006 - CA\$1,069,288) in Canadian dollars.

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 incurrence 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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

**(All Amounts are in United States Dollars)**

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**2. Summary of Significant Accounting Policies - continued**

*Metal and other Inventory*

Inventories include concentrate ore, ore in stockpiles and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore in 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.

*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.

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

**(All Amounts are in United States Dollars)**

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**2. Summary of Significant Accounting Policies - continued**

*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.

*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.

**U.S. SILVER CORPORATION**  
**(formerly Chrysalis Capital III Corporation)**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**  
**(All Amounts are in United States Dollars)**

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**2. Summary of Significant Accounting Policies - continued**

*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.

*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, cash restricted, short-term investments, accounts receivable, 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 are 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". Accumulated Comprehensive Income is comprised of the following:

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Change in market value of investment	\$ 411,407	412,653
Cumulative Translation Adjustment	<u>1,452,532</u>	<u>1,670</u>
	<u>\$ 1,863,939</u>	<u>\$ 414,323</u>

**U.S. SILVER CORPORATION**  
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**SEPTEMBER 30, 2007**  
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**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

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 (Note 10)	<u>\$ 873,588</u>

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

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

**(All Amounts are in United States Dollars)**

**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>

**5. Property, Plant and Equipment**

	September 30, 2007			December 31, 2006		
	Costs \$	Accumulated Depreciation \$	Net Book Value \$	Costs \$	Accumulated Depreciation \$	Net Book Value \$
Building and structural components	953,606	74,408	879,198	755,926	19,726	736,200
Computer equipment	80,341	32,384	47,957	76,574	8,546	68,028
Machinery & Equipment	3,835,178	1,347,056	2,448,122	3,725,282	644,131	3,081,150
Leasehold improvements	2,000	324	1,676	2,000	25	1,975
Office furniture	47,213	5,541	41,672	21,077	472	20,605
Vehicles	38,304	14,638	23,666	11,697	7,764	3,933
	<u>4,956,642</u>	<u>1,474,351</u>	<u>3,482,291</u>	<u>4,592,556</u>	<u>680,665</u>	<u>3,911,891</u>

Depreciation expense for the period ending September 30, 2007 was \$793,686 (December 31, 2006 - \$ 680,665).

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007**

**(All Amounts are in United States Dollars)**

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**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:

As at:	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Operational mining property	\$ 13,441,594	\$ 7,749,014
Asset retirement obligation	323,968	323,968
Mineral reserves	<u>10,123,079</u>	<u>7,515,895</u>
	23,888,641	15,588,877
Less: accumulated depreciation and depletion	<u>(1,828,243)</u>	<u>(827,670)</u>
Net mining properties	<u>\$ 22,060,398</u>	<u>\$ 14,761,207</u>

Depreciation and depletion expense for the period ending September 30, 2007 was \$1,000,573 (December 31, 2006 - \$827,670).

**7. 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 applied 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.

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**7. Reclamation and Remediation Costs - continued**

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.

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

As at:	<u>Sept. 30, 2007</u>	<u>Dec 31, 2006</u>
Opening Balance	\$ 6,743,394	\$ 7,119,801
Adjustment based on the post acquisition review	<u>378,958</u>	<u>(376,407)</u>
Net mining properties	<u>\$ 7,122,352</u>	<u>\$ 6,743,394</u>

**8. 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 September 30, 2007, the Company paid invoices on behalf of Golden Eagle Mining for a total of \$7,052. The total due to the Company by Golden Eagle Mining is now \$192,441, which is included in other assets and includes accrued interest of \$10,334. 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.

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**9. 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 ending December 31, 2006 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.
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	<u>---</u>	<u>---</u>	<u>28,382</u>
Balance as at December 31, 2006 and September 30, 2007	<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 CA\$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 CA\$0.20.

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**9. Capital Stock - continued**

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	<u>---</u>	<u>(1,778,428)</u>	<u>---</u>
Balance as at December 31, 2006	141,895,205	18,820,266	7,274,156
Issuance of share upon the exercise of stock options	1,525,525	499,089	(66,537)
Issuance of share upon the exercise of warrants	42,607,472	20,428,970	(6,630,203)
Issuance for mining properties	50,000	62,630	---
Issuance costs	---	(226,994)	---
Granting of stock options	<u>---</u>	<u>---</u>	<u>1,277,964</u>
Balance as at September 30, 2007	<u>186,078,202</u>	<u>\$ 39,583,961</u>	<u>\$ 1,855,380</u>

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 was from April 12, 2007 to May 11, 2007. A total of 42,607,516 common shares have been issued, inclusive of 3,873,404 bonus common shares for a total of approximately CA\$13,920,000 in cash.

**10. 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.

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**10. Options and Warrants - continued**

The stock options activity is summarized below:

	September 30, 2007		December 31, 2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, Opening Balance	11,651,500	CA\$ 0.38	Nil	N/A
Granted	3,460,000	0.83	11,651,500	CA\$ 0.38
Exercised	(1,525,525)	0.28	Nil	N/A
Cancelled	(170,000)	0.40	Nil	N/A
Balance, end of the period	13,415,975	CA\$ 0.49	11,651,500	CA\$ 0.38

Of the stock options issued and outstanding on December 31, 2006, 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. These options have been exercised during the period.

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 options 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:

	<u>Fiscal 2007</u>	<u>December 2006</u>	<u>June 2006</u>
Number of Options	3,460,000	10,551,500	1,100,000
Exercise price	CA \$0.56 - \$1.19	CA \$0.40	CA \$0.20
Expected option life	5 years	2.5 years	2.5 years
Risk free interest rate	5.0%	5.0%	2.91%
Volatility	50.0%	50.0%	10.0%
Dividend yield	0.0%	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 September 30, 2007.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable		
			Weighted Average Remaining Life	Weighted Average Price	Quantity	Weighted Average Price	
\$ 0.20	80,000	June 2011	3.7 years	CA\$ 0.20	80,000	CA\$ 0.20	
0.40	9,650,975	Dec. 2011	4.2 years	0.40	9,650,975	0.40	
0.56	1,115,000	Jan. 2012	4.3 years	0.56	515,000	0.56	
0.73	660,000	Aug. 2012	4.9 years	0.73	420,000	0.73	
0.75	300,000	Mar. 2012	4.4 years	0.75	150,000	0.75	
1.05	300,000	Jun. 2012	4.7 years	1.05	300,000	1.05	
1.19	1,000,000	Apr. 2012	4.6 years	1.19	1,000,000	1.19	

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**10. Options and Warrants - continued**

The warrants that are issued and outstanding as of September 30, 2007 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price (CA\$)</u>	<u>Expiry Date</u>
600,000	\$ 0.20	June 27, 2008
1,325,000	0.40	May 11, 2008
6,888,300	0.29	December 28, 2008
8,288,990	0.40	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:

Issue Date	Fiscal 2006
Exercise price	CA\$ 0.20 - \$0.40
Expected option life	1.5 - 2 years
Risk free interest rate	2.91 - 5.0%
Volatility	10.0 - 50.0%
Dividend yield	0.0%

**11. Commitments and 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. As at September 30, 2007, no material issues were outstanding.

**12. 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)

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**13. 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.

For the period ending September 30, 2007, sales are to one (1) customers which represent 97.5% (approximately \$13,800,000) of the Company's revenues.

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

**14. Supplemental Cash Flow Information**

September 30,	For the three Months Ending		For the nine	For the period
	2007	2006	Months Ending	from April 7 to
			2007	2006
Interest received	\$ 141,705	\$ ---	\$ 287,329	\$ ---
Interest Paid	395	---	1,416	---
Income taxes paid	---	---	---	---
Issuance of common shares	52,980	---	6,634,110	---
Purchase of mining assets	---	---	62,630	---
Exercise of options	(52,980)	---	(66,537)	---
Exercise of warrants	---	---	(6,630,203)	---

**15. Subsequent Event**

On November 7, 2007, the Company announced that it has entered into an agreement with Research Capital Corporation and Cormark Securities Inc. as underwriters (the "Underwriters"), whereby the Underwriters will purchase, on a bought-deal private placement basis, 20,000,000 units (the "Units") of U.S. Silver at a price of CA\$1.00 per Unit (the "Transaction"). Each Unit shall consist of one common share (the "Common Shares") and one-half of one common share purchase warrant (the "Warrants"), each whole Warrant entitling the holder thereof to purchase one Common Share at a strike price of CA\$1.25 for a period of 24 months following the closing (the "Closing") of the Offering. The gross proceeds of the offering will be CA\$20,000,000. The Underwriters shall have the option (the "Underwriter's Option") to increase the size of the Offering by up to CA\$5,000,000 in Units by giving written notice of the exercise of the Underwriter's Option to the Company at any time up to 24 hours before Closing. The Units will be offered by way of private placement exemptions from prospectus requirements in such provinces of Canada as the Underwriter may designate. The Transaction is scheduled to close on or about December 5, 2007 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the TSX Venture Exchange.