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**U.S. SILVER CORPORATION**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

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**U.S. SILVER CORPORATION**  
**(Expressed in United States Dollars)**

**SEPTEMBER 30, 2008**

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**U.S. SILVER CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(All Amounts are in United States Dollars)

As at

September 30, 2008

December 31, 2007

**ASSETS**

CURRENT

Cash and cash equivalents	\$ 8,100,009	\$ 28,540,280
Receivables	4,564,261	1,551,909
Investments, at fair value (cost \$3,637,979, 2007 - \$1,707,380) (Note 4)	5,201,220	3,598,520
Inventory	1,622,381	2,340,132
Supplies	1,927,120	1,594,731
Prepaid expenses and other assets	<u>457,324</u>	<u>430,509</u>
	21,872,315	38,056,081

PROPERTY, PLANT AND EQUIPMENT (Note 5)	6,277,027	3,396,323
MINING ASSETS (Note 6)	33,557,741	23,616,962
FUTURE TAX ASSET	2,397,217	2,499,437
RESTRICTED CASH	<u>115,000</u>	<u>115,000</u>
	<u>\$ 64,219,300</u>	<u>\$ 67,683,803</u>

**LIABILITIES**

CURRENT

Accounts payable and accrued liabilities	<u>\$ 3,517,317</u>	<u>\$ 3,404,954</u>
	3,517,317	3,404,954
LONG TERM RETIREMENT BENEFITS	3,461,614	4,004,417
MINE RECLAMATION OBLIGATION (Note 7)	1,235,029	1,140,983
FUTURE TAX LIABILITY	<u>2,291,686</u>	<u>2,614,648</u>
	<u>10,515,646</u>	<u>11,165,002</u>

COMMITMENTS AND CONTINGENCIES (Note 12)

**SHAREHOLDERS' EQUITY**

CAPITAL STOCK		
Issued and Outstanding 214,940,827 (2007 - 211,510,827)	<u>60,642,654</u>	<u>59,779,197</u>
CONTRIBUTED SURPLUS	<u>5,172,473</u>	<u>4,833,346</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME	990,663	4,667,281
DEFICIT	<u>(13,092,136)</u>	<u>(12,761,023)</u>
	<u>(12,101,473)</u>	<u>(8,093,742)</u>
	<u>53,713,654</u>	<u>56,518,801</u>
	<u>\$ 64,219,300</u>	<u>\$ 67,683,803</u>

**U.S. SILVER CORPORATION**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(All Amounts are in United States Dollars)**

<b>For the September 30,</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
REVENUES	<u>\$ 9,645,290</u>	<u>\$ 4,550,216</u>	<u>\$ 27,055,623</u>	<u>\$ 14,149,333</u>
EXPENSES				
Cost of mining	9,447,203	4,585,436	25,559,676	12,786,896
General and administrative	809,053	364,226	2,513,880	4,037,464
Exploration costs	530,083	747,989	1,525,186	1,527,435
Selling and marketing	<u>19,450</u>	<u>5,574</u>	<u>79,237</u>	<u>109,951</u>
	<u>10,805,789</u>	<u>5,703,224</u>	<u>29,677,979</u>	<u>18,461,745</u>
LOSS BEFORE UNDERNOTED	(1,160,499)	(1,153,008)	(2,622,356)	(4,312,412)
DEPRECIATION	(4,107)	(2,584)	(12,227)	(5,303)
INTEREST INCOME	48,008	141,938	456,724	292,077
FINANCING EXPENSE	---	(4,162)	---	(370,213)
FOREIGN EXCHANGE	880,174	(206,085)	1,543,908	(769,101)
GAIN ON SALES OF ASSETS	---	---	79,519	---
OTHER INCOME	<u>2,577</u>	<u>---</u>	<u>2,577</u>	<u>---</u>
LOSS PRIOR TO TAX PROVISION	(156,905)	(1,223,901)	(551,855)	(5,164,952)
RECOVERY FOR TAXES	<u>62,762</u>	<u>---</u>	<u>220,742</u>	<u>---</u>
NET LOSS	(94,143)	(1,223,901)	(331,113)	(5,164,952)
OTHER COMPREHENSIVE INCOME				
Unrealized gains on derivatives designated as cash flow hedges	(1,797,871)	---	(1,267,862)	---
Unrealized gains (loss) on available for sale financial assets	(889,983)	(66,909)	439,619	(2,916)
Effect of foreign exchange	<u>(1,883,515)</u>	<u>397,949</u>	<u>(2,848,632)</u>	<u>1,452,532</u>
COMPREHENSIVE LOSS	<u>\$ (4,665,512)</u>	<u>\$ (892,861)</u>	<u>\$ (4,007,988)</u>	<u>\$ (3,715,336)</u>
NET LOSS PER COMMON SHARE	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ 0.00</u>	<u>\$ (0.03)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>214,940,827</u>	<u>185,686,993</u>	<u>213,417,475</u>	<u>166,497,226</u>

**U.S. SILVER CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(All Amounts are in United States Dollars)

For the September 30,	Three Months Ended		Nine Months Ended	
	2008	2007	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (94,143)	\$ (1,223,901)	\$ (331,113)	\$ (5,164,952)
Items not affecting cash				
Depreciation and depletion	1,015,352	928,683	2,646,636	2,168,598
Asset retirement obligation - accretion	31,349	126,320	94,046	378,958
Gain on sale of assets	(79,519)	---	(79,519)	---
Non-cash compensation	<u>187,255</u>	<u>226,123</u>	<u>504,519</u>	<u>1,277,964</u>
	1,060,294	57,225	2,834,569	(1,339,432)
Net change in non-cash operating items				
Change in receivables	(286,321)	(280,915)	(3,012,352)	(2,292,053)
Change in inventory	276,486	(73,796)	717,751	(305,598)
Change in supplies	13,394	40,721	(332,389)	(113,319)
Change in prepaid and other assets	(8,641)	218,223	(26,815)	124,031
Accounts payable and accrued liabilities	<u>392,609</u>	<u>812,804</u>	<u>112,363</u>	<u>2,175,503</u>
<b>CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>1,447,821</u>	<u>774,262</u>	<u>293,127</u>	<u>(1,750,868)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Long term - retirement obligation	537,323	(49,796)	(542,803)	(252,328)
Issuance of capital stock and exercise of options and warrants, net of costs	<u>---</u>	<u>184,684</u>	<u>698,065</u>	<u>15,142,233</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<u>537,323</u>	<u>134,888</u>	<u>155,262</u>	<u>14,889,905</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in property, plant and equipment	(1,459,969)	(258,457)	(3,517,054)	(364,086)
Investment in mining assets	(3,721,283)	(4,310,722)	(11,951,065)	(8,299,765)
Investment in marketable securities	<u>144,402</u>	<u>118,840</u>	<u>(2,430,943)</u>	<u>(139,420)</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(5,076,850)</u>	<u>(4,450,239)</u>	<u>(17,899,062)</u>	<u>(8,803,271)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	(3,091,706)	(3,541,089)	(17,450,673)	4,335,766
<b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	(1,866,501)	---	(2,989,598)	---
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning of period	<u>13,058,216</u>	<u>13,351,846</u>	<u>28,540,280</u>	<u>5,474,991</u>
End of period (Note 3)	<u>\$ 8,100,009</u>	<u>\$ 9,810,757</u>	<u>\$ 8,100,009</u>	<u>\$ 9,810,757</u>

**U.S. SILVER CORPORATION**  
**STATEMENT OF SHAREHOLDERS' EQUITY**  
**(All Amounts are in United States Dollars)**

	Quantity of Common Share	Amount of Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2007	141,895,205	\$ 18,820,266	\$ 7,274,156	\$ 414,323	\$ (6,319,818)	\$ 20,188,927
Issuance of shares for cash	24,470,000	22,260,993	2,553,484			24,814,477
Issuance of shares upon the acquisition of mineral assets	50,000	64,030				64,030
Vesting of previously granted stock options			1,369,140			1,369,140
Issuance of shares upon the exercise of options	1,897,525	628,497	(63,360)			565,137
Issuance of shares upon the exercise of warrants	42,898,097	20,594,964	(6,669,010)			13,925,954
Issuance of shares upon the exercise of broker warrants	300,000	64,869	(3,705)			61,164
Issuance costs		(2,281,781)				(2,281,781)
Unrealized gains and losses on derivatives designated as cash flow hedges				2,429,636		2,429,636
Unrealized gains and losses on available for sale financial assets				(220,863)		(220,863)
Effect of foreign exchange				2,044,185		2,044,185
Net loss for the period					(6,441,205)	(6,441,205)
Balance, December 31, 2007	211,510,827	\$ 59,779,197	\$ 4,833,346	\$ 4,667,281	\$ (12,761,023)	\$ 56,518,801
Balance, January 1, 2008	211,510,827	\$ 59,779,197	\$ 4,833,346	\$ 4,667,281	\$ (12,761,023)	\$ 56,518,801
Issuance of shares for cash upon the exercise of options	130,000	57,846	(6,677)			51,169
Issuance of shares for cash upon the exercise of broker warrants	3,300,000	805,611	(158,715)			646,896
Vesting of previously granted stock options			504,519			504,519
Unrealized gains and losses on derivatives designated as cash flow hedges				(1,267,855)		(1,267,855)
Unrealized gains and losses on available for sale financial assets				439,619		439,619
Effect of foreign exchange				(2,848,382)		(2,848,382)
Net income for the period					(331,113)	(331,113)
Balance, September 30, 2008	214,940,827	\$ 60,642,654	\$ 5,172,473	\$ 990,663	\$ (13,092,136)	\$ 53,713,654

**U.S. SILVER CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(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 Canada Business Corporations Act 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 the period from 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**

Management of the Company has prepared these interim 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, 2007. The methods and policies set forth in the audited financial statements are followed in these interim financial statements. **There have been no changes to the Company's accounting policies since December 31, 2007.**

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.

### *Restricted Cash*

Restricted cash includes two certificates of deposits in the aggregate amount of \$115,000 as at September 30, 2008 and December 31, 2007 which are pledged to the Idaho Department of Water in connection with a mine tailings reclamation bond.

### *Investments*

The Company has no securities classified as trading securities and has no asset-backed commercial paper.

### *Concentration of Credit, Foreign Currency and Volatility of Metal Prices*

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, 2008, the Company held approximately CA\$1.8 million (2007 - CA\$21.1 million) in Canadian dollars.

**U.S. SILVER CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(All Amounts are in United States Dollars)**

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

*Future Accounting Changes*

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The new CICA Handbook Section 3031, Inventories, relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and will be effective for the Company as of this date.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

**3. Supplemental Cash Flow Information**

September 30,	Three Months		Nine Months	
	2008	2007	2008	2007
Cash	\$ 4,211,380	\$ 416,264	\$ 4,211,380	\$ 416,264
Cash equivalent	3,888,629	9,384,493	3,888,629	9,384,493
Original fair value of options exercised	---	52,980	6,677	66,537
Original fair value of warrants exercised	---	---	158,715	6,630,203
Interest received	44,122	141,705	445,067	287,329
Interest Paid	---	395	---	1,416
Income taxes paid	---	---	---	---
Future income tax benefit	(31,957)	---	102,220	---
Future income tax liability	(30,805)	---	(322,962)	---

**4. Investments**

The Company's investments are classified as follows:

	September 30, 2008	December 31, 2007
Available for sale	\$ 4,039,922	\$ 1,168,884
Held to maturity	1,161,298	2,429,636
Trading securities	---	---
	<u>\$ 5,201,220</u>	<u>\$ 3,598,520</u>

**5. Property, Plant and Equipment**

**U.S. SILVER CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**  
**(All Amounts are in United States Dollars)**

	September 30, 2008			December 31, 2007		
	Costs \$	Accumulated Depreciation \$	Net Book Value \$	Costs \$	Accumulated Depreciation \$	Net Book Value \$
Building and structural components	2,032,689	175,381	1,857,308	1,000,469	97,142	903,327
Computer equipment	422,612	65,155	357,457	90,021	39,552	50,469
Machinery and equipment	6,111,944	2,110,849	4,001,095	3,954,903	1,582,370	2,372,533
Leasehold improvements	7,138	2,181	4,957	7,138	425	6,713
Office furniture	49,706	15,813	33,893	49,359	7,312	42,047
Vehicles	33,159	10,842	22,317	38,304	17,070	21,234
	8,657,248	2,380,221	6,277,027	5,140,194	1,743,871	3,396,323

Depreciation expense for the 9 month period ending September 30, 2008 was \$636,350 (December 31, 2007 - \$1,063,665).

## 6. Mining Asset

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

	September 30, 2008	December 31, 2007
Operational mining property	\$ 37,795,355	\$ 25,844,290
Less: accumulated depreciation and depletion	(4,237,614)	(2,227,328)
Net mining assets	\$ 33,557,741	\$ 23,616,962

Depreciation and depletion expense for the 9 month period ending September 30, 2008 was \$2,010,286 (December 31, 2007 - \$1,388,658).

## 7. Reclamation and Remediation Costs

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

	September 30, 2008	December 31, 2007
Opening balance	\$ 1,140,983	\$ 6,743,394
Accretion	94,046	489,822
Adjustment based on post acquisition review	---	(6,092,233)
Net mine reclamation obligation	\$ 1,235,029	\$ 1,140,983

The Company obtained an updated report to estimate the costs of the reclamation and remediation. Accordingly, the obligation recorded on the balance sheet has been adjusted to reflect the findings of this report.

## 8. Related Party Transactions

In 2006, Golden Eagle Mining borrowed \$90,000 from the Company and the Company paid a further \$90,622 to third parties on its behalf, of which \$7,052 was paid during 2007. During the period ended June 30, 2007, the Company paid invoices on behalf of Golden Eagle Mining for a total of \$1,552. During the nine month period ended September 30, 2008, \$11,657 in interest accrued on the balance owed to the Company such that the September 30, 2008 balance due is \$205,943 (December 31, 2007 - \$194,286). This amount has been recorded in prepaid expenses and other assets and includes accrued interest.

Golden Eagle Mining and the Company are related by a director in common. It is currently anticipated that repayments of monies owed to the Company will commence in December, 2008 and a repayment schedule will

**U.S. SILVER CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**  
**(All Amounts are in United States Dollars)**

be agreed to for the balance due to the Company. If a satisfactory repayment schedule is not agreed, appropriate actions to protect the interests of the Company will be undertaken.

**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, 2007, the Corporation had the following capital transactions:

1. issued 50,000 common shares with an ascribed valued of \$64,030 for the acquisition of exploration licenses (Note 16);
2. issued 1,897,525 common shares upon the exercise of previously granted stock options;
3. issued 42,898,097 common shares upon the exercise of previously issued warrants, which includes 3,873,410 common shares issued as bonus shares paid as an incentive to exercise;
4. issued 300,000 common shares upon the exercise of previously issued broker warrants; and
5. issued 24,470,000 units for gross proceeds of CA\$24,470,000 (approximately \$24,814,477), where each unit was comprised of one common share and one warrant. The warrant entitles the holder to purchase one additional common share at a price of CA\$1.25 prior to December 6, 2009.

During the period ending September 30, 2008, the Corporation had the following capital transactions:

1. issued 130,000 common shares upon the exercise of previously issued stock options; and
2. issued 3,300,000 common shares upon the exercise of previously issued broker warrants.

**10. Options and Warrants**

The stock options activity is summarized below:

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening Balance	13,733,975	\$ 0.54	11,651,000	\$ 0.38
Granted	2,330,000	0.52	3,460,000	0.83
Exercised	(130,000)	0.40	(1,525,525)	0.28
Cancelled	(845,000)	0.40	(170,000)	0.40
Balance, September 30, 2008 and 2007	15,088,975	\$ 0.54	13,415,975	\$ 0.49

The Corporation uses the Black Scholes option pricing model to value the options granted at the time of grant, and the assumptions used within the model are as follows:

	Jan. – Sept. 2008
Number of Options	2,330,000
Exercise price	CA\$0.40 - 0.79
Expected life	5 years
Risk free interest rate	3.0 - 3.5%
Volatility	50 - 100%
Dividend yield	0.0%
Fair Value	\$0.1124 – 0.3972

**U.S. SILVER CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**  
**(All Amounts are in United States Dollars)**

**10. Options and Warrants - continued**

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, 2008.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Exercisable Quantity	Weighted Average Price CA\$
\$ 0.40	8,923,975	Dec. 2011	3.2	\$ 0.40	8,923,975	\$ 0.40
0.40	1,150,000	Jul. 2013	4.8	0.40	250,000	0.40
0.56	1,115,000	Jan. 2012	3.3	0.56	1,115,000	0.56
0.73	660,000	Aug. 2012	3.9	0.73	540,000	0.73
0.75	300,000	Mar. 2012	3.4	0.75	300,000	0.75
0.79	680,000	Mar. 2013	4.4	0.79	242,905	0.79
0.81	960,000	Nov. 2012	4.2	0.81	480,000	0.81
1.05	300,000	Jun. 2012	3.7	1.05	300,000	1.05
1.19	1,000,000	Apr. 2012	3.6	1.19	1,000,000	1.19
	<u>15,088,975</u>				<u>13,151,880</u>	

The warrants that are issued and outstanding as at September 30, 2008 are as follows:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
1,261,856	\$ 0.40	Investor	June , 2006	December 28, 2008	\$ 168,496
7,332,463	0.29	Broker Warrants	June , 2006	December 28, 2008	378,868
574,818	0.40	Broker Warrants	June , 2006	December 28, 2008	76,755
1,717,540	0.40	Broker Warrants	December, 2006	December 28, 2008	229,343
12,235,000	1.25	Investor	December 2007	December 5, 2009	2,096,334
1,712,900	1.00	Broker	December 2007	December 5, 2009	333,518
856,450	1.25	Broker	December 2007	December 5, 2009	123,637
<u>25,691,026</u>					<u>\$ 3,406,951</u>

**11. Segmented Information and Major Customer**

The Company had sales to two customers that each exceeded 10% of revenues in the period ended September 30, 2008. Those sales were approximately 80.8% (\$19.9 million), and 19.2% (\$4.7 million) of revenues respectively to each customer. The Company had sales to two customers that exceeded 10% of revenues in the period ended December 31, 2007. Those sales were approximately 91.4% (\$3.8 million) and 8.6% (\$0.3 million) of revenues.

**12. Commitments and Contingencies**

From time to time, the Corporation may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Corporation. As of September 30, 2008, no material issues were outstanding.

**13. Comparative Figures**

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