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**U.S. SILVER CORPORATION**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

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

**MARCH 31, 2010**

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**U.S. SILVER CORPORATION**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States Dollars, except number of common shares)

As at	March 31, 2010	December 31, 2009
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 4)	\$ 3,471,327	\$ 2,509,680
Receivables and related embedded derivatives (Note 17(a))	5,551,496	5,729,781
Investments (Note 5)	1,043,937	1,019,112
Derivative-related assets (Note 10)	98,700	118,015
Inventory (Note 6)	4,969,865	5,987,708
Prepaid expenses	204,945	200,678
Future income tax asset - net	<u>904,879</u>	<u>904,879</u>
	16,245,149	16,469,853
Restricted cash	115,000	115,000
Property, plant and equipment (Note 7)	6,693,770	6,702,611
Mining assets (Note 8)	37,308,026	36,753,945
Future income tax asset – net	<u>1,527,082</u>	<u>1,566,650</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 61,889,027</u></b>	<b><u>\$ 61,608,059</u></b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Revolving advances facility (Note 10)	\$ 347,104	\$ 688,144
Accounts payable and accrued liabilities	3,503,681	2,896,925
Income taxes payable	311,319	62,266
Derivative-related liabilities (Note 10)	257,288	1,178,361
Capital lease obligation - current (Note 12)	<u>15,375</u>	<u>15,375</u>
	4,434,767	4,841,071
Other long-term liabilities (Note 11)	240,796	224,306
Capital lease obligation - long-term (Note 12)	20,404	23,766
Long-term retirement obligations	4,768,697	4,681,652
Asset retirement obligations	<u>1,495,027</u>	<u>1,458,563</u>
<b>TOTAL LIABILITIES</b>	<b><u>10,959,691</u></b>	<b><u>11,229,358</u></b>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital (Note 13)		
Issued and outstanding 250,625,994 (2009 - 250,625,994)	63,729,937	63,729,937
Contributed surplus	6,368,801	6,315,944
Accumulated other comprehensive loss (Note 15)	(8,867,034)	(8,901,484)
Accumulated deficit	<u>(10,302,368)</u>	<u>(10,765,696)</u>
	<u>(19,169,402)</u>	<u>(19,667,180)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>50,929,336</u></b>	<b><u>50,378,701</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b><u>\$ 61,889,027</u></b>	<b><u>\$ 61,608,059</u></b>

**U.S. SILVER CORPORATION**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(Expressed in United States Dollars, except # of common shares)

For the Ended March 31,	Three Months	
	2010	2009
		As Restated See Note 19
REVENUES	\$ 15,019,179	\$ 11,060,173
EXPENSES		
Cost of mining	13,082,437	9,841,521
General and administrative	632,846	871,292
Exploration costs	256,682	20,125
Selling and marketing	<u>18,724</u>	<u>5,641</u>
	<u>13,990,689</u>	<u>10,738,579</u>
INCOME BEFORE UNDERNOTED	1,028,490	321,594
Depreciation related to corporate overhead	(3,768)	(3,808)
Interest expense	(23,965)	(9,513)
Foreign exchange gain	(59,384)	794,819
Gain on sale of assets	---	57,681
Gain (loss) on hedge derivatives	(180,960)	248,056
Gain on sale of investments	---	198,154
Interest income	<u>1,294</u>	<u>3,433</u>
INCOME BEFORE INCOME TAXES	761,707	1,610,416
Provision for income taxes	<u>(298,379)</u>	<u>(270,255)</u>
NET INCOME	<u>463,328</u>	<u>1,340,161</u>
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gain (loss) on available-for-sale securities	(64,391)	300,098
Change in unrealized foreign currency loss on self-sustaining operations	<u>98,841</u>	<u>(853,580)</u>
Total other comprehensive income (loss)	<u>34,450</u>	<u>(553,482)</u>
COMPREHENSIVE INCOME	<u>\$ 497,778</u>	<u>\$ 786,679</u>
NET INCOME PER COMMON SHARE (Note 13)		
Basic	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**U.S. SILVER CORPORATION**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Expressed in United States Dollars, except number of common shares)

	Number of Common Shares	Amount of Share Capital	Contributed Surplus	Total Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, January 1, 2009	214,723,827	\$ 60,672,075	\$5,507,063	\$ (8,334,138)	\$ (14,890,485)	\$ 42,954,515
Issuance of shares and warrants for cash, net of share issue costs	35,385,500	2,972,460	564,290	---	---	3,536,750
Issuance of shares for cash upon the exercise of options	516,667	85,402	(23,193)	---	---	62,209
Vesting of granted stock options	---	---	267,784	---	---	267,784
Other comprehensive loss (Note 15)	---	---	---	(567,346)	---	(567,346)
Net income for the year	---	---	---	---	4,124,789	4,124,789
Balance, December 31, 2009	<u>250,625,994</u>	<u>\$ 63,729,937</u>	<u>\$6,315,944</u>	<u>\$ (8,901,484)</u>	<u>\$ (10,765,696)</u>	<u>\$ 50,378,701</u>
Balance, January 1, 2010	250,625,994	\$ 63,729,937	\$ 6,315,944	\$ (8,901,484)	\$ (10,765,696)	\$ 50,378,701
Vesting of granted stock options	---	---	52,857	---	---	52,857
Other comprehensive loss (Note 15)	---	---	---	34,450	---	34,450
Net income for the year	---	---	---	---	463,328	463,328
Balance, March 31, 2010	<u>250,625,994</u>	<u>\$ 63,729,937</u>	<u>\$ 6,368,801</u>	<u>\$ (8,867,034)</u>	<u>\$ (10,302,368)</u>	<u>\$ 50,929,336</u>

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

For the Ended March 31,	Three Months	
	2010	2009
		As Restated See Note 19
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 463,328	\$ 1,340,161
Add (deduct):		
Depreciation and depletion	1,636,876	1,572,606
Accretion expense for asset retirement obligation (Note 10)	36,464	29,665
Foreign exchange gain	59,384	(794,819)
Future income taxes	48,326	270,255
Gain on sale of assets	---	(57,681)
(Gain) loss on hedge derivatives	180,960	(248,056)
Gain on sale of investments	---	(198,154)
Non-cash financing expense	19,414	8,574
Other long-term liabilities	16,490	12,026
Long-term retirement obligations	87,045	330,000
Stock-based compensation	52,857	64,539
Change in derivative-related liabilities	<u>(1,082,718)</u>	<u>---</u>
	1,519,426	2,329,116
Change in non-cash working capital items:		
Receivables and related embedded derivatives	178,285	(3,728,225)
Inventory	1,017,843	446,416
Prepaid expenses	(4,267)	26,500
Accounts payable and accrued liabilities	558,060	520,972
Income taxes payable	<u>249,053</u>	<u>---</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>3,518,400</u>	<u>(405,221)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Revolving advances facility, advances	5,331,365	2,803,819
Revolving advances facility, repayments	(5,672,405)	(1,355,226)
Capital lease obligation, repayments	<u>(3,362)</u>	<u>(2,906)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<u>(344,402)</u>	<u>1,445,687</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(497,788)	(196,742)
Investment in mining assets	(1,655,046)	(1,667,796)
Proceeds from investments	<u>---</u>	<u>827,982</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(2,152,834)</u>	<u>(1,036,556)</u>
<b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	<u>(59,417)</u>	<u>524,807</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	961,647	528,717
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the period	<u>2,509,680</u>	<u>2,655,458</u>
End of the period	<u>\$ 3,471,327</u>	<u>\$ 3,184,175</u>

Supplemental Cash Flow Information (Note 4)

**U.S. SILVER CORPORATION**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2010**  
**(Expressed in United States Dollars)**

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## **1. Nature of the Business and Continuing Operations**

### *Nature of the Business*

U.S. Silver Corporation (“U.S. Silver” or the “Corporation”) is a mineral exploration and mining company and is engaged primarily in the exploration for and mining of copper-silver and lead-silver deposits at the Galena Mine located in the Silver Valley in Shoshone County in Idaho, USA.

## **2. Summary of Significant Accounting Policies**

Management of the Corporation has prepared these unaudited interim consolidated financial statements in accordance with GAAP as prescribed by the Canadian Institute of Chartered Accountants (“CICA”). These interim financial statements, which have not been reviewed by our auditors, should be read in conjunction with the audited financial statements for the year ended December 31, 2009. The methods and policies set forth in the audited financial statements are followed in these interim financial statements.

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

### *Basis of Consolidation*

The consolidated financial statements include the accounts of U.S. Silver and those of its wholly-owned subsidiaries, United States Silver, Inc. (“USSI”) and U.S. Silver Idaho Inc. (“Silver Idaho”). All intercompany balances and transactions have been eliminated on consolidation.

### *Currency Presentation*

The consolidated financial statements are reported in United States dollars which reflects the predominantly United States dollar-based revenue, operations and assets of the Corporation.

### *Use of Estimates*

The preparation of consolidated financial statements in accordance with GAAP 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.

Significant items that require estimates include the valuation of mining assets, accruals, the timing and valuation of asset retirement obligations, income taxes, the valuation of derivative-related assets and liabilities, the effectiveness of hedges, the assumptions used in determining the funding and expense for pension obligations, the assumptions used in determining stock-based compensation expense, and the depreciation, depletion and amortization of the Corporation’s assets.

### *Foreign Currency Translation and Reporting Currency*

The Corporation’s functional currency is the Canadian dollar and its reporting currency is the United States dollar. The Corporation accounts for USSI and Silver Idaho as self-sustaining foreign operations. These subsidiaries’ functional currency is the United States dollar.

Transactions in foreign currencies are translated into the currency of measurement of the recording entity at the exchange rate in effect at the time of the transaction. Monetary items expressed in foreign currencies are translated into the currency of measurement of the reporting entity at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income (loss).

**U.S. SILVER CORPORATION**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of Significant Accounting Policies – continued**

Transactions of self-sustaining foreign operations are translated into United States dollars using the current-rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items (including depreciation, depletion and amortization) are translated at the average rates of exchange prevailing during the period. Exchange gains and losses that result from the translation are deferred and disclosed as a component of accumulated other comprehensive income (loss). When there is a reduction in the Corporation's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation adjustment is removed from accumulated other comprehensive income (loss) and included in the determination of consolidated net income (loss). Effective the second quarter of fiscal 2009, the Corporation recharacterized a specific inter-company advance to Silver Idaho as long-term in nature.

Transactions in foreign currencies are translated into the related entity's currency of measurement at the rate of exchange at the time of such transaction.

*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 at March 31, 2010 and December 31, 2009 which are restricted pursuant to the requirements with the Idaho Department of Water in connection with a mine tailings reclamation bond. Restricted cash is classified as non-current as the period of restriction extends beyond twelve months subsequent to the Corporation's year-end.

*Inventory*

Inventory includes 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 stockpiles and in concentrates 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, lead 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 net realizable value. Cost is determined using the weighted average cost method. Metal inventory includes concentrates at the mine and concentrates in transit, and are also valued at lower of cost or net realizable value. Metal inventory costs are recorded using the full cost method which aggregates direct labour, materials, depletion and amortization as well as certain administrative overhead costs relating to mining activities. Write-downs to net realizable value may be reversed, up to the amount previously written down when circumstances support an increased inventory value.

Supplies inventory is recorded at the lower of cost or net realizable value, where cost is determined using the average cost method. The Corporation recognized cost of inventory sold, which is included within the cost of mining on the consolidated statements of operations, for the three month period from January 1, 2010 to March 31, 2010 of \$10,605,647 (year ended December 31, 2009 - \$29,438,181, three month period ended March 31, 2009 - \$7,907,142).

*Receivables*

The Corporation carries its receivables at net realizable value. The Corporation traditionally transacts business primarily with a limited number of smelters and management assesses the need for allowance for doubtful accounts regularly. If a smelter's ability to pay was determined to be an issue, then the Corporation can require a provisional payment before shipment is released.

**U.S. SILVER CORPORATION**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of Significant Accounting Policies – continued**

The Corporation extends credit to its customers for which no credit insurance is available. The Corporation establishes an allowance for doubtful accounts to the extent determined necessary upon evaluation that collectability is not reasonably assured.

*Investments*

The Corporation's investments are classified as available-for-sale or held-to-maturity.

Available-for-sale investments are non-derivative financial assets not included in held-to-maturity and comprise certain investments in equity instruments, including the Corporation's investment in private and public companies. When the financial instruments have a quoted market value in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income (loss). When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in net income (loss).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Corporation's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less any provision for impairment.

*Property, Plant and Equipment*

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

Building and structural components	Straight-line basis over a 7-30 year period
Computer equipment	Straight-line basis over a 3-5 year period
Leasehold improvements	Straight-line basis over the life of the lease
Machinery and equipment	Units of production based upon estimated total proven and probable reserves and straight-line basis over 3-20 year period
Office equipment	Straight-line basis over a 3-7 year period
Office furniture	Straight-line basis over a 3-7 year period and 30% declining balance
Vehicles	Straight-line basis over a 3 year period

*Mining Assets*

The costs of mineral properties and related exploration, development and pre-production operating costs are capitalized and deferred until the properties to which they relate are placed into production, abandoned or sold. These costs are then amortized over the estimated useful life of the properties following the commencement of commercial production or written down if the properties are subsequently sold or abandoned. Depletion of deferred exploration and development costs associated with producing properties is determined using the units-of-production method, based on units of production over the total proven and probable reserves.

Expenditures made to keep properties in good standing are capitalized to the corresponding property, except when the property has been fully written down, in which case the expenditures are charged to expense in the period incurred.

**U.S. SILVER CORPORATION**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of Significant Accounting Policies – continued**

*Impairment of Long-Lived Assets*

Long-lived assets including property, plant and equipment and mining assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment is indicated if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of the impairment loss, if any, is determined as the amount by which the long-lived asset's carrying value exceeds its fair value.

*Financial Instruments and Derivatives*

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition in the consolidated balance sheets. Measurement subsequent to initial recognition depends on the financial instruments classification which is determined by the purpose for which the instrument was acquired or issued, the instruments' characteristics and the Corporation's designation of the instrument. Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of associated transaction costs, using the effective interest method. The Corporation includes transaction costs associated with the origination of interest-bearing financial assets and liabilities as a component of the initial carrying amount of the instrument, except for held-for-trading financial instruments, for which the transaction costs are expensed. Available-for-sale financial assets are measured at fair value with changes therein recognized in other comprehensive income (loss).

The following is a summary of the accounting classification and measurement of the Corporation's financial assets and financial liabilities:

<b><i>Asset/Liability</i></b>	<b><i>Classification</i></b>	<b><i>Measurement</i></b>
Cash	Held-for-trading	Fair value
Receivables and related embedded derivatives	Loans and receivables / Held-for-trading	Amortized cost / Fair value
Investments	Available-for-sale	Fair value
Revolving advances facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Derivative-related assets/liabilities	Held-for-trading	Fair value

The Corporation enters into commodity contracts, primarily forward contracts, to manage exposure to fluctuations in silver metal prices. In the case of forward contracts, these contracts are intended to reduce the risk of declining silver prices on future sales. The Corporation recognizes the fair value of the financial instruments on the balance sheet and records changes in the fair value in current period net income (loss).

Proceeds received from the sale of silver concentrate metals are based on provisional prices at the time of preliminary acceptance by the customer. Variations between the price recorded at this date and the actual final price set under the contracts covering such sales are caused by fluctuations in the market prices for copper, lead and silver, and result in an embedded derivative. The embedded derivative is recorded at fair value each period until final settlement occurs, with the changes in fair value recorded to revenues until the final settlement with the customer.

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**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of Significant Accounting Policies – continued**

CICA Handbook Section 3862, "Financial Instruments - Disclosures" requires the Corporation to classify and disclose financial instruments presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and market value determined based on the Corporation's own assumptions about market value: Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; and Level 3 - Valuation techniques for which any significant inputs are not based on observable market data. The section has also been amended to require additional liquidity risk disclosures. See Note 18 for further detail.

*Capital Leases*

The Corporation's policy is to record capital leases, which transfer substantially all benefits and risks incidental to ownership of property, as acquisitions of property, plant 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.

*Asset Retirement Obligations*

The estimated fair value of an asset retirement obligation is recognized as a liability in the period incurred. A corresponding amount is added to the carrying amount of the associated mining asset when incurred and depreciated over the asset's estimated useful life. The liability is accreted over time through charges to earnings to reflect changes in its present value. Actual expenditures incurred are charged against the accumulated asset retirement obligation. The asset retirement obligation is reviewed by management annually and revised for changes in future estimated costs and regulatory requirements.

In view of the uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of the future asset retirement liabilities is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement obligations, if any, may have a significant impact and would be reflected prospectively, as a change in accounting estimate.

*Pension and Post-Retirement Benefits*

Pension expense, based on management's assumptions, consists of: actuarially computed costs of pension benefits in respect of the current year's service; imputed returns on plan assets and imputed interest on pension obligations; full recognition each period of experience gains and losses, and assumption changes; curtailment gains and losses are recognized when the curtailment event occurs; settlement gains and losses are recognized when the settlement amount exceeds the current year interest cost and service cost; past service cost is recognized on an actuarially determined basis and amortized over the period to full eligibility of the related employee group.

*Income Taxes*

The Corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Corporation establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

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**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Summary of Significant Accounting Policies – continued**

*Share Capital Costs*

Share issue expenses include legal, professional fees and agent fees associated with the raising of equity. Until the financing transaction has been completed, these costs are capitalized as deferred costs. Upon completion of the financing transaction, costs associated with the issuance of share capital are charged against share capital within the consolidated statement of shareholders' equity.

*Revenue Recognition*

The Corporation's primary products are a concentrate containing silver and copper, and a concentrate containing silver and lead. These two concentrates are refined at separate smelters.

Revenue arising from the sale of metals contained in concentrates is recognized when the significant risks and rewards of ownership and the title have been transferred to the customer, the price is reasonably determinable and collectability is reasonably assured in accordance with the terms of the Corporation's sales agreements. Revenues are recorded based on the provisional prices at the time of the initial acceptance by the customer. Variations between the price recorded at the initial acceptance date by the customer and the final price set under the contracts covering such sales are caused by the fluctuations in the market prices for copper, lead and silver and result in an embedded derivative. The Corporation records embedded derivatives at the fair value each period until final settlement occurs, with the changes in fair value recorded to net income.

Payments received from customers prior to the revenue recognition criteria being met are presented as deferred revenue.

*Stock Based Compensation*

The Corporation maintains a stock option plan, which is described in Note 14. In accordance with GAAP, the Corporation uses the fair value method to account for stock-based transactions. Accordingly, all stock-based compensation awards are expensed in the consolidated financial statements on a straight-line basis over the vesting period. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

The Corporation uses the Black-Scholes Option Pricing Model to calculate the fair value of stock options and broker warrants rights. This model requires the input of highly sensitive assumptions. Changes in these subjective input assumptions can materially affect the fair value estimate.

*Basic and Diluted Earnings per Share*

Basic earnings per share are determined using the weighted-average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted-average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the Corporation at the average market value of the participating shares during the year.

Also in June 2009, the CICA issued amendments to CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" effective for the Corporation's December 31, 2009 consolidated financial statements. The amendments clarified the application of Section 3855 with respect to the effective interest method, reclassification of financial instruments with embedded derivatives, eliminated the distinction between debt securities and other debt instruments, and changed the categories to which debt instruments are required or are permitted to be classified. These amendments did not have a significant impact on the Corporation's consolidated financial statements.

**U.S. SILVER CORPORATION**  
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### 3. Future Accounting Policy Changes

#### *Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

In January 2009, the CICA issued three new accounting standards, Section 1582, "Business Combinations," Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests." Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions completed on or after January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards in 2011. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date and Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These standards must be adopted concurrently with Section 1582. The Corporation is evaluating the impact of adopting these standards on its consolidated financial statements.

#### *Multiple Deliverable Revenue Arrangements*

In December 2009, the CICA issued EIC 175 – Multiple Deliverable Revenue Arrangements, replacing EIC 142 – Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the entity's fiscal period of adoption. The Corporation is evaluating the impact of adopting these standards on its consolidated financial statements.

#### *International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board (AcSB) announced that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises are required to report their financial results using IFRS. As a result of this announcement, the Corporation has developed a plan to convert its consolidated financial statements to IFRS. As part of this plan, the Corporation is in the process of assessing the differences between IFRS and the Corporation's current accounting policies, as well as the alternatives available upon adoption, and has not quantified the effect of adopting IFRS.

### 4. Supplemental Cash Flow Information

March 31,	2010	2009
Cash	\$ 3,471,327	\$ 3,184,175
Cash equivalents	---	---
Interest received	1,293	3,433
Interest paid	51	939
Income taxes paid	---	---

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**5. Investments**

The Corporation's investments are classified as follows:

	March 31, 2010	December 31, 2009
Available-for-sale	\$ 1,043,937	\$ 1,019,112
Held-to-maturity	---	---
Held-for-trading	---	---
	<u>\$ 1,043,937</u>	<u>\$ 1,019,112</u>

**6. Inventory**

The Corporation's inventory is classified as follows:

	March 31, 2010	December 31, 2009
Raw materials and supplies	\$ 1,894,967	\$ 1,915,617
Concentrate inventory	3,047,898	4,072,091
	<u>\$ 4,969,865</u>	<u>\$ 5,987,708</u>

**7. Property, Plant and Equipment**

	March 31, 2010			December 31, 2009		
	Costs	Accumulated Depreciation	Net Book Value	Costs	Accumulated Depreciation	Net Book Value
Building and structural components	\$ 2,568,805	\$ 332,586	\$2,236,219	\$ 2,504,091	\$ 225,269	\$2,278,822
Computer and office equipment	275,324	50,553	224,771	439,626	205,392	234,234
Machinery and equipment	7,651,908	3,436,774	4,215,134	7,814,267	3,645,156	4,169,111
Leasehold improvements	7,138	5,750	1,388	7,138	5,155	1,983
Office furniture	49,569	33,311	16,258	48,839	30,378	18,461
Vehicles	15,959	15,959	---	15,959	15,959	---
	<u>\$ 10,568,703</u>	<u>\$ 3,874,933</u>	<u>\$6,693,770</u>	<u>\$ 10,829,920</u>	<u>\$ 4,127,309</u>	<u>\$6,702,611</u>

Depreciation expense for the period ended December 31, 2009 was \$535,911 (for the year ended December 31, 2009 \$2,000,189, for the three months ended March 31, 2009 \$467,799), of which \$532,143 (for the year ended December 31, 2009 -\$1,984,703, for the three months ended March 31, 2009 \$463,991) was included in cost of mining within the consolidated statement of operations.

During the period ended March 31, 2010, the Corporation abandoned certain equipment resulting in a write-down of property, plant and equipment with a cost of \$778,287 (2009 - \$Nil) and accumulated depreciation of \$778,287 (2009 - \$Nil), for a net write down of \$Nil (2009 - \$Nil).

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**8. Mining Assets**

The following is a summary of the Corporation's mining assets:

	Galena Mine & Mill	Coeur Mine & Mill	Caladay Property	Other Properties	Total
Balance, January 1, 2009	\$ 34,407,843	\$ 4,915,598	\$ 27,047	\$ 1,043,587	\$ 40,394,075
Additions to capitalized costs	5,999,537	---	---	112,771	6,112,308
Write-down of exploration assets	---	---	---	(126,015)	(126,015)
	40,407,380	4,915,598	27,047	1,030,343	46,380,368
Less: accumulated depreciation and depletion	(9,163,094)	(436,282)	(27,047)	---	(9,626,423)
Balance, December 31, 2009	<u>\$ 31,244,286</u>	<u>\$ 4,479,316</u>	<u>\$ ---</u>	<u>\$ 1,030,343</u>	<u>\$ 36,753,945</u>

	Galena Mine & Mill	Coeur Mine & Mill	Caladay Mine & Mill	Other Properties	Total
Balance, January 1, 2010	\$ 40,407,380	\$ 4,915,598	\$ 27,047	\$ 1,030,343	\$ 46,380,368
Additions to capitalized costs	1,635,046	---	---	20,000	1,655,046
Disposition	---	---	---	---	---
	42,042,426	4,915,598	27,047	1,050,343	48,035,414
Less: accumulated depreciation and depletion	(10,241,733)	(458,608)	(27,047)	---	(10,727,388)
Balance, March 31, 2010	<u>\$ 31,800,693</u>	<u>\$ 4,456,990</u>	<u>\$ ---</u>	<u>\$ 1,050,343</u>	<u>\$ 37,308,026</u>

Depletion expense for the period ended March 31, 2010 was \$1,100,965 (for the year ended December 31, 2009 \$4,363,856, for the three months ended March 31, 2009 \$1,104,807), which has been included in cost of mining within the consolidated statements of operations.

During the year ended December 31, 2009, the Corporation abandoned certain mining assets resulting in a write-down of mining assets of \$126,015 included in write-down of exploration assets within the consolidated statement of operations.

**9. Asset Retirement Obligations**

The asset retirement obligations are recorded based principally on legal and regulatory requirements to remediate the Galena Mine site. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Corporation uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Corporation's current mining plan and the best available information for making such estimates.

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**9. Asset Retirement Obligations** - continued

The asset retirement obligation is measured using the following factors: 1) expected materials and 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 Corporation's initial credit adjusted risk-free interest rate of approximately 10%, 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.

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

Balance, January 1, 2009	\$ 1,266,377
Revision to estimate for liabilities incurred	73,526
Accretion expense	118,660
Balance, December 31, 2009	<u>\$ 1,458,563</u>
Accretion expense	36,464
Balance, March 31, 2010	<u>\$ 1,495,027</u>

**10. Revolving Advances Facility**

In February 2009, the Corporation entered into a master inventory and receivable monetization agreement with a precious metals trading and lending firm to finance the Corporation's shipments of concentrate inventory prior to ultimate sale to its customers. During 2009, the Corporation entered into a Silver Purchase Agreement (the "Agreement") with the same precious metals trading and lending firm. Pursuant to the Agreement, the Corporation may sell up to 100% of the silver in the silver-copper concentrate produced at its Galena Mine and mill complex for the following year and this Agreement is renewable annually thereafter. The Agreement, provides for up to a maximum amount of \$5,000,000 through a revolving silver-based advance facility (the "Facility") for the Corporation, whereby the Corporation receives up to 80% of the sales value of silver produced, sold and shipped by the Corporation under the terms of its existing smelter contract. The silver is priced at market prices as negotiated and is subject to deductions for financing charges based on LIBOR plus 4.75% per annum for the applicable financing period. Financing costs are amortized in accordance with the effective interest rate method for each advance. As at March 31, 2010, the Corporation had a current liability in the amount of \$347,104 through the Facility (December 31, 2009 - \$688,144).

As part of the Agreement, the Corporation enters into short term forward contracts for the sale of silver concentrate from the Galena Mine and mill complex with the precious metals trading and lending firm. The hedging program, currently utilizing only short term forward contracts, is put in place to lock-in a forward price for the silver concentrate for the Corporation to manage the Corporation's cash flows, thus allowing the Corporation to manage volatility in silver prices. The Corporation recognizes the fair value of these financial instruments at the balance sheet date and records the changes in the fair value in the current period statement of operations. The fair value of the Corporation's derivatives instruments is based on the quoted market prices for similar instruments and on market prices at the valuation date. As at March 31, 2010, the Corporation had derivative-related assets of \$98,700 (December 31, 2009 - \$118,015 which related to a hedge other than associated with the Agreement) and derivative-related liabilities of \$257,288 (December 31, 2009 - \$1,178,361).

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**11. Other Long-Term Liabilities**

The Corporation's hourly employees have negotiated a severance benefit in the collective bargaining agreement. Upon completion of two years of service, hourly employees become eligible for the severance benefit. The benefit payout is calculated as 1% of average annual earnings multiplied by the number of years of service, plus \$25 for each year of service. Employees that are separated for any reason other than lay off, retirement, permanent and total disability or death, shall not receive any severance benefit payment. The accrued obligation was \$240,796 as at March 31, 2010 (December 31, 2009 - \$224,306).

**12. Capital Lease Obligation**

	March 31, 2010	December 31, 2009
Conditional sales contract for equipment originally valued at \$77,900, secured with the equipment, 7.49% annual interest rate on the outstanding loan balance and repayable in monthly instalments of \$1,281, maturing in October 2012	\$ 35,779	\$ 39,141
	<u>35,779</u>	<u>39,141</u>
Less: current portion	15,375	15,375
Loan payable, net of current portion	<u>\$ 20,404</u>	<u>\$ 23,766</u>

**13. Share Capital**

*Common Shares*

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

During the year ended December 31, 2009, the Corporation had the following share capital transactions:

1. Issued 516,667 common shares upon the exercise of previously issued stock options; and
2. Issued 35,385,500 units at a price of CA\$0.13 per unit, with each unit ("Unit") comprising one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share of the Corporation at a price of CA\$0.155 per common share until July 16, 2014. Issue costs totalled \$622,611 for these Units, of which \$83,899 relates to broker warrants as a non-cash charge to share capital.

The Corporation had no share capital transactions for the period ended March 31, 2010.

*Earnings (Loss) Per Share*

Net income per share and weighted average common shares outstanding are calculated as follows:

For the 3 months ended March 31,	2010	2009 As Restated See Note 19
Net income (loss) available to common shareholders	\$ 725,083	\$ 1,340,161
Weighted average shares outstanding - basic	250,625,994	213,714,049
Unexercised weighted average dilutive stock options and warrants	24,675,368	763,764
Weighted average shares outstanding - diluted <sup>(1)</sup>	<u>275,301,362</u>	<u>214,477,813</u>

<sup>(1)</sup> The diluted weighted average shares outstanding in 2010 excludes 6,839,475 (March 31, 2009 – 7,646,469) options and warrants as they would have been anti-dilutive.

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**14. Stock Options and Warrants**

The Corporation'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 to or greater than the market price of the Corporation's common shares on the date of the grant to directors, officers, employees and consultants to the Corporation. Options that are granted under the Plan have expiry dates of up to 5 years from the grant date. Plan options may be issued as immediately exercisable or may contain provisions which specify vesting over several years, as well as performance based. Each stock option is exercisable into one common share of the Corporation at the price specified in the terms of the option.

The stock options activity is summarized below:

	Number	Weighted Average Exercise Price
Balance, January 1, 2009	16,864,475	CA\$ 0.44
Granted	7,800,000	0.13
Exercised	(516,000)	0.11
Cancelled	(5,839,150)	0.39
Forfeited	(679,183)	0.36
Balance, December 31, 2009	17,629,475	CA\$ 0.34
Granted	200,000	0.18
Exercised	---	Nil
Cancelled	(1,000,000)	0.40
Forfeited	---	Nil
Balance, March 31, 2010	16,829,475	CA\$ 0.34

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, and resulting weighed average fair value estimate per option, are as follows:

	2010	2009
Number of options granted	200,000	7,800,000
Exercise price	CA\$0.18	CA\$0.13 - 0.15
Weighted average expected life	4.98 years	2.4 years
Weighted average risk-free interest rate	2.59%	0.72%
Weighted average expected volatility	86.6%	82.1%
Weighted average dividend yield	0.0%	0.0%
Weighted average fair value	\$0.12000	\$0.05074

The Black-Scholes valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. The stock options granted to key employees, officers, and directors have characteristics significantly different from those of traded options, and changes in subjective input assumptions can materially affect the fair value estimate.

The Corporation recognizes over the vesting period, as compensation costs arises from stock option awards, the fair value of stock options at the date of grant, and has included these costs in general and administrative expenses within the consolidated statement of operations. The fair value of stock options vested during the three month period ended March 31, 2010, less the fair value of options cancelled and forfeited, amounts to \$Nil. (for the year ended December 31, 2009 - \$267,784 and for the three month period ended March 31, 2009- \$Nil).

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**14. Stock 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 March 31, 2010.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Options Exercisable	Weighted Average Price CA\$
\$ 0.10	2,090,000	Nov. 2013	3.7	0.10	2,090,000	\$ 0.10
0.13	400,000	Feb. 2014	3.8	0.13	400,000	0.13
0.13	3,095,000	Oct. 2014	4.5	0.13	- - -	0.13
0.14	2,200,000	July 2014	4.3	0.14	1,000,000	0.14
0.14	400,000	Mar. 2014	4.0	0.14	400,000	0.14
0.15	1,505,000	Feb. 2014	3.9	0.15	505,000	0.15
0.18	200,000	Dec.2014	4.8	0.18	50,000	0.18
0.40	3,169,475	Dec.2011	1.7	0.40	3,169,475	0.40
0.40	750,000	Jul. 2013	3.3	0.40	650,000	0.40
0.73	660,000	Aug. 2012	2.4	0.73	660,000	0.73
0.75	300,000	Mar. 2012	1.9	0.75	300,000	0.75
0.79	200,000	Mar. 2013	2.9	0.79	200,000	0.79
0.81	860,000	Nov. 2012	2.6	0.81	860,000	0.81
1.19	1,000,000	Apr. 2012	2.1	1.19	1,000,000	1.19
	<u>16,829,475</u>				<u>11,284,475</u>	

The warrants that are issued and outstanding as at March 31, 2010 are as follows:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
17,692,750	0.155	Investors	July 2009	July 16,2014	\$ 483,391
1,769,275	0.160	Broker Unit <sup>(1)</sup>	July 2009	July 16,2011	43,315
884,638	0.155	Broker <sup>(1)</sup>	July 2009	July 16,2014	37,584
<u>20,346,663</u>					<u>\$ 564,290</u>

<sup>(1)</sup> Each two Broker Units, if and when exercised by the Unit holder, allow the holder to purchase two common shares at CA\$0.16 per share and also entitles the Unit holder to one new Broker Warrant exercisable for one common share at CA\$0.155 until July 16, 2014.

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**15. Accumulated Other Comprehensive Loss**

	Unrealized Gains(losses) on Available- for-Sale Securities	Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2009	\$ (1,125,764)	\$ (7,208,374)	\$ (8,334,138)
Change in unrealized loss on available-for-sale securities <sup>(1)</sup>	(341,080)	- - -	(341,080)
Change in unrealized foreign currency loss on self-sustaining operations	- - -	(226,266)	(226,266)
Balance, December 31, 2009	<u>\$ (1,466,844)</u>	<u>\$ (7,434,640)</u>	<u>\$ (8,901,484)</u>
Balance, January 1, 2010	\$ (1,466,844)	\$ (7,434,640)	\$ (8,901,484)
Change in unrealized loss on available-for-sale securities	(64,391)	- - -	(64,391)
Change in unrealized foreign currency loss on self-sustaining operations	- - -	98,841	98,841
Balance, March 31, 2010	<u>\$ (1,531,235)</u>	<u>\$ (7,335,799)</u>	<u>\$ (8,867,034)</u>

<sup>(1)</sup> During the year ended December 31, 2009 realized gains of \$146,216 was reclassified to gain on sale of investments within the consolidated statement of operations. The net unrealized loss for the period was \$194,864.

**16. Capital Management and Liquidity**

The Corporation manages its cash, common shares, stock options and warrants as capital. The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Corporation prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Corporation does not pay out dividends. The Corporation's investment policy, in general, is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The nature of the industry in which the Corporation operates is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures.

The Corporation's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through its revolving advances facility. Revenue, available cash balances, draws on the revolving advances credit facility and financing of indebtedness are the Corporation's principal sources of capital used to pay operating expenses and recurring capital and leasing costs in its business.

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**16. Capital Management and Liquidity** – continued

The principal liquidity needs for periods beyond the next twelve months are for non-recurring capital expenditures, development costs and potential mining expansion. The Corporation's strategy is to meet these needs with one or more of the following:

- cash flows from operations;
- common share and warrants offering;
- proceeds from sales of assets; and
- revolving advances facility.

The following table presents the contractual maturities of the Corporation's financial liabilities:

	Total	Payments by Periods			
		< 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Asset retirement obligations	\$ 2,311,072	\$ ---	\$ ---	\$ ---	\$ 2,311,072
Capital lease obligation	39,719	15,375	24,344	---	---
Derivatives related liabilities	257,288	257,288	---	---	---
Revolving advances facility	240,796	240,796	---	---	---
Accounts payable and accrued liabilities	3,503,681	3,503,681	---	---	---
Income Taxes Payable	257,288	257,288	---	---	---
Other long-term liabilities	240,796	---	---	---	240,796

**17. Financial Instruments**

The Corporation's operations expose the Corporation to market risk, credit risk, and liquidity risk. The Corporation manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Corporation's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

**(a) Derivatives and Hedging Activities**

The Corporation uses derivative and non-derivative instruments to manage financial risks, including commodity, interest rate, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. The Corporation does not use derivatives for speculative purposes. The Corporation uses the following derivative instruments to manage these risks:

- Forward contracts to hedge exposures to fluctuations in metal prices (see Note 10)

For the three month period ended March 31, 2010, the Corporation recorded a hedge loss of \$180,960 (for the year ended December 31, 2009 – a loss of \$1,696,117, for the three month period ended March 31, 2009 a gain of \$50,800).

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**17. Financial Instruments** – continued

*Embedded Derivatives*

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the shipment date and the actual final price set under the relevant contracts are caused by fluctuations in the market prices for copper, lead and silver, and result in an embedded derivative. The embedded derivative is recorded at fair value each period until settlement occurs, with the changes in fair value recorded to revenues. As at March 31, 2010, the Corporation has recorded embedded derivatives in the amount of \$5,500,990 in receivables and related embedded derivatives within the consolidated balance sheet (December 31, 2009 - \$5,682,134) related to these embedded derivatives. Currently, two customers represent 100% of the Corporation's trade receivables which contains the embedded derivative.

**(b) Fair Value of Non-Derivative Financial Instruments**

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. The carrying value and fair value of financial instruments are as follows:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 3,471,327	\$ 3,471,327	\$ 2,509,680	\$ 2,509,680
Receivables and related embedded derivatives	5,551,494	5,551,494	5,729,781	5,729,781
Investments	1,043,937	1,043,937	1,019,112	1,019,112
Derivative-related assets	98,700	98,700	118,015	118,015
Restricted cash	115,000	115,000	115,000	115,000
<b>Financial liabilities</b>				
Revolving advances facility	347,104	347,104	688,144	688,144
Accounts payable and accrued liabilities	3,503,681	3,503,681	2,896,925	2,896,925
Derivative-related liabilities	257,288	257,288	1,178,361	1,178,361
Capital lease obligations	35,779	35,779	39,141	39,141
Other long-term liabilities	240,796	240,796	224,306	224,306

**(c) Fair Value Hierarchy**

The Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

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**17. Financial Instruments – continued**

The following table outlines financial assets and liabilities measured at fair value in the consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 3,407,327	\$ ---	\$ ---	\$ 3,407,327
Restricted cash	115,000	---	---	115,000
Investments	---	62,737	981,200	1,043,937
Derivatives-related assets	---	98,700	---	98,700
Receivables and related embedded derivatives	---	5,551,494	---	5,551,494
<b>Total Assets</b>	<b>\$ 2,624,680</b>	<b>\$ 5,712,931</b>	<b>\$ 952,900</b>	<b>\$ 10,280,458</b>
<b>Liabilities</b>				
Derivative-related liabilities	\$ ---	\$ 257,288	\$ ---	\$ 257,288
<b>Total liabilities</b>	<b>\$ ---</b>	<b>\$ 257,288</b>	<b>\$ ---</b>	<b>\$ 257,288</b>

Level 3 fair values are based on a number of valuation techniques other than observable market data. The following table reconciles the activity during the year for financial instruments within the level 3 classification.

	Level 3
Balance, January 1, 2010	\$ 952,900
Unrealized gain recognized through other comprehensive income (loss) due to change in foreign exchange	28,300
<b>Balance, March 31, 2010</b>	<b>\$ 981,200</b>

**(d) Market Risk**

Market risk is the risk that changes in market price, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net income or the value of financial instruments. These risks are generally outside the control of the Corporation. The objectives of the Corporation are to mitigate market risk exposure within acceptable limits, while maximizing returns.

**Foreign Exchange Risk**

The Corporation is exposed to foreign currency fluctuations as the Corporation holds Canadian dollars, and these consolidated financial statements are presented in United States dollars. As at March 31, 2010 the Corporation had approximately CA\$140,888 (December 31, 2009 - CA\$205,576) in cash and \$981,200 (December 31, 2009 - \$952,900) in investments with no forward foreign exchange contracts in place.

**Commodity Risk**

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of copper, lead and silver. As at March 31, 2010, the Corporation did not have any significant exposure to derivative financial instrument agreements or fixed physical contracts. The Corporation is particularly exposed to the risk of movements in the price of silver. Declining market prices for silver could have a material effect on the Corporation's profitability, and the Corporation's policy is not to materially hedge its exposure to silver in accordance with shareholders' preference. The London Silver Spot price average, in USD per ounce, for the three month period ended March 31, 2010 \$16.92 (for the year ended December 31, 2009 - \$14.65, for the three month period ended March 31, 2009 - \$12.61).

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**17. Financial Instruments** – continued

**(e) Credit Risk**

Credit risk related to accounts receivable arises from the possibility that customers may be unable to fulfill their commitments. The Corporation mitigates this risk by regularly monitoring the financial health and aging of any amounts due from its customers. Currently two customers represent 100% of the Corporation's revenue. As at March 31, 2010, the Corporation is exposed to a maximum credit risk of \$5,551,494 (December 31, 2009 - \$5,729,781).

The majority of the Corporation's trade receivables are collected within 60 days. The balance of accounts receivable past due is not significant.

**18. Segmented Information and Major Customers**

The Corporation's operations comprise a single reporting segment engaged in exploration and exploitation of the Corporation's mineral assets within the United States. As these operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements for revenue, income (loss) before income tax, amortization and total assets also represent segmented amounts, with the exception of the following which are in Canada: Cash of approximately \$2,195,000 (December 31, 2009 - \$2,415,000) and investments of \$981,200 (December 31, 2009 - \$952,900).

The Corporation had sales to two customers which individually each exceeded 10% of revenues in the period ended March 31, 2010. Those sales were approximately 80.2% (\$12.0 million) and 19.8% (\$3.0 million) of revenues. The Corporation had sales to two customers that exceeded 10% of revenues for the period that ended March 31, 2009. Those sales were approximately 82.5% (\$9.2 million) and 17.5% (\$1.9 million) of revenues.

Although the Corporation's revenues are primarily derived from two customers, the risk of economic dependency is limited as its product is a commodity and can be sold to a number of other potential customers on similar commercial terms.

**19. Restatement of Previously Issued Financial Statements**

In the course of the preparation of the Corporation's consolidated financial statements for the year ended December 31, 2009, management identified a number of errors in accounting for its long-term retirement plans and in its accounting for income taxes. Management conducted a review of the errors in order to record correcting adjustments and, as part of this review, identified a number of other errors as outlined below. As a result, the Corporation has restated its consolidated balance sheet as at December 31, 2008 and March 31, 2009, as well as its consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the periods then ended. These adjustments relate to:

- Long-term retirement obligations errors,
- Provision for income tax errors, and
- Other errors

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**19. Restatement of Previously Issued Financial Statements - continued**

The impact of the restatement to periods prior to 2009 was an increase to opening accumulated deficit as at January 1, 2009 of \$719,557, which is comprised principally of the understatement of pension expense.

The effects of the restatement on the consolidated balance sheet as at March 31, 2009 and the consolidated statement of operations for the period then ended are shown in the tables below:

**Consolidated Statement of Operations**  
**For the Three Months Ended March 31, 2009**

	As Previously Reported	Adjustments	As Restated
Revenues	\$ 11,110,973	\$ (50,800)	\$ 11,060,173
<b>EXPENSES</b>			
Cost of mining	9,750,897	90,624	9,841,521
General and administrative	871,292	---	871,292
Exploration costs	20,125	---	20,125
Selling and marketing	5,641	---	5,641
	<u>10,647,955</u>	<u>90,624</u>	<u>10,738,579</u>
<b>INCOME (LOSS) BEFORE THE UNDERNOTED</b>	463,018	(141,424)	321,594
Depreciation related to corporate overhead	(3,808)	---	(3,808)
Financing expense	(9,513)	---	(9,513)
Foreign exchange gain	794,819	---	794,819
Gain on sale of assets	7,681	50,000	57,681
Gain on hedge derivatives	---	50,800	
		197,256 <sup>(1)</sup>	248,056
Gain on investments	395,410	(197,256) <sup>(1)</sup>	198,154
Interest income	3,433	---	3,433
	<u>1,651,040</u>	<u>(40,624)</u>	<u>1,610,416</u>
<b>INCOME BEFORE INCOME TAXES</b>	1,651,040	(40,624)	1,610,416
Provision for income taxes	(270,255)	---	(270,255)
	<u>1,380,785</u>	<u>(40,624)</u>	<u>1,340,161</u>
<b>NET LOSS</b>	<u>\$ 1,380,785</u>	<u>\$ (40,624)</u>	<u>\$ 1,340,161</u>

<sup>(1)</sup> reclassification adjustment to reflect presentation in 2010.

*Long-Term Retirement Obligations Errors*

In completing its review of the third party actuarial valuations for the pension benefit plans prepared by U.S. Silver Corporation's outside actuaries, management discovered that the accounting it applied based on the information provided by the outside actuaries was not in accordance with CICA Handbook Section 3461, *Employee Future Benefits*. Specifically, the Corporation determined that it was not appropriately following its accounting policy for the immediate recognition approach for actuarial gains and losses, and further was not correctly amortizing the past service costs over the remaining period to full eligibility of the related employees in accordance with GAAP. In addition, the Corporation's disclosure that its policy was to amortize actuarial gains and losses using the corridor approach was not correct.

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**19. Restatement of Previously Issued Financial Statements - continued**

The correction of the long-term retirement obligations errors resulted in a net decrease to pension expense of \$528,226 for the year ended December 31, 2008, a net increase to inventory of \$210,240, and a net increase to long-term retirement pension obligations of \$389,852 as at December 31, 2008, to correct for this error. The cumulative net impact of the error to periods prior to 2008 is an increase in pension expense of \$707,838 recorded as an increase to accumulated deficit as at January 1, 2008. The Corporation has also corrected its accounting policy note disclosure and related long-term retirement obligations note disclosure to reflect the correct accounting policy followed by the Corporation.

*Provision for Income Tax Errors*

In completing its review of the prior year income tax returns prepared by U.S. Silver Corporation for December 31, 2008, management discovered that it did not correctly record a current income tax provision for its Canadian entity. As a result, management has recorded an adjustment to current income tax expense of \$428,974 and a corresponding increase to income taxes payable for the year ended December 31, 2008.

Furthermore, management did not record the accrual of an income tax expense related to transfer pricing adjustments between the Corporation's Canadian and US entities in the amount of \$60,971 for the year ended December 31, 2008. As a result, management has recorded an adjustment to current income tax expense of \$60,971 and a corresponding increase to income taxes payable for the year ended December 31, 2008.

The Corporation reversed the reported the tax impact on its valuation of its available for sale securities in the amount of \$462,193. In estimating its income taxes, management incorrectly treated its gain from hedge derivatives as capital gain instead of ordinary income, and therefore could not offset its loss on available for sale with gains from its hedged derivatives.

*Consolidated Balance Sheet*

The following table presents the impact of the restatement adjustments on U.S. Silver Corporation's previously reported consolidated balance sheet as at March 31, 2009.

**Consolidated Balance Sheet**  
**As At March 31, 2009**

	As previously Reported	Adjustments	As Restated
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 3,184,175	\$ ---	\$ 3,184,175
Receivables and related embedded derivatives	4,763,958	---	4,763,958
Investments	1,465,230	(166,874) <sup>(1)</sup>	836,163
		(462,193)	836,163
Derivative-related assets	---	166,874 <sup>(1)</sup>	166,874
Inventory	2,250,880	119,616	4,018,166
		1,647,670 <sup>(1)</sup>	4,018,166
Supplies	1,647,670	(1,647,670) <sup>(1)</sup>	---
Prepaid expenses	184,518	---	184,518
	13,496,431	(342,577)	13,153,854
Restricted cash	115,000	---	115,000
Property, plant and equipment	6,759,897	---	6,759,897
Mining assets	35,652,292	---	35,652,292
Future income tax asset - net	1,962,235	(1,845,502) <sup>(1)</sup>	116,733
<b>TOTAL ASSETS</b>	<b>\$ 57,985,855</b>	<b>\$(2,188,079)</b>	<b>\$ 55,797,776</b>

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<b>CURRENT LIABILITIES</b>			
Revolving advances facility	\$ 1,448,593	\$ ---	\$ 1,448,593
Accounts payable and accrued liabilities	2,946,196	\$ ---	2,946,196
Income taxes payable	---	489,945	489,945
Capital lease obligation – current	12,178	---	12,178
	<u>4,406,967</u>	<u>489,945</u>	<u>4,896,912</u>
Other long-term liabilities	---	204,605 <sup>(1)</sup>	204,605
Capital lease obligation - long term	36,010	---	36,010
Long-term retirement obligations	5,835,420	389,852	
		<u>(204,605)<sup>(1)</sup></u>	<u>6,020,667</u>
Asset retirement obligations	1,296,042	---	1,266,377
Future income tax liabilities	1,845,502	<u>(1,845,502)<sup>(1)</sup></u>	<u>---</u>
	<u>13,419,941</u>	<u>(965,705)</u>	<u>12,454,236</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	60,672,075	---	60,672,075
Contributed surplus	5,571,602	---	5,507,063
Accumulated other comprehensive loss	(8,887,620)	(462,193)	(9,349,813)
Accumulated deficit	(12,790,143)	(760,181)	(13,550,324)
	<u>(21,677,763)</u>	<u>(1,222,374)</u>	<u>(22,437,944)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>44,565,914</u>	<u>(1,222,374)</u>	<u>43,343,540</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 57,985,855</u>	<u>\$ (2,188,079)</u>	<u>\$ 55,797,776</u>

<sup>(1)</sup> reclassification adjustment to reflect presentation in 2010.

*Other Errors*

In 2008, the Corporation incorrectly reported the payment of a \$252,800 deposit for certain machinery and equipment as a part of property, plant and equipment. Prior to the completion of the 2008 financial statements, during the first quarter of 2009, the Corporation decided not to complete the purchase, which resulted in a loss of \$50,000 on the subsequent disposition of this equipment, within that quarter. As a result, the impact of correction of this error is to reduce property, plant and equipment by \$252,800 as at December 31, 2008, increase receivables and embedded related derivatives by \$202,800 as at December 31, 2008 and record a loss of \$50,000 to reflect the loss on subsequent disposition. Conversely, this loss, which was originally recognized during the first quarter of fiscal 2009, reduced the gain on the disposition of other assets during that period.

*Consolidated Statement of Cash Flows for the Period Ended March 31, 2009*

During 2008, the Corporation incorrectly included the purchase of property, plant and equipment in the amount of \$114,763 and in investment in mining assets, the amount of \$156,373 within Investing Activities. During the period ended March 31, 2009, the Corporation incorrectly included the purchase of property, plant and equipment in the amount of \$41,241 and in investment in mining assets, the amount of \$114,168 within Investing Activities. However, since these amounts were non-cash, management has adjusted these amounts within purchase of property, plant and equipment and investment in mining assets, to correct for this error.

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The following table presents the impact of the restatement adjustments on U.S. Silver Corporation's previously reported consolidated statement of cash flows for the period ended March 31, 2009:

	As Previously Reported	Adjustments	As Restated
Loss for the year	1,380,785	(40,624)	1,340,161
Cash flows provided by (used in) operating activities	385,736	(790,957)	(405,221)
Cash flows (used in) provided by financing activities	1,787,713	(342,026)	1,445,657
Cash flows used in investing activities	(781,640)	(253,978)	(1,036,556)
Effect of exchange rate on cash and cash equivalents	(862,154)	1,386,961	524,807

*Other Classification, Presentation and Disclosure Errors*

In 2009, the Corporation incorrectly classified derivative-related assets of \$166,874 within its investments as held-to-maturity. The appropriate classification should have been held-for-trading. Furthermore, management has determined that disclosure would be improved by separately disclosing such derivative-related assets on the consolidated balance sheet in the line item entitled derivative-related assets.

In 2009, the Corporation incorrectly disclosed the range of significant assumptions used during the year to estimate the fair value of options rather than the weighted average of the significant assumptions used during the year to estimate the fair value of the options as required. Accordingly, management has presented the corrected significant assumptions as required to be disclosed by the CICA (see Note 15).

In 2009, the Corporation provided insufficient disclosure of financial instruments, in particular the fair value of non-derivative financial instruments. Management has corrected the deficiencies and has presented all required disclosures for both 2010 and corrected 2009 comparative amounts (See Note 18).

In 2009, the Corporation incorrectly disclosed certain information within the segmented information and major customers note, as it provided identical information for both fiscal 2009 and 2007, with regards to the cash and investments held in Canada. The information disclosed in 2008 was the information related to fiscal 2007. Accordingly, management has corrected the disclosures for 2008 to reflect the appropriate amounts and balances (see Note 19).