
U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL PERIOD ENDED DECEMBER 31, 2007 AND 2006

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

DECEMBER 31, 2007 AND 2006

CONTENTS

Page

Consolidated Financial Statements:

Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Operations and Comprehensive Loss	3
Consolidated Statement of Cash Flows	4
Consolidated Statement of Shareholders' Equity	5
Notes to Consolidated Financial Statements	6 - 25



AUDITORS' REPORT

To the Shareholders of
U.S. Silver Corporation

We have audited the consolidated balance sheet of U.S. Silver Corporation as at December 31, 2007 and the consolidated statements of operations and comprehensive loss, statement of shareholders' equity and of cash flows for the year ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the period then ended were audited by Mintz & Partners LLP, who expressed an opinion without reservation on those statements in their report dated April 28, 2007.

Deloitte + Touche LLP

Toronto, Ontario
April 24, 2008

CHARTERED ACCOUNTANTS
Licensed Public Accountant

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

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

As at December 31, 2007 2006
(Note 4)

ASSETS

CURRENT

Cash and cash equivalents	\$ 28,540,280	\$ 5,474,991
Receivables	1,551,909	980,890
Investments, at fair value (cost \$1,707,380, 2006 - \$557,985) (Note 14)	3,598,520	965,211
Inventory	2,340,132	1,179,896
Supplies	1,594,731	1,423,966
Prepaid expenses and other assets	<u>430,509</u>	<u>569,424</u>
	38,056,081	10,594,378

PROPERTY, PLANT AND EQUIPMENT (Note 5)	3,396,323	3,911,891
MINING ASSETS (Note 6)	23,616,962	14,761,207
FUTURE TAX ASSET (Note 12)	2,499,437	-
RESTRICTED CASH	<u>115,000</u>	<u>115,000</u>
	<u>\$ 67,683,803</u>	<u>\$ 29,382,476</u>

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	<u>\$ 3,404,954</u>	<u>\$ 1,599,712</u>
	3,404,954	1,599,712
LONG TERM RETIREMENT BENEFITS (Note 7 & 13)	4,004,417	850,443
MINE RECLAMATION OBLIGATION (Note 8)	1,140,983	6,743,395
FUTURE TAX LIABILITY (Note 12)	<u>2,614,648</u>	<u>-</u>
	<u>11,165,002</u>	<u>9,193,549</u>

COMMITMENTS AND CONTINGENCIES (Note 13)

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Issued and Outstanding 211,510,827 (2006 - 141,895,205)	<u>59,779,197</u>	<u>18,447,625</u>
CONTRIBUTED SURPLUS	<u>4,833,346</u>	<u>7,646,797</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME	4,667,281	414,323
DEFICIT	<u>(12,761,023)</u>	<u>(6,319,818)</u>
	<u>(8,093,742)</u>	<u>(5,905,495)</u>
	<u>56,518,801</u>	<u>20,188,927</u>
	<u>\$ 67,683,803</u>	<u>\$ 29,382,476</u>

Approved on behalf of the Board

/s/ Jamie Macintosh
Director

/s/ John Ryan
Director

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

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
(All Amounts are in United States Dollars)

For the period to December 31,	January 1, 2007 2007	April 7, 2006 2006
REVENUES	\$ 18,119,939	\$ 6,087,909
EXPENSES		
Cost of mining	19,817,282	9,685,223
General and administrative	5,080,079	493,892
Exploration costs	2,056,773	961,657
Selling and marketing	<u>116,074</u>	<u>145,861</u>
	<u>27,070,208</u>	<u>11,286,633</u>
LOSS BEFORE UNDERNOTED	(8,950,269)	(5,198,724)
AMORTIZATION	(7,886)	(497)
INTEREST INCOME	387,791	39,177
FINANCING EXPENSE	<u>(370,278)</u>	<u>(1,159,774)</u>
INCOME PRIOR TO TAX PROVISION	(8,940,642)	(6,319,818)
RECOVERY FOR TAXES	<u>2,499,437</u>	<u>---</u>
NET LOSS	(6,441,205)	(6,319,818)
OTHER COMPREHENSIVE INCOME		
Unrealized gains and losses on derivatives designated as cash flow hedges	2,429,636	---
Unrealized gains and losses on available for sale financial assets	(220,863)	412,653
Effect of foreign exchange	<u>2,044,185</u>	<u>1,670</u>
COMPREHENSIVE LOSS	<u>\$ (2,188,247)</u>	<u>\$ (5,905,495)</u>
LOSS PER COMMON SHARE - basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>173,338,382</u>	<u>112,865,316</u>

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

For the period to December 31,	January 1, 2007 2007	April 7, 2006 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (6,441,205)	\$ (6,319,818)
Items not affecting cash		
Amortization	2,470,750	1,493,917
Asset retirement obligation - accretion	489,822	300,159
Future tax asset	(2,499,437)	-
Non-cash compensation	1,369,140	-
Non-cash financing expense (Note 10)	-	548,041
	<u>(4,610,930)</u>	<u>(3,977,701)</u>
Net change in non-cash operating items		
Change in receivables	(571,019)	1,193,581
Change in inventory	(1,160,236)	(420,156)
Change in supplies	(170,765)	(330,786)
Change in prepaid and other assets	138,915	(292,464)
Accounts payable and accrued liabilities	<u>1,805,242</u>	<u>835,325</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>(4,568,793)</u>	<u>(2,992,199)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from cash advances	-	8,071,832
Reimbursements of cash advances	-	(600,500)
Long term - retirement benefits	(937,872)	(228,806)
Issuance of capital stock and exercise of options and warrants, net of costs	<u>37,084,951</u>	<u>17,114,911</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	<u>36,147,079</u>	<u>24,357,437</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property and equipment	(547,638)	(201,298)
Investment in mining assets	(8,273,584)	(412,694)
Investment in marketable securities	(424,536)	-
Acquisition of subsidiary	-	(16,082,604)
Investment in restricted cash	<u>-</u>	<u>(115,000)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	<u>(9,245,758)</u>	<u>(16,811,596)</u>
INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	22,332,528	4,553,642
CASH ACQUIRED UPON MAJOR TRANSACTION	-	917,529
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	732,761	3,820
CASH AND CASH EQUIVALENTS (Note 16)		
Beginning of period	<u>5,474,991</u>	<u>-</u>
End of period	<u>\$ 28,540,280</u>	<u>\$ 5,474,991</u>

U.S. SILVER CORPORATION.
(formerly Chrysalis Capital III 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, April 7, 2006		\$	\$	\$	\$	\$ Nil
Issuance of shares in exchange for shares of the legal subsidiary to effect the reverse takeover (Note 10)	131,895,205	19,352,465	7,646,797			26,999,262
Fair value of the net assets of the legal parent attributed to the issued shares of the legal parent at date of reverse takeover (Note 3)	10,000,000	873,588				873,588
Major transaction costs and impact of reverse takeover		(1,778,428)				(1,778,428)
Effect of foreign exchange				1,670		1,670
Unrealized gains and losses on available for sale financial assets				412,653		412,653
Net loss for the period					(6,319,818)	(6,319,818))
Balance, December 31, 2006	141,895,205	\$ 18,447,625	\$ 7,646,797	\$ 414,323	\$ (6,319,818)	\$ 20,188,927
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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

1. Organization and Basis of Presentation

Description of the Business

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

Basis of Consolidation

Effective December 28, 2006, the Company completed a transaction with U.S. Silver Corporation ("US Silver") of Delaware, USA, which subsequently changed its name to United States Silver, Inc. This transaction was accounted for as a reverse takeover as the control of the Company was acquired by the former shareholders of US Silver. After this transaction, the Company's name was changed to U.S. Silver Corporation from Chrysalis Capital III Corporation on February 28, 2007. Therefore, these consolidated financial statements include the accounts of the Company and its subsidiaries for 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

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 December 31, 2007 and 2006 which are pledged to the Idaho Department of Water in connection with a mine tailings reclamation bond.

Accounts Receivable

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

Investments

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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Concentration of Credit, Foreign Currency and Volatility of Metal Prices

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

The Company's operations are within North America where it holds substantial cash balances in both US dollars and Canadian dollar denominations with major financial institutions in North America, and generally its balance exceeds that of the government insured level. Therefore, the Company is exposed to foreign currency risks as it reports in US dollars. As at December 31, 2007, the Company held approximately CA\$21.1 million (2006 - CA\$1.1 million).

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

Capital Leases

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

Property and Equipment

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

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

Metal and other Inventory

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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Mining Assets

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

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

Reclamation and Redemption Costs

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

Impairment Charges

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

Revenue Recognition

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

Cost of Mining

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

Income Taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. To the extent that the Corporation does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the amount.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Hedge Accounting

The Corporation uses derivative financial instruments, primarily option and forward contracts, to manage exposure to fluctuations in metals prices. The Corporation does not hold financial instruments or derivative financial instruments for trading purposes. The Corporation recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of accumulated other comprehensive income (loss), depending on the nature of the derivative financial instrument and whether it qualifies for hedge accounting. Financial instruments designated as hedges are tested for effectiveness on a quarterly basis. Gains and losses on those contracts that are proven to be effective are reported as a component of the related transaction. Gains and losses are reclassified from accumulated other comprehensive income (loss) to income in the same period the forecasted transaction affects income. When contracts are closed off prior to their original maturity dates, the gain or loss is to remain in accumulated other comprehensive income (loss) and reclassified to income based on the original maturity of the contracts to coincide with the forecasted transaction.

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods reported. Actual results could differ from those estimates. Significant items that require estimates are mining assets, asset retirement obligations, pension obligations and the depreciation, depletion and amortization of the Company's assets.

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

Costs of Raising Capital

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

Translation of Foreign Currencies

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

The subsidiaries are considered self-sustaining, and therefore for consolidating purposes, the financial statements of the subsidiaries are converted from the local currencies to the Company's reporting currency using the current rate method.

The transactions conducted in the foreign currencies are translated as follows:

1. The average rate for the fiscal year for items included in the consolidated statement of operations;
2. The rate in effect at the balance sheet date for monetary assets and liabilities included in the consolidated balance sheet; and
3. the historical rate for non-monetary assets and liabilities and other items.

U.S. SILVER CORPORATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Fair Value of Financial Instruments

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

Financial instrument transaction costs are capitalised and amortized using the effective interest method.

Stock-Based Compensation Plan

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

Earnings (Loss) per Share

The basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the maximum possible dilution that could occur from common shares issuable through the exercise of conversion of stock options, restricted stock awards, warrants and convertible securities. The following instruments have been excluded from the diluted earnings per share as these instruments are anti-dilutive.

	<u>2007</u>	<u>2006</u>
Stock options	13,733,975	11,651,500
Warrants	31,316,027	55,436,611

Comprehensive Income

The Canadian Institute of Chartered Accountants ("CICA") issued section 1530 in the CICA Handbook ("CICA HB") "Comprehensive Income". This section is effective for fiscal years on or after October 31, 2006 and describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations;
- Unrealized gain or losses on available for sale investments; and
- Gains or losses on derivatives designed as cash flow hedges.

The Company had adopted this section in fiscal 2006 as well as CICA HB 3855 (Financial Instruments).

Recent Changes in Accounting Standards

These new accounting standards provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. The standards have been adopted prospectively and, therefore, the prior periods have not been restated. Comprehensive income CICA Handbook Section 1530 establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income, which is comprised of gains and losses that are recognized in comprehensive income but excluded from net earnings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Summary of Significant Accounting Policies - continued

Financial instruments and derivatives CICA Handbook Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair-value or cost-based measures under different circumstances. All financial instruments must be classified as one of the following five categories: loans and receivables, held-to-maturity investments; held-for-trading instruments; available-for-sale financial assets; or other financial liabilities. All financial instruments, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities are reported on the balance sheet date at fair value.

Subsequent measurement and changes in fair value will depend on their initial classification. Available-for-sale financial assets are measured at fair value and unrealized gains or losses resulting from changes in fair value are recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recognized as earnings.

Hedges CICA Handbook Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships" and the hedging guidance in section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The application of all of the aforementioned handbook sections did not have an impact on the Corporation's financial statements as the Company previously fair valued these financial instruments.

The CICA reissued section 3860 of the CICA HB as section 3861, "Financial Instruments Disclosure and Presentation", which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions come in to effect for fiscal years beginning on or after October 1, 2006. The adoption of this accounting policy has not had a significant impact on the Corporation's financial position and operations in adopting this standard.

Future Accounting Changes

Capital Disclosures and financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial instruments – Presentation. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on October 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

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. Acquisition – Reverse Takeover

On December 28, 2006, the Company (formerly Chrysalis Capital III Corporation) executed a share purchase agreement pursuant to which it acquired all of the issued and outstanding common shares of US Silver in consideration for 131,895,205 common shares of the Company in a reverse take over transaction. In addition, the Company assumed the obligation to issue common shares upon the exercise of the following warrants that were previously issued by US Silver.

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

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

This transaction has been recorded as a reverse takeover.

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

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

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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

4. Acquisition of US Silver-Idaho Inc. (formerly Coeur Silver Valley Inc.)

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

The purchase price was preliminarily allocated as follows:

Cash	\$ 300
Receivable	2,453,749
Prepaid expenses and other assets	26,218
Inventory	1,852,920
Supplies	1,953,834
Property, plant & equipment	4,391,258
Mining assets	<u>15,241,515</u>
Total Assets Acquired	<u>25,919,794</u>
Accounts payable and accrued liabilities	(983,916)
Long term retirement benefit	(1,733,473)
Mine reclamation obligations	<u>(7,119,801)</u>
Total Liabilities Assumed	<u>(9,837,190)</u>
Cash consideration being net assets acquired	<u>\$ 16,082,604</u>

Prior to May 31, 2007, the Company completed a full analysis of the fair value of assets acquired and liabilities assumed. Accordingly, the final purchase price allocation is as follows:

Cash	\$ 300
Receivable	2,453,749
Prepaid expenses and other assets	26,218
Inventory	1,852,920
Supplies	1,953,834
Property, plant & equipment	4,391,258
Mining assets	<u>13,813,115</u>
Total Assets Acquired	<u>24,491,394</u>
Accounts payable and accrued liabilities	(983,916)
Long term retirement benefit	(3,657,153)
Mine reclamation obligations	(1,027,568)
Future tax liability	<u>(2,740,153)</u>
Total Liabilities Assumed	<u>(8,408,790)</u>
Cash consideration being net assets acquired	<u>\$ 16,082,604</u>

In addition, at the time of the acquisition, Silver-Idaho had previously offered certain employees post medical benefits. This practice was discontinued and the limited amount is now considered a contingent liability. (Note 13 b)

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

5. Property, Plant and Equipment

	December 31, 2007			December 31, 2006		
	Costs \$	Accumulated Amortization \$	Net Book Value \$	Costs \$	Accumulated Amortization \$	Net Book Value \$
Building and structural components	1,000,469	97,142	903,327	755,926	19,726	736,200
Computer equipment	90,021	39,552	50,469	76,574	8,546	68,028
Machinery & Equipment	3,954,903	1,582,370	2,372,533	3,725,282	644,132	3,081,150
Leasehold improvements	7,138	425	6,713	2,000	25	1,975
Office furniture	49,359	7,312	42,047	21,077	472	20,605
Vehicles	38,304	17,070	21,234	11,697	7,764	3,933
	<u>5,140,194</u>	<u>1,743,871</u>	<u>3,396,323</u>	<u>4,592,556</u>	<u>680,665</u>	<u>3,911,891</u>

Amortization expense for the period ending December 31, 2007 was \$1,063,206 (2006 - \$680,665).

6. Mining Asset

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

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

	<u>2007</u>	<u>2006</u>
Operational mining property	\$ 25,844,290	\$ 15,588,877
Less: accumulated depreciation and depletion	<u>(2,227,328)</u>	<u>(827,670)</u>
Net mining properties	<u>\$ 23,616,962</u>	<u>\$ 14,761,207</u>

Amortization and depletion expense for the period ending December 31, 2007 was \$1,399,658 (2006 - \$827,670).

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, and 401(k) Plans

Defined Benefit Plan

In connection with the acquisition of Silver-Idaho, the Company is required to maintain non-contributory defined benefit pension plans covering substantially all employees. Benefits for salaried plans are based on salary and years of service. Hourly plans are based on negotiated benefits and years of service. The Company's funding policy is to contribute annually the minimum amount prescribed, as specified by applicable regulations. Prior service costs and actuarial gains and losses in excess of the greater of the projected benefit obligation and the fair market value of assets (at the beginning of the year) are amortized. The amortization period is the average future service of the active participants (9.55 years). The amortization amount is the excess divided by the amortization period.

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

Actuarial Present Value of Projected Benefit Obligation:

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

Factors	2007	2006
Discount Rate for Benefit Obligations	6.00%	6.00%
Rate of Compensation Increase	5.00%	5.00%

Expected rate of return on plan assets:

The expected rate of return on the Silver-Idaho plan assets for purposes of the actuarial valuation was assumed to be 6% (2006 - 7.2%) and is based on the plan's experience and asset mix of the portfolio, as well as taking into consideration the fact that no lump sum distributions are paid from the plan. The plan had an expected return on plan assets of \$0.3 million and \$0.3 million for 2007 and 2006, respectively. The actual return on plan assets was \$0.5 million and \$0.5 million for 2007 and 2006, respectively.

Plan assets and determination of fair value:

The fair value of plan assets is determined using the market value of the investments held by the plan at December 31 of each year as quoted by public equity and bond markets. The asset mix is in accordance with the plan's investment policy which allows for 60% equity investments, 35% fixed income investments and 5% cash and cash equivalents. The investment portfolio for the funded portion of the obligation is held in a trust. The Company's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements as set forth in the United States Employee Retirement Income Security Act of 1974 plus such additional tax deductible amounts as may be advisable under the circumstances. Silver-Idaho had funded \$0.9 million and \$0.7 million in 2007 and 2006, respectively, toward the obligation. The Company expects to contribute approximate \$1.5 million in 2008 and 0.9 million annually for each of the next four years. The plan assets are invested principally in commingled stock funds, mutual funds and securities issued by the United States government.

Pursuant to the plan's investment policy, the plan adopts more specific investment directives from time to time. The plan's current investment directives are 60% equity investments, 35% fixed income investments and 5% in cash and cash equivalents. Based on this current investment directive, the plan's actual portfolio at December 31, 2007 had 59% equity investments, 40% fixed income investments and 1% cash investments. Since the performance of each asset class of the portfolio within any measurement period will impact its relative weight in the portfolio, the actual percentage of each asset class in the portfolio may not match to the current directive.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, and 401(k) Plans - continued

The expected long-term rates of return for each asset class within the portfolio, and therefore the portfolio weighted average, is based on an estimate of the return for each of the securities within an asset class, which are currently benchmarked at 8.0% for equity investments, 3.0% for fixed income investments and 2% for cash and cash equivalents. For each type of investment within the trust's portfolio structure, the trustees evaluate both returns and the relationship between risk and return. The expectation is that each asset class will produce a superior risk-adjusted return over a market cycle.

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

Asset Class	Actual Mix	Target Mix	Expected Long Term Rates of Return
Equity investments	59.0%	60.0%	8.0%
Fixed income investments	40.0%	35.0%	3.0%
Cash and cash equivalent	1.0%	5%	2.0%
Weighted average			6.0%

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

- 1) A targeted 7-11% average annualized return based on long-term historical market data;
- 2) Expected returns over a market cycle that exceed the total portfolio indexed benchmark;
- 3) Volatility that is not substantially greater than the portfolio indexed benchmark volatility of 11%;
and
- 4) Risk adjusted returns that are comparable with indexed benchmarks.

The components of net periodic benefit costs were as follows:

Assumptions	2007	2006
Discount rate	6.00%	6.00%
Components of net periodic benefit costs:		
Service costs	\$ 294,000	\$ 347,000
Interest costs	648,000	502,000
Expected return on plan assets	(349,000)	(298,000)
Amortization of prior service cost	59,000	59,000
Recognized actuarial loss	<u>456,000</u>	<u>326,000</u>
Net periodic benefit cost	<u>\$1,108,000</u>	<u>\$ 936,000</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

7. Defined Benefit Pension, and 401(k) Plans - continued

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

	2007	2006
Change in benefit obligation		
Projected benefit obligation at beginning of period	<u>\$ 9,019,000</u>	<u>\$ 8,712,000</u>
Service costs	294,000	202,000
Interest cost	648,000	242,000
Benefit paid	(537,000)	(231,000)
Amendments	43,000	- - -
Actuarial loss	<u>2,046,000</u>	<u>94,000</u>
Projected benefit obligation as of December 31	<u>\$11,513,000</u>	<u>\$ 9,019,000</u>
Accumulated benefit obligation	<u>\$10,417,000</u>	<u>\$ 7,283,000</u>
Change in plan assets		
Fair value of plan assets as of beginning of period	\$ 5,652,000	\$ 5,159,000
Actual return on plan assets	452,000	304,000
Employer contributions	868,000	420,000
Benefits paid	<u>(536,000)</u>	<u>(231,000)</u>
Fair value of plan assets as of December 31	<u>\$ 6,436,000</u>	<u>\$ 5,652,000</u>
Reconciliation of funded status		
Funded status	\$ (5,077,000)	\$ (3,723,000)
Unrecognized actuarial loss	4,901,000	3,845,000
Unrecognized prior service cost	<u>293,000</u>	<u>235,000</u>
Net asset reflected in the consolidated balance sheet	<u>\$ 117,000</u>	<u>\$ 357,000</u>
Weighted average assumptions		
Discount rate	6.00%	6.00%
Expected long term rate of return on plan assets	6.00%	7.20%
Rate of compensation increase	5.00%	5.00%
Balance sheet amounts as at December 31,	<u>2007</u>	<u>2006</u>
Long term retirement benefit	\$ 4,121,966	\$ 1,207,321
Less: Excess contributions	<u>(117,549)</u>	<u>(356,878)</u>
Net long term retirement benefit obligations	<u>\$ 4,004,417</u>	<u>\$ 850,443</u>

401(k) Plan

The Company maintains a retirement savings plan in the United States (which qualifies under Section 401(k) of the U.S. Internal Revenue code) covering all eligible U.S. employees. Under the plan, employees may elect to contribute up to 100% of their cash compensation, subject to ERISA limitations. The Company is required to make matching cash contributions equal to 50% of the employees' contribution, up to a maximum of 3% of the employees' compensation for salaried employees. The Company matches 25% of the hourly employees' contribution, up to a maximum of 4% of the hourly employees compensation. Under the 401K plan the Company contributed \$45,200 (2006 - \$49,900) to salaried employees, and \$26,700 (2006 - \$3,500) to hourly employees.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

8. Reclamation and Remediation Costs

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

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

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

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

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

	<u>2007</u>	<u>2006</u>
Opening balance	\$ 6,743,394	\$ ---
Asset retirement obligation liability upon acquisition of Silver-Idaho		7,119,801
Accretion	489,822	300,128
Adjustment based on post acquisition review (Note 4)	<u>(6,092,233)</u>	<u>(676,535)</u>
Asset retirement obligation, December 31	<u>\$ 1,140,983</u>	<u>\$ 6,743,394</u>

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.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

9. Related Party Transactions

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

During the period ended December 31, 2007, the Company expensed \$125,000 in fees paid to a firm controlled by a director, that has been recorded in general and administrative expenses. The services provided relate to capital market advisory services as well as administrative support.

In addition, Golden Eagle Mining originally 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 the current fiscal year. On this amount, the Company accrued interest of \$7,319 during the year, and the total amount due as of December 31, 2007 is \$194,286 (2006 - \$179,915). These amounts have been recorded in prepaid expenses and other assets.

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

10. Capital Stock

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

During the period US Silver had the following capital transactions:

1. In its initial capitalization in April, 2006, US Silver issued 8,635,000 shares of common stock for a total of \$9,050 in cash, \$60,000 in investments, and \$17,300 of consulting expense.
2. During the period ended June 30, 2006, US Silver issued 25,991,350 "units" to investors at a price of \$0.80 per unit in a private placement. Each unit consists of one share of common stock and one-half of one common share purchase warrant. Each whole warrant shall entitle the holder to purchase, at a price of \$1.10, one common share for a period of two years following a liquidity event. The liquidity event occurred upon the issuance of the TSX Venture Bulletin approving the reverse take over on December 29, 2006. Sales of these units generated cash proceeds of \$20,733,080 less a subscription receivable of \$55,200, minus fees of \$1,903,990. During this same period US Silver issued 825,000 shares of its common stock as loan consideration valued at \$412,500. US Silver also issued 567,885 shares of its common stock for payment of debt and accrued interest in the amount of \$408,877.
3. During the period ended September 30, 2006, US Silver issued 282,586 shares of common stock for convertible debt and interest in the amount of \$203,463, and cash receipts of \$55,200 for a subscription receivable that was previously recorded in prior period.
4. During the period ended December 31, 2006, US Silver issued 6,245,000 shares of common stock for convertible debt in the amount of \$6,869,500.

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

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, April 7, 2006	---	\$ ---	\$ ---
Issuance for cash	26,965,350	11,381,825	7,618,415
Issuance for services	1,730,000	17,300	---
Issuance for investments	6,000,000	60,000	---
Issuance upon conversion of debenture	6,458,586	7,071,963	---

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

10. Capital Stock - continued

Issuance for credit facility	825,000	412,500	---
Issuance in cancellation of debt and accrued interest	567,885	408,877	---
Issuance of broker warrants on QT	<u>---</u>	<u>---</u>	<u>28,382</u>
Balance as at December 28, 2006	<u>42,546,821</u>	<u>\$ 19,352,465</u>	<u>\$ 7,646,797</u>

In addition to the common shares issued above, the Company paid financing fees in the amount of \$135,541 for a total of \$548,041 for the period ending December 28, 2006. During the fiscal year ending December 31, 2007, the Company paid approximately \$370,000 to terminate a credit facility.

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

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

During the period ending December 31, 2007, the legal parent 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.

11. Options and Warrants

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

The stock options activity is summarized below:

	December 31, 2007		December 31, 2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening Balance	11,651,500	\$ 0.38	Nil	N/A
Granted	4,425,000	0.83	11,651,500	\$ 0.38
Exercised	(1,897,525)	0.29	Nil	N/A
Cancelled	(445,000)	0.40	Nil	N/A
Balance, end of the period	<u>13,733,975</u>	<u>\$ 0.54</u>	<u>11,651,500</u>	<u>\$ 0.38</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

11. Options and Warrants - continued

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

During the period ending December 31, 2006, the stock options granted by the Company were not expensed due to the fact that: (i) 1,100,000 was granted by the legal parent prior to the Qualifying Transaction and (ii) 10,551,500 stock options were granted and vested concurrently with the Qualifying Transaction and therefore was deemed as a cost of the transaction and not as a compensation item. These amounts have been reflected in the balance sheet as share capital. The assumption to value these options using the Black Scholes option pricing model at the time of grant, as well as those granted in the current fiscal year is as follows:

	Jan. - Aug. 2007	Sept. – Dec. 2007	Dec. 2006	June 2006
Number of Options	3,460,000	965,000	10,551,500	1,100,000
Exercise price	CA\$0.56 - \$1.19	CA\$0.81	CA\$ 0.40	CA\$ 0.20
Expected life	5 years	5 years	2.5 years	2.5 years
Risk free interest rate	5.0%	4.0%	5.0%	2.91%
Volatility	50.0%	61.8%	50.0%	10.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Fair Value	\$0.2130 - 0.5289	\$0.4193 - 0.4680	\$0.0347 -0.0599	\$0.051

The following table summaries the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2007.

Exercise Price CA\$	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Quantity	Weighted Average Price CA\$
\$ 0.40	9,393,975	Dec. 2011	4.0	\$ 0.40	9,393,975	\$ 0.40
0.56	1,115,000	Jan. 2012	4.0	0.56	815,000	0.56
0.73	660,000	Aug. 2012	4.6	0.73	420,000	0.73
0.75	300,000	Mar. 2012	4.2	0.75	250,000	0.75
0.81	205,000	Nov. 2012	5.0	0.81	205,000	0.81
0.81	460,000	Nov. 2012	5.0	0.81	Nil	0.81
0.81	300,000	Nov. 2012	5.0	0.81	50,000	0.81
1.05	300,000	Jun. 2012	4.4	1.05	300,000	1.05
1.19	1,000,000	Apr. 2012	4.3	1.19	1,000,000	1.19
	<u>13,733,975</u>				<u>12,433,975</u>	

The warrants that are issued and outstanding are as follows:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
300,000	\$ 0.20	Broker	June, 2006	June 27, 2008	\$ 3,705
2,325,000	0.40	Investor	May , 2006	May 11, 2008	310,457
1,261,856	0.40	Investor	June , 2006	December 28, 2008	168,496
10,332,463	0.29	Broker Warrants	June , 2006	December 28, 2008	533,878
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	333,519
856,450	1.25	Broker	December 2007	December 5, 2009	123,637
<u>31,316,027</u>					<u>\$ 3,876,124</u>

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

11. Options and Warrants - continued

The fair values of the warrants are based on the Black Scholes option pricing model at the time of issuance. The following assumptions were used to value the warrants issued in fiscal 2007 and 2006:

Type	Broker & Investor	Broker	Broker & Investor	Broker
Exercise price	CA\$ 1.25	CA\$ 1.00	CA\$ 0.29 - \$0.40	CA\$ 0.20
Expected life	2 years	2 years	2 years	1.5 years
Risk free interest rate	4.0%	4.0%	5.0%	2.91%
Volatility	61.8%	61.8%	50.0%	10.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value	\$0.14436	\$0.19471	\$0.05167 – 0.13353	\$0.01235

12. Provision for Income Tax

The Company files Canadian income tax returns for its Canadian operations. Consolidated income tax returns are filed in the United States, and the foreign rates are different than those applicable in Canada.

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

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

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
Statutory income tax rate (recovery)	\$ (3,039,818)	(34.0)	\$ (2,148,738)	(34.0)
Differences				
Temporary differences	422,836	4.7	- - -	0.0
Permanent differences	117,545	1.3	146,105	2.3
Taxes and effective rate	(2,499,437)	(28.0)	(2,002,633)	(31.7)
Valuation Allowance	- -	-.-	2,002,633	31.7
Net taxes and effective rate	\$ (2,499,437)	28.0	\$ 0	0.0

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

	December 31, 2007		December 31, 2006	
	Component	Tax Effect	Component	Tax Effect
Net Operating loss - Carry forward	\$13,115,882	\$ 4,459,399	\$ 5,890,098	\$ 1,518,901
Other comprehensive items	(2,208,773)	(750,983)	(412,653)	(140,302)
Share issuance costs	2,892,482	983,444	1,422,742	483,732
	13,799,591	4,691,860	6,900,188	1,862,331
Less valuation allowance	(6,448,305)	(2,192,423)	(6,900,188)	(1,862,331)
Net future tax assets	\$ 7,351,286	2,499,437	\$ 0	0

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

12. Provision for Income Tax - continued

At December 31, 2007, the Company had cumulative net operating loss carry-forwards of approximately \$13.2 million, of which \$5.5 million was in Canada. These amounts will expire in various years through 2027. In addition the Company has approximately \$2.9 million in share issuance expenses that it will expense for tax purposes for the following 4 years. The related deferred tax assets have been partially offset by a valuation allowance, as the Company is not able to determine with full certainty that it is more likely than not to have taxable income to be offset by the effect of the above losses in the carried forward periods due to its limited operating experience.

The future tax liability arise from the acquisition of US Silver-Idaho, and represents the excess fair value of the carrying value of the assets over the tax value of the underlying assets.

13. Commitments and Contingencies

a) Commitments

The Company has entered into various operating leases and is responsible for minimum principal payments. The Company's minimum future payments as at December 31, 2007 are approximately as follows:

Fiscal 2008	101,110
Fiscal 2009	96,033
Fiscal 2010	90,709
Fiscal 2011	84,733
Fiscal 2012	35,330
Thereafter	---
	<u>\$ 407,975</u>

b) Contingencies

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

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

The action resulted in a decree, with an effective date of May 14, 2001, which affected CDA, then owner of Silver-Idaho. The decree provides for the payment of \$3,000,000 to the United States.

As of December 31, 2007, all required payments on the part of U.S. Silver Idaho and CDA have been made. Therefore, U.S. Silver Idaho has no further obligations in this matter and has in place the aforementioned consent decree from the United States Environmental Protection Agency regarding the former and existing mining and milling operations.

In connection with the acquisition of U.S. Silver-Idaho Inc., the Company expected to reimburse Asarco, Inc. ("Asarco"), a previous owner, for certain healthcare benefits for retired employees and their dependents who retired prior to September 9, 1999. At the time of acquisition by the Company, there were ten (10) active hourly and salaried employees of U.S. Silver-Idaho, and three inactive participants eligible under Asarco's post-retirement medical benefits plan.

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

13. Commitments and Contingencies - continued

Neither the Company, nor any of its subsidiaries have ever been invoiced for the portion of the benefits obligations assumed to have been the responsibility of the Company. In fact, no payments have been invoiced or effected since 2002. Proactive efforts on the part of the Company to identify any pending and past due payment obligations and to have information regarding such payments obligations have been totally unsuccessful.

In light of the foregoing, the bankruptcy of Asarco prior to 2002 and the limited number of employees that this affects, it is unlikely that the Company will ever be required to make such benefits payments. Should such payments be required, it will not have a material impact on the financial position of the Company. They will be charged to operations at that time. Accordingly, an adjustment to the purchase price equation (Note 4) has been made.

14. Financial Instruments

Fair Value

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

The Company's investments are classified as follows:

	2007	2006
Available for sale	\$ 1,168,884	\$ 965,211
Held to maturity	2,429,636	---
Trading securities	---	---
	<u>\$ 3,598,520</u>	<u>\$ 965,211</u>

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

Interest rate, currency and credit risk

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

U.S. SILVER CORPORATION
(formerly Chrysalis Capital III Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006
(All Amounts are in United States Dollars)

15. Segmented Information and Major Customer

The Company's operations comprise of a single reporting segment engaged in exploration and exploitation of the Company's mineral assets within the United States. As these operations comprise a single reporting segment, amounts disclosed in the financial statements for sales, earnings before income tax, amortization and total assets also represent segmented amounts, with the exception of the following which are in Canada: Cash of \$27,563,440 (2006 - 917,500), investments of \$3,413,144 (2006 - 965,211).

The Company had sales to one customer that exceeded 10% of revenues in the period ended December 31, 2007. Those sales were approximately 94% of revenues. The Company had sales to two customer that exceeded 10% (\$17.1 million) of revenues in the period ended December 31, 2006. Those sales were approximately 53% (\$3.2 million) and 47% (\$2.9 million) of revenues.

Although the Company's revenues are primarily derived from one customer, 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.

16. Supplemental Cash Flow Information

	2007	2006
Cash	\$ 1,065,219	\$ 247,562
Cash equivalent	27,475,061	5,227,428
Original fair value of options exercised	(63,360)	---
Original fair value of warrants exercised	(6,669,010)	---
Original fair value of broker warrants exercised	(3,705)	---
Interest received	383,100	4,120
Interest Paid	1,416	---
Income taxes paid	---	---
Issuance of common shares for exploration property (Note 10)	64,030	---

17. Comparative Figures

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