
U.S. SILVER CORPORATION
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009

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

MARCH 31, 2009

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

As at

March 31, 2009 December 31, 2008

ASSETS

CURRENT

Cash and cash equivalents	\$ 3,184,175	\$ 2,655,458
Receivables	4,763,958	1,035,733
Marketable securities, at fair value (Note 4)	1,465,230	2,123,684
Inventory	2,250,880	2,559,155
Supplies	1,647,670	1,695,187
Prepaid expenses and other assets	<u>184,518</u>	<u>211,018</u>

13,496,431 10,280,235

PROPERTY, PLANT AND EQUIPMENT (Note 5)

6,759,897 7,112,157

MINING ASSETS (Note 6)

35,652,292 35,131,508

FUTURE TAX ASSET

1,962,235 2,294,101

RESTRICTED CASH

115,000 115,000

\$ 57,985,855 \$ 54,933,001

LIABILITIES

CURRENT

Revolving Advances Facility (Note 9)	\$ 1,448,593	\$ - - -
Accounts payable and accrued liabilities	2,946,196	2,540,951
Loan payable - current (Note 10)	<u>12,178</u>	<u>11,953</u>

4,406,967 2,552,904

LOAN PAYABLE, net of current (Note 10)

36,010 39,141

LONG-TERM RETIREMENT BENEFITS

5,835,420 5,493,394

MINE RECLAMATION OBLIGATION (Note 7)

1,296,042 1,266,377

FUTURE TAX LIABILITY

1,845,502 1,907,113

13,419,941 11,258,929

CONTINGENCIES (Note 13)

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Issued and Outstanding 214,723,827 (2008 - 214,723,827)	<u>60,672,075</u>	<u>60,672,075</u>
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CONTRIBUTED SURPLUS

5,571,602 5,507,063

ACCUMULATED OTHER COMPREHENSIVE LOSS

(8,887,620) (8,334,138)

DEFICIT

(12,790,143) (14,170,928)

(21,677,763) (22,505,066)

44,565,914 43,674,072

\$ 57,985,855 \$ 54,933,001

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

For the Ended March 31,	Three Months	
	2009	2008
REVENUES	<u>\$ 11,110,973</u>	<u>\$ 7,336,136</u>
EXPENSES		
Cost of mining	9,750,897	6,124,424
General and administrative	871,292	768,396
Exploration costs	20,125	468,336
Selling and marketing	<u>5,641</u>	<u>12,997</u>
	<u>10,647,955</u>	<u>7,374,153</u>
INCOME (LOSS) BEFORE UNDERNOTED	463,018	(38,017)
DEPRECIATION	(3,808)	(3,938)
INVESTMENT INCOME	395,410	---
FINANCING EXPENSE	(9,513)	---
FOREIGN EXCHANGE TRANSLATION	794,819	796,589
GAIN ON SALES OF ASSETS	7,681	---
INTEREST INCOME	<u>3,433</u>	<u>285,304</u>
INCOME BEFORE INCOME TAXES	1,651,040	1,039,938
PROVISION FOR TAXES	<u>270,255</u>	<u>386,908</u>
NET INCOME	1,380,785	653,030
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized loss on derivatives designated as cash flow hedges	---	(1,670,810)
Unrealized gain on available for sale financial assets	300,098	1,560,599
Unrealized foreign currency loss on self-sustaining operations	<u>(853,580)</u>	<u>(1,532,175)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 827,303</u>	<u>\$ (989,356)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	<u>214,723,827</u>	<u>211,589,994</u>
Diluted	<u>240,226,988</u>	<u>255,169,439</u>
NET INCOME PER COMMON SHARE		
Basic	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.00</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	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	\$ 1,380,785	\$ 653,030
Items not affecting cash		
Depreciation and depletion	1,572,606	667,502
Asset retirement obligation - accretion	29,665	31,349
Future taxes	270,255	---
Non-cash financing expenses	8,574	---
Stock-based compensation	<u>64,539</u>	<u>182,456</u>
	3,326,424	1,534,337
Net change in non-cash operating items		
Change in receivables	(3,728,225)	(1,130,910)
Change in inventory	308,275	(464,231)
Change in supplies	47,517	(36,152)
Change in prepaid expenses and other assets	26,500	(189,008)
Change in accounts payable and accrued liabilities	<u>405,245</u>	<u>657,020</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>385,736</u>	<u>371,056</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving Advances Facility	1,448,593	---
Loan payable, repayment	(2,906)	---
Retirement benefit contributions	342,026	(480,102)
Issuance of capital stock and exercise of options and warrants, net of costs	<u>---</u>	<u>51,169</u>
CASH FLOWS USED IN FINANCING ACTIVITIES	<u>1,787,713</u>	<u>(428,933)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(115,539)	(1,504,539)
Investment in mining assets	(1,625,591)	(4,262,996)
Proceeds from (Investment in) marketable securities	<u>958,552</u>	<u>(2,489,466)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	<u>(782,578)</u>	<u>(8,257,001)</u>
DECREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	1,390,871	(8,314,878)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(862,154)	(1,145,267)
CASH AND CASH EQUIVALENTS		
Beginning of the period	<u>2,655,458</u>	<u>28,540,280</u>
End of the period	<u>\$ 3,184,175</u>	<u>\$ 19,080,135</u>
Supplemental Cash Flow Information (Note 3)		

U.S. SILVER CORPORATION
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(All amounts are in United States Dollars, except # of common shares)

	Number of Common Share	Amount of Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, January 1, 2008	211,510,827	\$ 59,779,197	\$ 4,833,346	\$ 4,667,281	\$ (12,761,023)	\$ 56,518,801
Issuance of shares for cash upon the exercise of options	130,000	57,846	(6,677)			51,169
Issuance of shares for cash upon the exercise of broker warrants	3,300,000	893,856	(158,715)			735,141
Vesting of granted stock options			780,285			780,285
Cancellation of common shares	(217,000)	(58,824)	58,824			---
Unrealized loss on derivatives designated as cash flow hedges				(2,429,636)		(2,429,636)
Unrealized loss on available for sale financial assets				(1,317,554)		(1,317,554)
Unrealized foreign currency loss on self-sustaining operations				(9,254,229)		(9,254,229)
Net loss for the year					(1,409,905)	(1,409,905)
Balance, December 31, 2008	<u>214,723,827</u>	<u>\$ 60,672,075</u>	<u>\$ 5,507,063</u>	<u>\$ (8,334,138)</u>	<u>\$ (14,170,928)</u>	<u>\$ 43,674,072</u>
Balance, January 1, 2009	214,723,827	\$ 60,672,075	\$ 5,507,063	\$ (8,334,138)	\$ (14,170,928)	\$ 43,674,072
Vesting of granted stock options			64,539			64,539
Unrealized gain on available for sale financial assets				300,098		300,098
Unrealized foreign currency loss on self-sustaining operations				(853,580)		(853,580)
Net income for the period					1,380,785	1,380,785
Balance, March 31, 2009	<u>214,723,827</u>	<u>\$ 60,672,075</u>	<u>\$ 5,571,602</u>	<u>\$ (8,887,620)</u>	<u>\$ (12,790,143)</u>	<u>\$ 44,565,914</u>

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

1. Organization and Basis of Presentation

Description of the Business

U.S. Silver Corporation (the “**U.S. Silver**”) is incorporated under the Canada Business Corporations Act. U.S. Silver and its subsidiaries (collectively the “**Corporation**”) are engaged in the exploration and production of mining properties.

Basis of Consolidation

Effective December 28, 2006, the Corporation 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 Corporation was acquired by the former shareholders of US Silver. After this transaction, the Corporation’s name was changed to U.S. Silver Corporation from Chrysalis Capital III Corporation on February 28, 2007. Although legally, U.S. Silver Corporation (formerly Chrysalis Capital III Corporation) is regarded as the parent or continuing company, US Silver, whose shareholders held more than 50% of the voting shares of the Corporation at that time, 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 inter-company accounts and transactions have been eliminated on consolidation.

Going Concern

The Corporation has incurred significant losses to date, and as of March 31, 2009, the Corporation has an accumulated deficit of \$12,790,143 (December 31, 2008 - \$14,170,928) resulting from losses. The Corporation’s ability to continue operations is uncertain and is dependent on its ability to obtain sufficient financing and continued commercialization of its mineral resources to generate profits in the future.

The global credit market crisis, as well as the reduction in commodity prices, has had a dramatic effect on the resources industry. These factors, among others, raise uncertainty about the ability of the Corporation to continue as a going concern. The continued operations of the Corporation are dependent on the successful execution of its activities, the stability and eventual increase in commodity prices, its customers’ ability to settle accounts receivable in a timely and agreed upon manner, and the expectation that the Corporation will maintain its credit standing and credit availability.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities in the normal course of business. Accordingly, they do not include any adjustments relating to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern.

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.

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies

Management of the Corporation has prepared these unaudited interim consolidated financial statements in accordance with generally accepted accounting principles in Canada. These interim financial statements, which have not been reviewed or audited and should be read in conjunction with the audited financial statements for the period ended December 31, 2008. 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 period presented are not indicative of the results that may be expected for the current full fiscal year.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash includes two certificates of deposits in the aggregate amount of \$115,000 as at March 31, 2009 and December 31, 2008 which are pledged to the Idaho Department of Water in connection with a mine tailings reclamation bond.

Financial Instruments

The following is a summary of the accounting classification the Corporation has elected to apply to each of its significant categories of financial instruments outstanding at March 31, 2009:

Cash	- Held-for-trading
Receivables	- Loans and receivables
Investments	- Available for sale and Held to maturity
Revolving Advances Facility	- Loans and receivables
Accounts payable and accrued liabilities	- Other financial liabilities
Lease obligations	- Held to maturity
Long term retirement benefits	- Other financial liabilities
Mine reclamation obligations	- Other financial liabilities

The Corporation initially measures all its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

- (a) Held for trading financial assets are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net income. Interest and dividends earned from held for trading assets are also included in income for the period.
- (b) Available for sale financial assets are measured at fair value at the balance sheet date with any gain or loss recognized immediately within other comprehensive income.
- (c) Held to maturity financial assets are measured at amortized cost using the effective interest rate method at the balance sheet date with annual changes recognized immediately in income for the period.
- (d) Loans and receivable assets are measured at amortized cost using the effective interest rate method at the balance sheet dates with annual changes recognized immediately in income for the period.
- (e) Other financial liabilities are measured at amortized cost using the effective interest method.

In accordance with CICA HB Section 3855, the Corporation conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that require separate presentation from the related host contract.

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Transaction costs are included in the initial carrying amount of financial instruments, except for held for trading items which are expensed as incurred.

Recognition of subsequent measurement and changes in fair value will depend on the initial classification of the financial instrument. 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.

Receivables

The Corporation carries its receivables at net realizable value. The Corporation traditionally does business with a limited number of 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 Corporation can require a provisional payment before shipment is released. At March 31, 2009, the Corporation had an allowance for doubtful accounts of \$210,000 (December 31, 2008 – \$210,000).

Loans and Receivables

The assets are non-derivatives financial assets resulting from the delivery of cash or other assets by the lender to a borrower in return for a promise to repay on a specific date or dates, or on demand. They arise principally through the provision of goods and services to customers (receivables). But also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest method, less any provision for impairment.

Investments

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

Held-to-maturity assets 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 carried at amortized cost, using the effective interest method, less any provision for impairment.

Available for sale assets are non-derivative financial assets not included in held-to-maturity and comprises certain investment in equity instruments, including the Corporation's investment in private 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. 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 and recognized in the statements of operations.

Concentration of Credit

The Corporation extends credit to its customers for which no credit insurance is available. To date the Corporation 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 Corporation.

Capital Leases

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

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

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 3-5 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
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, 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 market. Cost is determined using the weighted average cost method and market is the net realizable value. 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 as well as certain administrative overhead costs relating to mining activities.

Mining Assets

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

Should a property be abandoned, its capitalized costs are charged to operations. The Corporation 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 Corporation 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 Corporation’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.

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Impairment Charges

At least annually and when events and circumstances warrant a review, the Corporation 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 period 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.

Costs of Mining

Inventory 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. 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.

Employee Future Benefits

The Corporation has defined benefit pension plans for certain North American employees. The cost of the accrued benefit obligations for pensions and other post-retirement benefits earned by employees is determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs. For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

The Corporation accrues payroll costs for employees in jurisdictions whose governments require payment of defined wages at the termination of their employment.

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.

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, future tax assets, stock-based compensation, revenues, future tax liabilities and the depreciation, depletion and amortization of the Corporation's assets.

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Hedge Accounting

The Corporation may use derivative financial instruments, primarily option and forward contracts, to manage exposure to fluctuations in metals prices. The Corporation recognizes any 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 continue 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. However, if contracts no longer meet the requirements for hedge accounting or are determined to be ineffective as a cash flow hedge, any previously gain or loss recorded in comprehensive income (loss) is recorded as other income.

The Corporation's measurements are based upon management's best estimates based on existing knowledge, which reflect the Corporation'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 results of future operations and cash flows.

Costs of Raising Equity Capital

Costs of raising capital include legal, professional fees and agent fees associated with the raising of equity and debt capital. Until the financing transaction has been complete, these costs are capitalized as deferred costs.

Incremental costs incurred in respect of raising capital are charged against equity or debt proceeds raised. Costs associated with the issuance of share capital are charged to capital stock upon the raising of share capital. Costs associated with the issuance of debt are part of the carrying value of the debt and charged to operations as non-cash financing expense using the effective interest rate method.

Foreign Currency Transactions

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 recording entity at the exchange rate in effect at the balance sheet date. The resulting exchange gains and losses are recognized in the statement of operations.

Foreign Currencies Translation - Integrated Operations

Assets and liabilities of integrated foreign operations are translated at the exchange rate in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average rates prevailing during the period except for amortization, which is translated at historical exchange rates. Translation exchange gains and losses are recognized within the statement of operations.

Foreign Currencies Translation - Self-sustaining Foreign Operations

Assets and liabilities of foreign operations that are self-sustaining entities are translated at the exchange rate in effect at the balance sheet date for all assets and liabilities. Revenues and expenses are translated at the average exchange rates prevailing during the reporting period. Translation exchange gains and losses are recorded as a current translation adjustment in accumulated other comprehensive income.

U.S. SILVER CORPORATION
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(All Amounts are in United States Dollars)

2. Summary of Significant Accounting Policies - continued

Fair Value of Financial Instruments

The Corporation 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, accounts receivable, and accounts payable and accrued liabilities are considered to approximate their fair values.

Stock-Based Compensation Plan

When the Corporation 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 (“CICA”) Handbook (“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 Corporation’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 Corporation’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 or conversion of stock options, restricted stock awards, warrants and convertible securities. The following instruments would be excluded from the diluted earnings (loss) per share as these instruments are anti-dilutive.

	2009	2008
Stock options	10,698,811	12,263,419
Warrants	14,804,350	31,316,026

When the effect of dilution on loss per share is anti-dilutive, diluted loss per share equals the loss per share.

Comprehensive Income

Comprehensive income is the change in the Corporation’s net assets that results from transactions, events and circumstances from sources other than a company’s shareholders. It includes items that would not normally be included in net earnings, such as:

- Changes in the foreign 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.

Recent Changes in Accounting Standards

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Corporation’s reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Corporation’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency and hedging activities, certain contractual arrangements, debt covenants, capital requirements and compensation arrangements.

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2. Summary of Significant Accounting Policies - continued

The Corporation has commenced the scoping and planning phase of its changeover plan. The Corporation has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses. The Corporation has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing a project charter, implementation plan and communication strategy. The Corporation has substantially completed the scoping and planning phase. The detailed assessment phase ("phase 2") will result in accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase ("phase 3") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Corporation will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Corporation and its reporting.

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", in replacing Section 3062, "Goodwill and Other Intangible Assets", and amended Section 1000, "Financial Statement Concepts". The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets subsequent to initial recognition. The new section also provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. This new standard is applicable to fiscal years beginning on or after October 1, 2008.

Future Accounting Pronouncements

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Corporation's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Corporation's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Corporation chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

In January 2009, the Emerging Issues Committee ("EIC") issued EIC-173. In this EIC, the committee reached a consensus that in determining the fair value of financial assets and financial liabilities, including derivatives, an entity should take into consideration the credit risk of the entity and the counterparty. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The adoption of this standard is not expected to impact the Corporation's financial statements.

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2. Summary of Significant Accounting Policies - continued

On March 27, 2009, the Accounting Standard Board (“**AcSB**”) issued EIC-174, “Mining Exploration Costs”. In this EIC, the committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Corporation has adopted EIC-174 in the financial statements.

3. Supplemental Cash Flow Information

	March 31	
	2009	2008
Cash	\$ 3,184,175	\$ 1,406,975
Cash equivalent	---	17,673,160
Original fair value of options exercised	---	(6,677)
Interest received	3,433	276,859
Interest paid	939	---
Income taxes paid	---	---

4. Marketable Securities

The Corporation’s marketable securities are classified as follows:

	March 31, 2009	December 31, 2008
Available for sale	\$ 1,349,156	\$ 1,669,276
Held to maturity	116,074	454,408
Trading securities	---	---
	\$ 1,465,230	\$ 2,123,684

5. Property, Plant and Equipment

	March 31, 2009			December 31, 2008		
	Costs	Accumulated Depreciation	Net Book Value	Costs	Accumulated Depreciation	Net Book Value
Building and structural components	\$ 2,430,630	\$ 343,215	\$2,087,415	\$2,430,630	\$ 240,437	\$2,190,193
Computer and office equipment	425,439	139,628	285,811	425,439	113,269	312,170
Machinery and equipment	7,086,282	2,753,494	4,332,788	6,977,908	2,423,693	4,554,215
Leasehold improvements	7,138	3,371	3,767	7,138	2,776	4,362
Office furniture	44,908	20,804	24,104	44,908	17,833	27,075
Vehicles	41,169	15,157	26,012	37,142	13,000	24,142
	\$ 10,035,566	\$ 3,275,669	\$6,759,897	\$9,923,165	\$ 2,811,008	\$7,112,157

Depreciation expense for the period ended March 31, 2009 was \$467,799 (December 31, 2008 - \$1,067,137, March 31, 2008 - \$253,928).

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6. Mining Assets

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

	Galena Mine & Mill	Coeur Mine & Mill	Caladay Mine & Mill	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	1,593,834	---	---	31,757	1,625,591
Disposition	---	---	---	---	---
	36,001,677	4,915,598	27,047	1,075,344	42,019,666
Less: accumulated amortization and depletion	(5,987,758)	(352,569)	(27,047)	---	(6,367,374)
Balance, March 31, 2009	\$30,013,919	\$ 4,563,029	\$ ---	\$ 1,075,344	\$35,652,292

	Galena Mine & Mill	Coeur Mine & Mill	Caladay Mine & Mill	Other Properties	Total
Balance, January 1, 2008	\$ 20,298,636	\$ 4,756,010	\$ 27,047	\$ 762,597	\$ 25,844,290
Additions to capitalized costs	14,109,207	159,588	---	280,990	14,549,785
Disposition	---	---	---	---	---
	34,407,843	4,915,598	27,047	1,043,587	40,394,075
Less: accumulated amortization and depletion	(4,901,218)	(334,302)	(27,047)	---	(5,262,567)
Balance, December 31, 2008	\$ 29,506,625	\$ 4,581,296	\$ ---	\$ 1,043,587	\$35,131,508

Depreciation and depletion expense for the period ended March 31, 2009 was \$1,104,807 (December 31, 2008 - \$3,035,239, March 31, 2008 - \$413,574).

7. Reclamation and Remediation Costs

Reclamation and remediation costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The 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. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

In accordance with CICA HB Section 3110, "Asset Retirement Obligations", the Corporation recognized the full discounted estimated future reclamation liability and a corresponding asset was recorded 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 Corporation's initial credit adjusted risk-free interest rate of 7.5%, from the time we expect to pay the retirement obligation to the time we incur the obligation. The measurement objective is to determine the amount a third party would demand to assume the asset retirement obligation.

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7. Reclamation and Remediation Costs - continued

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

	2009	2008
Balance, January 1,	\$ 1,266,377	\$ 1,140,983
Accretion	29,665	125,394
Balance, March 31 and December 31	<u>\$ 1,296,042</u>	<u>\$ 1,266,377</u>

It is expected that this obligation will be funded from general Corporation resources at the time the costs are incurred with the majority of costs expected to occur until 2015 and later.

8. Related Party Transactions

Amounts due to the related parties, are payable to entities controlled by shareholders, officers or directors of the Corporation 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.

The Corporation had the following transactions with an entity that was previously related up to October 2008:

	2009	March 31 2008
Interest accrued	\$ - - -	\$ 3,886
Balance due	209,828	198,171

The above 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.

9. Revolving Advances Facility

In February 2009, the Corporation improved its liquidity position by means of an inventory and receivable monetization facility with a precious metals trading and lending firm. This facility, which has a maximum potential usage of \$5 million, reduces the time between shipping concentrate inventories and receipt of payment for such inventories, thereby making the Corporation's working capital more liquid.

More specifically the Corporation entered into a Silver Purchase Agreement (the "**Agreement**"). Pursuant to the Agreement, the Corporation will sell up to 100 % of the silver in concentrate produced at its Galena mine and mill complex for the next year and the Agreement is renewable annually thereafter. The Agreement provides for up to \$5,000,000 revolving silver-based advance facility (the "**Facility**") for the Corporation, whereby the Corporation will receive up to 65% of the sales value of silver produced, sold and shipped by the Corporation under the terms of its existing smelter contract. The silver will be priced at market prices as negotiated and will be subject to deduction for financing charges based upon LIBOR plus 4.75% per annum for the applicable financing period. Financing costs are amortized on a straight-line basis over the term of each advance. As at March 31, 2009, the balance outstanding on the Facility was \$1,448,593 (Nil as at December 31, 2008) equal to approximately 175,000 ounces of silver produced by the Corporation but not yet paid for by its smelter client.

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10. Loan Payable

	March 31, 2009	December 31, 2008
Conditional sales contract for some equipment 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	\$ 48,188	\$ 51,094
	41,188	51,094
Current portion	12,178	11,953
	\$ 36,010	\$ 39,141

11. Capital Stock

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, 2008, the Corporation had the following capital transactions:

1. issued 130,000 common shares upon the exercise of previously issued stock options;
2. issued 3,300,000 common shares upon the exercise of previously issued broker warrants; and
3. cancelled 217,000 common shares upon the retirement of an employee which held restricted shares.

12. 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 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. 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 Corporation at the price specified in the terms of the option.

The stock options activity is summarized below:

	2009		2008	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, January 1,	16,864,475	CA\$ 0.44	13,733,975	CA\$ 0.54
Granted	1,905,000	0.15	5,680,000	0.27
Exercised	Nil	N/A	(130,000)	0.40
Cancelled	(4,208,333)	0.41	(2,419,500)	0.57
Balance, March 31 and December 31,	14,561,142	CA\$ 0.42	16,864,475	CA\$ 0.44

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12. Options and Warrants - continued

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

	2009	2008
Number of Options	1,905,000	8,530,000
Exercise price	CA\$0.13 - 0.15	CA\$0.10 - 0.79
Expected life	2.5 – 4.5 years	3-4 years
Risk free interest rate	1.25%	2.0 - 3.5%
Volatility	120%	50 - 100%
Dividend yield	0.0%	0.0%
Fair Value	\$0.05846 - 0.07912	\$0.04087 - 0.32112

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, 2009.

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	66,667	Oct. 2013	4.5	\$ 0.10	66,667	\$ 0.10
0.10	2,850,000	Nov. 2013	4.7	0.10	1,305,000	0.10
0.13	400,000	Feb. 2014	4.8	0.13	200,000	0.13
0.15	1,505,000	Feb. 2014	4.9	0.15	2,500	0.15
0.19	100,000	Oct. 2013	4.5	0.19	100,000	0.19
0.40	5,669,475	Dec. 2011	2.7	0.40	5,669,475	0.40
0.40	750,000	Jul. 2013	4.3	0.40	450,000	0.40
0.73	660,000	Aug. 2012	3.4	0.73	540,000	0.73
0.75	300,000	Mar. 2012	2.9	0.75	300,000	0.75
0.79	300,000	Mar. 2013	3.9	0.79	300,000	0.79
0.81	960,000	Nov. 2012	3.6	0.81	960,000	0.81
1.19	1,000,000	Apr. 2012	3.1	1.19	1,000,000	1.19
	<u>14,561,142</u>				<u>10,893,642</u>	

The warrants that are issued and outstanding as at March 31, 2009 are as follows:

Number of Warrants	Exercise Price (CA\$)	Warrant Type	Issuance Date	Expiry Date	Fair Value
12,235,000	\$ 1.25	Investor	December 2007	December 5, 2009	\$ 2,096,334
1,712,900	1.00	Broker	December 2007	December 5, 2009	333,518
856,450	1.25	Broker	December 2007	December 5, 2009	123,637
<u>14,804,350</u>					<u>\$ 2,553,489</u>

13. Contingencies

From time to time, the Corporation may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Corporation. As of March 31, 2009, no material claims were outstanding.

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14. Capital Risk Management

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 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 Corporation expects its current capital resources will be sufficient to carry its operations through its current operating period.

15. Financial Instruments and Risk Management

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) 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 earnings 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.

b) Commodity risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices. As at March 31, 2009, 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. The London Silver Spot price average, in USD per ounce, was \$7.31 in 2005, \$11.57 in 2006, \$13.39 in 2007, \$14.99 in 2008 and \$12.48 in Q109.

c) Foreign exchange risk

The Corporation is exposed to foreign currency fluctuations as the Corporation holds Canadian dollars, and these statements are presented in United States dollars. As at March 31, 2009, the Corporation had approximately CA\$0.5 million (December 31, 2008 - CA\$2.5 million), and no forward foreign exchange contracts in place.

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15. Financial Instruments and Risk Management - continued

d) Interest rate risk

The Corporation is exposed to interest rate risk to the extent that changes in market interest rates impact its interest earned on cash deposits with financial institutions. The Corporation had no interest rate swaps or financial contracts in place as at or during the period ending March 31, 2009.

e) Credit risk

Credit risk refers to the risk that a counterparty will default on a contractual obligation resulting in a financial loss to the Corporation. The Corporation has adopted a policy of only dealing with credit worthy counterparties as a means to mitigating the risk of financial loss from defaults. The Corporation holds cash balances in both US dollar and Canadian dollar denominations with major financial institutions in North America, and generally its balance exceeds that of the government insured level.

f) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when they are due. The nature of the industry in which the Corporation operates within 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. Please refer to note 14 Capital Risk Management.

g) Fair Value Disclosure

The carrying value of cash, receivables, marketable securities and accounts payable approximates their fair value due to the short-term maturities of these items.

16. Segmented Information and Major Customers

The Corporation's operations comprise of 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 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 \$544,450 (December 31, 2008 - \$2,597,125), investments of \$1,144,966 (December 31, 2008 - \$2,786,863).

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. The Corporation had sales to two customers that exceeded 10% of revenues for the period that ended March 31, 2008. Those sales were approximately 77.2% (\$5.6 million), and 22.8% (\$1.7 million) of revenues respectively to each customer.

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.

17. Comparative Figures

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