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**U.S. SILVER CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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

**DECEMBER 31, 2008**

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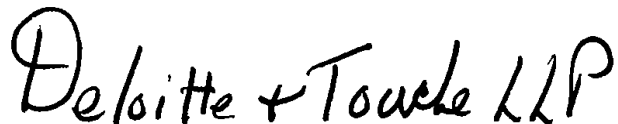
## AUDITORS' REPORT

To the Shareholders of  
U.S. Silver Corporation

We have audited the consolidated balance sheets of U.S. Silver Corporation (the "Corporation") as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of 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 Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS  
Licensed Public Accountants

Toronto, Ontario  
April 27, 2009

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

As at December 31, 2008 2007

**ASSETS**

CURRENT

Cash and cash equivalents	\$ 2,655,458	\$ 28,540,280
Receivables	1,035,733	1,746,195
Marketable securities, at fair value (Note 4)	2,123,684	3,598,520
Inventory	2,559,155	2,340,132
Supplies	1,695,187	1,594,731
Prepaid expenses and other assets	<u>211,018</u>	<u>236,223</u>
	10,280,235	38,056,081

PROPERTY, PLANT AND EQUIPMENT (Note 5)	7,112,157	3,396,323
MINING ASSETS (Note 6)	35,131,508	23,616,962
FUTURE TAX ASSET (Note 13)	2,294,101	2,499,437
RESTRICTED CASH	<u>115,000</u>	<u>115,000</u>
	<u>\$ 54,933,001</u>	<u>\$ 67,683,803</u>

**LIABILITIES**

CURRENT

Accounts payable and accrued liabilities	\$ 2,540,951	\$ 3,404,954
Loan payable - current (Note 10)	<u>11,953</u>	<u>- - -</u>
	2,552,904	3,404,954

LOAN PAYABLE, net of current (Note 10)	39,141	- - -
LONG-TERM RETIREMENT BENEFITS (Note 7)	5,493,394	4,004,417
MINE RECLAMATION OBLIGATION (Note 8)	1,266,377	1,140,983
FUTURE TAX LIABILITY (Note 13)	<u>1,907,113</u>	<u>2,614,648</u>
	<u>11,258,929</u>	<u>11,165,002</u>

COMMITMENTS AND CONTINGENCIES (Note 14)

**SHAREHOLDERS' EQUITY**

CAPITAL STOCK		
Issued and Outstanding 214,723,827 (2007 - 211,510,827)	<u>60,672,075</u>	<u>59,779,197</u>
CONTRIBUTED SURPLUS	<u>5,507,063</u>	<u>4,833,346</u>
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	(8,334,138)	4,667,281
DEFICIT	<u>(14,170,928)</u>	<u>(12,761,023)</u>
	<u>(22,505,066)</u>	<u>(8,093,742)</u>
	<u>43,674,072</u>	<u>56,518,801</u>
	<u>\$ 54,933,001</u>	<u>\$ 67,683,803</u>

Approved on behalf of the Board

\_\_\_\_\_  
/s/ Jamie Macintosh

Director

\_\_\_\_\_  
/s/ Thomas Parker

Director

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

For the Year ended December 31,	2008	2007
REVENUES	<u>\$ 28,666,814</u>	<u>\$ 18,119,939</u>
EXPENSES		
Cost of mining	36,163,313	19,817,282
General and administrative	3,911,748	4,081,972
Exploration costs	1,755,665	2,056,773
Selling and marketing	<u>282,750</u>	<u>116,074</u>
	<u>42,113,476</u>	<u>26,072,101</u>
LOSS BEFORE UNDERNOTED	(13,446,662)	(7,952,162)
AMORTIZATION	(16,278)	(7,886)
DERIVATIVE INCOME	4,112,709	---
FINANCING EXPENSE	(906)	(370,278)
FOREIGN EXCHANGE TRANSLATION	7,292,497	(998,107)
GAIN ON SALES OF ASSETS	79,519	---
INTEREST INCOME	<u>460,081</u>	<u>387,791</u>
LOSS BEFORE INCOME TAXES	(1,519,040)	(8,940,642)
RECOVERY OF TAXES	<u>(109,135)</u>	<u>(2,499,437)</u>
NET LOSS	(1,409,905)	(6,441,205)
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized (loss) gain on derivatives designated as cash flow hedges	(2,429,636)	2,429,636
Unrealized loss on available for sale financial assets	(1,317,554)	(220,863)
Unrealized foreign currency (loss) gain on self-sustaining operations	<u>(9,254,229)</u>	<u>2,044,185</u>
COMPREHENSIVE LOSS	<u>\$(14,411,324)</u>	<u>\$ (2,188,247)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>213,714,049</u>	<u>173,338,382</u>
NET LOSS PER COMMON SHARE - basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>

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

For the Year ended December 31,	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,409,905)	\$ (6,441,205)
Items not affecting cash		
Amortization and depletion	4,102,376	2,463,323
Asset retirement obligation – accretion	125,394	489,822
Future taxes	(109,135)	(2,499,437)
Gain on sale of assets	(79,519)	---
Non-cash derivative income	(711,150)	---
Stock-based compensation	<u>780,285</u>	<u>1,369,140</u>
	2,698,346	(4,618,357)
Net change in non-cash operating items		
Change in receivables	710,462	(571,019)
Change in inventory	(219,023)	(1,160,236)
Change in supplies	(100,456)	(170,765)
Change in prepaid expenses and other assets	25,205	138,915
Accounts payable and accrued liabilities	<u>(864,003)</u>	<u>1,805,242</u>
<b>CASH FLOWS PROVIDED BY (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>	<u>2,250,531</u>	<u>(4,576,220)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan payable, advance	77,900	---
Loan payable, repayment	(26,806)	---
Retirement benefit contributions	(1,452,646)	(937,872)
Issuance of capital stock and exercise of options and warrants, net of costs	<u>786,310</u>	<u>37,084,951</u>
<b>CASH FLOWS (USED IN) PROVIDED BY</b>		
<b>FINANCING ACTIVITIES</b>	<u>(615,242)</u>	<u>36,147,079</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,870,171)	(547,638)
Proceeds from sale of property, plant and equipment	87,200	---
Investment in mining assets	(14,549,785)	(11,258,702)
Investment in marketable securities	<u>(1,561,204)</u>	<u>(424,536)</u>
<b>CASH FLOWS USED IN</b>		
<b>INVESTING ACTIVITIES</b>	<u>(20,893,960)</u>	<u>(12,230,876)</u>
<b>(DECREASE) INCREASE IN CASH AND</b>		
<b>CASH EQUIVALENTS FOR THE YEAR</b>	(19,258,671)	19,339,983
<b>EFFECT OF EXCHANGE RATE ON CASH</b>		
<b>AND CASH EQUIVALENTS</b>	(6,626,151)	3,725,306
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>28,540,280</u>	<u>5,474,991</u>
End of year	<u>\$ 2,655,458</u>	<u>\$ 28,540,280</u>
Supplemental Cash Flow Information (Note 3)		

**U.S. SILVER CORPORATION**  
**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, 2007	141,895,205	\$ 18,447,625	\$ 7,646,797	\$ 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 gain on derivatives designated as cash flow hedges				2,429,636		2,429,636
Unrealized loss on available for sale financial assets				(220,863)		(220,863)
Unrealized foreign currency (loss) gain on self-sustaining operations				2,044,185		2,044,185
Net loss for the year					(6,441,205)	(6,441,205)
Balance, December 31, 2007	211,510,827	\$ 59,779,197	\$ 4,833,346	\$ 4,667,281	\$ (12,761,023)	\$ 56,518,801
Balance, January 1, 2008	211,510,827	\$ 59,779,197	\$ 4,833,346	\$ 4,667,281	\$ (12,761,023)	\$ 56,518,801
Issuance of shares for cash upon the exercise of options	130,000	57,846	(6,677)			51,169
Issuance of shares for cash upon the exercise of broker warrants	3,300,000	893,856	(158,715)			735,141
Vesting of previously 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) gain 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	214,723,827	\$ 60,672,075	\$ 5,507,063	\$ (8,334,138)	\$ (14,170,928)	\$ 43,674,072

**U.S. SILVER CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**  
**(All Amounts are in United States Dollars)**

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## **1. Organization and Basis of Presentation**

### *Description of the Business*

U.S. Silver Corporation (the “**U.S. Silver**”) is incorporated under the Canada Business Corporations Act. U.S. Silver and its subsidiaries (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 December 31, 2008, the Corporation has an accumulated deficit of \$14,170,928 (2007 - \$12,761,023) resulting from losses in the current and prior years. 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 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 CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**  
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## 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, 2008 and 2007 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 December 31, 2008:

Cash	- Held-for-trading
Receivables	- Loans and receivables
Investments	- Available for sale and Held to maturity
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 year.
- (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 year.
- (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 year.
- (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.

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.

**U.S. SILVER CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**  
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**2. Summary of Significant Accounting Policies - continued**

*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 December 31, 2008, the Corporation had an allowance for doubtful accounts of \$210,000 (2007 – Nil).

*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.

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

*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 CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 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.

*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 CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**  
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**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.

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**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 year. 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.

	<u>2008</u>	<u>2007</u>
Stock options	16,864,475	13,733,975
Warrants	14,804,350	31,316,027

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**

During the fourth quarter of 2008, the Corporation 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.

*Capital Disclosures and financial Instruments – Disclosures and Presentation*

On December 1, 2006, the CICA issued three new accounting standards: Handbook ("HB") Section 1535 "Capital Disclosures", HB Section 3862 "Financial Instruments - Disclosures" and HB Section 3863 "Financial Instruments - Presentation". The standards are effective for interim and annual financial statements for the Corporation's reporting period beginning on January 1, 2008.

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 HB 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.

The Corporation adopted the recommendations in CICA HB Section 1400, "General Standards of Financial Statements Presentation" which includes requirements to assess an entity's ability to continue as a going concern; disclosure of material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern; disclosure of when financial statements are not prepared on a going concern basis, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

The new CICA HB Section 3031 - Inventories, which replaced CICA Handbook Section 3030 - Inventories, establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of Section 3031 did not result in a material impact on the Corporation's consolidated financial position and results of operations. The amount of inventories recognized as an expense during the period is included in operating expenses in the Consolidated Statements of Operations.

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

*Future Accounting Pronouncements*

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. The impact of implementing the new standards on the Corporation's financial statements is currently being assessed.

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.

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**

	December 31	
	2008	2007
Cash	\$ 2,665,458	\$ 1,065,219
Cash equivalent	---	27,475,061
Original fair value of options exercised	(6,677)	(63,360)
Original fair value of warrants exercised	---	(6,669,010)
Original fair value of broker warrants exercised	(158,715)	(3,705)
Interest received	457,505	383,100
Interest paid	906	1,416
Income taxes paid	---	---
Issuance of common shares for exploration property	---	64,030

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**4. Marketable Securities**

The Corporation's marketable securities are classified as follows:

December 31,	2008	2007
Available for sale	\$ 1,669,276	\$ 1,168,884
Held to maturity	454,408	2,429,636
Trading securities	---	---
	<u>\$ 2,123,684</u>	<u>\$ 3,598,520</u>

**5. Property, Plant and Equipment**

	December 31, 2008			December 31, 2007		
	Costs	Accumulated Depreciation	Net Book Value	Costs	Accumulated Depreciation	Net Book Value
Building and structural components	\$2,430,630	\$ 240,437	\$2,190,193	\$1,000,469	\$ 97,142	\$ 903,327
Computer and office equipment	425,439	113,269	312,170	90,021	39,552	50,469
Machinery and equipment	6,977,908	2,423,693	4,554,215	3,954,903	1,582,370	2,372,533
Leasehold improvements	7,138	2,776	4,362	7,138	425	6,713
Office furniture	44,908	17,833	27,075	49,359	7,312	42,047
Vehicles	37,142	13,000	24,142	38,304	17,070	21,234
	<u>\$9,923,165</u>	<u>\$ 2,811,008</u>	<u>\$7,112,157</u>	<u>\$5,140,194</u>	<u>\$ 1,743,871</u>	<u>\$3,396,323</u>

Depreciation expense for the year ended December 31, 2008 was \$1,067,137 (December 31, 2007 - \$1,063,665).

**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, 2007	\$14,463,306	\$ 95,235	\$ 27,047	\$ ---	\$14,585,588
Additions to capitalized costs	5,835,330	4,660,775	---	762,597	11,258,702
Disposition	---	---	---	---	---
	20,298,636	4,756,010	27,047	762,597	25,844,290
Less: accumulated amortization and depletion	(1,936,625)	(263,656)	(27,047)	---	(2,227,328)
Balance, December 31, 2007	<u>\$18,362,011</u>	<u>\$ 4,492,354</u>	<u>\$ ---</u>	<u>\$ 762,597</u>	<u>\$23,616,962</u>

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**6. Mining Assets - continued**

	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	<u>\$ 29,506,625</u>	<u>\$ 4,581,296</u>	<u>\$ ---</u>	<u>\$ 1,043,587</u>	<u>\$35,131,508</u>

Depreciation and depletion expense for the year ended December 31, 2008 was \$3,035,239 (December 31, 2007 - \$1,399,658).

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

*Defined Benefit Plans*

In connection with the acquisition of U.S. Silver-Idaho Inc. ("**Silver-Idaho**"), the Corporation 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 Corporation'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 (9.78 years). The amortization amount is the excess divided by the amortization period.

*Actuarial Present Value of Projected Benefit Obligation:*

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

Factors	2008	2007
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% (2007 - 6%) 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 \$0.4 million and \$0.3 million for 2008 and 2007, respectively. The actual return on plan assets was a loss of \$1.6 million for 2008 and gain of \$0.5 million for 2007.

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

*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 Corporation'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 \$1.6 million in 2008 and \$0.9 million in 2007, respectively, toward the obligation. Silver-Idaho expects to contribute approximately \$1.2 million in 2009 and \$1.2 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, 2008 had 48% equity investments, 52% fixed income investments and 0% 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.

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.

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

The components of net periodic benefit costs were as follows:

Assumptions	2008	2007
Discount rate	6.00%	6.00%
Components of net periodic benefit costs:		
Service costs	\$ 330,000	\$ 294,000
Interest costs	662,000	648,000
Expected return on plan assets	(417,000)	(349,000)
Amortization of prior service cost	64,000	59,000
Recognized actuarial loss	<u>364,000</u>	<u>456,000</u>
Net periodic benefit cost	<u>\$1,003,000</u>	<u>\$1,108,000</u>

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

	2008	2007
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 11,513,000	\$ 9,019,000
Service costs	330,000	294,000
Interest cost	662,000	648,000
Benefit paid	(535,000)	(537,000)
Amendments	48,000	43,000
Actuarial loss	<u>(209,000)</u>	<u>2,046,000</u>
Projected benefit obligation as of December 31	<u>\$ 11,809,000</u>	<u>\$ 11,513,000</u>
Accumulated benefit obligation	<u>\$ 10,798,000</u>	<u>\$ 10,417,000</u>
Change in plan assets		
Fair value of plan assets as of January 1	\$ 6,436,000	\$ 5,652,000
Actual return on plan assets	(1,612,000)	452,000
Employer contributions	1,553,000	868,000
Benefits paid	<u>(535,000)</u>	<u>(536,000)</u>
Fair value of plan assets as of December 31	<u>\$ 5,842,000</u>	<u>\$ 6,436,000</u>
Reconciliation of funded status		
Funded status	\$ (5,967,000)	\$ (5,077,000)
Unrecognized actuarial loss	6,357,000	4,901,000
Unrecognized prior service cost	<u>277,000</u>	<u>293,000</u>
Net asset reflected in the consolidated balance sheet	<u>\$ 667,000</u>	<u>\$ 117,000</u>

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

	2008	2007
Weighted average assumptions		
Discount rate	6.0%	6.0%
Expected long term rate of return on plan assets	6.0%	6.0%
Rate of compensation increase	5.0%	5.0%
Balance sheet amounts as at December 31,		
Long term retirement benefit	\$ 6,159,949	\$ 4,121,966
Less: Excess contributions	<u>(666,555)</u>	<u>(117,549)</u>
Net long term retirement benefit obligations	<u>\$ 5,493,394</u>	<u>\$ 4,004,417</u>

*401(k) Plan*

The Corporation 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 Corporation 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 Corporation matches 30% of the hourly employees' contribution, up to a maximum of 4% of the hourly employees compensation. Under the 401K plan the Corporation contributed \$69,300 (2007 - \$45,200) to salaried employees, and \$44,400 (2007 - \$26,700) to hourly employees.

**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 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.

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

December 31,	2008	2007
Opening balance	\$ 1,140,983	\$ 6,743,394
Accretion	125,394	489,822
Adjustment based on post acquisition review	---	(6,092,233)
Net mine reclamation obligation	<u>\$ 1,266,377</u>	<u>\$ 1,140,983</u>

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

In 2007, the Corporation 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.

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets to settle the obligation, adjusted for inflation, is estimated at \$2,167,466 (2007 - \$1,731,468). The obligation was calculated using a credit-adjusted risk free discount rate of 9.4% and an inflation rate of 4%. 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 in 2015.

**9. 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.

During the year ended December 31, 2007, the Corporation recorded \$125,000 in respect of fees paid to a firm controlled by a director, that was recorded in general and administrative expenses. The services provided relate to capital market advisory services as well as administrative support.

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.

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

	December 31	
	2008	2007
Funds advanced to related party	\$ ---	\$ 90,000
Invoices paid on behalf of related party	---	91,485
Interest accrued	15,542	12,801
Balance due	209,828	194,286

**10. Loan Payable**

December 31,	2008	2007
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	\$ 51,094	\$ ---
	51,094	---
Current portion	11,953	---
	\$ 39,141	\$ ---

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**10. Loan Payable** - continued

The minimum principal repayments required over the next four years are:

Fiscal 2009	\$ 11,953
Fiscal 2010	12,879
Fiscal 2011	13,878
Fiscal 2012	<u>12,384</u>
	<u>\$ 51,094</u>

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

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

During the 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:

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, January 1,	13,733,975	CA\$ 0.54	11,651,500	CA\$ 0.38
Granted	5,680,000	0.27	4,425,000	0.83
Exercised	(130,000)	0.40	(1,897,525)	0.29
Cancelled	<u>(2,419,500)</u>	<u>0.57</u>	<u>(445,000)</u>	<u>0.40</u>
Balance, December 31,	<u>16,864,475</u>	<u>CA\$ 0.44</u>	<u>13,733,975</u>	<u>CA\$ 0.54</u>

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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:

	2008	2007
Number of Options	8,530,000	4,425,000
Exercise price	CA\$0.10 - 0.79	CA\$0.56 – 1.19
Expected life	3-4 years	5 years
Risk free interest rate	2.0 - 3.5%	4.0 - 5.0%
Volatility	50 - 100%	50.0 - 61.8%
Dividend yield	0.0%	0.0%
Fair Value	\$0.04087 - 0.32112	\$0.11236 - 0.52890

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2008.

Exercise Price CA\$	Outstanding				Exercisable	
	Options Outstanding	Expiry Date	Weighted Average Remaining Life (Years)	Weighted Average Price CA\$	Options Exercisable	Weighted Average Price CA\$
\$ 0.10	200,000	Oct. 2013	4.8	\$ 0.10	66,667	\$ 0.10
0.10	2,850,000	Nov. 2013	4.9	0.10	1,125,000	0.10
0.19	300,000	Oct. 2013	4.8	0.19	100,000	0.19
0.40	8,864,475	Dec. 2011	3.0	0.40	8,864,475	0.40
0.40	1,150,000	Jul. 2013	4.5	0.40	650,000	0.40
0.73	660,000	Aug. 2012	3.6	0.73	540,000	0.73
0.75	300,000	Mar. 2012	3.2	0.75	300,000	0.75
0.79	250,000	Mar. 2011	2.2	0.79	104,150	0.79
0.79	330,000	Mar. 2013	4.2	0.79	330,000	0.79
0.81	960,000	Nov. 2012	3.9	0.81	960,000	0.81
1.19	1,000,000	Apr. 2012	3.3	1.19	1,000,000	1.19
	<u>16,864,475</u>				<u>14,040,292</u>	

The warrants that are issued and outstanding as at December 31, 2008 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>

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**13. Provision for Income Tax**

The Corporation 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.

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:

Fiscal	2008	2007
Loss before income taxes	\$ (1,519,040)	\$ (8,940,642)
Recovery of income taxes based on statutory rate	(501,284)	(3,039,818)
Net adjustment for:		
Amortization, depreciation and depletion	334,168	391,307
Stock-based compensation	214,822	422,836
Share issuance costs	(267,974)	(276,094)
Other	1,999	2,332
Taxes	(218,269)	(2,499,437)
Effect of loss not recognized	109,134	---
Income taxes recovery	<u>\$ (109,135)</u>	<u>\$ (2,499,437)</u>

The Corporation 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:

Fiscal	2008	2007
Net operating losses carried forward	\$ 4,677,666	\$ 4,459,399
Other comprehensive items	447,968	(750,983)
Share issuance costs	686,545	983,444
Future tax assets	5,812,179	4,691,860
Valuation allowance	(3,518,078)	(2,192,423)
Net future tax assets	<u>\$ 2,294,101</u>	<u>\$ 2,499,437</u>

At December 31, 2008, the Corporation had cumulative net operating loss carry-forwards of approximately \$17 million, of which approximately \$657,000 is in Canada and \$16,388,000 in the United States. These amounts will expire in various years through 2028, as follows:

	Canada	United States	Total
2026	\$ ---	\$ 6,682,000	\$ 6,731,000
2027	657,000	1,813,000	6,028,000
2028		7,893,000	4,286,000
Total	<u>\$ 657,000</u>	<u>\$16,388,000</u>	<u>\$17,045,000</u>

In addition, the Corporation has approximately \$2.1 million in share issuance expenses that it will expense for tax purposes over the following 3 years. The related future tax assets have been partially offset by a valuation allowance, as the Corporation 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.

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**13. Provision for Income Tax - continued**

The future tax liability arose 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. As at December 31, 2008, the future tax liability is \$1,907,113 (2007 - \$2,614,648).

**14. Commitments and Contingencies**

a) Commitments

The Corporation has entered into various operating leases and is responsible for minimum principal payments. The Corporation's minimum future payments as at December 31, 2008 are approximately as follows:

Fiscal 2009	\$ 1,172,477
Fiscal 2010	108,932
Fiscal 2011	210,120
Fiscal 2012	429,544
Fiscal 2013	805,000
Thereafter	<u>2,135,000</u>
	<u>\$ 4,861,073</u>

b) 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 December 31, 2008, no material claims were outstanding.

**15. 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.

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**15. Capital Risk Management** - continued

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

**16. 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.

Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices. As at December 31, 2008, the Corporation did not have any exposure derivative financial instrument agreements or fixed physical contracts.

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 December 31, 2008, the Corporation had approximately CA\$2.5 million (2007 - CA\$21.1 million), and no forward foreign exchange contracts in place.

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 year ending December 31, 2008.

b) 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.

c) 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 15 Capital Risk Management.

d) 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.

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**17. 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 \$27,563,440 (2007 - \$27,563,440), investments of \$3,413,144 (2007 - \$3,413,144).

The Corporation had sales to two customers that exceeded 10% of revenues in the year ended December 31, 2008. Those sales were approximately 78.2% (\$22.4 million) and 21.8% (\$6.2 million) of revenues. The Corporation had sales to one customer that exceeded 10% of revenues in the year ended December 31, 2007. Those sales were approximately 94% of revenues.

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

**18. Comparative Figures**

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