
U.S. SILVER CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

DECEMBER 31, 2009

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Auditors' Report

To the Shareholders
U.S. Silver Corporation

We have audited the consolidated balance sheets of U.S. Silver Corporation (the "Corporation") as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive income (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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As described in note 24 to the consolidated financial statements, the accompanying consolidated financial statements of U.S. Silver Corporation as at December 31, 2008 and for the year then ended have been restated. We therefore withdraw our previous report dated April 27, 2009 on those financial statements, as originally filed.



Chartered Accountants
Licensed Public Accountants
May 5, 2010

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

As at December 31,	2009	2008
		As Restated See Note 24
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (Note 5)	\$ 2,509,680	\$ 2,655,458
Receivables and related embedded derivatives (Note 22(a))	5,729,781	1,238,533
Investments (Note 6)	1,019,112	1,669,276
Derivative-related assets (Note 13)	118,015	454,408
Inventory (Note 7)	5,987,708	4,464,582
Prepaid expenses	200,678	211,018
Future income tax asset - net (Note 19)	<u>904,879</u>	<u>---</u>
	16,469,853	10,693,275
Restricted cash	115,000	115,000
Property, plant and equipment (Note 8)	6,702,611	6,859,357
Mining assets (Note 9)	36,753,945	35,131,508
Future income tax asset - net (Note 19)	<u>1,566,650</u>	<u>386,988</u>
TOTAL ASSETS	<u>\$ 61,608,059</u>	<u>\$ 53,186,128</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Revolving advances facility (Note 13)	\$ 688,144	\$ ---
Accounts payable and accrued liabilities	2,896,925	2,540,951
Income taxes payable	62,266	489,945
Derivative-related liabilities (Note 13)	1,178,361	---
Capital lease obligation - current (Note 15)	<u>15,375</u>	<u>11,953</u>
	4,841,071	3,042,849
Other long-term liabilities (Note 14)	224,306	192,579
Capital lease obligation - long-term (Note 15)	23,766	39,141
Long-term retirement obligations (Note 10)	4,681,652	5,690,667
Asset retirement obligations (Note 11)	<u>1,458,563</u>	<u>1,266,377</u>
TOTAL LIABILITIES	<u>11,229,358</u>	<u>10,231,613</u>
Going concern (Note 1)		
Commitments and contingencies (Note 20)		
<u>SHAREHOLDERS' EQUITY</u>		
Share capital (Note 16)		
Issued and outstanding 250,625,994 (2008 - 214,723,827)	63,729,937	60,672,075
Contributed surplus	6,315,944	5,507,063
Accumulated other comprehensive loss (Note 18)	(8,901,484)	(8,334,138)
Accumulated deficit	<u>(10,765,696)</u>	<u>(14,890,485)</u>
	<u>(19,667,180)</u>	<u>(23,224,623)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>50,378,701</u>	<u>42,954,515</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 61,608,059</u>	<u>\$ 53,186,128</u>

Approved on behalf of the Board

/s/ James Macintosh
Director

/s/ Thomas Parker
Director

U.S. SILVER CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Expressed in United States Dollars)

For the Years Ended December 31,	2009	2008
		As Restated See Note 24
REVENUES	<u>\$ 45,901,857</u>	<u>\$ 28,666,814</u>
EXPENSES		
Cost of mining	39,301,817	35,635,087
General and administrative	3,030,904	3,911,748
Exploration costs	735,547	1,755,665
Selling and marketing	<u>78,885</u>	<u>282,750</u>
	<u>43,147,153</u>	<u>41,585,250</u>
INCOME (LOSS) BEFORE UNDERNOTED	2,754,704	(12,918,436)
Depreciation related to corporate overhead	(15,486)	(16,278)
Interest expense	(61,468)	(906)
Foreign exchange gain	735,455	7,292,497
Gain on sale of assets	290,032	29,519
(Loss) gain on hedge derivatives	(1,696,117)	4,112,709
Gain on sale of investments	146,216	---
Interest income	12,929	460,081
Write-down of exploration assets (Note 9)	<u>(126,015)</u>	<u>---</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>2,040,250</u>	<u>(1,040,814)</u>
Recovery of (provision for) income taxes (Note 19)		
Current	---	(489,945)
Future	<u>2,084,539</u>	<u>109,135</u>
Recovery of (provision for) income taxes	<u>2,084,539</u>	<u>(380,810)</u>
NET INCOME (LOSS)	<u>4,124,789</u>	<u>(1,421,624)</u>
OTHER COMPREHENSIVE LOSS		
Change in unrealized loss on derivatives designated as cash flow hedges, net of taxes of \$- (2008 - \$1,366,670)	---	(2,429,636)
Change in unrealized loss on available-for-sale securities, net of taxes of \$- (2008 - \$-)	(341,080)	(1,317,554)
Change in unrealized foreign currency loss on self-sustaining operations, net of taxes of \$144,662 (2008 - \$5,205,504)	<u>(226,266)</u>	<u>(9,254,229)</u>
Total other comprehensive loss	<u>(567,346)</u>	<u>(13,001,419)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 3,557,443</u>	<u>\$ (14,423,043)</u>
NET INCOME (LOSS) PER COMMON SHARE (Note 16)		
Basic	<u>\$ 0.02</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ 0.02</u>	<u>\$ (0.01)</u>

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

	Number of Common Shares	Amount of Share Capital	Contributed Surplus	Total Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, January 1, 2008 (As Restated - See Note 24)	211,510,827	\$ 59,779,197	\$4,833,346	\$ 4,667,281	\$ (13,468,861)	\$ 55,810,963
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	---	---	---
Other comprehensive loss (Note 18)	---	---	---	(13,001,419)	---	(13,001,419)
Net loss for the year	---	---	---	---	(1,421,624)	(1,421,624)
Balance, December 31, 2008 (As Restated - See Note 24)	<u>214,723,827</u>	<u>\$ 60,672,075</u>	<u>\$5,507,063</u>	<u>\$ (8,334,138)</u>	<u>\$ (14,890,485)</u>	<u>\$ 42,954,515</u>
Balance, January 1, 2009	214,723,827	\$ 60,672,075	\$5,507,063	\$ (8,334,138)	\$ (14,890,485)	\$ 42,954,515
Issuance of shares and warrants for cash, net of share issue costs	35,385,500	2,972,460	564,290	---	---	3,536,750
Issuance of shares for cash upon the exercise of options	516,667	85,402	(23,193)	---	---	62,209
Vesting of granted stock options	---	---	267,784	---	---	267,784
Other comprehensive loss (Note 18)	---	---	---	(567,346)	---	(567,346)
Net income for the year	---	---	---	---	4,124,789	4,124,789
Balance, December 31, 2009	<u>250,625,994</u>	<u>\$ 63,729,937</u>	<u>\$6,315,944</u>	<u>\$ (8,901,484)</u>	<u>\$ (10,765,696)</u>	<u>\$ 50,378,701</u>

U.S. SILVER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)

For the Years Ended December 31,	2009	2008
		As Restated See Note 24
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 4,124,789	\$ (1,421,624)
Add (deduct):		
Depreciation and depletion	6,364,045	4,102,376
Accretion expense for asset retirement obligation (Note 11)	118,660	125,394
Foreign exchange gain	(735,455)	(7,292,497)
Future income taxes	(2,084,539)	(109,135)
Gain on sale of assets	(290,032)	(29,519)
Gain on sale of investments	(146,216)	---
Non-cash financing expense	21,412	---
Other long-term liabilities	31,727	(99,391)
Long-term retirement obligations	(1,009,016)	906,784
Stock-based compensation	267,784	780,285
Unrealized (gains) losses on hedge derivatives	1,514,754	(454,408)
Write-down of exploration assets	126,015	---
	<u>8,303,928</u>	<u>(3,491,735)</u>
Change in non-cash working capital items:		
Receivables and related embedded derivatives	(4,491,248)	507,662
Inventory	(1,523,126)	(166,121)
Prepaid expenses	10,340	25,205
Accounts payable and accrued liabilities	515,719	(1,058,582)
Income taxes payable	(427,679)	489,945
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>2,387,934</u>	<u>(3,693,626)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Revolving advances facility, advances	15,756,229	---
Revolving advances facility, repayments	(15,068,085)	---
Capital lease obligation, repayments	(11,953)	(26,806)
Issuance of share capital and exercise of options and warrants, net of share issue costs	<u>3,598,959</u>	<u>786,310</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	<u>4,275,150</u>	<u>759,504</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,865,980)	(4,471,746)
Proceeds from sale of property, plant and equipment	290,032	87,200
Investment in mining assets	(6,195,155)	(14,393,412)
Proceeds from (purchase of) investments	<u>827,982</u>	<u>(2,584,000)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	<u>(6,943,121)</u>	<u>(21,361,958)</u>
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	<u>134,259</u>	<u>(1,588,742)</u>
DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR	(145,778)	(25,884,822)
CASH AND CASH EQUIVALENTS		
Beginning of the year	<u>2,655,458</u>	<u>28,540,280</u>
End of the year	<u>\$ 2,509,680</u>	<u>\$ 2,655,458</u>
Supplemental Cash Flow Information (Note 5)		

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

1. Nature of the Business and Continuing Operations

Nature of the Business

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

Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern, which assumes that the Corporation will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. While the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast some doubt upon the validity of this assumption. The Corporation’s sales, cash flow and profit are dependent on commodity prices, specifically the prices of silver, lead and copper. There is no guarantee that the commodity prices will not decrease. The Corporation’s ability to continue as a going concern is also dependent upon its ability in the future to achieve consistently profitable operations and to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. If the “going concern” assumption was not appropriate for these consolidated financial statements, then material adjustments may be necessary to the carrying values of assets and liabilities, the reported sales and expenses, and the balance sheet classifications used. Although the Corporation did earn income in 2009, it had incurred significant losses in the past and as of December 31, 2009, the Corporation has an accumulated deficit of \$10,765,696 (December 31, 2008 - \$14,890,485) resulting from losses. Also critical to the Corporation is 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.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with GAAP as prescribed by the Canadian Institute of Chartered Accountants (“CICA”) and include the following significant policies:

Basis of Consolidation

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

Currency Presentation

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

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the periods reported. Actual results could differ from those estimates.

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

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies – continued

Foreign Currency Translation and Reporting Currency

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

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

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

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash includes two certificates of deposits in the aggregate amount of \$115,000 as at December 31, 2009 and 2008 which are restricted pursuant to the requirements with the Idaho Department of Water in connection with a mine tailings reclamation bond. Restricted cash is classified as non-current as the period of restriction extends beyond twelve months subsequent to the Corporation's year end.

Inventory

Inventory includes concentrate ore, ore in stockpiles and operating materials and supplies. The classification of inventory is determined by the stage at which the ore is in the production process. Inventories of ore in stockpiles and in concentrates are sampled for silver and copper content and are valued based on the lower of actual costs or fair market value based upon the period ending prices of silver, lead and copper. Material that does not contain a minimum quantity of silver and copper to cover estimated processing expense to recover the contained silver and copper is not classified as inventory and is assigned no value. Metal inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. Metal inventory includes concentrates at the mine and concentrates in transit, and are also valued at lower of cost or net realizable value. Metal inventory costs are recorded using the full cost method which aggregates direct labour, materials, depletion and amortization as well as certain administrative overhead costs relating to mining activities. Write-downs to net realizable value may be reversed, up to the amount previously written down when circumstances support an increased inventory value.

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies – continued

Supplies inventory is recorded at the lower of cost or net realizable value, where cost is determined using the average cost method. The Corporation recognized cost of inventory sold, which is included within the cost of mining on the consolidated statements of operations, for the year ended December 31, 2009 of \$29,438,181 (2008 - \$24,611,579).

Receivables

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

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

Investments

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

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

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

Property, Plant and Equipment

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

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

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies – continued

Mining Assets

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

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

Impairment of Long-Lived Assets

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

Financial Instruments and Derivatives

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

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

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

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

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies – continued

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

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

Capital Leases

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

Asset Retirement Obligations

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

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

Pension and Post-Retirement Benefits

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

Income Taxes

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

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

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009
(Expressed in United States Dollars)

2. Summary of Significant Accounting Policies – continued

Share Capital Costs

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

Revenue Recognition

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

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

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

Stock-based Compensation

The Corporation maintains a stock option plan, which is described in Note 17. In accordance with GAAP, the Corporation uses the fair value method to account for stock-based transactions. Accordingly, all stock-based compensation awards are expensed in the consolidated financial statements on a straight-line basis over the vesting period. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

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

Basic and Diluted Earnings per Share

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

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

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3. Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Since this standard does not apply to activities that are unique to enterprises in the extractive industries such as prospecting, acquisition of mineral rights, exploration, drilling, mining and related development, the adoption of this standard did not have a significant impact on the Corporation's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued Abstract No. 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applicable to the annual consolidated financial statements of the Corporation for the year ended December 31, 2009. The adoption of EIC-173 did not have a material impact on the Corporation's consolidated financial statements.

Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee of the CICA 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 adoption of this standard did not have a material impact on the Corporation's consolidated financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosures" effective for the Corporation's December 31, 2009 consolidated financial statements. The amendments require the Corporation to classify and disclose financial instruments presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and market value determined based on the Corporation's own assumptions about market value: Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; and Level 3 - Valuation techniques for which any significant inputs are not based on observable market data. The section has also been amended to require additional liquidity risk disclosures. See Note 22 for further detail.

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

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4. Future Accounting Policy Changes

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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

International Financial Reporting Standards ("IFRS")

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

5. Supplemental Cash Flow Information

December 31	2009	2008
Cash	\$ 1,755,973	\$ 2,655,458
Cash equivalents	753,707	---
Interest received	12,929	457,505
Interest paid	19,008	906
Income taxes paid	444,739	---

6. Investments

The Corporation's investments are classified as follows:

December 31	2009	2008
		As Restated See Note 24
Available-for-sale	\$ 1,019,112	\$ 1,669,276
Held-to-maturity	---	---
Held-for-trading	---	---
	\$ 1,019,112	\$ 1,669,276

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7. Inventory

The Corporation's inventory is classified as follows:

December 31,	2009	2008 As Restated See Note 24
Raw materials and supplies	\$ 1,915,617	\$ 1,695,187
Concentrate inventory	4,072,091	2,769,395
	<u>\$ 5,987,708</u>	<u>\$ 4,464,582</u>

8. Property, Plant and Equipment

December 31,				2008 As Restated – See Note 24		
Costs	2009 Accumulated Depreciation	Net Book Value	Costs	2008 Accumulated Depreciation	Net Book Value	
Building and structural components	\$ 2,504,091	\$ 225,269	\$2,278,822	\$2,430,630	\$ 240,437	\$2,190,193
Computer and office equipment	439,626	205,392	234,234	425,439	113,269	312,170
Machinery and equipment	7,814,267	3,645,156	4,169,111	6,725,108	2,423,693	4,301,415
Leasehold improvements	7,138	5,155	1,983	7,138	2,776	4,362
Office furniture	48,839	30,378	18,461	44,908	17,833	27,075
Vehicles	15,959	15,959	---	37,142	13,000	24,142
	<u>\$ 10,829,920</u>	<u>\$ 4,127,309</u>	<u>\$6,702,611</u>	<u>\$9,670,365</u>	<u>\$ 2,811,008</u>	<u>\$6,859,357</u>

Depreciation expense for the year ended December 31, 2009 was \$2,000,189 (2008 - \$1,067,137), of which \$1,984,703 (2008 - \$1,050,859) was included in cost of mining within the consolidated statement of operations.

9. Mining Assets

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

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

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9. 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 depreciation 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

Depletion expense for the year ended December 31, 2009 was \$4,363,856 (2008 - \$3,035,239), which has been included in cost of mining within the consolidated statements of operations.

During the year ended December 31, 2009, the Corporation abandoned certain mining assets resulting in a write-down of mining assets of \$126,015 (2008 - \$-) included in write-down of exploration assets within the consolidated statement of operations.

10. Long-term Retirement Obligations

Defined Benefit Plans

The Corporation maintains two non-contributory defined benefit pension plans covering substantially all employees at its United States operating subsidiary, U.S. Silver Idaho, Inc. One plan covers salaried employees and one plan covers hourly employees. Benefits for the salaried plan are based on salary and years of service. Hourly plan benefits 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. The expected average service life of the active plan participants as at December 31, 2009 is 9.77 years (2008 – 9.78).

Actuarial Present Value of Projected Benefit Obligation:

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

Factors	2009	2008
Discount Rate for Benefit Obligations determined by reference to the yield at the end of the year on high quality US corporate bonds (Moody's AAA, plus or minus up to 0.5%)	5.75%	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 5.75% (2008 – 6.00%) and is based on the plan's experience and asset mix of the portfolio, as well as taking into consideration the fact that no lump sum distributions are paid from the plan. The plan had an expected return on plan assets of \$0.3 million and \$0.4 million for 2009 and 2008, respectively. The actual return on plan assets was \$0.9 million for 2009 and (\$1.6) million for 2008.

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10. Long-term Retirement Obligations – 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 in 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. U.S. Silver had funded \$0.8 million in 2009 and \$1.6 million in 2008, respectively, toward the obligation. U.S. Silver expects to contribute approximately \$0.9 million in 2010 and \$1.0 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 asset mix targets 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, 2009 had 52% equity investments, 48% 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 asset mix targets.

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 7.7% 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 and the weighted average determined by reference to the target mix:

Asset Class	Actual Mix	Target Mix	Expected Long Term Rates of Return
Equity investments	52.0%	60.0%	7.7%
Fixed income investments	48.0%	35.0%	3.0%
Cash and cash equivalent	0.0%	5%	2.0%
Weighted average			5.75%

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10. Long-term Retirement Obligations – continued

The components of net periodic benefit cost were as follows:

Net Periodic Benefit Cost and Pension Expense (Income)	2009	2008 As Restated See Note 24
Discount rate	6.00%	6.00%
Components of net periodic benefit cost:		
Employer service cost	\$ 369,075	\$ 329,558
Interest cost	639,001	662,230
Expected return on plan assets	(339,094)	(416,705)
Amortization of prior service cost	68,986	64,098
Recognized actuarial loss (gain)	(945,919)	1,820,046
Net periodic benefit (income) expense	\$ (207,951)	\$ 2,459,227
Effect of curtailments and settlements	---	---
Total pension (income) expense	\$ (207,951)	\$ 2,459,227

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

Change in Accrued Benefit Obligation	2009	2008
Accrued benefit obligation, January 1	\$ 11,809,417	\$ 11,513,087
Employer service cost	369,075	329,558
Interest cost	639,001	662,230
Benefits paid	(530,368)	(534,706)
Plan amendments	41,661	47,808
Actuarial (gain) loss	(431,167)	(208,560)
Accrued benefit obligation, December 31	\$ 11,897,619	\$ 11,809,417
Change in Plan Assets	2009	2008
Fair value of plan assets, January 1	\$ 5,842,047	\$ 6,436,211
Actual return on plan assets	853,845	(1,611,901)
Actual contributions by employer	801,065	1,552,443
Benefits paid	(530,368)	(534,706)
Fair value of plan assets, December 31	6,966,589	5,842,047
Expected value of plan assets, December 31	6,451,838	7,870,653
Actuarial (gain) loss on assets	\$ (514,751)	\$ 2,028,606
Reconciliation of the funded status to the amounts recorded in the consolidated balance sheet as at December 31,	2009	2008 As Restated See Note 24
Funded status, December 31	\$ (4,931,030)	\$ (5,967,370)
Unrecognized prior service cost, December 31	249,378	276,703
Accrued benefit obligation, December 31	\$ (4,681,652)	\$ (5,690,667)

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10. Long-term Retirement Obligations – continued

Unrecognized Prior Service Cost	2009	2008 As Restated See Note 24
Prior Service Cost, January 1	\$ (276,703)	\$ (292,993)
New service cost in the year	(41,661)	(47,808)
Amount recognized during year	68,986	64,098
Prior Service Cost, December 31	<u>\$ (249,378)</u>	<u>\$ (276,703)</u>

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as at December 31, 2009, and the next required valuation will be as at December 31, 2012.

During the year ended December 31, 2009 the Corporation recognized pension income of \$207,951 (2008 expense of - \$2,459,227) and contributed \$801,065 (2008 - \$1,552,443) towards the Corporation's long-term retirement benefit plans. The Corporation does not have an accrued benefit asset recorded as at December 31, 2009 or 2008, and accordingly is not required to record a valuation allowance.

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 \$65,029 (2008 - \$69,300) to salaried employees, and \$59,851 (2008 - \$44,400) to hourly employees.

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11. Asset Retirement Obligations

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

The asset retirement obligation is measured using the following factors: 1) expected materials and labour costs; 2) allocated overhead and equipment charges; 3) contractor mark-up; 4) inflation adjustment; 5) market risk premium. The sum of all these costs is discounted, using the Corporation's initial credit adjusted risk-free interest rate of approximately 10%, from the time we expect to pay the retirement obligation to the time we incur the obligation. The measurement objective is to determine the amount a third party would demand to assume the asset retirement obligation.

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

	2009	2008
Balance, January 1,	\$ 1,266,377	\$ 1,140,983
Revision to estimate for liabilities incurred	73,526	---
Accretion expense	118,660	125,394
Balance, December 31,	<u>\$ 1,458,563</u>	<u>\$ 1,266,377</u>

The determination of the asset retirement obligation assumes undiscounted cash flows needed to settle the liability incurred to December 31, 2009 of approximately \$2,311,072, which are expected to be expended up to the end of the current estimated mine life of the Galena Mine in 2016. These estimated future cash flows have been discounted at a credit-adjusted risk-free rate of approximately 10%.

12. Related Party Transactions and Balances

Transactions between the Corporation and entities controlled by shareholders, officers or directors of the Corporation are disclosed as related party transactions. Amounts due to or receivable from related parties are typically non-interest bearing, unsecured and not subject to specific terms of repayment unless stated otherwise.

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

As at and Year ended December 31,	2009	2008
Interest accrued during the year	\$ ---	\$ 15,542
Balance due from related party	209,828	209,828

The above transactions were 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. During the year ended December 31, 2008, the Corporation made an allowance for this amount resulting in no related party balance on the balance sheet. In February 2010, the Corporation received 500,000 common shares of Silver Verde May Mining Company to fully settle the previously related party receivable for \$209,828. These shares are restricted from trading until December 31, 2010. Silver Verde May Mining Company, Inc. is traded on the over-the-counter market in the United States. The Corporation will be recording these shares as available-for-sale with the intention of divesting them.

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13. Revolving Advances Facility

In February 2009, the Corporation entered into a master inventory and receivable monetization agreement with a precious metals trading and lending firm to finance the Corporation's shipments of concentrate inventory prior to ultimate sale to its customers. During 2009, the Corporation entered into a Silver Purchase Agreement (the "Agreement") with the same precious metals trading and lending firm. Pursuant to the Agreement, the Corporation may sell up to 100% of the silver in the silver-copper concentrate produced at its Galena Mine and mill complex for the following year and this Agreement is renewable annually thereafter. The Agreement, provides for up to a maximum amount of \$5,000,000 through a revolving silver-based advance facility (the "Facility") for the Corporation, whereby the Corporation receives up to 80% of the sales value of silver produced, sold and shipped by the Corporation under the terms of its existing smelter contract. The silver is priced at market prices as negotiated and is subject to deductions for financing charges based on LIBOR plus 4.75% per annum for the applicable financing period. Financing costs are amortized in accordance with the effective interest rate method for each advance. As at December 31, 2009, the Corporation had a current liability in the amount of \$688,144 through the Facility (2008 - \$-).

As part of the Agreement, the Corporation enters into short term forward contracts for the sale of silver concentrate from the Galena Mine and mill complex with the precious metals trading and lending firm. The hedging program, currently utilizing only short term forward contracts, is put in place to lock-in a forward price for the silver concentrate for the Corporation to manage the Corporation's cash flows, thus allowing the Corporation to manage volatility in silver prices. The Corporation recognizes the fair value of these financial instruments at the balance sheet date and records the changes in the fair value in the current period statement of operations. The fair value of the Corporation's derivatives instruments is based on the quoted market prices for similar instruments and on market prices at the valuation date. As at December 31, 2009, the Corporation had derivative-related assets of \$118,015 (2008 - \$454,408 which related to a hedge other than associated with the Agreement) and derivative-related liabilities of \$1,178,361 (2008 - \$-). The Corporation recognized an unrealized loss for the year ended December 31, 2009 of \$1,060,346 (2008 - \$-) that was recorded in (loss) gain on hedge derivatives within the consolidated statements of operations.

14. Other Long-Term Liabilities

The Corporation's hourly employees have negotiated a severance benefit in the collective bargaining agreement. Upon completion of two years of service, hourly employees become eligible for the severance benefit. The benefit payout is calculated as 1% of average annual earnings multiplied by the number of years of service, plus \$25 for each year of service. Employees that are separated for any reason other than lay off, retirement, permanent and total disability or death, shall not receive any severance benefit payment. The accrued obligation was \$224,306 as at December 31, 2009 (2008 - \$192,579).

15. Capital Lease Obligation

December 31,	2009	2008
Conditional sales contract for equipment originally valued at \$77,900, secured with the equipment, 7.49% annual interest rate on the outstanding loan balance and repayable in monthly instalments of \$1,281, maturing in October 2012	\$ 39,141	\$ 51,094
Less: Current portion	15,375	11,953
Loan payable, net of current portion	\$ 23,766	\$ 39,141

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16. Share Capital

Common Shares

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

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

1. Issued 516,667 common shares upon the exercise of previously issued stock options; and
2. Issued 35,385,500 units at a price of CA\$0.13 per unit, with each unit ("Unit") comprising one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share of the Corporation at a price of CA\$0.155 per common share until July 16, 2014. Issue costs totalled \$622,611 for these Units, of which \$80,899 relates to broker warrants as a non-cash charge to share capital.

During the year ended December 31, 2008, the Corporation had the following share 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 that held restricted shares.

Earnings (Loss) Per Share

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

December 31,	2009	2008 As Restated See Note 24
Net income (loss) available to common shareholders	\$ 4,124,789	\$ (1,421,624)
Weighted average shares outstanding - basic	231,186,915	213,714,049
Unexercised weighted average dilutive stock options and warrants	10,863,606	---
Weighted average shares outstanding - diluted ⁽¹⁾	<u>242,050,521</u>	<u>213,714,049</u>

⁽¹⁾ The diluted weighted average shares outstanding in 2009 excludes 7,563,321 (2008 - 21,330,181) options and warrants as they would have been anti-dilutive.

17. Stock Options and Warrants

The Corporation's Stock Option Plan (the "Plan") provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal to or greater than the market price of the Corporation's common shares on the date of the grant to directors, officers, employees and consultants to the Corporation. Options that are granted under the Plan have expiry dates of up to 5 years from the grant date. Plan options may be issued as immediately exercisable or may contain provisions which specify vesting over several years, as well as performance based. Each stock option is exercisable into one common share of the Corporation at the price specified in the terms of the option.

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17. Stock Options and Warrants – continued

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	7,800,000	0.13	5,680,000	0.27
Exercised	(516,667)	0.11	(130,000)	0.40
Cancelled	(5,839,150)	0.39	(1,919,500)	0.62
Forfeited	(679,183)	0.36	(500,000)	0.40
Balance, December 31	17,629,475	CA\$ 0.34	16,864,475	CA\$ 0.44

The Corporation uses the Black-Scholes option pricing model to value the options granted at the time of grant, and the assumptions used within the model, and resulting weighed average fair value estimate per option, are as follows:

	2009	2008
Number of options granted	7,800,000	5,680,000
Exercise price	CA\$0.13 - 0.15	CA\$0.10 - 0.79
Weighted average expected life	2.4 years	2.7 years
Weighted average risk-free interest rate	0.72%	2.4%
Weighted average expected volatility	82.1%	93.0%
Weighted average dividend yield	0.0%	0.0%
Weighted average fair value	\$0.05074	\$0.11634

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

The Corporation recognizes over the vesting period, as compensation costs arises from stock option awards, the fair value of stock options at the date of grant, and has included these costs in general and administrative expenses within the consolidated statement of operations. The fair value of stock options vested during the year ended December 31, 2009, less the fair value of options cancelled and forfeited, amounts to \$267,784 (2008 - \$780,285).

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17. Stock Options and Warrants – continued

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 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	2,090,000	Nov. 2013	3.9	0.10	2,090,000	\$ 0.10
0.13	400,000	Feb. 2014	4.1	0.13	400,000	0.13
0.13	3,095,000	Oct. 2014	4.8	0.13	- - -	0.13
0.14	2,200,000	July 2014	4.5	0.14	1,000,000	0.14
0.14	400,000	Mar. 2014	4.2	0.14	299,997	0.14
0.15	1,505,000	Feb. 2014	4.1	0.15	505,000	0.15
0.40	4,169,475	Dec. 2011	2.0	0.40	4,169,475	0.40
0.40	750,000	Jul. 2013	3.5	0.40	650,000	0.40
0.73	660,000	Aug. 2012	2.6	0.73	660,000	0.73
0.75	300,000	Mar. 2012	2.2	0.75	300,000	0.75
0.79	200,000	Mar. 2013	3.2	0.79	200,000	0.79
0.81	860,000	Nov. 2012	2.9	0.81	860,000	0.81
1.19	1,000,000	Apr. 2012	2.3	1.19	1,000,000	1.19
	<u>17,629,475</u>				<u>12,134,472</u>	

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

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

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

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18. Accumulated Other Comprehensive Loss

	Unrealized Gains(losses) on Available- for-Sale Securities	Unrealized Gains(Losses) on Designated Cash Flow Hedges	Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2008	\$ 191,790	\$2,429,636	\$ 2,045,855	\$ 4,667,281
Change in unrealized loss on derivatives designated as cash flow hedges	---	(2,429,636) ⁽²⁾	---	(2,429,636)
Change in unrealized loss on available-for-sale securities	(1,317,554)	---	---	(1,317,554)
Change in unrealized foreign currency loss on self-sustaining operations	---	---	(9,254,229)	(9,254,229)
Balance, December 31, 2008	<u>\$ (1,125,764)</u>	<u>\$ ---</u>	<u>\$ (7,208,374)</u>	<u>\$ (8,334,138)</u>
Balance, January 1, 2009	\$ (1,125,764)	\$ ---	\$ (7,208,374)	\$ (8,334,138)
Change in unrealized loss on available-for-sale securities	(341,080) ⁽¹⁾	---	---	(341,080)
Change in unrealized foreign currency loss on self-sustaining operations	---	---	(226,266)	(226,266)
Balance, December 31, 2009	<u>\$ (1,466,844)</u>	<u>\$ ---</u>	<u>\$ (7,434,640)</u>	<u>\$ (8,901,484)</u>

(1) During the years ended December 31, 2009 and 2008, realized gains (losses) of \$146,216 and \$-, respectively, were reclassified to gain on sale of investments within the consolidated statement of operations. The net unrealized loss for the year ended December 31, 2009 was \$194,864.

(2) During the year ended December 31, 2008, derivatives gains of \$2,429,636 were reclassified to (Loss) gain on hedge derivatives within the consolidated statement of operations.

19. 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:

	2009	2008 As Restated See Note 24
Income (loss) before income taxes	\$ 2,040,250	\$ (1,040,814)
(Provision for) recovery of income taxes based on statutory rates	(796,024)	374,693
Net adjustment for:		
Stock-based compensation	(120,169)	(214,822)
Other	(4,185)	(68,193)
Effect of losses not recognized	---	(472,488)
Recognition of prior years' losses	3,004,917	---
Income taxes (provision) recovery	<u>\$ 2,084,539</u>	<u>\$ (380,810)</u>

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19. Provision for Income Tax – continued

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:

	2009	2008
Net operating losses	\$ 2,800,000	\$ ---
Contracts and foreign exchange	(1,847,151)	---
Other	(47,970)	---
Future income tax asset (liability)	904,879	---
Valuation allowance	---	---
Net future income tax asset (liability) – current	<u>\$ 904,879</u>	<u>\$ ---</u>

	2009	2008
Property, plant and equipment and mining assets	\$ (1,688,947)	\$ (1,907,113)
Net operating losses	3,465,924	4,677,666
Contracts and foreign exchange	(202,706)	---
Other comprehensive items	---	447,968
Share issuance costs	---	686,545
Other	(7,621)	---
Future income tax asset (liability)	1,566,650	3,905,066
Valuation allowance	---	(3,518,078)
Net future income tax asset (liability) – long-term	<u>\$ 1,566,650</u>	<u>\$ 386,988</u>

At December 31, 2009, the Corporation had cumulative net operating loss carry-forwards of approximately \$16.1 million, all within the United States. These amounts will expire in various years through 2028, as follows:

	Canada	United States	Total
2023	\$ ---	2,170,333	2,170,333
2025	---	2,612,073	2,612,073
2026	---	3,465,966	3,465,966
2027	---	3,844,651	3,844,651
2028	---	3,966,861	3,966,861
Total	<u>\$ ---</u>	<u>\$ 16,059,884</u>	<u>\$ 16,059,884</u>

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20. Commitments and Contingencies

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 of each year noted are approximately as follows:

2010	\$ 2,897,730
2011	1,042,208
2012	1,058,855
2013	1,030,429
2014	1,058,207
Thereafter	<u>1,826,885</u>
	<u>\$ 8,914,314</u>

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, 2009 and 2008, no material claims were outstanding.

21. Capital Management and Liquidity

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

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

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

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

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

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

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

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21. Capital Management and Liquidity – continued

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

	Total	Payments by Periods			
		< 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Asset retirement obligations	\$ 2,311,072	\$ ---	\$ ---	\$ ---	\$ 2,311,072
Capital lease obligation	43,562	15,375	28,187	---	---
Derivatives related liabilities	1,178,361	1,178,361	---	---	---
Revolving advances facility	688,144	688,144	---	---	---
Accounts payable and accrued liabilities	2,896,925	2,896,925	---	---	---
Income Taxes Payable	62,266	62,266	---	---	---
Other long-term liabilities	224,306	---	---	---	224,306

22. Financial Instruments

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

(a) Derivatives and Hedging Activities

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

- Forward contracts to hedge exposures to fluctuations in metal prices (see Note 13)

For the year ended December 31, 2009, the Corporation recorded a hedge loss of \$1,696,117 (2008 – gain of \$4,112,709).

Embedded Derivatives

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the shipment date and the actual final price set under the relevant contracts are caused by fluctuations in the market prices for copper, lead and silver, and result in an embedded derivative. The embedded derivative is recorded at fair value each period until settlement occurs, with the changes in fair value recorded to revenues. As at December 31, 2009, the Corporation has recorded embedded derivatives in the amount of \$5,682,134 in receivables and related embedded derivatives within the consolidated balance sheet (December 31, 2008 - \$1,041,047) related to these embedded derivatives. Currently, two customers represent 100% of the Corporation's trade receivables which contains the embedded derivative.

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22. Financial Instruments – continued

(b) Fair Value of Non-Derivative Financial Instruments

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

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	\$ 2,509,680	\$ 2,509,680	\$ 2,655,458	\$ 2,655,458
Receivables and related embedded derivatives	5,729,781	5,729,781	1,238,533	1,238,533
Investments	1,019,112	1,019,112	1,669,276	1,669,276
Derivative-related assets	118,015	118,015	454,408	454,408
Restricted cash	115,000	115,000	115,000	115,000
Financial liabilities				
Revolving advances facility	688,144	688,144	---	---
Accounts payable and accrued liabilities	2,896,925	2,896,925	2,540,951	2,540,951
Derivative-related liabilities	1,178,361	1,178,361	---	---
Capital lease obligations	39,141	39,141	51,094	51,094
Other long-term liabilities	224,306	224,306	192,579	192,579

(c) Fair Value Hierarchy

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

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 2,509,680	\$ ---	\$ ---	\$ 2,509,680
Restricted cash	115,000	---	---	115,000
Investments	---	66,212	952,900	1,019,112
Derivatives-related assets	---	118,015	---	118,015
Embedded derivatives within Receivables and related embedded derivatives	---	5,682,134	---	5,682,134
Total Assets	\$ 2,624,680	\$ 5,866,361	\$ 952,900	\$ 9,443,941
Liabilities				
Derivative-related liabilities	\$ ---	\$ 1,178,361	\$ ---	\$ 1,178,361
Total liabilities	\$ ---	\$ 1,178,361	\$ ---	\$ 1,178,361

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22. Financial Instruments – continued

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

	Level 3
Balance, January 1, 2009	\$ 818,300
Unrealized gain recognized through other comprehensive income (loss) due to change in foreign exchange	134,600
Balance, December 31, 2009	\$ 952,900

(d) Market Risk

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

Foreign Exchange Risk

The Corporation is exposed to foreign currency fluctuations as the Corporation holds Canadian dollars, and these consolidated financial statements are presented in United States dollars. As at December 31, 2009 the Corporation had approximately CA\$0.2 million (December 31, 2008 - CA\$2.6 million) in cash and \$952,900 (December 31, 2008 - \$1,573,531) in investments with no forward foreign exchange contracts in place.

Commodity Risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of copper, lead and silver. As at December 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, and the Corporation's policy is not to materially hedge its exposure to silver in accordance with shareholders' preference. The London Silver Spot price average, in USD per ounce, \$14.99 in 2008 and \$14.65 in 2009.

(e) Credit Risk

Credit risk related to accounts receivable arises from the possibility that customers may be unable to fulfill their commitments. The Corporation mitigates this risk by regularly monitoring the financial health and aging of any amounts due from its customers. Currently two customers represent 100% of the Corporation's revenue. As at December 31, 2009, the Corporation is exposed to a maximum credit risk of \$5,729,781 (2008 - \$1,238,533).

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

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23. Segmented Information and Major Customers

The Corporation's operations comprise a single reporting segment engaged in exploration and exploitation of the Corporation's mineral assets within the United States. As these operations comprise a single reporting segment, amounts disclosed in the consolidated financial statements for revenue, income (loss) before income tax, amortization and total assets also represent segmented amounts, with the exception of the following which are in Canada: Cash of approximately \$2,415,000 (2008 - \$2,595,000), investments of \$952,900 (2008 - \$1,573,531), derivative-related assets of \$- (2008 - \$454,425).

The Corporation had sales to two customers which individually each exceeded 10% of revenues in the year ended December 31, 2009. Those sales were approximately 74.3% (\$34.1 million) and 25.7% (\$11.8 million) of revenues. The Corporation had sales to two customers which individually each exceeded 10% of revenues in the year ended December 31, 2008. Those sales were approximately 78.3% (\$22.4 million) and 21.7% (\$6.2 million) of revenues.

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

24. Restatement of Previously Issued Financial Statements

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

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

The impact of the restatement to periods prior to 2008 was an increase to opening accumulated deficit as at January 1, 2008 of \$707,838 which is comprised principally of the understatement of pension expense.

The effects of the restatement on the consolidated balance sheet as at December 31, 2008 and the consolidated statement of operations for the year then ended are shown in the tables below:

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24. Restatement of Previously Issued Financial Statements – continued

Consolidated Statement of Operations
For the year ended December 31, 2008

	As Previously Reported	Adjustments	As Restated
Revenues	\$ 28,666,814	\$ ---	\$ 28,666,814
EXPENSES			
Cost of mining	36,163,313	(528,226)	35,635,087
General and administrative	3,911,748	---	3,911,748
Exploration costs	1,755,665	---	1,755,665
Selling and marketing	282,750	---	282,750
	<u>42,113,476</u>	<u>(528,226)</u>	<u>41,585,250</u>
(LOSS) INCOME BEFORE THE UNDERNOTED	(13,446,662)	528,226	(12,918,436)
Depreciation related to corporate overhead	(16,278)	---	(16,278)
Interest expense	(906)	---	(906)
Foreign exchange gain	7,292,497	---	7,292,497
Gain on sale of assets	79,519	(50,000)	29,519
Gain on hedge derivatives	4,112,709	---	4,112,709
Interest income	460,081	---	460,081
Write-down of exploration assets	---	---	---
(LOSS) INCOME BEFORE INCOME TAXES	(1,519,040)	478,226	(1,040,814)
Recovery of (provision for) income taxes			
Current	---	(489,945)	(489,945)
Future	109,135	---	109,135
Recovery of (provision for) income taxes	<u>109,135</u>	<u>(489,945)</u>	<u>(380,810)</u>
NET LOSS	\$ (1,409,905)	\$ (11,719)	\$ (1,421,624)

Long-Term Retirement Obligations Errors

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

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

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24. Restatement of Previously Issued Financial Statements – continued

Provision for Income Tax Errors

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

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

Consolidated Balance Sheet

The following table presents the impact of the restatement adjustments on U.S. Silver Corporation's previously reported consolidated balance sheet as at December 31, 2008.

Consolidated Balance Sheet as at December 31, 2008

	As previously Reported	Adjustments	As Restated
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,655,458	\$ ---	\$ 2,655,458
Receivables and related embedded derivatives	1,035,733	202,800	1,238,533
Investments	2,123,684	(454,408)	1,669,276
Derivative-related assets	---	454,408	454,408
Inventory	2,559,155	210,240	
		1,695,187 ⁽¹⁾	4,464,582
Supplies	1,695,187	(1,695,187) ⁽¹⁾	
Prepaid expenses	211,018	---	211,018
	10,280,235	413,040	10,693,275
Restricted cash	115,000	---	115,000
Property, plant and equipment	7,112,157	(252,800)	6,859,357
Mining assets	35,131,508	---	35,131,508
Future income tax asset - net	2,294,101	(1,907,113) ⁽¹⁾	386,988
TOTAL ASSETS	\$ 54,933,001	\$ (1,746,873)	\$ 53,186,128
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 2,540,951	\$ ---	\$ 2,540,951
Income taxes payable	---	489,945	489,945
Capital lease obligation – current	11,953	---	11,953
	2,552,904	489,945	3,042,849
Other long-term liabilities	---	192,579 ⁽¹⁾	192,579
Capital lease obligation - long term	39,141	---	39,141
Long-term retirement obligations	5,493,394	389,852	
		(192,579) ⁽¹⁾	5,690,667
Asset retirement obligations	1,266,377	---	1,266,377
Future income tax liabilities	1,907,113	(1,907,113) ⁽¹⁾	---
	11,258,929	(1,027,316)	10,231,613
SHAREHOLDERS' EQUITY			
Share capital	60,672,075	---	60,672,075
Contributed surplus	5,507,063	---	5,507,063
Accumulated other comprehensive loss	(8,334,138)	---	(8,334,138)
Accumulated deficit	(14,170,928)	(719,557)	(14,890,485)
	(22,505,066)	(719,557)	(23,224,623)
TOTAL SHAREHOLDERS' EQUITY	43,674,072	(719,557)	42,954,515
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 54,933,001	\$ (1,746,873)	\$ 53,186,128

(1) reclassification adjustment to reflect presentation in 2009.

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24. Restatement of Previously Issued Financial Statements – continued

Other Errors

In 2008, the Corporation incorrectly reported the payment of a \$252,800 deposit for certain machinery and equipment as a part of property, plant and equipment. Prior to the completion of the 2008 financial statements, the Corporation decided not to complete the purchase, which resulted in a loss of \$50,000 on the subsequent disposition of this equipment. As a result, the impact of correction of this error is to reduce property, plant and equipment by \$252,800, increase receivables and embedded related derivatives by \$202,800 and record a loss of \$50,000 to reflect the loss on subsequent disposition.

Consolidated Statement of Cash Flows for the Year Ended December 31, 2008

The Corporation discovered an error related to the classification of retirement benefit contributions of \$1,552,443 incorrectly included in Financing Activities which should have been included in Operating Activities. Further, the Corporation incorrectly reported the amount as \$1,452,646. The Corporation also corrected errors related to the classification of foreign exchange gain of \$7,292,497 incorrectly included in Effect of Exchange Rate on Cash and Cash Equivalents which should have been included in Operating Activities.

During 2008, the Corporation acquired certain equipment through a capital lease in the amount of \$77,900. This amount was included as a cash outflow in the purchase of property, plant and equipment in Investing Activities and a loan payable, advance in Financing Activities. However, since the \$77,900 was non-cash, management has removed the \$77,900 from purchase of property, plant and equipment and from loan payable, advance to correct for this error.

During 2008, the Corporation incorrectly included the purchase of property, plant and equipment in the amount of \$38,206 and the investment in mining assets in the amount of \$156,373 both within Investing Activities. However, since these amounts were non-cash, management has adjusted these amounts within purchase of property, plant and equipment and investment within mining assets, to correct for this error.

During 2008, the Corporation incorrectly recorded the purchase of investments within Investing Activities of \$1,561,204 rather than the correct amount of \$2,584,000. Management has adjusted the consolidated statement of cash flows for the amount that should have been reported to correct for this error.

The following table presents the impact of the restatement adjustments on U.S. Silver Corporation's previously reported consolidated statement of cash flows for the year ended December 31, 2008:

	As Previously Reported	Adjustments	As Restated
Loss for the year	(1,409,905)	(11,719)	(1,421,624)
Cash flows provided by (used in) operating activities	2,250,531	(5,944,157)	(3,693,626)
Cash flows (used in) provided by financing activities	(615,242)	1,374,746	759,504
Cash flows used in investing activities	(20,893,960)	(467,998)	(21,361,958)
Effect of exchange rate on cash and cash equivalents	(6,626,151)	5,037,409	(1,588,742)

Other Classification, Presentation and Disclosure Errors

In 2008, the Corporation incorrectly classified derivative-related assets of \$454,408 within its investments as held-to-maturity. The appropriate classification should have been held-for-trading. Furthermore, management has determined that disclosure would be improved by separately disclosing such derivative-related assets on the consolidated balance sheet in the line item entitled derivative-related assets.

In 2008, the Corporation incorrectly disclosed the range of significant assumptions used during the year to estimate the fair value of options rather than the weighted average of the significant assumptions used during the year to estimate the fair value of the options as required. Accordingly, management has presented the corrected significant assumptions as required to be disclosed by the CICA (see Note 17).

U.S. SILVER CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in United States Dollars)

24. Restatement of Previously Issued Financial Statements – continued

In 2008, the Corporation provided insufficient disclosure of financial instruments, in particular the fair value of non-derivative financial instruments. Management has corrected the deficiencies and has presented all required disclosures for both 2009 and corrected 2008 comparative amounts (See Note 22).

In 2008, the Corporation incorrectly disclosed certain information within the segmented information and major customers note, as it provided identical information for both fiscal 2008 and 2007, with regards to the cash and investments held in Canada. The information disclosed in 2008 was the information related to fiscal 2007. Accordingly, management has corrected the disclosures for 2008 to reflect the appropriate amounts and balances (see Note 23).