

---

---

**U.S. SILVER & GOLD INC.**

**Condensed Interim Consolidated Financial Statements**

**For the three and nine months ended September 30, 2014 and 2013**  
***(In thousands of U.S. dollars, unless otherwise stated)***

---

---

## U.S. Silver & Gold Inc.

Condensed Interim Consolidated Statements of Financial Position  
(Unaudited – in thousands of U.S. dollars)

As at	September 30, 2014	December 31, 2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,704	\$ 7,167
Trade receivables (note 5)	2,123	4,450
Income tax receivable	518	1,090
Inventories (note 6)	5,502	5,319
Prepaid expenses	384	273
	15,231	18,299
<b>Non-current assets</b>		
Restricted cash	151	151
Long-term investments	42	31
Property, plant and equipment (note 7)	79,482	80,986
Goodwill	12,780	12,780
Deferred income tax asset (note 10)	12,806	10,411
<b>Total assets</b>	<b>\$ 120,492</b>	<b>\$ 122,658</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 4,553	\$ 6,096
Credit facility (note 8)	893	-
	5,446	6,096
<b>Non-current liabilities</b>		
Other long-term liabilities	587	567
Credit facility (note 8)	4,428	4,921
Post-employment benefit obligations	3,888	4,318
Decommissioning provision (note 9)	3,240	3,129
<b>Total liabilities</b>	<b>17,589</b>	<b>19,031</b>
<b>Equity</b>		
Share capital (note 11)	125,802	120,769
Contributed surplus	17,797	16,506
Accumulated other comprehensive income	784	495
Deficit	(41,480)	(34,143)
	102,903	103,627
<b>Total liabilities and equity</b>	<b>\$ 120,492</b>	<b>\$ 122,658</b>

Subsequent events (note 15)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## U.S. Silver & Gold Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss  
(Unaudited – in thousands of U.S. dollars, except per share and share amounts)

	For the three-month period ended		For the nine-month period ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<b>Revenues</b>	\$ 10,242	\$ 13,879	\$ 29,650	\$ 53,640
Cost of sales	(9,989)	(12,015)	(26,498)	(51,737)
Care and maintenance costs	(215)	(271)	(280)	(805)
General and administration	(948)	(1,553)	(3,027)	(4,847)
Exploration costs	(304)	(278)	(705)	(2,076)
Depreciation, depletion and amortization (note 7)	(1,856)	(2,094)	(6,075)	(8,444)
Share-based compensation (note 11)	(128)	(498)	(830)	(1,809)
Impairment charges (note 7)	-	-	-	(1,357)
Foreign exchange gain (loss)	-	(208)	4	(280)
<b>Loss before finance costs and income taxes</b>	<b>(3,198)</b>	<b>(3,038)</b>	<b>(7,761)</b>	<b>(17,715)</b>
<b>Finance costs</b>	<b>(511)</b>	<b>(1,000)</b>	<b>(1,478)</b>	<b>(1,380)</b>
<b>Loss before income taxes</b>	<b>(3,709)</b>	<b>(4,038)</b>	<b>(9,239)</b>	<b>(19,095)</b>
Current income tax expense (note 10)	(164)	(195)	(493)	(826)
Deferred income tax recovery (note 10)	961	701	2,395	4,680
<b>Income tax recovery</b>	<b>797</b>	<b>506</b>	<b>1,902</b>	<b>3,854</b>
<b>Net loss for the period</b>	<b>(2,912)</b>	<b>(3,532)</b>	<b>(7,337)</b>	<b>(15,241)</b>
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net loss</b>				
Actuarial losses on post-employment benefit obligations, net of taxes nil (2013: \$100 for the three-month period ended and \$299 for the nine-month period ended)	-	(295)	-	(886)
<b>Items that may be reclassified subsequently to net loss</b>				
Cumulative translation adjustment	190	425	289	451
<b>Other comprehensive income (loss) for the period</b>	<b>190</b>	<b>130</b>	<b>289</b>	<b>(435)</b>
<b>Comprehensive loss for the period</b>	<b>\$ (2,722)</b>	<b>\$ (3,402)</b>	<b>\$ (7,048)</b>	<b>\$ (15,676)</b>
<b>Loss per share (expressed in \$ per share)</b>				
Basic and diluted (note 12)	\$ (0.04)	\$ (0.06)	\$ (0.10)	\$ (0.25)
<b>Weighted average number of common shares outstanding</b>				
Basic and diluted	81,228,804	64,123,398	77,100,592	61,407,966

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## U.S. Silver & Gold Inc.

Condensed Interim Consolidated Statements of Changes in Equity  
For the nine-month periods ended September 30, 2014 and 2013  
(Unaudited – in thousands of U.S. dollars, except share amounts)

	Number of Shares (000s)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balance – January 1, 2013</b>	59,987	\$ 117,441	\$ 9,981	\$ (95)	\$ (21,504)	\$ 105,823
Net loss for the period	-	-	-	-	(15,241)	(15,241)
Other comprehensive income (net of tax)	-	-	-	451	(886)	(435)
Comprehensive income (loss) for the period	-	-	-	451	(16,127)	(15,676)
Warrants issued on credit facility (note 8)	-	-	3,338	-	-	3,338
Tax effect on expiration of warrants	-	-	(93)	-	-	(93)
Shares and warrants issued on private placement (note 11)	9,636	3,259	1,933	-	-	5,192
Employee share options and warrants:						
Value of services recognized (note 11)	-	-	1,809	-	-	1,809
Proceeds from exercise of share options and warrants	51	69	(16)	-	-	53
<b>Balance – September 30, 2013</b>	69,674	\$ 120,769	\$ 16,952	\$ 356	\$ (37,631)	\$ 100,446
<b>Balance – January 1, 2014</b>	69,674	\$ 120,769	\$ 16,506	\$ 495	\$ (34,143)	\$ 103,627
Net loss for the period	-	-	-	-	(7,337)	(7,337)
Other comprehensive income (net of tax)	-	-	-	289	-	289
Comprehensive income (loss) for the period	-	-	-	289	(7,337)	(7,048)
Tax effect on expiration of warrants	-	-	(39)	-	-	(39)
Shares and warrants issued on private placement (note 11)	11,552	5,030	533	-	-	5,563
Employee share options and warrants:						
Value of services recognized (note 11)	-	-	798	-	-	798
Proceeds from exercise of warrants	3	3	(1)	-	-	2
<b>Balance – September 30, 2014</b>	81,229	\$ 125,802	\$ 17,797	\$ 784	\$ (41,480)	\$ 102,903

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**U.S. Silver & Gold Inc.**

Condensed Interim Consolidated Statements of Cash Flow  
(Unaudited – in thousands of U.S. dollars)

	<b>For the nine-month period ended</b>	
	<b>September 30, 2014</b>	<b>September 30, 2013</b>
<b>Cash flow provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (7,337)	\$ (15,241)
Adjustments for:		
Depreciation, depletion and amortization (note 7)	6,075	8,444
Accretion on credit facility (note 8)	802	189
Finance costs on credit facility (note 8)	-	529
Accretion on decommissioning provision (note 9)	38	33
Foreign exchange loss (gain)	(4)	280
Deferred income tax recovery	(2,434)	(4,979)
Other long-term liabilities	20	80
Non-cash impact of post-employment benefit obligations	(430)	91
Long-term investments	(11)	74
Share-based compensation (note 11)	798	1,809
Impairment charges (note 7)	-	1,357
Changes in items of working capital:		
Trade receivables	2,327	711
Income tax receivable	572	-
Inventories	(183)	3,689
Prepaid expenses	(111)	(350)
Trade and other payables	(1,543)	(4,967)
Income tax payable	-	416
<b>Net cash used in operating activities</b>	<b>(1,421)</b>	<b>(7,835)</b>
<b>Investing activities</b>		
Disposal (purchase) of property, plant and equipment (note 7)	197	(2,977)
Investment in mining properties (note 7)	(4,695)	(7,404)
<b>Net cash used in investing activities</b>	<b>(4,498)</b>	<b>(10,381)</b>
<b>Financing activities</b>		
Payments on credit facility (note 8)	-	(7,900)
Proceeds from credit facility (net of transaction costs) (note 8)	-	7,471
Proceeds from private placement (net of transaction costs) (note 11)	5,563	5,192
Proceeds from exercise of options and warrants (note 11)	2	53
<b>Net cash generated from financing activities</b>	<b>5,565</b>	<b>4,816</b>
<b>Effect of exchange rate changes on cash</b>	<b>(109)</b>	<b>267</b>
<b>Decrease in cash</b>	<b>(463)</b>	<b>(13,133)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>7,167</b>	<b>18,947</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 6,704</b>	<b>\$ 5,814</b>
Cash recovered for income tax	\$ (412)	\$ (501)
Cash paid for income tax	330	910
Cash paid for interest	707	626

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# U.S. Silver & Gold Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

---

### 1. GENERAL INFORMATION

U.S. Silver & Gold Inc. (the “Company”) was incorporated on June 6, 2012 to acquire all of the issued and outstanding shares of U.S. Silver Corporation (“US Silver”) and RX Gold & Silver Inc. (“RX Gold”). The merger of US Silver and RX Gold into the Company was completed on August 13, 2012 pursuant to a plan of arrangement under the Canada Business Corporations Act and the Business Corporations Act (Ontario).

The Company is engaged in the evaluation, acquisition, exploration, development and operation of precious metals mineral properties in North America. The Company is domiciled in Canada and incorporated under the laws of the province of Ontario. The address of its registered office is 145 King Street West, Suite 2870, Toronto, Ontario, M5H 1J8, Canada.

### 2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company’s annual consolidated financial statements as at and for the year ended December 31, 2013.

The Company’s presentation currency is United States dollars (“U.S. dollars”). Reference herein of \$ is to U.S. dollars, C\$ is to Canadian dollars.

These condensed interim consolidated financial statements were authorized for issue by the Audit Committee as delegated by the Board of Directors on November 11, 2014.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2013, except as described below.

#### ***a. Adoption of new accounting standards***

The Company has adopted the following new and revised standards and amendments effective for annual periods beginning on or after January 1, 2014, unless otherwise noted. These changes were made in accordance with the applicable transitional provision.

#### ***IAS 32 – Financial instruments: presentation***

IAS 32, “Financial instruments: presentation” (“IAS 32”) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. These changes did not result in any adjustments in the presentation of financial instruments.

#### ***IAS 36 – Impairment of assets***

IAS 36, “Impairment of assets” (“IAS 36”) was amended by the IASB in May 2014. The amendment introduces additional disclosure requirements when the recoverable amount is determined based on fair value less costs of disposal. The requirements include disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed and disclosure of how the fair value less costs of disposal has been

## U.S. Silver & Gold Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

measured when an impairment loss has been recognized or reversed. The additional disclosure required by the amendment has been provided in note 7.

#### **IFRIC 21 – Levies**

IFRIC 21, “Levies” (“IFRIC 21”) was issued by the IASB in May 2013 which sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company assessed the obligating events for levies and determined that the adoption of IFRIC 21 did not result in any changes in the accounting of financial liabilities.

#### **b. Accounting standard issued but not yet applied**

Management is evaluating the impact and timing the adoption of the following new and revised standards will have on the consolidated financial statements of the Company.

#### **IFRS 9 – Financial instruments**

IFRS 9, “Financial instruments” (“IFRS 9”) was issued in its final version by the IASB in July 2014 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39, “Financial instruments: recognition and measurement” (“IAS 39”). The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### **IFRS 15 – Revenue from contracts with customers**

IFRS 15, “Revenue from contracts with customers” (“IFRS 15”) was issued by the IASB in May 2014 and will replace IAS 18, “Revenue” and IAS 11, “Construction contracts”. The standard provides a single, principles based five-step model for recognizing revenue applied to all contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the condensed interim consolidated financial statements requires the Company’s management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenues and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Company’s reported financial results. Estimates are deemed critical when the Company’s financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the condensed interim consolidated financial statements of future periods.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company’s annual consolidated financial statements as at and for the year ended December 31, 2013.

## **5. TRADE RECEIVABLES**

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Concentrate receivables	\$ 1,962	\$ 4,313
Other	161	137
	<u>\$ 2,123</u>	<u>\$ 4,450</u>

Concentrate receivables represent the value of silver concentrate shipped for smelting and refining, using the September 30, 2014 forward metal pricing when significant risks and rewards have transferred to third parties. The concentrate receivables are due from two customers at September 30, 2014 (2013 – two customers). A reserve for

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

doubtful accounts has not been established, as in the opinion of management, the amounts due will be fully collected.

### 6. INVENTORIES

	September 30, 2014	December 31, 2013
Concentrates - Mill	\$ 1,633	\$ 1,767
Concentrates - In transit	1,747	1,411
Materials and supplies	2,122	2,141
	<u>\$ 5,502</u>	<u>\$ 5,319</u>

The cost of inventories recognized as an expense and included in cost of sales was \$11.3 million during the three-month period ended September 30, 2014 (2013 – \$13.3 million) and \$26.3 million during the nine-month period ended September 30, 2014 (2013 – \$55.4 million).

The Company recognized a write-down of concentrates to net realizable value of \$1.6 million during the three-month period ended September 30, 2014 (2013 – \$0.5 million) and \$3.2 million during the nine-month period ended September 30, 2014 (2013 – \$1.2 million).

### 7. PROPERTY, PLANT AND EQUIPMENT

	Mining Properties	Mining Equipment	Building	Construction in Progress	Total
<b>Year ended December 31, 2013</b>					
Carrying value, January 1, 2013	\$ 59,725	\$ 9,230	\$ 10,117	\$ 3,415	\$ 82,487
Additions/disposals (transfers)	7,157	1,982	2,154	(921)	10,372
Depreciation for the year	(6,268)	(2,592)	(1,656)	-	(10,516)
Impairment charges	(1,357)	-	-	-	(1,357)
Closing net book value	<u>\$ 59,257</u>	<u>\$ 8,620</u>	<u>\$ 10,615</u>	<u>\$ 2,494</u>	<u>\$ 80,986</u>
<b>As at year ended December 31, 2013</b>					
Cost	\$ 104,818	\$ 18,428	\$ 14,984	\$ 2,494	\$ 140,724
Accumulated depreciation and impairment charges	(45,561)	(9,808)	(4,369)	-	(59,738)
Net book value	<u>\$ 59,257</u>	<u>\$ 8,620</u>	<u>\$ 10,615</u>	<u>\$ 2,494</u>	<u>\$ 80,986</u>
<b>Period ended September 30, 2014</b>					
Carrying value, January 1, 2014	\$ 59,257	\$ 8,620	\$ 10,615	\$ 2,494	\$ 80,986
Additions/disposals (transfers)	4,768	701	722	(1,620)	4,571
Depreciation for the period	(3,058)	(1,631)	(1,386)	-	(6,075)
Closing net book value	<u>\$ 60,967</u>	<u>\$ 7,690</u>	<u>\$ 9,951</u>	<u>\$ 874</u>	<u>\$ 79,482</u>
<b>As at period ended September 30, 2014</b>					
Cost	\$ 109,586	\$ 19,129	\$ 15,706	\$ 874	\$ 145,295
Accumulated depreciation and impairment charges	(48,619)	(11,439)	(5,755)	-	(65,813)
Net book value	<u>\$ 60,967</u>	<u>\$ 7,690</u>	<u>\$ 9,951</u>	<u>\$ 874</u>	<u>\$ 79,482</u>

Non-current assets are tested for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable. No impairment charges were incurred for the three-month and nine-month periods ended September 30, 2014. For the year ended December 31, 2013, the Company recorded impairment charges of \$1.4 million for the Drumlummon mine as a result of declining comparable market valuations. The recoverable amount of \$4.8 million for the Drumlummon mine is determined based on its estimated fair value less costs of disposal at the cash generating unit level with commodity prices, enterprise values of comparable entities and inclusion of reserves and resources in market multiples as the key assumptions and estimates used.



## U.S. Silver & Gold Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

## 8. CREDIT FACILITY

On August 7, 2013, the Company signed a credit agreement with Royal Capital Management Corp. (“RCM”) as security agent, and certain lenders (the “RCM Credit Agreement”) to replace its previously existing debt of \$7.9 million. The RCM Credit Agreement provides for the issuance of notes with an aggregate principal amount of C\$8.5 million for a term of three years at an interest rate of 12% per annum payable on a monthly basis. Security is provided by a first charge on all material assets of the Company and its subsidiaries. Beginning August 2015, two years following the date of issue, the notes will be redeemed in monthly increments of C\$0.5 million, with the balance due and payable on maturity. The debt may be pre-paid at any time during the three-year term, subject to a repayment fee. As at September 30, 2014, the fair value of the prepayment option is nil (2013 – nil).

In connection with the RCM Credit Agreement, the Company issued 10,625,000 warrants to RCM where each warrant is exercisable for one common share at an exercise price of C\$0.68 for a period of five years (see share capital note 11). A financing cost is payable to RCM on July 31, 2018 in the amount of C\$2.1 million less the amount which the aggregate share value of shares acquired by RCM upon exercise of the warrants exceeds the exercise price of the warrants. As at September 30, 2014, the fair value of the financing cost payable is nil (2013 – nil).

As at September 30, 2014, the Company had drawn C\$8.5 million on the facility (December 31, 2013 – C\$8.5 million). Interest of \$0.2 million during the three-month period ended September 30, 2014 (2013 – \$0.2 million) and \$0.7 million during the nine-month period ended September 30, 2014 (2013 – \$0.6 million) has been charged to the condensed interim consolidated statement of loss and comprehensive loss.

The amortized cost of the credit facility, associated financing costs and classification are broken down as follows:

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Credit facility	\$ 7,992	\$ 8,155
Discount from warrants issued	(2,491)	(2,809)
Transaction costs	(580)	(684)
	4,921	4,662
Accretion on credit facility	802	422
Foreign exchange	(402)	(163)
	\$ 5,321	\$ 4,921
Current portion of credit facility	\$ 893	\$ -
Non-current portion of credit facility	4,428	4,921
	\$ 5,321	\$ 4,921

## 9. DECOMMISSIONING PROVISION

The decommissioning provision is recognized when a legal and regulatory requirement or constructive obligation as a result of past events to remediate the Galena mine site and Drumlummon mine site occurs. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Company uses assumptions about future costs, including inflation, prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Company's current mining plan and the best available information for making such estimates.

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

The following is a reconciliation of the decommissioning provision:

<b>Balance, January 1, 2013</b>	4,801
Change in estimate	(1,717)
Accretion	45
<b>Balance, December 31, 2013</b>	<u>\$ 3,129</u>
Change in estimate	73
Accretion	38
<b>Balance, September 30, 2014</b>	<u>\$ 3,240</u>

At September 30, 2014, the total undiscounted amount of estimated cash flows required to settle the obligations is \$3.5 million, (December 31, 2013 – \$3.5 million). These obligations have been discounted using a risk-free discount rate (U.S. Treasury yields) between 0.13% and 1.78% (2013 – between 0.25% and 2.02%).

## 10. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year-end December 31, 2013 was 25.92% and for the nine-month period ended September 30, 2014 was 25.92%.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The offset of deferred tax assets and liabilities is as follows:

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Deferred income tax asset	\$ 15,064	\$ 12,669
Deferred income tax liability	(2,258)	(2,258)
Deferred income tax asset (net)	<u>\$ 12,806</u>	<u>\$ 10,411</u>

## 11. SHARE CAPITAL

### **Common Shares:**

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

On August 22, 2013, the Company completed a private placement of 9,636,331 units at a price of C\$0.60 per unit for total gross proceeds of \$5.5 million. Each unit consisted of one common share and one half of one common share purchase warrant where each whole warrant is exercisable for one common share at an exercise price of \$0.75 for a period of three years. As part of the private placement, the Company issued 540,000 finder's warrants where each finder's warrant is exercisable for one common share at an exercise price of C\$0.64 for a period of three years.

On March 21, 2014, the Company completed a private placement of 8,103,497 units and 3,448,280 subscription receipts at a price of C\$0.58 per unit and C\$0.58 per subscription receipt for total gross proceeds of C\$6.7 million. Each unit consisted of one common share and one quarter of one common share purchase warrant where each whole warrant is exercisable for one common share at an exercise price of C\$0.73 for a period of two years. As part of the private placement, the Company issued 577,589 finder's warrants where each finder's warrant is exercisable for one common share at an exercise price of C\$0.58 for a period of two years. The C\$2.0 million or \$1.8 million gross proceeds from subscription receipts were held in escrow pending the satisfaction of certain regulatory and shareholder approvals for the exchange of subscription receipts for units.

The Company received the necessary approvals on May 20, 2014 and completed the exchange of 3,448,280 subscription receipts for units in connection with the above private placement on May 21, 2014. Each unit

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

consisted of one common share and one quarter of one common share purchase warrant where each whole warrant is exercisable for one common share at an exercise price of C\$0.73 for a period of two years.

### Share options:

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Number of Options	Weighted Average Exercise Price per Share (in C\$)
<b>Balance, January 1, 2013</b>	5,613,514	\$ 2.89
Granted	1,160,000	0.73
Exercised	(35,731)	0.98
Cancelled	(1,244,680)	2.70
Expired	(524,068)	3.94
<b>Balance, December 31, 2013</b>	4,969,035	2.34
Granted	1,830,000	0.49
Cancelled	(50,164)	2.81
Expired	(89,023)	2.01
<b>Balance, September 30, 2014</b>	6,659,848	\$ 1.83

Options granted during the nine-month period ended September 30, 2014 are as follows:

Grant Date	Options Granted	Fair Value (C\$)	Exercise Price (C\$)	Expected Volatility	Interest Rate	Forfeiture Rate	Term in Years	Dividend Yield
February 6, 2014	1,830,000	\$ 0.25	\$ 0.49	76.61%	1.18%	14.53%	3	Nil

One-third of the granted options vests immediately on grant date with one-third vesting one year from grant date, and the remainder vesting two years from grant date.

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

Share options outstanding as at September 30, 2014 have the following expiry dates and exercise prices:

<b>Exercise Price per Share (in C\$)</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Options Exercisable</b>
0.49	1,830,000	2.4	609,994
0.65	890,000	1.8	593,322
0.78	110,000	1.9	73,322
0.98	71,240	0.1	71,240
1.68	164,815	0.7	164,815
1.76	2,233	0.9	2,233
1.82	560,000	1.2	373,335
1.99	60,000	1.3	39,998
2.23	1,428,500	2.9	1,428,500
2.33	125,000	3.0	125,000
3.10	295,215	2.3	196,826
3.44	93,800	2.3	62,534
3.96	479,050	1.7	479,050
4.50	450,530	1.8	450,530
4.86	26,800	2.0	26,800
5.05	72,665	1.9	72,665
<b>1.83</b>	<b>6,659,848</b>	<b>2.1</b>	<b>4,770,164</b>

The fair value of each tranche of each option is measured at the grant date using the Black-Scholes option pricing model and the following assumptions:

	<b>2014</b>	<b>2013</b>
Expected volatility	76.61%	76.76% - 78.81%
Risk-free interest rate	1.18%	1.22% - 1.31%
Forfeiture rate	14.53%	13.40% - 14.38%
Term (years)	3	3
Dividend yield	Nil	Nil

The fair value of stock options is recognized as share-based compensation in the condensed interim consolidated statement of loss and comprehensive loss over the vesting period of the stock options. The Company incurred \$0.1 million in share-based compensation during three-month period ended September 30, 2014 (2013 – \$0.5 million) and \$0.8 million during nine-month period ended September 30, 2014 (2013 – \$1.8 million).

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

### Warrants:

The warrants that are issued and outstanding as at September 30, 2014 are as follows:

Number of Warrants	Exercise Price (C\$)	Issuance Date	Expiry Date	Fair Value
862,070	0.73	May 2014	Mar 21, 2016	\$ 87,063
2,025,874	0.73	Mar 2014	Mar 21, 2016	\$ 324,028
577,589	0.58	Mar 2014	Mar 21, 2016	\$ 122,119
10,625,000	0.68	Aug 2013	Aug 7, 2018	\$ 3,338,294
4,818,165	0.75	Aug 2013	Aug 22, 2016	\$ 1,730,570
<u>540,000</u>	0.64	Aug 2013	Aug 22, 2016	\$ 202,323
<u>19,448,698</u>				

### Restricted Share Units:

The Company has a Restricted Share Unit Plan under which eligible directors, officers and key employees of the Company are entitled to receive awards of restricted share units. Each restricted share unit is equivalent in value to the fair market value of a common share of the Company on the date of grant with the value of each award charged to compensation expense over the period of vesting. At each reporting date, the compensation expense and liability are adjusted to reflect changes in market value. As at September 30, 2014, 1,227,957 restricted share units are outstanding at an aggregate value of \$0.3 million (December 31, 2013 – 200,000 units outstanding at an aggregate value of nil).

## 12. LOSS PER SHARE

The effect of stock options and warrants was excluded from the calculation of diluted loss per share for the three-month and nine-month periods ended September 30, 2014 as they are anti-dilutive.

	For the three-month period ended		For the nine-month period ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net loss to common shareholders	\$ (2,912)	\$ (3,532)	\$ (7,337)	\$ (15,241)
Weighted average number of common shares outstanding - basic	81,228,804	64,123,398	77,100,592	61,407,966
Adjustments for assumed exercise of share options and warrants	-	-	-	-
Weighted average number of common shares outstanding - diluted	81,228,804	64,123,398	77,100,592	61,407,966
Diluted loss per share	\$ (0.04)	\$ (0.06)	\$ (0.10)	\$ (0.25)

## 13. FINANCIAL INSTRUMENTS AND FAIR VALUES

### Measurement categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether their changes in fair value are recognized in the condensed interim consolidated statement of loss and comprehensive loss. Those categories are: fair value through profit and loss; loans and receivables; available-for-sale investments; and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories as at September 30, 2014 and December 31, 2013:

## U.S. Silver & Gold Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

	September 30, 2014	December 31, 2013
<b>Assets</b>		
<b>Loans and receivables</b>		
Cash and cash equivalents	6,704	7,167
Trade receivables	2,659	5,250
Restricted cash	151	151
	<u>9,514</u>	<u>12,568</u>
<b>Fair value through profit and loss</b>		
Embedded derivatives within trade receivables	(536)	(800)
<b>Available-for-sale</b>		
Long-term investments	42	31
<b>Liabilities</b>		
<b>Amortized cost</b>		
Trade and other payables	4,553	6,096
Credit facility	5,321	4,921
Other long-term liabilities	587	567

### ***Fair values, including valuation methods and assumptions***

The following table summarizes the fair value of financial assets and liabilities measured on a recurring basis as at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	6,704	7,167
Trade receivables	2,123	4,450
Restricted cash	151	151
Long-term investments	42	31
<b>Liabilities</b>		
Trade and other payables	4,553	6,096
Credit facility	5,321	4,921
Other long-term liabilities	587	567

The carrying values of cash, restricted cash, trade and other payables, and other long-term liabilities approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Cash equivalents: The fair value of cash equivalents is valued using quoted market prices in active markets. The Company's cash equivalents consist of money market accounts held at financial institutions which have original maturities of less than 90 days.
- Trade receivables: The fair value of trade receivables from silver sales contracts that contain provisional pricing terms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, there is an embedded derivative feature within trade receivables.

## U.S. Silver & Gold Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

- Long-term investments: The fair value of long-term investments is determined based on the closing price of each security at the balance sheet date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security.
- Property, plant and equipment: The fair value of the Drumlummon mine mining properties is determined based on unobservable cash flows and market multiples.
- Credit facility: The credit facility is recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument and is subsequently measured at amortized cost using the effective interest method.
- 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 time of sale and the actual final price received from the customer are caused by changes in market prices for metals sold and result in an embedded derivative in revenues and accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs. The Company recorded on the consolidated statement of loss and comprehensive loss a negative price adjustment of \$0.6 million in revenues from provisionally priced sales for the three-month period ended September 30, 2014 (2013 – \$4.3 million positive price adjustment), and a positive price adjustment of \$0.3 million in revenues from provisionally priced sales for the nine-month period ended September 30, 2014 (2013 – \$0.8 million positive price adjustment). Currently, two customers represent 100% of the Company's trade receivables which contains the embedded derivative.
- Derivatives: The Company 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 Company does not use derivatives for speculative purposes. The fair value of the Company's derivative instruments is based on quoted market prices for similar instruments and at market prices at the valuation date. As at September 30, 2014, there are no stand-alone derivative and non-derivative instruments outstanding.

### *Fair value hierarchy*

The following table classifies financial assets and liabilities that are recognized on the consolidated statements of financial position at fair value in a hierarchy that is based on significance of the inputs used in making the measurements.

	September 30, 2014	December 31, 2013
Level 1		
Cash and cash equivalents	6,704	7,167
Restricted cash	151	151
Trade and other payables	4,553	6,096
Level 2		
Trade receivables	2,123	4,450
Long-term investments	42	31
Credit facility	5,321	4,921
Other long-term liabilities	587	567
Level 3		
Property, plant and equipment	4,768	4,768

There were no transfers between levels 1, 2 or 3 during the period.

# U.S. Silver & Gold Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

### 14. SEGMENT REPORTING AND ECONOMIC DEPENDENCE

The Company's operations comprise three reporting segments engaged in exploration, development and extraction of the Company's mineral assets in the United States. Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Makers that are used to make strategic decisions.

The following segmented information is presented as at September 30, 2014 and December 31, 2013, and for the three-month and nine-month periods ended September 30, 2014 and 2013.

	As at September 30, 2014				As at December 31, 2013			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Cash and cash equivalents	\$ 3,331	\$ 75	\$ 3,298	\$ 6,704	\$ 3,003	\$ 9	\$ 4,155	\$ 7,167
Trade receivables	2,079	-	44	2,123	4,384	-	66	4,450
Inventories	5,502	-	-	5,502	5,319	-	-	5,319
Other current assets	662	12	228	902	1,126	15	222	1,363
Property, plant and equipment	72,345	7,044	93	79,482	73,291	7,578	117	80,986
Goodwill	12,780	-	-	12,780	12,780	-	-	12,780
Other non-current assets	12,921	36	42	12,999	10,526	36	31	10,593
<b>Total assets</b>	<b>\$ 109,620</b>	<b>\$ 7,167</b>	<b>\$ 3,705</b>	<b>\$ 120,492</b>	<b>\$ 110,429</b>	<b>\$ 7,638</b>	<b>\$ 4,591</b>	<b>\$ 122,658</b>
Trade and other payables	\$ 3,333	\$ 347	\$ 873	\$ 4,553	\$ 3,865	\$ 883	\$ 1,348	\$ 6,096
Other current liabilities	-	-	893	893	-	-	-	-
Post-employment benefit obligations	3,888	-	-	3,888	4,318	-	-	4,318
Decommissioning provision	2,712	528	-	3,240	2,573	556	-	3,129
Other long-term liabilities	587	-	4,428	5,015	567	-	4,921	5,488
<b>Total liabilities</b>	<b>\$ 10,520</b>	<b>\$ 875</b>	<b>\$ 6,194</b>	<b>\$ 17,589</b>	<b>\$ 11,323</b>	<b>\$ 1,439</b>	<b>\$ 6,269</b>	<b>\$ 19,031</b>
<b>For the three-month period ended September 30, 2014</b>								
<b>For the three-month period ended September 30, 2013</b>								
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
<b>Revenues</b>	<b>\$ 10,242</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,242</b>	<b>\$ 13,268</b>	<b>\$ 611</b>	<b>\$ -</b>	<b>\$ 13,879</b>
Cost of sales	(9,989)	-	-	(9,989)	(11,981)	(34)	-	(12,015)
Care and maintenance costs	-	(215)	-	(215)	-	(271)	-	(271)
General and administration	-	-	(948)	(948)	-	-	(1,553)	(1,553)
Exploration costs	(254)	(50)	-	(304)	(228)	(50)	-	(278)
Depreciation, depletion and amortization	(1,801)	(47)	(8)	(1,856)	(2,030)	(55)	(9)	(2,094)
Share-based compensation	(60)	-	(68)	(128)	(22)	-	(476)	(498)
Other expenses	-	-	(511)	(511)	-	-	(1,208)	(1,208)
<b>Income (loss) before income taxes</b>	<b>(1,862)</b>	<b>(312)</b>	<b>(1,535)</b>	<b>(3,709)</b>	<b>(993)</b>	<b>201</b>	<b>(3,246)</b>	<b>(4,038)</b>
Current and deferred income tax recovery	797	-	-	797	506	-	-	506
Other comprehensive income (loss)	-	-	190	190	(295)	-	425	130
<b>Comprehensive income (loss) for the period</b>	<b>\$ (1,065)</b>	<b>\$ (312)</b>	<b>\$ (1,345)</b>	<b>\$ (2,722)</b>	<b>\$ (782)</b>	<b>\$ 201</b>	<b>\$ (2,821)</b>	<b>\$ (3,402)</b>
<b>For the nine-month period ended September 30, 2014</b>								
<b>For the nine-month period ended September 30, 2013</b>								
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
<b>Revenues</b>	<b>\$ 29,650</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,650</b>	<b>\$ 44,396</b>	<b>\$ 9,244</b>	<b>\$ -</b>	<b>\$ 53,640</b>
Cost of sales	(26,498)	-	-	(26,498)	(40,639)	(11,098)	-	(51,737)
Care and maintenance costs	-	(280)	-	(280)	-	(805)	-	(805)
General and administration	-	-	(3,027)	(3,027)	-	-	(4,847)	(4,847)
Exploration costs	(650)	(55)	-	(705)	(1,507)	(569)	-	(2,076)
Depreciation, depletion and amortization	(5,925)	(126)	(24)	(6,075)	(6,512)	(1,909)	(23)	(8,444)
Share-based compensation	(309)	-	(521)	(830)	(291)	-	(1,518)	(1,809)
Impairment charges	-	-	-	-	-	(1,357)	-	(1,357)
Other expenses	-	-	(1,474)	(1,474)	-	-	(1,660)	(1,660)
<b>Loss before income taxes</b>	<b>(3,732)</b>	<b>(461)</b>	<b>(5,046)</b>	<b>(9,239)</b>	<b>(4,553)</b>	<b>(6,494)</b>	<b>(8,048)</b>	<b>(19,095)</b>
Current and deferred income tax recovery	1,902	-	-	1,902	3,854	-	-	3,854
Other comprehensive income (loss)	-	-	289	289	(886)	-	451	(435)
<b>Comprehensive loss for the period</b>	<b>\$ (1,830)</b>	<b>\$ (461)</b>	<b>\$ (4,757)</b>	<b>\$ (7,048)</b>	<b>\$ (1,585)</b>	<b>\$ (6,494)</b>	<b>\$ (7,597)</b>	<b>\$ (15,676)</b>



## **U.S. Silver & Gold Inc.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three-month and nine-month periods ended September 30, 2014 and 2013

(Unaudited – in thousands of U.S. dollars, unless otherwise stated)

---

For the three-month and nine-month periods ended September 30, 2014, the Company delivered all of its concentrate to two customers from Idaho operations (2013 – two customers from Idaho operations and three customers from Montana operations). Approximately 49% and 51% of the Company's total revenues during the three-month period ended September 30, 2014 (2013 – 78% and 18%) and approximately 58% and 42% of the Company's total revenues during the nine-month period ended September 30, 2014 (2013 – 59% and 24%) are sold to two customers from Idaho operations, respectively. Although the Company sells its concentrate to a limited number of customers, it is not economically dependent upon any one customer as there are other markets throughout the world for the Company's concentrate.

### **15. SUBSEQUENT EVENTS**

On November 7, 2014, the Company announced the signing of a definitive agreement to combine the Company and Scorpio Mining Corporation by way of a plan of arrangement. Under the terms of the combination transaction, shareholders of the Company will receive 1.68 common shares of Scorpio Mining Corporation for each of the Company's common share held. A special meeting of shareholders will be held mid-December 2014 to approve the proposed combination transaction. Closing of the combination transaction is expected to occur prior to year end.