FORM 51-102F4
BUSINESS ACQUISITION REPORT

ITEM 1 IDENTITY OF COMPANY

1.1 Name and Address of Company

Scorpio Mining Corporation ("**Scorpio**" or the "**Company**")
145 King Street West, Suite 2870
Toronto, ON M5H 1J8

1.2 Executive Officer

For further information, please contact:

Darren Blasutti
President and Chief Executive Officer
416-848-9503

ITEM 2 DETAILS OF ACQUISITION

2.1 Nature of Business Acquired

On December 23, 2014, Scorpio completed a merger of equals with U.S. Silver & Gold Inc. ("**U.S. Silver & Gold**") to combine their respective businesses by way of a plan of arrangement of U.S. Silver & Gold pursuant to section 182 of the *Business Corporations Act* (Ontario) (the "**Arrangement**"). U.S. Silver & Gold was, and continues to be, engaged in the evaluation, acquisition, exploration, development and operation of precious metals mineral properties in North America. U.S. Silver & Gold's principal product is silver-lead and silver copper concentrates.

Pursuant to the Arrangement, (i) each outstanding common share of U.S. Silver & Gold was exchanged for 1.68 common shares of Scorpio (the "**Exchange Ratio**"), (ii) the outstanding options of U.S. Silver & Gold were exchanged for options to purchase common shares of Scorpio based on the Exchange Ratio and (iii) the outstanding restricted share units of U.S. Silver & Gold were adjusted based on the Exchange Ratio with future cash pay-outs to be based on the trading price of the common shares of Scorpio. As of the effective time of the Arrangement (the "**Effective Time**"), the outstanding warrants of U.S. Silver & Gold, in accordance with their terms, are exercisable for common shares of Scorpio based on the Exchange Ratio.

2.2 Acquisition Date

December 23, 2014.

2.3 Consideration

Pursuant to the Arrangement, Scorpio acquired all 81,826,629 common shares of U.S. Silver & Gold that were outstanding as of the Effective Time. To fund the acquisition, as of the Effective Time Scorpio issued 137,468,737 common shares to the depositary under the Arrangement. The common shares of Scorpio issued in connection with the Arrangement were issued from treasury.

2.4 Effect on Financial Position

As of the Effective Time, U.S. Silver & Gold became a wholly-owned subsidiary of the Company. The effect of the Arrangement on the Company's financial position is outlined in the unaudited *pro forma* consolidated financial statements of the Company as at September 30, 2014 attached as Schedule A to this report. Other than as described herein and in the management information circular of the Company dated November 18, 2014 in respect of the Arrangement, the Company does not currently have any plans or proposals for material changes in its business affairs or the affairs of U.S. Silver & Gold which may have a significant effect on the financial performance and financial position of the Company.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The Arrangement was completed pursuant to an arrangement agreement dated November 7, 2014 between the Company and U.S. Silver & Gold. The parties to the Arrangement did not include any informed persons, associates or affiliates of the Company.

2.7 Date of Report

March 4, 2015

ITEM 3 FINANCIAL STATEMENTS AND OTHER INFORMATION

The following financial statements are included as part of this report:

(a) Attached as Schedule A are the unaudited *pro forma* consolidated financial statements of the Company as of September 30, 2014, including the notes thereto.

(b) Attached as Schedule B are the audited annual consolidated financial statements of U.S. Silver & Gold for the financial years ending December 31, 2013 and December 31, 2012, including the notes thereto and the auditors' report thereon. The auditors of U.S. Silver & Gold have not consented to the inclusion in this report of their auditors' reports on the foregoing financial statements.

(c) Attached as Schedule C are the unaudited interim financial statements of U.S. Silver & Gold for the three and nine month periods ending September 30, 2014 and September 30, 2013, including the notes thereto.

Cautionary Statement on Forward-Looking information

This report contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information includes, but is not limited to, the Company's expectations intentions, plans, assumptions and beliefs with respect to, among other things, the Cosalá Complex and the Galena Complex. Often, but not always, forward-looking information can be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", "assume" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions, or statements about future events or performance. Forward-looking information is based on the opinions and estimates of the Company as of the date such information is provided and is subject to known and unknown risks, uncertainties, and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those expressed or implied by such forward looking information. This includes the ability to develop and operate the Cosalá and Galena properties, risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, environmental risks, government regulation, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, social and political developments and other risks of the mining industry. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated, or intended. Readers are cautioned not to place undue reliance on such information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific those contribute to the possibility that the predictions, to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

DATED March 6th, 2015.

by ______________________________

Name: Peter McRae

Title: Vice President, General Counsel and Corporate Secretary

SCHEDULE A

See attached.

SCORPIO MINING CORPORATION

Pro Forma Financial Statements

(Unaudited)

Scorpio Mining Corporation

Pro Forma Consolidated Statements of Financial Position
As at September 30, 2014
(In thousands of Canadian dollars, unaudited)

	Scorpio Mining Corporation	U.S. Silver & Gold Inc.	Notes	Pro Forma Adjustments	Pro Forma Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 13,869	$ 7,508	3a)	$ (3,000)	$ 18,377
Trade and other receivables and prepaid expenses	8,146	2,808		-	10,954
Income tax receivable	-	580		-	580
Inventories	9,638	6,162	3b)	403	16,203
Investment in Scorpio Gold	1,638	-		-	1,638
Total current assets	33,291	17,058		(2,597)	47,752
Restricted cash	-	169		-	169
Long-term investments	-	47		-	47
Property, plant and equipment	105,177	89,020	3c)	(56,609)	137,588
Goodwill	-	14,314	3d)	(14,314)	-
Deferred tax assets	13,496	14,343	3e)	(14,343)	13,496
Total assets	$ 151,964	$ 134,951		$ (87,863)	$ 199,052
Equity and liabilities					
Current liabilities					
Trade and other payables	$ 4,861	$ 5,099		$ -	$ 9,960
Derivative liabilitiy	113	-		-	113
Credit facility	-	1,000		-	1,000
Total current liabilities	4,974	6,099		-	11,073
Other long-term liabilities	-	657		-	657
Credit facility	-	5,136	3f)	1,061	6,197
Post-employment benefit obligations	-	4,355		-	4,355
Provision for environmental rehabilitation	2,078	3,629		-	5,707
Total liabilities	7,052	19,876		1,061	27,989
Equity					
Share capital	170,399	132,134	3d) 3g)	(104,841)	197,692
Equity reserve	26,494	18,953	3d) 3h)	(17,095)	28,352
Foreign currency translation reserve	11,421	2,410	3d)	(2,410)	11,421
Deficit	(63,412)	(38,422)	3a) 3d)	35,422	(66,412)
Equity attributable to shareholders of the Company	144,902	115,075		(88,924)	171,053
Non-controlling interest	10	-		-	10
Total equity	144,912	115,075		(88,924)	171,063
Total equity and liabilities	$ 151,964	$ 134,951		$ (87,863)	$ 199,052

The accompanying notes are an integral part of the pro forma consolidated financial statements

Scorpio Mining Corporation

Pro Forma Consolidated Statements of Operations
For the nine month period ended September 30, 2014
(In thousands of Canadian dollars, except for share and per share amounts, unaudited)

	Scorpio Mining Corporation	U.S. Silver & Gold Inc.	Notes	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	$ 26,989	$ 32,443		$ -	$ 59,432
Cost of sales excluding depletion and amortization	21,076	28,926		-	50,002
	5,913	3,517		-	9,430
Depletion and amortization	8,668	6,647		-	15,315
Mine operating loss	(2,755)	(3,131)		-	(5,886)
Expenses (income)					
Care and maintenance costs	-	306		-	306
Corporate general and administrative	3,104	4,238		-	7,342
Exploration costs	-	771		-	771
Unwinding of discount on provision for environmental rehabilitation	83	42		-	125
Interest income	(91)	-		-	(91)
Finance costs	-	1,617		-	1,617
Foreign exchange loss (gain)	367	(3)		-	364
Unrealized loss on derivative liability	113	-		-	113
Impairment of investment in Scorpio Gold	790	-		-	790
	4,366	6,971		-	11,337
Income (loss) before income taxes	(7,121)	(10,102)		-	(17,223)
Income tax recovery	(1,425)	(2,081)		-	(3,506)
Net income (loss) attributable to:					
Equity shareholders of the Company	$ (5,696)	$ (8,021)		$ -	$ (13,717)
Earnings (loss) per share					
Basic and diluted	$ (0.03)	$ (0.10)			$ (0.04)
Weighted average number of shares outstanding					
Basic and diluted	198,588,913	77,100,592			335,053,819

The accompanying notes are an integral part of the pro forma consolidated financial statements

U.S. Silver & Gold Inc.

Pro Forma Consolidated Statements of Operations
For the year ended December 31, 2013
(In thousands of Canadian dollars, except for share and per share amounts, unaudited)

	Scorpio Mining Corporation	U.S. Silver & Gold Inc.	Notes	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	$ 31,115	$ 66,100		$ -	$ 97,215
Cost of sales excluding depletion and amortization	24,251	64,042		-	88,293
	6,864	2,058		-	8,922
Depletion and amortization	6,678	10,829		-	17,507
Mine operating loss	186	(8,771)		-	(8,585)
Expenses (income)					
Care and maintenance costs	-	997		-	997
Corporate general and administrative	3,006	9,166		-	12,172
Exploration costs	-	2,370		-	2,370
Unwinding of discount on provision for environmental rehabilitation	92	46		-	138
Interest income	(158)	-		-	(158)
Finance costs	-	1,927		-	1,927
Foreign exchange loss	360	286		-	646
Gain on sale of assets	-	(2,935)		-	(2,935)
Impairment of mining interests	1,100	1,397		-	2,497
Impairment of investment in Scorpio Gold	5,477	-		-	5,477
	9,877	13,254		-	23,131
Income (loss) before income taxes	(9,691)	(22,025)		-	(31,716)
Income tax recovery	(504)	(5,926)		-	(6,430)
Net income (loss) attributable to:					
Equity shareholders of the Company	$ (9,187)	$ (16,099)		$ -	$ (25,286)
Earnings (loss) per share					
Basic and diluted	$ (0.05)	$ (0.25)			$ (0.08)
Weighted average number of shares outstanding					
Basic and diluted	198,517,680	63,491,652			334,982,586

The accompanying notes are an integral part of the pro forma consolidated financial statements

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements of Scorpio Mining Corporation ("Scorpio Mining" or the "Company") give effect to the proposed transaction pursuant to which the Company will acquire 100% of the issued and outstanding common shares of U.S. Silver & Gold Inc. ("U.S. Silver") by way of plan of arrangement (the "Proposed Acquisition").

The Proposed Acquisition is subject to acceptance by Scorpio Mining's and U.S. Silver's shareholders and certain securities regulatory approvals. Management of Scorpio Mining performed a review to identify differences between the Company's accounting policies and those of U.S. Silver's accounting policies that could have a potential material impact on the unaudited pro forma consolidated financial statements and could be reasonably estimated. The significant accounting policies are believed to conform in all material aspects to those of Scorpio Mining other than the difference in presentation currency noted below. Further accounting policy differences may be identified after completion of the Proposed Acquisition.

The unaudited pro forma consolidated financial statements have been compiled using the following information:

i. the unaudited condensed interim consolidated financial statements of Scorpio Mining as at and for the nine month period ended September 30, 2014;
ii. the unaudited condensed interim consolidated financial statements of U.S. Silver as at and for the nine month period ended September 30, 2014;
iii. the audited consolidated financial statements of Scorpio Mining for the year ended December 31, 2013;
iv. the audited consolidated financial statements of U.S. Silver for the year ended December 31, 2013; and
v. such other supplementary information as was considered necessary to reflect the Proposed Acquisition in the unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statements have been prepared in connection with the Proposed Acquisition and have been prepared for illustrative purposes only. The unaudited pro forma consolidated financial statements do not contain all of the information required for financial statements and accordingly should be read in conjunction with the unaudited condensed interim consolidated financial statements of both the Company and U.S. Silver as at and for the nine month period ended September 30, 2014, and the audited consolidated financial statements of both the Company and U.S. Silver for the year ended December 31, 2013.

The Company's presentation currency is Canadian dollars. Reference herein of $ is to Canadian dollars unless otherwise stated.

The unaudited pro forma consolidated statement of financial position as at September 30, 2014 has been prepared as if the Proposed Acquisition described in note 2 had occurred as at September 30, 2014. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2013 and the nine month period ended September 30, 2014 has been prepared as if the Proposed Acquisition described in note 2 had occurred at January 1, 2013.

U.S. Silver's unaudited condensed interim consolidated financial statements as at and for the nine month period ended September 30, 2014 and audited consolidated financial statements for the year ended December 31, 2013 were presented in U.S. dollars. For the purpose of these unaudited pro forma consolidated financial statements, U.S. Silver's consolidated financial statements have been translated by management to Canadian dollars at the closing rate of 1.1200 at the date of the statement of financial position, and income and expenses translated at the average rate of 1.0942 for the nine month period ended September 30, 2014 and 1.0298 for the year ended December 31, 2013. The equity accounts of U.S. Silver have been translated using the historical rates at the date of the transactions. All foreign exchange rates have been obtained from the Bank of Canada website.

The unaudited pro forma consolidated financial statements are based on the historical financial statements of Scorpio Mining and U.S. Silver. Certain elements of the historical financial statements of U.S. Silver have been reclassified in preparation of the unaudited pro forma consolidated financial statements to conform to the financial statement presentation currently used by the Company.

The unaudited pro forma consolidated financial statements are not intended to reflect the results of operations or the financial position of the Company which would have actually resulted had the Proposed Acquisition been effected on the dates indicated. Actual amounts recorded once the Proposed Acquisition is completed are likely to differ from those recorded in the unaudited pro forma consolidated financial statements. Any potential synergies that may be realized and integration costs that may be incurred upon consummation of the Proposed Acquisition have been excluded from the unaudited pro forma consolidated financial statements. Further, the unaudited pro forma consolidated financial statements are not necessarily indicative of the results of operations that may be obtained in the future.

In the opinion of management, the unaudited pro forma consolidated financial statements have been prepared for fair presentation, in all material respects, on the basis of assumptions and adjustments described below and in note 3.

2. THE PROPOSED ACQUISITION

The Company announced on November 7, 2014 that it had entered into an Arrangement Agreement dated November 7, 2014 pursuant to which the Company will acquire all of the outstanding common shares of U.S. Silver. Under the terms of the Agreement, each outstanding U.S. Silver common share would be exchanged for 1.68 common shares of Scorpio Mining. Outstanding U.S. Silver options would be exchanged for Scorpio Mining options and outstanding U.S. Silver warrants would become exercisable for Scorpio Mining common shares under the same exchange ratio.

The Proposed Acquisition is accounted for using the acquisition method pursuant to IFRS 3 – *Business Combinations* ("IFRS 3"). Scorpio Mining is identified as the acquirer of the business combination with U.S. Silver as the acquiree. Under the acquisition method, the total purchase price is allocated to the identifiable assets acquired and the liabilities assumed based on their fair values on the date of the purchase. Goodwill is recorded as the excess of the consideration given over the fair value of the identifiable assets acquired and the liabilities assumed.

The closing share price of Scorpio Mining common shares on November 7, 2014 has been used to determine the preliminary value of the consideration paid. Scorpio Mining held no shares of U.S. Silver as at September 30, 2014. This Proposed Acquisition has been accounted for as a business combination with Scorpio Mining identified as the acquirer.

The preliminary consideration paid is calculated on the following assumptions:

Non-diluted U.S. Silver common shares outstanding, November 7, 2014	81,229,111
Implicit share exchange ratio	1.68
Scorpio Mining common shares to be exchanged for U.S. Silver common shares	136,464,906
Scorpio Mining common share price, November 7, 2014	0.20
Total common share consideration	27,293
Consideration of U.S. Silver options exchanged for Scorpio Mining options	261
Consideration of U.S. Silver warrants exercisable for Scorpio Mining common shares	1,597
Total consideration (in thousands of Canadian dollars)	$ 29,151

The allocation of the preliminary purchase price to reflect the fair values of the identifiable assets acquired and liabilities assumed is based on management's best estimate of such assets and liabilities, and the corresponding purchase price allocation adjustments may be subject to change. For the purposes of this preliminary purchase price allocation, the purchase price has been allocated to the assets and liabilities based on their estimated fair values, with the remainder of $56.6 million being preliminarily allocated to property, plant and equipment pending the close of the transaction and allocation of this amount to the fair values of identifiable assets acquired and liabilities assumed or a gain on acquisition. A detailed valuation of the property, plant and equipment will be undertaken and the value assigned to the property, plant and equipment may be materially different upon completion of that process. The final purchase price allocations may differ significantly from the allocations included herein. The following summarizes the preliminary allocation of the purchase price to identifiable assets acquired and liabilities assumed:

(In thousands of Canadian dollars unless otherwise stated, unaudited)

	Preliminary purchase price allocation
Cash and cash equivalents	$ 7,508
Trade receivables	2,378
Income tax receivable	580
Inventories	6,565
Prepaid expenses	430
Restricted cash	169
Long-term investments	47
Property, plant and equipment	32,411
Trade and other payables	(5,099)
Other long-term liabilities	(657)
Credit facility	(7,197)
Post-employment benefit obligations	(4,355)
Decommissioning provision	(3,629)
Net assets acquired	$ 29,151

3. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro forma consolidated financial statements reflect the following assumptions and adjustments to give effect to the Proposed Acquisition of all the issued and outstanding common shares of U.S. Silver as described in note 2 above:

a) Reduction in cash to reflect the estimated non-recurring transaction costs from Scorpio Mining and U.S. Silver related to the Proposed Acquisition. The transaction costs include legal, financial advisory, accounting, other professional fees, and change of control payments. These costs have not been included in the unaudited pro forma consolidated statement of operations for any periods presented.

b) Adjustment to increase inventory by $0.4 million representing the adjustment to net realizable value of concentrate inventory held as at September 30, 2014.

c) Adjustment to decrease property, plant and equipment by $56.6 million to reflect the difference in fair value of net assets acquired and the total consideration from the preliminary purchase price allocation. Depletion and amortization in the unaudited pro forma consolidated statement of operations has not been adjusted as the amount of any adjustment is not objectively determinable until a detailed valuation of the property, plant and equipment has been performed.

d) Elimination of U.S. Silver goodwill, share capital, equity reserve, foreign currency translation reserve, and deficit as a result of the Proposed Acquisition.

e) Adjustment to decrease deferred tax assets by $14.3 million due to the limitation of net operating losses that may be utilized subsequent to the change of control of U.S. subsidiaries in U.S. Silver.

f) Adjustment to increase credit facility by $1.1 million in presenting the outstanding $8.5 million Canadian dollar credit facility at fair value.

g) Adjustment to reflect the fair value of approximately 136 million Scorpio Mining common shares issued on acquisition as consideration for $27.3 million.

h) Adjustment to reflect the fair values of approximately 11 million Scorpio Mining options exchanged and approximately 33 million Scorpio Mining common shares issuable upon exercise of U.S. Silver warrants as consideration for $0.3 million and $1.6 million, respectively. Fair value is measured as at November 7, 2014 using the Black-Scholes option pricing model based on conversion ratios under the terms of the Agreement.

The calculation of the purchase price allocation is preliminary and will change as a result of several factors, including:

- Actual number of Scorpio Mining common shares issued at the closing of the transaction
- Actual number of U.S. Silver options and warrants exchanged at the closing of the transaction
- Closing common share price of Scorpio Mining at the closing of the transaction
- Actual transaction costs incurred
- Final adjustments to the purchase price, in particular the determination of the fair value of the assets acquired and liabilities assumed

The impact of these adjustments will not be known until the completion of the Proposed Acquisition. As the allocation of the fair value of assets acquired and liabilities assumed is preliminary, it is likely the purchase price and fair value of the assets acquired and liabilities assumed will vary from those shown above. The difference may be material.

SCHEDULE B

See attached.

U.S. SILVER & GOLD INC.

Consolidated Financial Statements

For the years ended December 31, 2013 and 2012
(In thousands of U.S. dollars, unless otherwise stated)

U.S. Silver & Gold Inc.

(In thousands of U.S. dollars, unless otherwise stated)

December 31, 2013 and 2012

CONTENTS

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as outlined in Part I of the Chartered Professional Accountants Canada Handbook. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control has been developed and is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Board of Directors approves the financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the audit committee, which is composed of non-executive directors. The audit committee meets periodically with management and the auditors to review financial reporting and control matters.

(Signed) Darren Blasutti	(Signed) Warren Varga
President & Chief Executive Officer	Chief Financial Officer

Toronto, Ontario, Canada
March 24, 2014

Independent Auditor's Report

To the Shareholders of
U.S. Silver & Gold Inc.

We have audited the accompanying consolidated financial statements of U.S. Silver & Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of U.S. Silver and Gold Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario, Canada

March 24, 2014

U.S. Silver & Gold Inc.

Consolidated Statements of Financial Position
(In thousands of U.S. dollars)

As at	December 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents (note 6)	$ 7,167	$ 18,947
Trade receivables (note 7)	4,450	7,684
Income tax receivable (note 14)	1,090	-
Inventories (note 8)	5,319	10,225
Prepaid expenses	273	347
	18,299	37,203
Non-current assets		
Restricted cash	151	165
Long-term investments	31	184
Property, plant and equipment (note 9)	80,986	82,487
Goodwill (note 5)	12,780	12,780
Deferred income tax asset (note 14)	10,411	7,750
Total assets	$ 122,658	$ 140,569
Liabilities		
Current liabilities		
Trade and other payables (note 10)	$ 6,096	$ 12,696
Income tax payable (note 14)	-	582
Credit facility (note 11)	-	7,900
	6,096	21,178
Non-current liabilities		
Other long-term liabilities	567	468
Credit facility (note 11)	4,921	-
Post-employment benefit obligations (note 12)	4,318	8,299
Decommissioning provision (note 13)	3,129	4,801
Total liabilities	19,031	34,746
Equity		
Share capital (note 15)	120,769	117,441
Contributed surplus	16,506	9,981
Accumulated other comprehensive income (loss) (note 16)	495	(95)
Deficit	(34,143)	(21,504)
	103,627	105,823
Total liabilities and equity	$ 122,658	$ 140,569

Subsequent events (note 23)

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

APPROVED ON BEHALF OF THE BOARD

(Signed) Gordon Pridham
Director

(Signed) Hugh Agro
Director

U.S. Silver & Gold Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2013 and 2012
(In thousands of U.S. dollars, except per share and share amounts)

	2013	2012
Revenues	$ 64,187	$ 94,936
Cost of sales (note 17)	(62,219)	(71,475)
Care and maintenance costs	(968)	-
General and administration	(6,815)	(6,131)
Exploration costs	(2,301)	(8,415)
Depreciation, depletion and amortization (note 9)	(10,516)	(10,760)
Gain on sale of assets (note 9)	2,850	-
Share-based compensation (note 15 and 18)	(2,117)	(3,509)
Acquisition costs (note 5)	-	(2,723)
Impairment charges (note 5 and 9)	(1,357)	(14,442)
Foreign exchange loss	(267)	(61)
Loss before finance costs and income taxes	(19,523)	(22,580)
Finance costs	(1,856)	(251)
Loss before income taxes	(21,379)	(22,831)
Current income tax recovery (note 14)	1,339	423
Deferred income tax recovery (note 14)	4,416	4,567
Income tax recovery	5,755	4,990
Net loss for the year	(15,624)	(17,841)
Other comprehensive income (loss)		
Items that will not be reclassified to net loss		
Actuarial gains (losses) on post-employment benefit obligations, net of taxes $1,006 (2012: $411)	2,985	(1,169)
Items that may be reclassified subsequently to net loss		
Cumulative translation adjustment	590	(305)
Other comprehensive income (loss) for the year	3,575	(1,474)
Comprehensive loss for the year	$ (12,049)	$ (19,315)
Loss per share (expressed in $ per share)		
Basic and diluted (note 19)	$ (0.25)	$ (0.29)
Weighted average number of common shares outstanding		
Basic and diluted	63,491,652	60,936,429

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

U.S. Silver & Gold Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2013 and 2012
(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
Balance – January 1, 2012	61,837	$ 79,248	$ 6,972	$ 210	$ (2,494)	$ 83,936
Net loss for the year	-	-	-	-	(17,841)	(17,841)
Other comprehensive loss (net of tax)	-	-	-	(305)	(1,169)	(1,474)
Comprehensive loss for the year	-	-	-	(305)	(19,010)	(19,315)
Reduction of US Silver shares on acquisition (note 5)	(20,198)	-	-	-	-	-
Shares issued on acquisition of RX Gold (note 5)	18,418	38,223	-	-	-	38,223
Tax impact on RX Gold share issuance costs (note 14)	-	130	-	-	-	130
Employee share options:						
Value of services recognized (note 15 and 18)	-	-	3,509	-	-	3,509
Proceeds from exercise of share options	893	1,566	(500)	-	-	1,066
Common shares repurchased and cancelled	(963)	(1,726)	-	-	-	(1,726)
Balance – December 31, 2012	59,987	$ 117,441	$ 9,981	$ (95)	$ (21,504)	$ 105,823
Balance – January 1, 2013	59,987	$ 117,441	$ 9,981	$ (95)	$ (21,504)	$ 105,823
Net loss for the year	-	-	-	-	(15,624)	(15,624)
Other comprehensive income (net of tax)	-	-	-	590	2,985	3,575
Comprehensive income (loss) for the year	-	-	-	590	(12,639)	(12,049)
Warrants issued on credit facility (note 11)	-	-	3,338	-	-	3,338
Tax effect on issuance and expiration of warrants	-	-	(847)	-	-	(847)
Shares and warrants issued on private placement (note 15)	9,636	3,259	1,933	-	-	5,192
Employee share options and warrants:						
Value of services recognized (note 15 and 18)	-	-	2,117	-	-	2,117
Proceeds from exercise of share options and warrants	51	69	(16)	-	-	53
Balance – December 31, 2013	69,674	$ 120,769	$ 16,506	$ 495	$ (34,143)	$ 103,627

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

U.S. Silver & Gold Inc.

Consolidated Statements of Cash Flow
For the years ended December 31, 2013 and 2012
(In thousands of U.S. dollars)

	2013	2012
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	$ (15,624)	$ (17,841)
Adjustments for:		
Depreciation, depletion and amortization (note 9)	10,516	10,760
Accretion on credit facility (note 11)	259	-
Finance costs on credit facility (note 11)	529	-
Accretion on decommissioning provision (note 13)	45	37
Foreign exchange loss	267	61
Deferred income tax recovery (note 14)	(3,508)	(4,567)
Other long-term liabilities	99	117
Non-cash impact of post-employment benefit obligations	(996)	(338)
Long-term investments	153	-
Advance on concentrates revenue	-	(3,977)
Gain on sale of assets (note 9)	(2,850)	-
Share-based payments (note 15 and 18)	2,117	3,509
Impairment charges (note 5 and 9)	1,357	14,442
Changes in items of working capital:		
Trade receivables (note 7)	3,234	(3,125)
Income tax receivable	(1,090)	1,968
Inventories	4,906	7,757
Prepaid expenses	74	69
Trade and other payables	(6,600)	1,262
Income tax payable	(582)	82
Net cash generated from (used in) operating activities	(7,694)	10,216
Investing activities		
Purchase of property, plant and equipment (note 9)	(3,215)	(8,888)
Investment in mining properties (note 9)	(8,874)	(10,718)
Gain on sale of assets (note 9)	2,850	-
Restricted cash	14	(50)
Acquisition of RX Gold (note 5)	-	2,062
Net cash used in investing activities	(9,225)	(17,594)
Financing activities		
Common shares repurchased and cancelled (note 15)	-	(1,726)
Payments on credit facility (note 11)	(7,900)	
Proceeds from credit facility (net of transaction costs) (note 11)	7,471	-
Proceeds from private placement (net of transaction costs) (note 15)	5,192	-
Proceeds from exercise of options and warrants (note 15)	53	1,066
Net cash generated from (used in) financing activities	4,816	(660)
Effect of exchange rate changes on cash	323	-
Decrease in cash	(11,780)	(8,038)
Cash and cash equivalents – beginning of year	18,947	26,985
Cash and cash equivalents – end of tear	$ 7,167	$ 18,947
Cash recovered for income tax	$ (501)	$ (4,049)
Cash paid for income tax	910	1,000
Cash paid for interest	872	297

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

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

The Company prepares its consolidated financial statements 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 I of the Chartered Professional Accountants Canada Handbook. These consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Critical accounting estimates and judgments used by management in the preparation of these consolidated financial statements are presented in note 4.

These consolidated financial statements were authorized for issue by the Board of Directors on March 24, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are as follows:

a. Consolidation

The financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are those entities which the Company controls by having the power to affect the variable returns exposed to the Company through the Company's involvement with the subsidiaries. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated on consolidation.

The Company applies the acquisition method to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company elects on an acquisition-by-acquisition basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of identifiable net assets. Acquisition-related costs are expensed as incurred. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is negative, a bargain purchase gain is recognized immediately in profit or loss.

b. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Determination of operating segments are based on the reports reviewed by the chief operating decision makers ("CODM") that are used to make strategic decisions about resources to be allocated to the segment and performance assessment, and for which discrete financial information is available. Unallocated items not directly attributable to a segment comprise mainly of corporate assets and head office expenses.

c. Foreign currency translation

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.

(i) Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which it operates. The functional currency of the operations in the United States is the U.S. dollar while the functional currency of the operations in Canada is the Canadian dollar.

The financial statements of entities that have a functional currency different from that of the Company are translated into U.S. dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) as cumulative translation adjustments.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the consolidated statement of loss and comprehensive loss in "foreign exchange loss".

d. Financial instruments

(i) Financial assets

The Company initially recognizes trade receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company designates financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term or it is a derivative that is not designated and effective as a hedging instrument. Subsequent re-measurements of FVTPL assets are revalued with any gains or losses recognized in the consolidated statement of loss and comprehensive loss.

Loans and receivables

Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale investments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. They are classified as non-current unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income (loss).

When financial assets classified as available-for-sale are found to have objective evidence of impairment the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of loss and comprehensive loss. This amount represents the loss in accumulated other comprehensive income (loss) that is reclassified to net loss.

When financial assets classified as available-for-sale are sold, the accumulated re-measurement amounts previously recognized in accumulated other comprehensive income (loss) are reclassified to net loss.

(ii) Financial liabilities at amortized cost

Financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Trade and other payables are initially recognized at the amount required to be paid. Subsequently, trade payables are measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iii) Derivative financial instruments

The Company may enter into derivative financial instrument contracts to manage certain market risks which result from the underlying nature of its business. The Company does not use hedge accounting unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such. Otherwise, they are classified as held-for-trading and recorded at their fair value with realized and unrealized gains or losses arising from changes in the fair value recorded in the consolidated statement of loss and comprehensive loss in the period in which they occur. Fair values for derivative instruments classified as FVTPL are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date. Realized gains and losses are recognized in the consolidated statement of loss and comprehensive loss.

a) Provisionally priced sales contracts entered into in accordance with the Company's expected sales requirements are considered to host embedded derivatives. These host contracts containing embedded derivatives are designated as FVTPL and initially recognized and subsequently re-measured at fair value at each reporting date using quoted market prices based on the forward COMEX price of the commodities. Gains and losses are recognized in revenue as described in the revenue recognition accounting policy.

b) All other derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured, subject to IAS 39, at fair value at each reporting date. Gains and losses on re-measurement are included in gain (loss) on derivatives.

e. Inventories

Silver-copper, silver-lead and gold-silver in concentrate and ore stockpiles are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined using the average method and comprises direct purchase costs and fixed and variable overhead costs, including depreciation and amortization, incurred in converting ore into concentrate. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end.

Materials and supplies inventory are valued at the lower of cost and net realizable value, where cost is determined using the first-in-first-out method. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence by comparing those items to their net realizable value. If carrying value exceeds net realizable value, a write-down is recognized.

When inventories have been written down to net realizable value, the Company makes a new assessment of net realizable value in each subsequent reporting period. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to the consolidated statement of loss and comprehensive loss during the period in which they are incurred.

Depreciation is recorded over the estimated useful life of the asset as follows:

- Buildings – 7 - 30 years on a straight-line basis; and
- Mining and processing equipment – units of production based upon estimated total proven and probable reserves and straight-line basis over 3 – 30 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

g. Exploration and evaluation (“E&E”) costs

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

Exploration and evaluation costs consist of:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining , geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

Project costs in relation to these activities are expensed as incurred until such time as the Company expects that mineral resources will be converted to mineral reserves within a reasonable period. Thereafter, costs for the project are capitalized prospectively as capitalized exploration and evaluation costs in property, plant and equipment.

Capitalized exploration and evaluation costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to capitalized development costs within property, plant and equipment. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves; however, this determination may be impacted by management's assessment of certain modifying factors including: legal, environmental, social and governmental factors.

h. Development costs

Development costs incurred by or on behalf of the Company are accumulated separately for each area of interest in which economically recoverable resources have been identified. Such costs comprise costs directly attributable to the construction of a mine and the related infrastructure.

General and administrative costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant area of interest.

A development property is classified as a "mining property'' at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

i. Mining properties

When further development costs are incurred in respect of a mining property after the commencement of production, such costs are carried forward as part of the mining property when it is probable that additional future economic benefits associated with the costs will flow to the consolidated entity. Otherwise such costs are classified as a cost of sales.

Mining properties are carried at cost, less accumulated depletion and any accumulated impairment charges.

Depreciation is charged using the units-of-production method and straight-line method, with separate calculations being made for each area of interest. In applying the units-of-production method, depreciation is normally calculated using the quantity of mineral reserves extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable mineral reserves. The units-of-production method results in a depreciation charge proportional to the depletion of the proven and probable reserves.

Mine properties are tested for impairment in accordance with the policy in note 3 k (ii).

j. Decommissioning provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production. Over time, the discounted liability is increased for the change in present value based on the risk-free discount rate in the United States. The periodic unwinding of the discount is recognized in the consolidated statement of loss and comprehensive loss. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

k. Impairment

(i) Financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Financial assets include loans and receivables and available-for-sale investments. A financial asset or a group of financial assets is impaired if there is objective evidence that the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted. Evidence of impairment may include indications that debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, or other observable data which indicates that there is a measurable decrease in the estimated future cash flows.

If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in finance expense. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If impairment is later recovered, the recovery is credited to finance income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit ("CGU") (a mine operation) is the greater of its value in use and its fair value, less costs to sell. In assessing recoverable amounts, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

An impairment loss is recognized if the carrying amount of an asset or the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of loss and comprehensive loss. Impairment losses recognized in respect of the CGU are allocated to reduce the carrying amount of long-lived assets in the unit on a pro rata basis.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the consolidated statement of loss and comprehensive loss in the period it is determined.

l. Income tax

Income tax comprises of current and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent it is probable future taxable profits will be available against which they can be utilized.

The Company did not recognize any deferred income taxes relating to its investments in subsidiaries.

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.

m. Employee benefits

(i) Defined benefit plans

The cost of defined benefit plans is determined using the projected unit credit method. The related pension liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Actuarial valuations for defined benefit plans are carried out annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses arising in the year are recognized in full in the period in which they occur, in other comprehensive income (loss) and retained earnings without recycling to the consolidated statement of loss and comprehensive loss in subsequent periods.

Current service cost, the recognized element of any past service cost, interest expense arising on the pension liability and the expected return on plan assets are recognized in the same line items in the consolidated statement of loss and comprehensive loss as the related compensation cost.

The values attributed to plan liabilities are assessed in accordance with the advice of independent qualified actuaries. Service costs arising from plan amendments are recognized immediately.

(ii) Share-based payments

The Company grants stock options to employees (including directors and senior executives). The options may vest immediately, equally over two or three years, and expire after three or five years. The stock options are equity settled awards. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at the end of each reporting period, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

Stock option obligations are settled by the issue of shares from treasury.

n. Revenue recognition

Company policy requires all production to be sold under contract. Revenue is only recognized on individual shipments when persuasive evidence exists that the following criteria are satisfied:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- the sales price and costs can be measured reliably; and
- it is probable that the economic benefits associated with the sale will flow to the Company.

Satisfaction of these conditions depends on the terms of trade with individual customers. Generally the risks and rewards are considered to have transferred to the customer when title transfer.

Revenues are recorded based on the provisional prices when title and significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers. 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 accounts receivable. The embedded derivative is recorded at fair value each period until settlement occurs, with changes in fair value classified as a component of revenues.

o. Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

p. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The treasury stock method, which assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares, are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The Company's potentially dilutive common shares comprise stock options granted to employees, and warrants.

q. 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, 2013, unless otherwise noted. These changes were made in accordance with the applicable transitional provisions.

IFRS 7 – Financial instruments: disclosures

IFRS 7, “Financial instruments: disclosures” was amended to provide guideline on the eligibility criteria for offsetting assets and liabilities as a single net amount in the consolidated statement of financial position. The Company assessed its criteria for offsetting assets and liabilities and where applicable, disclosures in the consolidated financial statements have been prepared in accordance with the Company’s adoption of this standard.

IFRS 10 – Consolidated financial statements

IFRS 10, “Consolidated financial statements” (“IFRS 10”) was issued by the IASB in May 2011 and will replace SIC 12, “Consolidation – special purpose entities” and parts of IAS 27, “Consolidated and separate financial statements”. Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees.

IFRS 11 – Joint arrangements

IFRS 11, “Joint arrangements” (“IFRS 11”) was issued by the IASB in May 2011 and will supersede IAS 31, “Interests in joint ventures” and SIC 13, “Jointly controlled entities – Non-monetary contributions by venturers” by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, “Disclosure of interests in other entities” (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The Company assessed its interests in other entities on January 1, 2013 and determined that the adoption of IFRS 12 did not result in any changes in the accounting for its interests in other entities.

IFRS 13 – Fair value measurement

IFRS 13, “Fair value measurement” (“IFRS 13”) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, required disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1 – Presentation of financial statements

IAS 1, "Presentation of financial statements" has been amended to require entities to separate items presented in other comprehensive income (loss) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income (loss) items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has adopted the amendments to IAS 1 effective January 1, 2013 and has reclassified comprehensive loss items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive loss.

IAS 19 – Employee benefits

IAS 19, "Employee benefits" has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income (loss) as they arise, without subsequent recycling to net loss. This is consistent with the Company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short- term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. The adoption of IAS 19 did not require any changes to the recognition of actuarial gains and losses or past service costs used by the Company and did not result in any retrospective adjustments to prior period comparative information.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" ("IAS 28") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The Company assessed its investments in associates and joint ventures on January 1, 2013 and determined that the amendments to IAS 28 did not result in any changes in the accounting for its investments in associates and joint ventures.

IAS 36 – Impairment of assets

IAS 36, "Impairment of assets" ("IAS 36") has been amended to require entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed, and to provide detailed disclosure on how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. These changes did not result in any changes in the accounting for impairment of assets.

r. Accounting standards issued but not yet applied

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

IFRS 9 – Financial instruments

IFRS 9, "Financial instruments" ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income (loss) rather than the statement of loss. IFRS 9 amends some of the requirements of IFRS 7, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income (loss), and guidance on financial liabilities and derecognition of financial instruments. In December 2011, amendments to IFRS 7 were issued to require additional disclosures on transition from IAS 39 to IFRS 9.

In November 2013, IFRS 9 was amended to include guidance on hedge accounting and to allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (loss) (without having to adopt the remainder of IFRS 9). In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather be left open pending the finalization of the impairment and classification and measurement requirements.

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.

IFRIC 21 – Levies

IFRIC 21, "Levies" ("IFRIC 21") was issued 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 should a liability be recognized.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the 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 consolidated financial statements of future periods.

Critical accounting estimates

Decommissioning provision

The Company's operations are subject to environmental regulations in the United States.

Upon establishment of commercial viability of a site, the Company estimates the cost to restore the site following the completion of commercial activities and depletion of reserves. These future obligations are based on cost estimates by taking into consideration closure plans, known environmental impacts and costs that will be carried out to meet the restoration obligations. The decommissioning provision is based on the net present value of the estimated future costs. The Company assesses its decommissioning provision quarterly and is measured by discounting the expected cash flows. The applicable discount rate is a rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates. Actual restoration costs may differ from those projected as a result of, among other things, an increase over time of actual remediation costs, a change in the timing for utilization of reserves and the potential for more stringent environmental regulatory requirements.

Determination of reserves and resources

Reserve estimates are integral to the determination of the commercial viability of a site, depletion amounts charged to the cost of sales and possible impairments. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived from those reserves, including many factors beyond the control of management when making these estimates. The reserves and estimated future net cash flow from the Company's interest in properties are determined based on professional evaluations provided by internal or external qualified persons. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. These evaluations include assumptions relating to factors such as production rates, reserve accessibility, production decline rates, timing and amount of capital expenditures, future commodity prices and operating costs. Future changes in the regulatory environments in which the properties are located may also significantly affect the Company's ability to access reserves.

The cost less the residual value of each item of property, plant and equipment is amortized over its useful economic life. Amortization is charged to cost of production over the shorter of the estimated lives of the individual assets or the life of mine using the units-of-production method. Amortization commences when assets are available for use. Land is not amortized.

The assets' useful lives and methods of amortization are reviewed and adjusted if appropriate at each fiscal year-end.

Share-based compensation

The amount expensed for share-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's registered shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

Income taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred income tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the consolidated statement of financial position date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate, the rate of salary increase and the inflation rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations.

Critical accounting judgments

Valuation of mining properties and other long-lived assets

Mining properties and other long-lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- a significant deterioration in expected future commodity prices;
- a significant adverse movement in foreign exchange rates;
- a significant increase in production costs;
- a large cost overrun during the development and construction of a new mine;

- a significant increase in the expected cost of dismantling assets and restoring the site;
- a significant reduction in the mineral content of ore reserves/resources;
- serious mine accidents;
- a significant increase in market interest rates; and
- adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

Valuation of derivatives and embedded derivatives

In the valuation of the Company's outstanding derivatives and embedded derivatives, management makes estimates regarding future commodity prices and counterparty risk at each reporting date. Since the Company recognizes the fair value of these financial instruments on the consolidated statement of financial position and records changes in fair value in the current period earnings, these estimates will have a direct impact on the Company's net loss for the period.

Purchase price allocation

Business combinations require judgment and estimates to be made at the date of acquisition in relation to determining assets and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities.

In respect of mining company acquisitions, such as the acquisition of RX Gold in August 2012, excess purchase consideration is typically allocated to the mineral reserves and resources being acquired. The estimate of reserves and resources is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves and resources as a result of factors such as production costs, recovery rates, grade or reserves or commodity prices could impact depreciation rates, asset carrying values and environmental and restoration provisions. Changes in assumptions over long-term commodity prices, market demand and supply, and economic and regulatory climates could also impact the carrying value of assets, including goodwill.

5. GOODWILL ON ACQUISITION OF RX GOLD

In accordance with our accounting policy, goodwill that has indefinite useful life is tested annually, in the fourth quarter, for impairment.

As a result of the acquisition of RX Gold on August 13, 2012, $15.4 million of goodwill was recorded. The goodwill arises mainly on the recognition of synergies of the business combination and is measured as a residual. For the year ended December 31, 2012, the Company recorded impairment charges of $2.7 million in relation to the goodwill allocated to the Drumlummon mine CGU as a result of limiting spending capital to advance exploration drilling, permitting, and underground development activities. The remaining goodwill relates to the Galena mine CGU.

For the year ended December 31, 2013, the Company recorded no impairment charges to goodwill.

On August 13, 2012, US Silver and RX Gold combined their businesses into U.S. Silver & Gold Inc. US Silver was involved in the exploration, development and extraction of high-grade silver-copper-lead metals in Idaho, United States. RX Gold was engaged in the acquisition, exploration, evaluation and development of precious metals mineral properties in North America and operates the Drumlummon gold-silver mine in Montana, United States. US Silver and RX Gold combined their businesses to create a growth-oriented precious metals producer in North America.

US Silver and RX Gold combined their businesses through (a) the exchange of each outstanding common share of US Silver for 0.67 of a common share of the Company pursuant to a plan of arrangement under the Canada Business Corporations Act, and (b) the exchange of each outstanding common share of RX Gold for 0.109 of a common share of the Company pursuant to a plan of arrangement under the Business Corporations Act (Ontario) ("Merger"). As of August 13, 2012, the former shareholders of US Silver held approximately 70% of the outstanding common shares of the Company and the former shareholders of RX Gold held approximately 30% of the outstanding common shares of the Company.

The existing options of US Silver and RX Gold were exchanged at their respective Merger ratios for options of the Company. The treatment of US Silver and RX Gold warrants is described in detail in note 15.

The transaction has been accounted for as a business combination with U.S. Silver as the acquirer for accounting purposes.

The consideration paid is calculated as follows:

RX Gold shares outstanding August 13, 2012 (000s)	168,975
Implicit share exchange ratio	6.147
US Silver shares to be exchanged for RX Gold (000s)	27,489
US Silver share price on August 13, 2012 (C$)	1.38
C$/USD exchange rate, August 13, 2012	1.01
Total consideration	$ 38,223

The allocation of the purchase price is as follows:

Net assets acquired	
Cash	$ 2,062
Trade receivables	210
Prepaid expenses	54
Inventories	10,766
Long-term investment	226
Deferred income tax asset	2,162
Mining assets	23,809
Goodwill	15,417
Property, plant and equipment	4,171
Reclamation bonds	64
Trade and other payables	(6,290)
Advanced concentrate revenues	(3,977)
Income tax payable	(500)
Credit facility	(7,900)
Decommissioning provision	(2,051)
	$ 38,223

The deferred income tax asset of $2.2 million arises mainly on the recognition of net operating losses associated with RX Gold as it is probable that the Company would have sufficient taxable profits in the future to realize the tax benefits through transfer of those losses as permitted by the tax laws.

Acquisition related costs of $2.7 million have been charged to the consolidated statement of loss and comprehensive loss for the year ended December 31, 2012.

Inventories on acquisition had a cost carrying value of $7.8 million though were adjusted to fair market value of $10.8 million for accounting purposes, an increase of $3.0 million. This market value increase is realized in cost of sales in the consolidated statements of loss and comprehensive loss.

Advanced concentrate revenues relates to cash payments from a precious metal trader for the sale of concentrate prior to the completion of the revenue cycle. RX Gold entered into these arrangements to help manage cash flow prior to the Merger and the revenue cycle was completed prior to the year-end of the December 31, 2012.

These consolidated financial statements include RX Gold's results from August 13, 2012 to December 31, 2012. The revenue and net loss included in the consolidated statements of loss and comprehensive loss since August 13, 2012 contributed by RX Gold was $18.1 million from the sale of gold and silver produced at the Drumlummon mine in Montana and net loss of $21.0 million of which $14.4 million relates to impairment charges.

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

If RX Gold had been consolidated from January 1, 2012, the unaudited proforma consolidated statements of loss and comprehensive loss would include revenue of $19.6 million and net loss of $21.4 million from RX Gold for the year ended December 31, 2012. The revenue of $19.6 million was recognized from July 1, 2012 to December 31, 2012 as RX Gold management assessed the Drumlummon mine as transitioning to production as at July 1, 2012. Prior to that time, cash collected from gold and silver sales was treated as an offset to exploration expenses as opposed to revenues. Adjusting for this treatment, the consolidated adjusted revenues would have increased by $18.5 million from January 1, 2012 to June 30, 2012, resulting in revenues of $115.0 million on a proforma basis for the year ended December 31, 2012.

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash	$ 7,164	$ 7,937
Cash equivalents	3	11,010
	$ 7,167	$ 18,947

Cash equivalents consist of money market accounts held at financial institutions which have original maturities of less than 90 days. Cash equivalents were converted to known amounts of cash during the year ended December 31, 2013.

7. TRADE RECEIVABLES

	December 31, 2013	December 31, 2012
Concentrate receivables	$ 4,313	$ 7,339
Other	137	345
	$ 4,450	$ 7,684

Concentrate receivables represent the value of silver concentrate shipped for smelting and refining, using the December 31, 2013 forward metal pricing when significant risks and rewards have transferred to third parties. The concentrate receivables are due from two customers at December 31, 2013 (2012 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amounts due will be fully collected.

8. INVENTORIES

	December 31, 2013	December 31, 2012
Concentrates - Mill	$ 1,767	$ 4,435
Concentrates - In transit	1,411	3,160
Materials and supplies	2,141	2,630
	$ 5,319	$ 10,225

The cost of inventories recognized as an expense during the year ended December 31, 2013 and included in cost of sales was $67.1 million (2012 – $68.5 million).

The Company recognized a write-down of concentrates to net realizable value of $1.6 million during the year ended December 31, 2013 (2012 – nil).

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

9. PROPERTY, PLANT AND EQUIPMENT

	Mining Properties	Mining Equipment	Building	Construction in Progress	Total
Year ended December 31, 2012					
Carrying value, January 1, 2012	$ 44,763	$ 4,041	$ 4,686	$ 3,976	$ 57,466
Additions/disposals (transfers)	10,718	4,253	5,196	(561)	19,606
Acquired through the merger	23,809	2,946	1,225	-	27,980
Depreciation for the year	(7,760)	(2,010)	(990)	-	(10,760)
Impairment charges	(11,805)	-	-	-	(11,805)
Closing net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
As at year ended December 31, 2012					
Cost	$ 97,661	$ 16,446	$ 12,830	$ 3,415	$ 130,352
Accumulated depreciation and impairment charges	(37,936)	(7,216)	(2,713)	-	(47,865)
Net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
Year ended December 31, 2013					
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	$ 59,257	$ 8,620	$ 10,615	$ 2,494	$ 80,986
As at year ended December 31, 2013					
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	$ 59,257	$ 8,620	$ 10,615	$ 2,494	$ 80,986

On November 12, 2013, the Company sold certain non-core patented and unpatented mining claims for net proceeds of approximately $2.8 million. These mining claims had no net book value at the time of sale.

For the year ended December 31, 2013, the Company determined that declining comparable market valuations were potential indicators of impairment and recorded an impairment charge of $1.4 million for the Drumlummon mine (2012 – $11.8 million). 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, the lowest level for which identifiable cash flows are largely independent of cash flows of other assets. The key assumptions and estimates used in determining the recoverable amount for the Drumlummon mine are related to commodity prices, enterprise values of comparable entities and inclusion of reserves and resources in market multiples. A 10% decrease in the value of gold equivalent ounces used in the estimate would have resulted in approximately $0.5 million decrease in the recoverable amount. A 10% decrease in the inclusion of reserves and resources used in the estimate would have resulted in approximately $0.5 million decrease in the recoverable amount.

10. TRADE AND OTHER PAYABLES

	December 31, 2013	December 31, 2012
Trade payables	$ 1,104	$ 3,410
Accrued expenses	4,992	9,286
	$ 6,096	$ 12,696

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

11. 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 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 December 31, 2013, the fair value of the prepayment option is 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 15). 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 December 31, 2013, the fair value of the financing cost payable is nil.

As at December 31, 2013, the Company had drawn C$8.5 million on the facility (2012 – $7.9 million). Interest of $0.9 million during the year ended December 31, 2013 (2012 – $0.3 million) has been charged to the consolidated statement of loss and comprehensive loss.

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

	December 31, 2013	December 31, 2012
Credit facility	$ 8,155	$ 7,900
Discount from warrants issued	(2,809)	-
Transaction costs	(684)	-
	4,662	7,900
Accretion on credit facility	422	-
Foreign exchange	(163)	-
	$ 4,921	$ 7,900

12. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Company 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 Company'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, 2013 is 9.07 years (2012 – 9.00).

The amounts recognized in the consolidated statements of financial position are as follows:

	December 31, 2013	December 31, 2012
Present value of funded obligations	$ 17,648	$ 18,923
Fair value of plan assets	13,330	10,624
Deficit of funded plans	$ 4,318	$ 8,299

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

The movement in the defined benefit obligation is as follows:

	2013	2012
At January 1	$ 18,923	$ 15,946
Current service costs	802	661
Interest costs	792	742
Benefits paid	(594)	(533)
Plan amendments	320	136
Actuarial losses (gains)	(2,595)	1,971
At December 31	$ 17,648	$ 18,923

The movement in the fair value of plan assets of the year is as follows:

	2013	2012
At January 1	$ 10,624	$ 8,831
Interest income	442	420
Actuarial gains	1,396	391
Employer contributions	1,462	1,515
Benefits paid	(594)	(533)
At December 31	$ 13,330	$ 10,624

The amount recognized in the consolidated statements of loss and comprehensive loss is as follows:

	2013	2012
Current service costs	$ 802	$ 661
Interest costs	350	322
Past service costs and gains on settlement	320	136
Total, included in wages and employee expense	$ 1,472	$ 1,119

The principal actuarial assumptions were as follows:

	2013	2012
Discount rate (Expense)	4.00%	4.50%
Discount rate (Year End Disclosures)	4.75%	4.00%
Future salary increases (Salaried Plan Only)	5.00%	5.00%

A 1% change in discount rate would have resulted in approximately $2.5 million increase in the defined benefit obligation from $17.6 million to $20.1 million as at December 31, 2013. A 1% change in future salary increases would have resulted in approximately $0.1 million increase in the defined benefit obligation from $17.6 million to $17.7 million as at December 31, 2013.

Plan assets are comprised of:

	December 31, 2013	December 31, 2012
Pooled or mutual funds	$ 13,330	$ 10,624

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

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yield on fixed interest investments is based on gross redemption yields as at the end of the reporting period. Expected returns on equity investments reflect long-term real rates of return in the market.

Expected contributions to pension benefit plans for the year ended December 31, 2014 are $1,612. For the year ended December 31, 2013, the actuarial gains charged to other comprehensive income were $3,991 (2012 – $1,580 other comprehensive loss). At December 31, 2013 the accumulated actuarial losses recognized in deficit were $947 (2012 – $4,938).

13. 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.

The following is a reconciliation of the decommissioning provision:

Balance, January 1, 2012	$ 2,807
Addition through the Merger	2,051
Change in estimate	(94)
Accretion	37
Balance, December 31, 2012	4,801
Change in estimate	(1,717)
Accretion	45
Balance, December 31, 2013	$ 3,129

At December 31, 2013, the total undiscounted amount of estimated cash flows required to settle the obligation is $3.5 million, (2012 – $5.0 million). These obligations have been discounted using a risk-free discount rate (U.S. Treasury yields) between 0.25% and 2.45% (2012 – between 0.31% and 1.18%). Approximately $1.5 million of the change in estimate was from reevaluation of the Drumlummon mine obligation as at December 31, 2013. These obligations are expected to be paid in 2014 and beyond.

A 1% increase in the risk-free discount rate would have resulted in approximately $0.1 million decrease in the decommissioning provision from $3.1 million to $3.0 million as at December 31, 2013. A 1% decrease in the risk-free discount rate would have resulted in approximately $0.2 million increase in the decommissioning provision from $3.1 million to $3.3 million as at December 31, 2013.

The Company is in the process of finalizing security of approximately $0.4 million in bond payable towards the Drumlummon mine decommissioning obligation as at December 31, 2013.

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

14. INCOME TAX

	2013	2012
Current tax:		
Current income tax recovery	$ 1,339	$ 423
Deferred tax:		
Origination and reversal of timing differences	$ 2,563	$ 4,139
Recognized in OCI	1,006	428
Recognized in contributed surplus	847	-
Deferred income tax recovery	$ 4,416	$ 4,567

The tax on the Company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2013	2012
Accounting loss	$ (21,379)	$ (22,831)
Tax at the applicable tax rate of 25.92% (2012 – 25.20%)	(5,541)	(5,753)
Tax effect of expenses that are non deductible in determining taxable profit:		
Percentage depletion	-	(675)
Stock-based compensation	511	978
Penalties	18	92
Transaction costs	-	486
Goodwill impairment	-	665
Mine license tax	-	125
Foreign taxes paid	-	305
Other non deductible item	17	399
Tax rate change	-	(55)
Alternative minimum tax reconciling items	-	(125)
Change in deferred tax liability	-	6,006
Unrealized foreign exchange	334	-
Valuation allowance	325	(7,438)
Net operating losses derecognized	(61)	-
Net operating losses derecognized	(352)	-
Tax recovery	$ (4,749)	$ (4,990)

The Company is a perpetual alternative minimum taxpayer for Federal tax purposes as a result the applicable tax rate is the aggregate of the Federal Alternative Minimum Tax ("AMT") rate of 20% and the State tax rate of 5.92% after reduction for federal benefit. As a result the net operating losses were derecognized.

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

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the consolidated financial statement carrying values and the tax basis of assets and liabilities and net operating loss carry-forwards. The analysis of deferred tax assets and liabilities is as follows:

	Assets		Liabilities	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Property, plant and equipment	$ -	$ -	$ (343)	$ (1,125)
Mining assets	-	(222)	(1,522)	-
Issuance costs	52	130	-	-
Derivatives	207	182	-	-
Pension - OCI and non OCI	-	594	576	-
Provisions and other items	597	(41)	-	-
Tax loss carry-forwards	11,813	8,232	-	-
Unrealized foreign exchange and discount on issued warrants	-	-	(969)	-
Deferred tax assets (liabilities)	12,669	8,875	(2,258)	(1,125)
Set off of deferred tax liabilities	(2,025)	(1,125)	2,025	1,125
Net deferred tax asset (liabilities)	$ 10,644	$ 7,750	$ (233)	$ -

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 11,865	$ 8,434
Deferred tax asset to be recovered within 12 months	804	441
	12,669	8,875
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	(2,258)	(1,125)
Deferred tax liability to be recovered within 12 months	-	-
	(2,258)	(1,125)
Deferred tax asset net	$ 10,411	$ 7,750

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

U.S. Tax Attributes	December 31, 2013	December 31, 2012
Unrealized loss on portfolio investment	$ 706	$ 2,833
Alternative Minimum Tax credits	621	1,941
Regular Federal net operating losses	78,906	63,274
State net operating losses	(43,324)	(28,033)
State other	(16,424)	(18,599)

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

Canadian Tax Attributes	December 31, 2013	December 31, 2012
Net operating losses	$ 22,046	$ 12,598
Mining assets	33,288	35,823
Financing costs	490	144
Other	2,613	128

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available to utilize these tax assets.

U.S. Silver Corporation, a foreign incorporated entity and subsidiary of the Company, is treated as an inverted domestic corporation for tax purposes.

15. 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 January 13, 2012, US Silver's Board of Directors approved a consolidation of US Silver's common shares on a basis of five (5) pre-consolidation common shares for each one (1) post-consolidation common share ("Consolidation"). US Silver's post-Consolidation common shares were posted for trading on January 30, 2012.

There were approximately 309 million pre-Consolidation common shares of US Silver outstanding which were reduced to approximately 62 million post-Consolidation common shares. No fractional common shares were issued in connection with the Consolidation. In the event that the Consolidation would otherwise have resulted in the issuance of a fractional common share, such fraction of a common charge was rounded down to the nearest whole number.

On February 14, 2012, US Silver initiated a normal course issuer bid to purchase up to 3,092,727 common shares in the open market for cancellation. Under this program, 963,200 shares were purchased at an average price of C$1.81 per share (total $1.7 million). The Company did not continue to make purchases under this program after announcing the Merger with RX Gold. Current management suspended this program indefinitely after review of the capital requirements of its operations.

On August 13, 2012, US Silver merged with RX Gold to create the Company. Each outstanding common share of US Silver was exchanged for 0.67 of a common share of the Company and each outstanding share of RX Gold was exchanged for 0.109 of a common share of the Company. Common shares outstanding on August 13, 2012 were 59,424,940.

All share data and equity-based compensation plans have been retroactively adjusted to give effect to the Consolidation and Merger.

On August 7, 2013, the Company issued 10,625,000 warrants in connection with the RCM Credit Agreement (see credit facility note 11). Each warrant is exercisable for one common share at an exercise price of C$0.68 for a period of five years.

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 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 C$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.

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

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$)
Balance, January 1, 2012	4,258,338	$ 2.05
Granted	929,125	2.11
Exercised	(330,662)	0.75
Cancelled/Forfeited	(124,002)	2.66
Expired	(259,987)	5.44
Balance, August 12, 2012	4,472,812	1.93
Reduction of US Silver options on acqusition	(1,474,245)	2.88
Options issued on acquisition of RX Gold	1,108,333	4.38
Granted	2,433,500	2.13
Exercised	(562,351)	1.43
Cancelled/Forfeited	(182,295)	3.46
Expired	(182,240)	5.76
Balance, December 31, 2012	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
Balance, December 31, 2013	4,969,035	$ 2.34

Options granted during the year are as follows:

Grant Date	Options Granted	Fair Value (C$)	Exercise Price (C$)	Expected Volatility	Interest Rate	Forfeiture Rate	Term in Years	Dividend Yield
January 16, 2013	60,000	$ 1.00	$ 1.99	76.76%	1.24%	13.40%	3	Nil
July 18, 2013	979,000	$ 0.34	$ 0.65	78.81%	1.22%	13.83%	3	Nil
August 26, 2013	121,000	$ 0.40	$ 0.78	78.36%	1.31%	14.38%	3	Nil

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

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise Price per Share (in C$)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Exercisable
0.65	890,000	2.5	296,661
0.78	110,000	2.7	36,661
0.98	53,600	0.5	53,600
0.98	77,046	0.8	77,046
1.68	171,068	1.5	171,068
1.76	2,233	1.6	2,233
1.82	560,000	2.0	373,335
1.99	60,000	2.0	19,999
2.23	1,434,500	3.7	863,100
2.33	125,000	3.7	75,000
3.10	313,696	3.1	105,193
3.44	93,800	3.1	31,268
3.58	35,423	0.3	35,423
3.96	492,674	2.5	329,651
4.50	450,530	2.5	450,530
4.86	26,800	2.7	17,867
5.05	72,665	2.7	72,665
2.34	**4,969,035**	**2.8**	**3,011,300**

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:

	2013	2012
Expected volatility	76.76% - 78.81%	76.70% - 97.19%
Risk-free interest rate	1.22% - 1.31%	1.21% - 1.40%
Forfeiture rate	13.40% - 14.38%	12.74% - 14.73%
Term (years)	3	3 - 5
Dividend yield	Nil	Nil

The fair value of stock options is recognized as stock-based compensation in the consolidated statement of loss and comprehensive loss over the vesting period of the stock options. The Company incurred $2.1 million in stock-based compensation during the year ended December 31, 2013 (2012 – $3.5 million).

Warrants:

The warrants that are issued and outstanding as at December 31, 2013 are as follows:

Type	Number of Warrants	Exercise Price (C$)	Issuance Date	Expiry Date	Fair Value
Company	10,625,000	0.68	Aug 2013	Aug 7, 2018	$ 3,338,294
Company	4,818,165	0.75	Aug 2013	Aug 22, 2016	$ 1,730,570
Company	540,000	0.64	Aug 2013	Aug 22, 2016	$ 202,323
US Silver	1,427,990	1.16	Jul 2009	Jul 16, 2014	$ 294,858

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

The US Silver warrants represent the 10,656,641 warrants previously issued by US Silver and were not converted in connection with the Consolidation or Merger. The effects of the Consolidation (5 times) and Merger (0.67) are cumulative upon the exercise of the warrants. Upon exercise, the warrant holder would surrender 7.46 US Silver warrants and C$1.16 to obtain a single share of the Company. On a post-Consolidation and Merger basis, the US Silver warrant holders are entitled to a total of 1,427,990 shares of the Company.

Total proceeds of $18 were received from the exercise of 115,000 US Silver warrants during the year ended December 31, 2013 (2012 – nil).

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Balance, January 1, 2012	$	210
Cumulative translation adjustment		(305)
Balance, December 31, 2012		(95)
Cumulative translation adjustment		569
Balance, December 31, 2013	$	474

17. EXPENSES BY NATURE

		2013		2012
Changes in inventories of concentrate and work in progress	$	(4,417)	$	2,541
Raw materials and consumables used		5,635		6,457
Smelting and refining		5,655		5,908
Wages and employee benefits expense		32,762		32,783
Small mine plan implementation		1,819		-
Other expenses		20,765		23,786
Cost of sales	$	62,219	$	71,475
Depreciation, depletion and amortization	$	10,516	$	10,760

Other expenses include supplies, utilities, repairs, subcontracting, transportation, and insurance expenses incurred as part of cost of sales.

18. WAGES AND EMPLOYEE BENEFIT EXPENSES

		2013		2012
Salaries, wages and other employee benefits	$	35,962	$	36,154
Pension costs - defined benefit plans		1,472		1,119
Share-based compensation		2,117		3,509
	$	39,551	$	40,782

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

Compensation of key management*:

Compensation awarded to key management included:

		2013		2012
Salaries and short-term employee benefits	$	2,255	$	3,053
Share-based payment		1,783		2,595
	$	4,038	$	5,648

**key management includes the President and CEO, CFO, COO, VPs and the Directors*

19. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to owners of the parent by the weighted average number of common shares outstanding during the year.

		2013		2012
Net loss to common shareholders	$	(15,624)	$	(17,841)
Weighted average number of common shares outstanding - basic		63,491,652		60,936,429
Basic loss per share	$	(0.25)	$	(0.29)

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: stock options and warrants. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options. The effect of stock options and warrants was excluded from the calculation of diluted loss per share for the year ended December 31, 2013 as they are anti-dilutive.

		2013		2012
Net loss to common shareholders	$	(15,624)	$	(17,841)
Weighted average number of common shares outstanding - basic		63,491,652		60,936,429
Adjustments for assumed exercise of share options and warrants		-		-
Weighted average number of common shares outstanding - diluted		63,491,652		60,936,429
Diluted loss per share	$	(0.25)	$	(0.29)

20. FINANCIAL INSTRUMENTS AND FAIR VALUES

Measurement categories

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of loss and comprehensive loss. Those categories are: FVTPL; 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 December 31, 2013 and 2012:

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

	December 31, 2013	December 31, 2012
Assets		
Loans and receivables		
Cash and cash equivalents	7,167	18,947
Trade receivables	5,250	8,405
Restricted cash	151	165
	12,568	27,517
Fair value through profit and loss		
Embedded derivatives within trade receivables	(800)	(721)
Available-for-sale		
Long-term investments	31	184
Liabilities		
Amortized cost		
Trade and other payables	6,096	12,696
Credit facility	4,921	7,900
Other long-term liabilities	567	468

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 December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	7,167	18,947
Trade receivables	4,450	7,684
Restricted cash	151	165
Long-term investments	31	184
Liabilities		
Trade and other payables	6,096	12,696
Credit facility	4,921	7,900
Other long-term liabilities	567	468

The following table summarizes the fair value of financial assets measured on a non-recurring basis as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Assets		
Property, plant and equipment	4,768	7,282

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.
- 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. See note 9 for disclosure of inputs used to develop these measures.
- 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. For the year ended December 31, 2013, the Company recorded on the consolidated statement of loss and comprehensive loss a negative price adjustment of $0.1 million in revenues from provisionally priced sales (2012 – $0.9 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 December 31, 2013, 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. The levels in the hierarchy are:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs supported by little or no market activity)

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

	December 31, 2013	December 31, 2012
Level 1		
Cash and cash equivalents	7,167	18,947
Restricted cash	151	165
Trade and other payables	6,096	12,696
Level 2		
Trade receivables	4,450	7,684
Long-term investments	31	184
Credit facility	4,921	7,900
Other long-term liabilities	567	468
Level 3		
Property, plant and equipment	4,768	7,282

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

Financial risks factors

The Company's operations expose the Company to market risk, credit risk, and liquidity risk. The Company 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 Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company'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) Commodity Risk

The Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of silver, copper and lead. The Company 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 Company's profitability, and the Company's policy is not to hedge a large portion of its exposure to silver in accordance with shareholders' preferences. The London silver spot price average, in USD per ounce, was $23.79 in 2013 (2012 – $31.15). The Company estimates that an increase (decrease) in the price of silver by 10%, with all other variables held constant, would result in an increase (decrease) in net loss of approximately $5.5 million.

As at December 31, 2013, the Company's exposure to commodity prices is limited to trade receivables associated with provisional pricing of concentrate sales. A 10% strengthening or weakening of the price of silver would have resulted in approximately $0.1 million decrease or increase, respectively, in the Company's loss and comprehensive loss for the year ended December 31, 2013.

(b) Credit Risk

Credit risk related to trade receivables arises from the possibility that customers may be unable to fulfill their commitments. The Company mitigates this risk by regularly monitoring the financial health and aging of any amounts due from its customers. Currently two customers represent 100% and 86% of the Company's concentrate receivables and revenue, respectively. As at December 31, 2013, the Company is exposed to a maximum credit risk of $4,313 (2012 – $7,339).

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

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

(c) Liquidity risk

Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities and capital structure. The Company manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost effective manner. The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital expenditure requirements, credit capacity and debt and equity capital market conditions. The Company's liquidity requirements are met through a variety of sources, including cash, cash generated from operations, existing credit facilities and debt and equity capital markets.

At December 31, 2013, the Company held cash resources of $7,167 that is available to generate cash inflows for managing liquidity risk.

The following table presents the contractual maturities of the Company's financial liabilities on an undiscounted basis:

	December 31, 2013			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and other payables	6,005	64	27	-
Credit facility	-	-	8,500	-
Interest on credit facility	255	779	1,311	
Other long-term liabilities	-	-	-	567
	6,260	843	9,838	567

	December 31, 2012			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and other payables	12,319	341	36	-
Credit facility	-	7,900	-	-
Other long-term liabilities	-	-	-	468
	12,319	8,241	36	468

21. CAPITAL MANAGEMENT

The Company manages its cash, common shares, retained earnings, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company'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 level.

The Company 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 Company 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 Company 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 and development efforts, the Company does not pay out dividends. The nature of the industry in which the Company operates is very capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures.

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

The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through its credit facility. Revenue, available cash balances, draws on the credit facility and financing of indebtedness are the Company's principal sources of capital used to pay operating expenses and recurring capital and leasing costs in its business. There has been no change in the year in the Company's approach to its capital management.

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

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

22. SEGMENT REPORTING AND ECOMONIC 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 CODM that are used to make strategic decisions.

The following segmented information is presented as at and during the years ended December 31, 2013 and 2012. The Montana segment only includes results from August 13, 2012 for the year ended December 31, 2012.

	As at December 31, 2013				As at December 31, 2012			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Cash and cash equivalents	$ 3,003	$ 9	$ 4,155	$ 7,167	$ 15,918	$ 2,627	$ 402	$ 18,947
Trade receivables	4,384	-	66	4,450	7,396	3	285	7,684
Inventories	5,319	-	-	5,319	7,658	2,567	-	10,225
Other current assets	1,126	15	222	1,363	16	15	316	347
Property, plant and equipment	73,291	7,578	117	80,986	69,278	13,171	38	82,487
Goodwill	12,780	-	-	12,780	12,780	-	-	12,780
Other non-current assets	10,526	36	31	10,593	7,865	50	184	8,099
Total assets	**$ 110,429**	**$ 7,638**	**$ 4,591**	**$ 122,658**	**$ 120,911**	**$ 18,433**	**$ 1,225**	**$ 140,569**
Trade and other payables	$ 3,865	$ 883	$ 1,348	$ 6,096	$ 6,135	$ 4,823	$ 1,738	$ 12,696
Other current liabilities	-	-	-	-	-	7,900	582	8,482
Post-employment benefit obligations	4,318	-	-	4,318	8,299	-	-	8,299
Decommissioning provision	2,573	556	-	3,129	2,741	2,060	-	4,801
Other long-term liabilities	567	-	4,921	5,488	468	-	-	468
Total liabilities	**$ 11,323**	**$ 1,439**	**$ 6,269**	**$ 19,031**	**$ 17,643**	**$ 14,783**	**$ 2,320**	**$ 34,746**

	Year ended December 31 ,2013				Year ended December 31 ,2012			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 54,943**	**$ 9,244**	**$ -**	**$ 64,187**	**$ 76,840**	**$ 18,096**	**$ -**	**$ 94,936**
Cost of sales	(51,267)	(10,952)	-	(62,219)	(52,858)	(18,617)	-	(71,475)
Care and maintenance costs	-	(968)	-	(968)	-	-	-	-
General and administration	-	-	(6,815)	(6,815)	-	-	(6,131)	(6,131)
Exploration costs	(1,737)	(564)	-	(2,301)	(5,758)	(2,657)	-	(8,415)
Depreciation, depletion and amortization	(8,623)	(1,863)	(30)	(10,516)	(7,353)	(3,407)	-	(10,760)
Gain on sale of assets	2,850	-	-	2,850	-	-	-	-
Share-based compensation	(641)	(254)	(1,222)	(2,117)	(914)	-	(2,595)	(3,509)
Impairment charges	-	(1,357)	-	(1,357)	-	(14,442)	-	(14,442)
Other expenses	-	-	(2,123)	(2,123)	-	-	(3,035)	(3,035)
Income (loss) before income taxes	**(4,475)**	**(6,714)**	**(10,190)**	**(21,379)**	**9,957**	**(21,027)**	**(11,761)**	**(22,831)**
Current and deferred income tax recovery	5,755	-	-	5,755	4,990	-	-	4,990
Other comprehensive income (loss)	2,985	-	590	3,575	(1,169)	-	(305)	(1,474)
Comprehensive income (loss) for the year	**$ 4,265**	**$ (6,714)**	**$ (9,600)**	**$ (12,049)**	**$ 13,778**	**$ (21,027)**	**$ (12,066)**	**$ (19,315)**

During 2013, the Company delivered all of its concentrate to two customers from Idaho operations and three customers from Montana Operations (2012 – two customers from Idaho operations and three customers from Montana Operations). Approximately 61% and 25% of the Company's total revenues are sold to two customers from Idaho operations, respectively (2012 – 64% and 18%). 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.

23. SUBSEQUENT EVENTS

On March 21, 2014, the Company completed a private placement of 8,103,497 units ("Units") and 3,448,280 subscription receipts ("Subscription Receipts") at a price of C$0.58 per Unit and C$0.58 per Subscription Receipt for aggregate gross proceeds of approximately 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. The C$2.0 million gross proceeds from Subscription Receipts are to be held in escrow pending the satisfaction of certain regulatory and shareholder approvals. The Company intends to seek approval of its shareholders for the exchange of Subscription Receipts for Units in May 2014.

U.S. SILVER & GOLD INC.

Consolidated Financial Statements

For the years ended December 31, 2012 and 2011
(In thousands of U.S. dollars, unless otherwise stated)

U.S. Silver & Gold Inc.

(In thousands of U.S. dollars, unless otherwise stated)

December 31, 2012 and 2011

CONTENTS

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as outlined in Part I of the Handbook of the Canadian Institute of Chartered Accountants. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control has been developed and is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Board of Directors approves the financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the audit committee, which is composed of non-executive directors. The audit committee meets periodically with management and the auditors to review financial reporting and control matters.

(Signed) Darren Blasutti	(Signed) Warren Varga
President & Chief Executive Officer	Chief Financial Officer

Toronto, Ontario, Canada
March 28, 2013

Independent Auditor's Report

To the Shareholders of
U.S. Silver & Gold Inc.

We have audited the accompanying consolidated financial statements of U.S. Silver & Gold Inc. which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of U.S. Silver & Gold Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario, Canada

March 28, 2013

U.S. Silver & Gold Inc.

Consolidated Statements of Financial Position

(In thousands of U.S. dollars)

As at		December 31, 2012		December 31, 2011
Assets				
Current assets				
Cash and cash equivalents (note 6)	$	18,947	$	26,985
Trade receivables (note 7)		7,684		4,349
Income tax receivable (note 14)		-		1,968
Inventories (note 8)		10,225		7,216
Prepaid expenses		347		362
		37,203		40,880
Non-current assets				
Restricted cash		165		115
Long-term investments		184		-
Property, plant and equipment (note 9)		82,487		57,466
Goodwill (note 5)		12,780		-
Deferred income tax asset (note 14)		7,750		892
Total assets	$	140,569	$	99,353
Liabilities				
Current liabilities				
Trade and other payables (note 10)	$	12,696	$	5,144
Income tax payable (note 14)		582		-
Credit facility (note 11)		7,900		-
		21,178		5,144
Non-current liabilities				
Other long-term liabilities		468		351
Post-employment benefit obligations (note 12)		8,299		7,115
Decommissioning provision (note 13)		4,801		2,807
Total liabilities		34,746		15,417
Equity				
Share capital (note 15)		117,441		79,248
Contributed surplus		9,981		6,972
Accumulated other comprehensive income (loss) (note 16)		(95)		210
Deficit		(21,504)		(2,494)
		105,823		83,936
Total liabilities and equity	$	140,569	$	99,353

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

APPROVED ON BEHALF OF THE BOARD

(Signed) Gordon Pridham
Director

(Signed) Darren Blasutti
Director

U.S. Silver & Gold Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31, 2012 and 2011
(In thousands of U.S. dollars, except per share and share amounts)

	2012	2011
Revenues	$ 94,936	$ 88,945
Cost of sales (note 17)	(71,475)	(47,409)
General and administration	(6,131)	(4,191)
Exploration costs	(8,415)	(3,836)
Depreciation, depletion and amortization (note 9)	(10,760)	(6,737)
Stock-based compensation (note 15 and 18)	(3,509)	(1,246)
Acquisition costs (note 5)	(2,723)	-
Impairment charges (note 5 and 9)	(14,442)	-
Loss on derivatives (note 20)	-	(4,277)
Foreign exchange gain (loss)	(61)	35
Income (loss) before finance costs and income taxes	(22,580)	21,284
Net finance income (costs)	(251)	16
Income (loss) before income taxes	(22,831)	21,300
Current income tax recovery (expense) (note 14)	423	(2,576)
Deferred income tax recovery (expense) (note 14)	4,567	(6,371)
Income tax recovery (expense)	4,990	(8,947)
Net income (loss) for the year	(17,841)	12,353
Other comprehensive income (loss)		
Actuarial losses on post-employment benefit obligations, net of taxes $411 (2011: $751)	(1,169)	(2,287)
Cumulative translation adjustment	(305)	111
Other comprehensive loss for the year	(1,474)	(2,176)
Comprehensive income (loss) for the year	$ (19,315)	$ 10,177
Earnings (loss) per share (expressed in $ per share)		
Basic	$ (0.29)	$ 0.21
Diluted	$ (0.29)	$ 0.19
Weighted average number of common shares outstanding		
Basic	60,936,429	59,462,121
Diluted	60,936,429	64,179,717

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

U.S. Silver & Gold Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2012 and 2011
(In thousands of U.S. dollars, except share amounts)

	Number of Shares (000s)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance – January 1, 2011	57,329	$ 70,598	$ 7,849	$ 99	$ (12,559)	$ 65,987
Net income for the year		-	-	-	12,353	12,353
Other comprehensive income (loss) (net of tax)	-	-	-	111	(2,287)	(2,176)
Comprehensive income for the year	-	-	-	111	10,066	10,177
Employee share options:						
Value of services recognized (note 15 and 18)		-	1,246	-	-	1,246
Proceeds from exercise of share options and warrants	4,508	8,650	(2,123)	-	-	6,527
Balance – December 31, 2011	61,837	$ 79,248	$ 6,972	$ 210	$ (2,494)	$ 83,936
Balance – January 1, 2012	61,837	$ 79,248	$ 6,972	$ 210	$ (2,494)	$ 83,936
Net loss for the year	-	-	-	-	(17,841)	(17,841)
Other comprehensive loss (net of tax)	-	-	-	(305)	(1,169)	(1,474)
Comprehensive loss for the year	-	-	-	(305)	(19,010)	(19,315)
Reduction of US Silver shares on acquisition (note 5)	(20,198)	-	-	-	-	-
Shares issued on acquisition of RX Gold (note 5)	18,418	38,223	-	-	-	38,223
Tax impact on RX Gold share issuance costs (note 14)	-	130	-	-	-	130
Employee share options:						
Value of services recognized (note 15 and 18)	-	-	3,509	-	-	3,509
Proceeds from exercise of share options	893	1,566	(500)	-	-	1,066
Common shares repurchased and cancelled	(963)	(1,726)	-	-	-	(1,726)
Balance – December 31, 2012	59,987	$ 117,441	$ 9,981	$ (95)	$ (21,504)	$ 105,823

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

U.S. Silver & Gold Inc.

Consolidated Statements of Cash Flow
For the years ended December 31, 2012 and 2011
(In thousands of U.S. dollars)

	2012	2011
Cash flow provided by (used in)		
Operating activities		
Net income (loss) for the year	$ (17,841)	$ 12,353
Adjustments for:		
Depreciation, depletion and amortization (note 9)	10,760	6,737
Accretion on decommissioning provision (note 13)	37	58
Foreign exchange loss (gain)	61	(35)
Deferred income tax expense (recovery) (note 14)	(4,567)	6,371
Other long-term liabilities	117	-
Non-cash impact of post-employment benefit obligations	(338)	345
Advance on concentrates revenue	(3,977)	-
Share-based payments (note 15 and 18)	3,509	1,246
Impairment charges (note 5 and 9)	14,442	-
Changes in items of working capital:		
Derivatives	-	(3,639)
Trade receivables (note 7)	(3,125)	8,329
Income tax receivable	1,968	(1,968)
Inventories	7,757	(1,429)
Prepaid expenses	69	(158)
Trade and other payables	1,262	1,311
Income tax payable	82	-
Net cash generated from operating activities	10,216	29,521
Investing activities		
Purchase of property, plant and equipment (note 9)	(8,888)	(7,774)
Investment in mining properties (note 9)	(10,718)	(9,740)
Restricted cash	(50)	3,016
Acquisition of RX Gold (note 5)	2,062	-
Net cash used in investing activities	(17,594)	(14,498)
Financing activities		
Common shares repurchased and cancelled (note 15)	(1,726)	-
Proceeds from exercise of options and warrants (note 15)	1,066	6,527
Net cash generated from (used in) financing activities	(660)	6,527
Increase (decrease) in cash	(8,038)	21,550
Cash and cash equivalents – beginning of year	26,985	5,435
Cash and cash equivalents – end of year	$ 18,947	$ 26,985
Cash recovered for income tax	$ (4,049)	$ -
Cash paid for income tax	1,000	4,600
Cash paid for interest	297	-

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

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), as discussed in note 5.

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

The Company prepares its consolidated financial statements 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 I of the Handbook of the Canadian Institute of Chartered Accountants. The consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Critical accounting estimates and judgments used by management in the preparation of these consolidated financial statements are presented in note 4.

Certain of the prior year's comparative numbers have been reclassified to reflect the current period's financial presentation. Prior year's stock-based compensation for $1.2 million and depreciation, depletion and amortization for $6.7 million were reclassified from general and administration and cost of sales, respectively, and presented separately on the consolidated statement of income (loss) and comprehensive income (loss). Prior year's non-payable metal deductions from cost of sales for $4.5 million were netted against revenues on the consolidated statement of income (loss) and comprehensive income (loss).

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 consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are as follows:

a. Consolidation

The financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

The Company applies the acquisition method to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company elects on an acquisition-by-acquisition basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of identifiable net assets. Acquisition-related costs are expensed as incurred. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is negative, a bargain purchase gain is recognized immediately in profit or loss.

b. Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Determination of operating segments are based on the reports reviewed by the chief operating decision makers that are used to make strategic decisions about resources to be allocated to the segment and performance assessment, and for which discrete financial information is available. Unallocated items not directly attributable to a segment comprise mainly of corporate assets, head office expenses, and deferred tax assets and liabilities.

c. Foreign currency translation

The consolidated financial statements are presented in United States dollars, the Company's presentation currency.

(i) Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which it operates. The functional currency of the operations in the United States is the U.S. dollar while the functional currency of the operations in Canada is the Canadian dollar.

The financial statements of entities that have a functional currency different from that of the Company are translated into U.S. dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) ("OCI") as cumulative translation adjustments.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the consolidated statement of income (loss) and comprehensive income (loss) in "foreign exchange gain (loss)".

d. Financial instruments

(i) Financial assets

The Company initially recognizes trade receivables on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company designates financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term or it is a derivative that is not designated and effective as a hedging instrument. Subsequent re-measurements of FVTPL assets are revalued with any gains or losses recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale investments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other categories. They are classified as non-current unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income (loss).

When financial assets classified as available-for-sale are found to have objective evidence of impairment the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of income (loss) and comprehensive income (loss). This amount represents the loss in accumulated other comprehensive income that is reclassified to net income.

When financial assets classified as available-for-sale are sold, the accumulated re-measurement amounts previously recognized in accumulated other comprehensive income are reclassified to net income.

(ii) Financial liabilities at amortized cost

Financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Trade and other payables are initially recognized at the amount required to be paid. Subsequently, trade payables are measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iii) Derivative financial instruments

The Company may enter into derivative financial instrument contracts to manage certain market risks which result from the underlying nature of its business. The Company does not use hedge accounting unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such. Otherwise, they are classified as held-for-trading and recorded at their fair value with realized and unrealized gains or losses arising from changes in the fair value recorded in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which they occur. Fair values for derivative instruments classified as FVTPL are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date. Realized gains and losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

a) Provisionally priced sales contracts entered into in accordance with the Company's expected sales requirements are considered to host embedded derivatives. These host contracts containing embedded derivatives are designated as FVTPL and initially recognized and subsequently re-measured at fair value at each reporting date using quoted market prices based on the forward COMEX price of the commodities. Gains and losses are recognized in revenue as described in the revenue recognition accounting policy.

b) All other derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured, subject to IAS 39, at fair value at each reporting date. Gains and losses on re-measurement are included in gain (loss) on derivatives.

e. Inventories

Silver-copper, silver-lead and gold-silver in concentrate and ore stockpiles are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined using the average method and comprises direct purchase costs and fixed and variable overhead costs, including depreciation and amortization, incurred in converting ore into concentrate. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end.

Materials and supplies inventory are valued at the lower of cost and net realizable value, where cost is determined using the first-in-first-out method. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence by comparing those items to their net realizable value. If carrying value exceeds net realizable value, a write-down is recognized.

When inventories have been written down to net realizable value, the Company makes a new assessment of net realizable value in each subsequent reporting period. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to the consolidated statement of income (loss) and comprehensive income (loss) during the period in which they are incurred.

Depreciation is recorded over the estimated useful life of the asset as follows:

- Buildings – 7 - 30 years on a straight-line basis; and
- Mining and processing equipment – units of production based upon estimated total proven and probable reserves and straight-line basis over 3 – 30 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

g. Exploration and evaluation (“E&E”) costs

Exploration and evaluation costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

Exploration and evaluation costs consist of:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining , geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

Project costs in relation to these activities are expensed as incurred until such time as the Company expects that mineral resources will be converted to mineral reserves within a reasonable period. Thereafter, costs for the project are capitalized prospectively as capitalized exploration and evaluation costs in property, plant and equipment.

Capitalized exploration and evaluation costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized exploration and evaluation costs are transferred to capitalized development costs within property, plant and equipment. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves; however, this determination may be impacted by management's assessment of certain modifying factors including: legal, environmental, social and governmental factors.

h. Development costs

Development costs incurred by or on behalf of the Company are accumulated separately for each area of interest in which economically recoverable resources have been identified. Such costs comprise costs directly attributable to the construction of a mine and the related infrastructure.

General and administrative costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant area of interest.

A development property is classified as a "mining property'' at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

i. Mining properties

When further development costs are incurred in respect of a mining property after the commencement of production, such costs are carried forward as part of the mining property when it is probable that additional future economic benefits associated with the costs will flow to the consolidated entity. Otherwise such costs are classified as a cost of sales.

Mining properties are carried at cost, less accumulated depletion and any accumulated impairment charges.

Depreciation is charged using the units-of-production method and straight-line method, with separate calculations being made for each area of interest. In applying the units-of-production method, depreciation is normally calculated using the quantity of mineral reserves extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proven and probable mineral reserves. The units-of-production method results in a depreciation charge proportional to the depletion of the proven and probable reserves.

Mine properties are tested for impairment in accordance with the policy in note 3 k (ii).

j. Decommissioning provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production. Over time, the discounted liability is increased for the change in present value based on the risk-free discount rate in the United States. The periodic unwinding of the discount is recognized in the consolidated statement of income (loss) and comprehensive income (loss). Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

k. Impairment

(i) Financial assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Financial assets include loans and receivables and available-for-sale. A financial asset or a group of financial assets is impaired if there is objective evidence that the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted. Evidence of impairment may include indications that debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, or other observable data which indicates that there is a measurable decrease in the estimated future cash flows.

If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in finance expense. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If impairment is later recovered, the recovery is credited to finance income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit ("CGU") (a mine operation) is the greater of its value in use and its fair value, less costs to sell. In assessing recoverable amounts, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

An impairment loss is recognized if the carrying amount of an asset or the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Impairment losses recognized in respect of the CGU are allocated to reduce the carrying amount of long-lived assets in the unit on a pro rata basis.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the period it is determined.

l. Income tax

Income tax comprises of current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable profit. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent it is probable future taxable profits will be available against which they can be utilized.

The Company did not recognize any deferred income taxes relating to its investments in subsidiaries.

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.

m. Employee benefits

(i) Defined benefit plans

The cost of defined benefit plans is determined using the projected unit credit method. The related pension liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Actuarial valuations for defined benefit plans are carried out annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses arising in the year are recognized in full in the period in which they occur, in other comprehensive income and retained earnings without recycling to the consolidated statement of income (loss) and comprehensive income (loss) in subsequent periods.

Current service cost, the recognized element of any past service cost, interest expense arising on the pension liability and the expected return on plan assets are recognized in the same line items in the consolidated statement of income (loss) and comprehensive income (loss) as the related compensation cost.

The values attributed to plan liabilities are assessed in accordance with the advice of independent qualified actuaries.

Past service costs arising from plan amendments are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line over the average period until the benefits become vested.

(ii) Share-based payments

The Company grants stock options to employees (including directors and senior executives). The options may vest immediately, equally over two or three years, and expire after three or five years. The stock options are equity settled awards. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at the end of each reporting period, with any change in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

Stock option obligations are settled by the issue of shares from treasury.

n. Revenue recognition

Company policy requires all production to be sold under contract. Revenue is only recognized on individual shipments when persuasive evidence exists that the following criteria are satisfied:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- the sales price and costs can be measured reliably; and
- it is probable that the economic benefits associated with the sale will flow to the Company.

Satisfaction of these conditions depends on the terms of trade with individual customers. Generally the risks and rewards are considered to have transferred to the customer when title transfer.

Revenues are recorded based on the provisional prices when title and significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers. 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 accounts receivable. The embedded derivative is recorded at fair value each period until settlement occurs, with changes in fair value classified as a component of revenues.

o. Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

p. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The treasury stock method, which assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares, are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price of the common shares for the period. The Company's potentially dilutive common shares comprise stock options granted to employees, and warrants.

q. Accounting standards issued but not yet applied

Unless otherwise noted, the following new and revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. Management is evaluating the impact the adoption of these standards and amendments will have on the consolidated financial statements of the Company.

IFRS 7 – Financial instruments: disclosures

IFRS 7, “Financial instruments: disclosures” was amended to provide guideline on the eligibility criteria for offsetting assets and liabilities as a single net amount in the consolidated statement of financial position.

IFRS 9 – Financial instruments

IFRS 9, “Financial instruments” (“IFRS 9”) was issued by the IASB in November 2009 and will replace IAS 39, “Financial instruments: recognition and measurement” (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 – Consolidated financial statements

IFRS 10, “Consolidated financial statements” (“IFRS 10”) was issued by the IASB in May 2011 and will replace SIC 12, “Consolidation – special purpose entities” and parts of IAS 27, “Consolidated and separate financial statements”. Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 – Joint arrangements

IFRS 11, “Joint arrangements” (“IFRS 11”) was issued by the IASB in May 2011 and will supersede IAS 31, “Interests in joint ventures” and SIC 13, “Jointly controlled entities – Non-monetary contributions by venturers” by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, “Disclosure of interests in other entities” (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 – Fair value measurement

IFRS 13, “Fair value measurement” (“IFRS 13”) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, required disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards.

IAS 1 – Presentation of financial statements

IAS 1, "Presentation of financial statements" has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

IAS 19 – Employee benefits

IAS 19, "Employee benefits" has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short- term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" ("IAS 28") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the 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 consolidated financial statements of future periods.

Critical accounting estimates

Decommissioning provision

The Company's operations are subject to environmental regulations in the United States.

Upon establishment of commercial viability of a site, the Company estimates the cost to restore the site following the completion of commercial activities and depletion of reserves. These future obligations are based on cost estimates by taking into consideration closure plans, known environmental impacts and costs that will be carried out to meet the restoration obligations. The decommissioning provision is based on the net present value of the estimated future costs. The Company assesses its decommissioning provision quarterly and is measured by discounting the expected cash flows. The applicable discount rate is a rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates. Actual restoration costs may differ from those projected as a result of, among other things, an increase over time of actual remediation costs, a change in the timing for utilization of reserves and the potential for more stringent environmental regulatory requirements.

Determination of reserves and resources

Reserve estimates are integral to the determination of the commercial viability of a site, depletion amounts charged to the cost of sales and possible impairments. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived from those reserves, including many factors beyond the control of management when making these estimates. The reserves and estimated future net cash flow from the Company's interest in properties are determined based on professional evaluations provided by internal or external qualified persons. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. These evaluations include assumptions relating to factors such as production rates, reserve accessibility, production decline rates, timing and amount of capital expenditures, future commodity prices and operating costs. Future changes in the regulatory environments in which the properties are located may also significantly affect the Company's ability to access reserves.

The cost less the residual value of each item of property, plant and equipment is amortized over its useful economic life. Amortization is charged to cost of production over the shorter of the estimated lives of the individual assets or the life of mine using the units-of-production method. Amortization commences when assets are available for use. Land is not amortized.

The assets' useful lives and methods of amortization are reviewed and adjusted if appropriate at each fiscal year-end.

Share-based compensation

The amount expensed for share-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's registered shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different.

Income taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred income tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the consolidated statement of financial position date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The principal assumptions used in determining the net cost for pensions include the discount rate, the rate of salary increase and the inflation rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations.

Critical accounting judgments

Valuation of mining properties and other long-lived assets

Mining properties and other long-lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- a significant deterioration in expected future commodity prices;
- a significant adverse movement in foreign exchange rates;
- a significant increase in production costs;
- a large cost overrun during the development and construction of a new mine;
- a significant increase in the expected cost of dismantling assets and restoring the site;
- a significant reduction in the mineral content of ore reserves/resources;
- serious mine accidents;
- a significant increase in market interest rates; and
- adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

Valuation of derivatives and embedded derivatives

In the valuation of the Company's outstanding derivatives and embedded derivatives, management makes estimates regarding future commodity prices and counterparty risk at each reporting date. Since the Company recognizes the fair value of these financial instruments on the consolidated statement of financial position and records changes in fair value in the current period earnings, these estimates will have a direct impact on the Company's net income for the period.

Purchase price allocation

Business combinations require judgment and estimates to be made at the date of acquisition in relation to determining assets and liability fair values and the allocation of the purchase consideration over the fair value of the assets and liabilities.

In respect of mining company acquisitions, such as the acquisition of RX Gold in August 2012, excess purchase consideration is typically allocated to the mineral reserves and resources being acquired. The estimate of reserves and resources is subject to assumptions relating to life of the mine and may change when new information becomes available. Changes in reserves and resources as a result of factors such as production costs, recovery rates, grade or reserves or commodity prices could impact depreciation rates, asset carrying values and environmental and restoration provisions. Changes in assumptions over long-term commodity prices, market demand and supply, and economic and regulatory climates could also impact the carrying value of assets, including goodwill.

5. ACQUISITION OF RX GOLD

On August 13, 2012, US Silver and RX Gold combined their businesses into U.S. Silver & Gold Inc. US Silver was involved in the exploration, development and extraction of high-grade silver-copper-lead metals in Idaho, United States. RX Gold was engaged in the acquisition, exploration, evaluation and development of precious metals mineral properties in North America and operates the Drumlummon gold-silver mine in Montana, United States. US Silver and RX Gold combined their businesses to create a well-funded, growth-oriented precious metals producer in North America.

US Silver and RX Gold combined their businesses through (a) the exchange of each outstanding common share of US Silver for 0.67 of a common share of the Company pursuant to a plan of arrangement under the Canada Business Corporations Act, and (b) the exchange of each outstanding common share of RX Gold for 0.109 of a common share of the Company pursuant to a plan of arrangement under the Business Corporations Act (Ontario) ("Merger"). As of August 13, 2012, the former shareholders of US Silver held approximately 70% of the outstanding common shares of the Company and the former shareholders of RX Gold held approximately 30% of the outstanding common shares of the Company.

The existing options of US Silver and RX Gold were exchanged at their respective Merger ratios for options of the Company. The treatment of US Silver and RX Gold warrants is described in detail in note 15.

The transaction has been accounted for as a business combination with U.S. Silver as the acquirer for accounting purposes.

The consideration paid is calculated as follows:

RX Gold shares outstanding August 13, 2012 (000s)		168,975
Implicit share exchange ratio		6.147
US Silver shares to be exchanged for RX Gold (000s)		27,489
US Silver share price on August 13, 2012 (C$)		1.38
C$/USD exchange rate, August 13, 2012		1.01
Total consideration	$	38,223

For the purpose of these consolidated financial statements, the purchase consideration has been allocated on a preliminary basis to the fair value of assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of acquisition as well as applicable information at the time these consolidated financial statements were prepared. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and the carrying amounts of some assets, such as mining assets and deferred tax, acquired through a business combination could therefore differ significantly in the future. As prescribed by IFRS 3, “Business combinations”, if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a twelve-month period to complete the purchase price allocation. Any adjustment of the carrying amount of an identifiable asset or liability made as a result of completing the initial accounting is accounted for as if its fair value at the acquisition date had been recognized from that date will result in a restatement of previously issued unaudited quarterly financial statements. The Company have reviewed information and performed analysis with respect to these assets, and have finalized the allocation of the purchase price.

The allocation of the purchase price is as follows:

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

Net assets acquired	
Cash	$ 2,062
Trade receivables	210
Prepaid expenses	54
Inventories	10,766
Long-term investment	226
Deferred income tax asset	2,162
Mining assets	23,809
Goodwill	15,417
Property, plant and equipment	4,171
Reclamation bonds	64
Trade and other payables	(6,290)
Advanced concentrate revenues	(3,977)
Income tax payable	(500)
Credit facility	(7,900)
Decommissioning provision	(2,051)
	$ 38,223

The above allocations of assets acquired and liabilities assumed as at the date of acquisition have been adjusted at year-end to reflect revisions to the previous interim reported balances relating to fair value information which existed at the date of acquisition. The adjustments resulted in an increase in trade receivables of $146, decrease in inventories of $146, decrease in long-term investment of $1,410, increase in deferred income tax asset of $2,162, increase in goodwill of $3,424, and decrease in deferred income tax liability of $11,993, with a corresponding decrease in the allocation to mining assets.

The deferred income tax asset of $2.2 million arises mainly on the recognition of net operating losses associated with RX Gold as it is probable that the Company would have sufficient taxable profits in the future to realize the tax benefits through transfer of those losses as permitted by the tax laws.

The goodwill of $15.4 million resulting from the acquisition arises mainly on the recognition of synergies of the business combination and is measured as a residual. Goodwill that has indefinite useful life is tested annually for impairment. For the year ended December 31, 2012, the Company recorded impairment charges of $2.7 million in relation to the goodwill allocated to the Drumlummon mine CGU as a result of limiting spending capital to advance exploration drilling, permitting, and underground development activities.

Acquisition related costs of $2.7 million have been charged to the consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2012.

Inventories on acquisition had a cost carrying value of $7.8 million though were adjusted to fair market value of $10.8 million for accounting purposes, an increase of $3.0 million. This market value increase is realized in cost of sales in the consolidated statements of income (loss) and comprehensive income (loss).

Advanced concentrate revenues relates to cash payments from a precious metal trader for the sale of concentrate prior to the completion of the revenue cycle. RX Gold entered into these arrangements to help manage cash flow prior to the Merger and the revenue cycle was completed prior to the year-end of the December 31, 2012.

These consolidated financial statements include RX Gold's results from August 13, 2012 to December 31, 2012. The revenue and net loss included in the consolidated statements of income (loss) and comprehensive income (loss) since August 13, 2012 contributed by RX Gold was $18.1 million from the sale of gold and silver produced at the Drumlummon mine in Montana and net loss of $21.0 million of which $14.4 million relates to impairment charges as explained in note 5 and note 9.

If RX Gold had been consolidated from January 1, 2012, the unaudited proforma consolidated statements of income (loss) and comprehensive income (loss) would include revenue of $19.6 million and net loss of $21.4 million from RX Gold for the year ended December 31, 2012. The revenue of $19.6 million was recognized from July 1, 2012 to December 31, 2012 as RX Gold management assessed the Drumlummon mine as transitioning to production as at July 1, 2012. Prior to that time, cash collected from gold and silver sales was treated as an offset to exploration expenses as opposed to revenues. Adjusting for this treatment, the consolidated adjusted revenues would have increased by $18.5 million from January 1, 2012 to June 30, 2012, resulting in revenues of $115.0 million on a proforma basis for the year ended December 31, 2012.

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

6. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Cash	$ 7,937	$ 26,985
Cash equivalents	11,010	-
	$ 18,947	$ 26,985

Cash equivalents consist of money market accounts held at financial institutions which are readily convertible to know amounts of cash.

7. TRADE RECEIVABLES

	December 31, 2012	December 31, 2011
Concentrate receivables	$ 7,339	$ 4,269
Other	345	80
	$ 7,684	$ 4,349

Concentrate receivables represent the value of silver concentrate shipped for smelting and refining, using the December 31, 2012 forward metal pricing when significant risks and rewards have transferred to third parties. The concentrate receivables are due from two customers at December 31, 2012 (2011 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amounts due will be fully collected.

The Company recognized a positive price adjustment of $0.9 million in sales during the year ended December 31, 2012 (2011 – $6.4 million negative price adjustment).

Sales to these customers for the year ended December 31, 2012 were approximately 83% (2011 – 100%).

8. INVENTORIES

	December 31, 2012	December 31, 2011
Concentrates - Mill	$ 4,435	$ 1,522
Concentrates - In transit	3,160	3,532
Materials and supplies	2,630	2,162
	$ 10,225	$ 7,216

The cost of inventories recognized as an expense during the year ended December 31, 2012 and included in cost of sales was $68.5 million (2011 – $46.0 million).

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

9. PROPERTY, PLANT AND EQUIPMENT

	Mining Properties	Mining Equipment	Building	Construction in Progress	Total
Year ended December 31, 2011					
Carrying value, January 1, 2011	$ 39,652	$ 3,780	$ 2,589	$ 375	$ 46,396
Additions	9,739	1,249	2,924	3,601	17,513
Capitalized closure costs	328	-	-	-	328
Disposals	-	(34)	-	-	(34)
Depreciation for the year	(4,956)	(954)	(827)	-	(6,737)
Closing net book value	$ 44,763	$ 4,041	$ 4,686	$ 3,976	$ 57,466
As at year ended December 31, 2011					
Cost	$ 63,134	$ 9,247	$ 6,409	$ 3,976	$ 82,766
Accumulated depreciation	(18,371)	(5,206)	(1,723)	-	(25,300)
Net book value	$ 44,763	$ 4,041	$ 4,686	$ 3,976	$ 57,466
Year ended December 31, 2012					
Carrying value, January 1, 2012	$ 44,763	$ 4,041	$ 4,686	$ 3,976	$ 57,466
Additions (transfers)	10,718	4,253	5,196	(561)	19,606
Acquired through the merger	23,809	2,946	1,225	-	27,980
Depreciation for the year	(7,760)	(2,010)	(990)	-	(10,760)
Impairment charges	(11,805)	-	-	-	(11,805)
Closing net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
As at year ended December 31, 2012					
Cost	$ 97,661	$ 16,446	$ 12,830	$ 3,415	$ 130,352
Accumulated depreciation and impairment charges	(37,936)	(7,216)	(2,713)	-	(47,865)
Net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487

Non-current assets are tested for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable. For the year ended December 31, 2012, the Company recorded impairment charges of $11.8 million for the Drumlummon mine as a result of limiting spending capital to advance exploration drilling, permitting, and underground development activities. The recoverable amount of the mining properties was estimated to be $7.3 million which is equivalent to its value in use.

There were no amounts included in property, plant and equipment for capitalized exploration and evaluation costs.

10. TRADE AND OTHER PAYABLES

	December 31, 2012	December 31, 2011
Trade payables	$ 3,410	$ 1,697
Accrued expenses	9,286	3,447
	$ 12,696	$ 5,144

11. CREDIT FACILITY

On November 8, 2011, RX Gold entered into a credit facility agreement for a maximum authorized amount of $10 million, bearing interest at 8.75% per annum payable on a monthly basis commencing the sixth month after the initial advance of the funds with any amounts outstanding due July 2013. Security is provided by a first charge against all the assets of the Company and certain of its subsidiaries and guaranteed by the Company. As at December 31, 2012, the Company had drawn $7.9 million on the facility. Interest of $266 have been charged to the consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2012.

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

12. POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Company 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 Company'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, 2012 is 9.00 years (2011 – 9.06).

The amounts recognized in the consolidated statements of financial position are as follows:

	December 31, 2012	December 31, 2011
Present value of funded obligations	$ 18,923	$ 15,946
Fair value of plan assets	10,624	8,831
Deficit of funded plans	$ 8,299	$ 7,115

The movement in the defined benefit obligation is as follows:

	2012	2011
At January 1	$ 15,946	$ 12,618
Current service cost	661	531
Interest cost	742	720
Benefits paid	(533)	(528)
Plan amendments	136	7
Actuarial loss	1,971	2,598
At December 31	$ 18,923	$ 15,946

The movement in the fair value of plan assets of the year is as follows:

	2012	2011
At January 1	$ 8,831	$ 8,137
Expected return on plan assets	420	486
Actuarial gains (losses)	391	(439)
Employer contributions	1,515	1,175
Benefits paid	(533)	(528)
At December 31	$ 10,624	$ 8,831

The amount recognized in the consolidated statements of income (loss) and comprehensive income (loss) are as follows:

	2012	2011
Current service costs	$ 661	$ 531
Interest costs	742	720
Vested past service costs	136	7
Expected return on plan assets	(420)	(486)
Total, included in wages and employee expense	$ 1,119	$ 772

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

The principal actuarial assumptions were as follows:

	2012	2011
Discount rate (Expense)	4.50%	5.75%
Discount rate (Year End Disclosures)	4.50%	4.50%
Expected return on plan assets	4.50%	5.75%
Future salary increases (Salaried Plan Only)	5.00%	5.00%

A 1% change in discount rate would have resulted in approximately $2.9 million increase in the defined benefit obligation from $18.9 million to $21.8 million as at December 31, 2012.

Plan assets are comprised of:

	December 31, 2012	December 31, 2011
Pooled or mutual funds	$ 10,624	$ 8,831

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yield on fixed interest investments is based on gross redemption yields as at the end of the reporting period. Expected returns on equity investments reflect long-term real rates of return in the market.

Expected contributions to pension benefit plans for the year ended December 31, 2013 are $1,591. For the year ended December 31, 2012, the actuarial losses charged to OCI were $1,580 (2011 – $3,038). At December 31, 2012 the accumulated actuarial losses recognized in deficit were $4,938 (2011 – $3,358).

13. 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.
The following is a reconciliation of the decommissioning provision:

Balance, January 1, 2011	$ 2,421
Change in estimate	328
Accretion	58
Balance, December 31, 2011	2,807
Addition through the Merger	2,051
Change in estimate	(94)
Accretion	37
Balance, December 31, 2012	$ 4,801

At December 31, 2012, the total undiscounted amount of estimated cash flows required to settle the obligation is $5.0 million, (2011 – $3.0 million). These obligations have been discounted using a risk-free discount rate (U.S. Treasury yields) between 0.31% and 1.18% (2011 – 1.16%). These obligations are not expected to be paid until 2015 and beyond.

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

14. INCOME TAX

		2012		2011
Current tax:				
Current income tax recovery (expense)	$	423	$	(2,576)
Deferred tax:				
Origination and reversal of timing differences	$	4,139	$	(6,104)
Recognized in OCI		428		(751)
Recognized in contributed surplus		-		525
Other		-		(41)
Deferred income tax recovery (expense)	$	4,567	$	(6,371)

The tax on the Company's profit before tax differs from the amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

		2012		2011
Accounting profit (loss)	$	(22,831)	$	21,300
Tax at the applicable tax rate of 25.20% (2011 – 39.02%)		(5,753)		8,311
Tax effect of expenses that are non deductible in determining taxable profit:				
Percentage depletion		(675)		(3,086)
Stock-based compensation		978		11
Penalties		92		-
Transaction costs		486		-
Goodwill impairment		665		-
Mine license tax		125		-
Foreign taxes paid		305		-
Other non deductible item		399		59
Tax rate change		(55)		2,360
Alternative minimum tax reconciling items		(125)		(7,296)
Change in deferred tax liability		6,006		-
Valuation allowance		(7,438)		-
Net operating losses derecognized		-		8,588
Tax (recovery) expense	$	(4,990)	$	8,947

The applicable tax rate for 2011 is the aggregate of the Federal tax rate of 34% and the State tax rate of 5.02% after reduction for federal benefit. For 2012, the Company is a perpetual alternative minimum taxpayer for Federal tax purposes as a result the applicable tax rate is the aggregate of the Federal Alternative Minimum Tax ("AMT") rate of 20% and the State tax rate of 5.20% after reduction for federal benefit. As a result the net operating losses were derecognized.

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

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the consolidated financial statement carrying values and the tax basis of assets and liabilities and net operating loss carry-forwards. The analysis of deferred tax assets and liabilities is as follows:

	Assets		Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Property, plant and equipment	$ -	$ -	$ (1,125)	$ (677)
Mining assets	(222)	-	-	(8,896)
Issuance costs	130	-	-	-
Derivatives	182	1,664	-	-
Share-based payment transactions	-	494	-	-
Pension - OCI and non OCI	594	711	-	-
Provisions and other items	(41)	254	-	(9)
Tax loss carry-forwards	8,232	-	-	-
Development AMT costs	-	7,351	-	-
Deferred tax assets (liabilities)	8,875	10,474	(1,125)	(9,582)
Set off of deferred tax liabilities	(1,125)	(9,582)	1,125	9,582
Net deferred tax asset (liabilities)	$ 7,750	$ 892	$ -	$ -

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ 8,434	$ 7,351
Deferred tax asset to be recovered within 12 months	441	3,123
	8,875	10,474
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	(1,125)	(9,573)
Deferred tax liability to be recovered within 12 months	-	(9)
	(1,125)	(9,582)
Deferred tax asset (liability) net	$ 7,750	$ 892

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

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

U.S. Tax Attributes	**December 31, 2012**	**December 31, 2011**
Unrealized loss on portfolio investment	$ 2,833	$ 2,833
Alternative Minimum Tax credits	1,941	717
Regular Federal net operating losses	63,274	36,963
State net operating losses	(28,033)	-
State other	(18,599)	-

Canadian Tax Attributes	**December 31, 2012**
Net operating losses	$ 12,598
Mining assets	35,823
Financing costs	144
Other	128

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available to utilize these tax assets.

U.S. Silver Corporation, a foreign incorporated entity and subsidiary of the Company, is treated as an inverted domestic corporation for tax purposes.

15. 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 July 28, 2011, the Company issued a Notice of Acceleration to all warrant holders from a bought deal private placement that closed on September 29, 2010. The Company also issued an acceleration notice to all holders of broker options issued on September 29, 2010. By August 29, 2011, all options and warrants from this private placement were exercised for proceeds of $5.1 million.

On January 13, 2012, US Silver's Board of Directors approved a consolidation of US Silver's common shares on a basis of five (5) pre-consolidation common shares for each one (1) post-consolidation common share ("Consolidation"). US Silver's post-Consolidation common shares were posted for trading on January 30, 2012.

There were approximately 309 million pre-Consolidation common shares of US Silver outstanding which were reduced to approximately 62 million post-Consolidation common shares. No fractional common shares were issued in connection with the Consolidation. In the event that the Consolidation would otherwise have resulted in the issuance of a fractional common share, such fraction of a common charge was rounded down to the nearest whole number.

On February 14, 2012, US Silver initiated a normal course issuer bid to purchase up to 3,092,727 common shares in the open market for cancellation. Under this program, 963,200 shares were purchased at an average price of C$1.81 per share (total $1.7 million). The Company did not continue to make purchases under this program after announcing the Merger with RX Gold. Current management suspended this program indefinitely after review of the capital requirements of its operations.

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

On August 13, 2012, US Silver merged with RX Gold to create the Company. Each outstanding common share of US Silver was exchanged for 0.67 of a common share of the Company and each outstanding share of RX Gold was exchanged for 0.109 of a common share of the Company. Common shares outstanding on August 13, 2012 were 59,424,940.

All share data and equity-based compensation plans have been retroactively adjusted to give effect to the Consolidation and Merger.

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$)
Balance, January 1, 2011	3,850,814	$ 1.60
Granted	1,608,000	2.70
Exercised	(788,642)	1.30
Cancelled/Forfeited	(235,834)	1.46
Expired	(176,000)	2.00
Balance, December 31, 2011	4,258,338	2.05
Granted	929,125	2.11
Exercised	(330,662)	0.75
Cancelled/Forfeited	(124,002)	2.66
Expired	(259,987)	5.44
Balance, August 12, 2012	4,472,812	1.93
Reduction of US Silver options on acqusition	(1,474,245)	2.88
Options issued on acquisition of RX Gold (note 4)	1,108,333	4.38
Granted	2,433,500	2.13
Exercised	(562,351)	1.43
Cancelled/Forfeited	(182,295)	3.46
Expired	(182,240)	5.76
Balance, December 31, 2012	5,613,514	$ 2.89

Options granted during the year are as follows:

Grant Date	Options Granted	Fair Value (C$)	Exercise Price (C$)	Expected Volatility	Interest Rate	Forfeiture Rate	Term in Years	Dividend Yield
January 20, 2012	789,125	$ 1.36	$ 2.08	85.61%	1.40%	13.22%	5	Nil
February 1, 2012	140,000	$ 1.54	$ 2.30	85.31%	1.26%	12.74%	5	Nil
August 28, 2012	1,698,500	$ 1.63	$ 2.23	97.19%	1.39%	14.73%	5	Nil
September 27, 2012	125,000	$ 1.70	$ 2.36	96.86%	1.32%	14.21%	5	Nil
December 20, 2012	610,000	$ 0.91	$ 1.82	76.70%	1.21%	13.69%	3	Nil

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

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise Price per Share (in C$)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Exercisable
0.75	100,500	0.9	100,500
0.98	107,200	1.5	107,200
0.98	118,137	1.8	118,137
1.35	26,800	2.0	26,800
1.68	231,368	2.5	231,368
1.76	2,233	2.6	2,233
1.82	610,000	3.0	203,336
2.23	1,698,500	4.7	339,700
2.33	125,000	4.7	25,000
2.94	92,650	0.1	92,650
2.99	33,500	0.5	33,500
3.10	484,656	4.1	40,200
3.44	93,800	4.1	-
3.58	13,623	1.3	13,623
3.58	27,249	4.3	27,249
3.67	3,633	0.9	3,633
3.67	7,266	3.9	7,266
3.96	672,904	3.5	225,816
4.03	151,866	3.4	142,933
4.04	1,090	0.0	1,090
4.50	261,596	0.5	261,596
4.50	523,196	3.5	523,196
4.59	65,400	0.3	65,400
4.86	46,900	3.7	15,634
4.87	5,450	1.3	5,450
5.05	72,665	3.7	72,665
5.05	36,332	0.7	36,332
2.89	**5,613,514**	**3.4**	**2,722,507**

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:

	2012	2011
Expected volatility	76.70% - 97.19%	87.21% - 88.95%
Risk-free interest rate	1.21% - 1.40%	1.54% - 2.51%
Forfeiture rate	12.74% - 14.73%	13.10% - 14.67%
Term (years)	3 - 5	5
Dividend yield	Nil	Nil

The fair value of stock options is recognized as stock-based compensation in the consolidated statement of income (loss) and comprehensive income (loss) over the vesting period of the stock options. The Company incurred $3.5 million in stock-based compensation during the year ended December 31, 2012 (2011 – $1.2 million).

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

Warrants:

The warrants that are issued and outstanding as at December 31, 2012 are as follows:

Type	Number of Warrants	Exercise Price (C$)	Issuance Date	Expiry Date	Fair Value
US Silver	10,771,641	0.155	Jul 2009	Jul 16 2014	$298,402
RX Gold	5,000,000	0.60	Jul 2011	Jul 16 2013	$740,304

The US Silver warrants represent the warrants previously issued by US Silver and were not converted in connection with the Consolidation or Merger. The effects of the Consolidation (5 times) and Merger (0.67) are cumulative upon the exercise of the warrants. Upon exercise, the warrant holder would surrender 7.46 US Silver warrants and C$1.16 to obtain a single share of the Company. On a post-Consolidation and Merger basis, the US Silver warrant holders are entitled to a total of 1,443,400 shares of the Company.

The RX Gold warrants represent the warrants previously issued by RX Gold and were not converted in connection with the Merger. The effect of the Merger (0.109) is initiated upon the exercise of the warrants. The warrant holder would surrender 9.17 RX Gold warrants and C$5.50 to obtain a single share of the Company. On a post-Merger basis, the RX warrant holders are entitled to a total of 545,000 shares of the Company.

As of December 31, 2012, there are warrants issued and outstanding of US Silver and RX Gold on a post-Consolidation and post-Merger basis to purchase 1,988,400 common shares of the Company.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Balance, January 1, 2011	$	99
Cumulative translation adjustment		111
Balance, December 31, 2011		210
Cumulative translation adjustment		(305)
Balance, December 31, 2012	$	(95)

17. EXPENSES BY NATURE

		2012		**2011**
Changes in inventories of concentrate and work in progress	$	2,541	$	(1,225)
Raw materials and consumables used		6,457		8,201
Smelting and refining		5,908		5,508
Wages and employee benefits expense		32,783		23,067
Other expenses		23,786		11,858
Cost of sales	$	71,475	$	47,409
Depreciation, depletion and amortization	$	10,760	$	6,737

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

18. WAGES AND EMPLOYEE BENEFIT EXPENSES

	2012	2011
Salaries, wages and other employee benefits	$ 36,154	$ 24,250
Pension costs - defined benefit plans	1,119	1,337
Share-based compensation	3,509	1,246
	$ 40,782	$ 26,834

Compensation of key management*:

Compensation awarded to key management included:

	2012	2011
Salaries and short-term employee benefits	$ 3,053	$ 1,476
Post-employee benefits	-	42
Share-based payment	2,595	766
	$ 5,648	$ 2,285

key management includes the President and CEO, CFO, COO, VPs and the Directors

19. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to owners of the parent by the weighted average number of common shares outstanding during the year.

	2012	2011
Net income (loss) to common shareholders	$ (17,841)	$ 12,353
Weighted average number of common shares outstanding - basic	60,936,429	59,462,121
Basic earnings (loss) per share	$ (0.29)	$ 0.21

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: stock options and warrants. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the year), based on the exercise prices attached to the warrants and stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and stock options. The effect of stock options and warrants was excluded from the calculation of diluted loss per share for the year ended December 31, 2012 as they are anti-dilutive.

	2012	2011
Net income (loss) to common shareholders	$ (17,841)	$ 12,353
Weighted average number of common shares outstanding - basic	60,936,429	59,462,121
Adjustments for assumed exercise of stock options and warrants	-	4,717,596
Weighted average number of common shares outstanding - diluted	60,936,429	64,179,717
Diluted earnings (loss) per share	$ (0.29)	$ 0.19

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

20. FINANCIAL INSTRUMENTS AND FAIR VALUES

Measurement categories

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Those categories are: FVTPL; loans and receivables; available-for-sale; and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Assets		
Loans and receivables		
Cash and cash equivalents	18,947	26,985
Trade receivables	8,405	5,976
Restricted cash	165	115
	27,517	33,076
Fair value through profit and loss		
Embedded derivatives within trade receivables	(721)	(1,627)
Available-for-sale		
Long-term investments	184	-
Liabilities		
Amortized cost		
Trade and other payables	12,696	5,144
Credit facility	7,900	-
Other long-term liabilities	468	351

Fair values, including valuation methods and assumptions

The following table summarizes the fair value of financial assets and liabilities as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	18,947	26,985
Trade receivables	7,684	4,349
Restricted cash	165	115
Long-term investments	184	-
Liabilities		
Trade and other payables	12,696	5,144
Credit facility	7,900	-
Other long-term liabilities	468	351

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

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

- 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 accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues. For the year ended December 31, 2012, the Company recorded $906 (2011 – $8,137) in revenues from provisionally priced sales on the consolidated statement of income (loss) and comprehensive income (loss). The Company recognized a positive price adjustment of $0.9 million in sales during the year ended December 31, 2012 (2011 – $6.4 million negative 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 December 31, 2012, there are no 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. The levels in the hierarchy are:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

	December 31, 2012	December 31, 2011
Level 2		
Embedded derivatives within trade receivables	(721)	(1,627)
Long-term investments	184	-

Financial risks factors

The Company's operations expose the Company to market risk, credit risk, and liquidity risk. The Company 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 Company's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Company'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) Commodity Risk

The Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of silver, gold, copper and lead. The Company is particularly exposed to the risk of movements in the price of silver and gold. Declining market prices for silver could have a material effect on the Company's profitability, and the Company's policy is not to hedge a large portion of its exposure to silver in accordance with shareholders' preferences. The London silver and gold spot price average, in USD per ounce, was $31.15 and $1,668.98, respectively in 2012 (2011 – $35.12 and $1,571.52, respectively). The Company estimates that an increase (decrease) in the price of silver and gold by 10%, with all other variables held constant, would result in an increase (decrease) in net income of approximately $7.5 million and $1.4 million, respectively.

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

As at December 31, 2012, the Company's exposure to commodity prices is limited to trade receivables associated with provisional pricing of concentrate sales. A 10% strengthening or weakening of the price of silver would have resulted in approximately $0.1 million decrease or increase, respectively, in the Company's loss and comprehensive loss for the year ended December 31, 2012.

(b) Credit Risk

Credit risk related to trade receivables arises from the possibility that customers may be unable to fulfill their commitments. The Company mitigates this risk by regularly monitoring the financial health and aging of any amounts due from its customers. Currently two customers represent 100% and 82% of the Company's concentrate receivables and revenue, respectively. As at December 31, 2012, the Company is exposed to a maximum credit risk of $7,339 (2011 – $4,936).

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

(c) Liquidity risk

Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities and capital structure. The Company manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost effective manner. The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital expenditure requirements, credit capacity and debt and equity capital market conditions. The Company's liquidity requirements are met through a variety of sources, including cash, cash generated from operations, existing credit facilities and debt and equity capital markets.

At December 31, 2012, the Company held cash resources of $18,947 that is available to generate cash inflows for managing liquidity risk.

The following table presents the contractual maturities of the Company's financial liabilities on an undiscounted basis:

	December 31, 2012			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and other payables	12,319	341	36	-
Credit facility	-	7,900	-	-
Other long-term liabilities	-	-	-	468
	12,319	8,241	36	468

	December 31, 2011			
	Less than 3 months	3 months to 1 year	2-5 years	Over 5 years
Trade and other payables	4,607	537	-	-
Other long-term liabilities	-	-	-	351
	4,607	537	-	351

21. CAPITAL MANAGEMENT

The Company manages its cash, common shares, retained earnings, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company'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 level.

The Company 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 Company 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 Company 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 and development efforts, the Company does not pay out dividends. The nature of the industry in which the Company operates is very capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures.

The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through its credit facility. Revenue, available cash balances, draws on the credit facility and financing of indebtedness are the Company's principal sources of capital used to pay operating expenses and recurring capital and leasing costs in its business. There has been no change in the year in the Company's approach to its capital management.

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

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

22. SEGMENT REPORTING AND ECOMONIC DEPENDENCE

The Company's operations comprise two 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 executive officer that are used to make strategic decisions.

The following segmented information is presented as at and during the years ended December 31, 2012 and 2011. The Montana segment only includes results from August 13, 2012.

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

	As at December 31, 2012				As at December 31, 2011			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Cash and cash equivalents	$ 15,918	$ 2,627	$ 402	$ 18,947	$ 21,676	$ -	$ 5,309	$ 26,985
Trade receivables	7,396	3	285	7,684	4,390	-	(41)	4,349
Inventories	7,658	2,567	-	10,225	7,216	-	-	7,216
Other current assets	16	15	316	347	2,316	-	14	2,330
Property, plant and equipment	69,278	13,171	38	82,487	57,466	-	-	57,466
Goodwill	12,780	-	-	12,780	-	-	-	-
Other non-current assets	7,865	50	184	8,099	1,007	-	-	1,007
Total assets	**$ 120,911**	**$ 18,433**	**$ 1,225**	**$ 140,569**	**$ 94,071**	**$ -**	**$ 5,282**	**$ 99,353**
Trade and other payables	$ 6,135	$ 4,823	$ 1,738	$ 12,696	$ 4,749	$ -	$ 395	$ 5,144
Other current liabilities	-	7,900	582	8,482	-	-	-	-
Post-employment benefit obligations	8,299	-	-	8,299	7,115	-	-	7,115
Decommissioning provision	2,741	2,060	-	4,801	2,807	-	-	2,807
Other long-term liabilities	468	-	-	468	351	-	-	351
Total liabilities	**$ 17,643**	**$ 14,783**	**$ 2,320**	**$ 34,746**	**$ 15,022**	**$ -**	**$ 395**	**$ 15,417**

	Year ended December 31, 2012				Year ended December 31 ,2011			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 76,840**	**$ 18,096**	**$ -**	**$ 94,936**	**$ 88,945**	**$ -**	**$ -**	**$ 88,945**
Cost of sales	(52,858)	(18,617)	-	(71,475)	(47,409)	-	-	(47,409)
General and administration	-	-	(6,131)	(6,131)	-	-	(4,191)	(4,191)
Exploration costs	(5,758)	(2,657)	-	(8,415)	(3,836)	-	-	(3,836)
Depreciation, depletion and amortization	(7,353)	(3,407)	-	(10,760)	(6,737)	-	-	(6,737)
Stock-based compensation	(914)	-	(2,595)	(3,509)	(480)	-	(766)	(1,246)
Impairment charges	-	(14,442)	-	(14,442)	-	-	-	-
Other income (expenses)	-	-	(3,035)	(3,035)	(4,277)	-	51	(4,226)
Income (loss) before income taxes	**9,957**	**(21,027)**	**(11,761)**	**(22,831)**	**26,206**	**-**	**(4,906)**	**21,300**
Current and deferred income tax recovery (expense)	4,990	-	-	4,990	(8,947)	-	-	(8,947)
Other comprehensive income (loss)	(1,169)	-	(305)	(1,474)	(2,287)	-	111	(2,176)
Comprehensive income (loss) for the year	**$ 13,778**	**$ (21,027)**	**$ (12,066)**	**$ (19,315)**	**$ 14,972**	**$ -**	**$ (4,795)**	**$ 10,177**

During 2012, the Company delivered all of its concentrate to two customers from Idaho operations and three customers from Montana Operations (2011 – two customers from Idaho operations). Approximately 64% and 18% of the Company's total revenues are sold to two customers from Idaho operations, respectively (2011 – 80% and 20%). 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.

SCHEDULE C

See attached.

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
Assets		
Current assets		
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
Non-current assets		
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
Total assets	$ 120,492	$ 122,658
Liabilities		
Current liabilities		
Trade and other payables	$ 4,553	$ 6,096
Credit facility (note 8)	893	-
	5,446	6,096
Non-current liabilities		
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
Total liabilities	17,589	19,031
Equity		
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
Total liabilities and equity	$ 120,492	$ 122,658

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
Revenues	$ 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)
Loss before finance costs and income taxes	(3,198)	(3,038)	(7,761)	(17,715)
Finance costs	(511)	(1,000)	(1,478)	(1,380)
Loss before income taxes	(3,709)	(4,038)	(9,239)	(19,095)
Current income tax expense (note 10)	(164)	(195)	(493)	(826)
Deferred income tax recovery (note 10)	961	701	2,395	4,680
Income tax recovery	797	506	1,902	3,854
Net loss for the period	(2,912)	(3,532)	(7,337)	(15,241)
Other comprehensive income (loss)				
Items that will not be reclassified to net loss				
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)
Items that may be reclassified subsequently to net loss				
Cumulative translation adjustment	190	425	289	451
Other comprehensive income (loss) for the period	190	130	289	(435)
Comprehensive loss for the period	$ (2,722)	$ (3,402)	$ (7,048)	$ (15,676)
Loss per share (expressed in $ per share)				
Basic and diluted (note 12)	$ (0.04)	$ (0.06)	$ (0.10)	$ (0.25)
Weighted average number of common shares outstanding				
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
Balance – January 1, 2013	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
Balance – September 30, 2013	69,674	$ 120,769	$ 16,952	$ 356	$ (37,631)	$ 100,446
Balance – January 1, 2014	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
Balance – September 30, 2014	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)

	For the nine-month period ended September 30, 2014	September 30, 2013
Cash flow provided by (used in)		
Operating activities		
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
Net cash used in operating activities	(1,421)	(7,835)
Investing activities		
Disposal (purchase) of property, plant and equipment (note 7)	197	(2,977)
Investment in mining properties (note 7)	(4,695)	(7,404)
Net cash used in investing activities	(4,498)	(10,381)
Financing activities		
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
Net cash generated from financing activities	5,565	4,816
Effect of exchange rate changes on cash	(109)	267
Decrease in cash	(463)	(13,133)
Cash and cash equivalents – beginning of period	7,167	18,947
Cash and cash equivalents – end of period	$ 6,704	$ 5,814
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.

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

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

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

	September 30, 2014	December 31, 2013
Concentrate receivables	$ 1,962	$ 4,313
Other	161	137
	$ 2,123	$ 4,450

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

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

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
	$ 5,502	$ 5,319

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
Year ended December 31, 2013					
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	$ 59,257	$ 8,620	$ 10,615	$ 2,494	$ 80,986
As at year ended December 31, 2013					
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	$ 59,257	$ 8,620	$ 10,615	$ 2,494	$ 80,986
Period ended September 30, 2014					
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	$ 60,967	$ 7,690	$ 9,951	$ 874	$ 79,482
As at period ended September 30, 2014					
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	$ 60,967	$ 7,690	$ 9,951	$ 874	$ 79,482

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.

(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:

	September 30, 2014	December 31, 2013
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.

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

The following is a reconciliation of the decommissioning provision:

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

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:

		September 30, 2014		**December 31, 2013**
Deferred income tax asset	$	15,064	$	12,669
Deferred income tax liability		(2,258)		(2,258)
Deferred income tax asset (net)	$	12,806	$	10,411

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 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.

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

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$)
Balance, January 1, 2013	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
Balance, December 31, 2013	4,969,035	2.34
Granted	1,830,000	0.49
Cancelled	(50,164)	2.81
Expired	(89,023)	2.01
Balance, September 30, 2014	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.

(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:

Exercise Price per Share (in C$)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Exercisable
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
1.83	**6,659,848**	**2.1**	**4,770,164**

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:

	2014	2013
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).

(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
540,000	0.64	Aug 2013	Aug 22, 2016	$	202,323
19,448,698					

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:

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

	September 30, 2014	December 31, 2013
Assets		
Loans and receivables		
Cash and cash equivalents	6,704	7,167
Trade receivables	2,659	5,250
Restricted cash	151	151
	9,514	12,568
Fair value through profit and loss		
Embedded derivatives within trade receivables	(536)	(800)
Available-for-sale		
Long-term investments	42	31
Liabilities		
Amortized cost		
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
Assets		
Cash and cash equivalents	6,704	7,167
Trade receivables	2,123	4,450
Restricted cash	151	151
Long-term investments	42	31
Liabilities		
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.

(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.

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

14. SEGMENT REPORTING AND ECOMONIC 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
Total assets	**$ 109,620**	**$ 7,167**	**$ 3,705**	**$ 120,492**	**$ 110,429**	**$ 7,638**	**$ 4,591**	**$ 122,658**
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
Total liabilities	**$ 10,520**	**$ 875**	**$ 6,194**	**$ 17,589**	**$ 11,323**	**$ 1,439**	**$ 6,269**	**$ 19,031**

	For the three-month period ended September 30, 2014				For the three-month period ended September 30, 2013			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 10,242**	**$ -**	**$ -**	**$ 10,242**	**$ 13,268**	**$ 611**	**$ -**	**$ 13,879**
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)
Income (loss) before income taxes	**(1,862)**	**(312)**	**(1,535)**	**(3,709)**	**(993)**	**201**	**(3,246)**	**(4,038)**
Current and deferred income tax recovery	797	-	-	797	506	-	-	506
Other comprehensive income (loss)	-	-	190	190	(295)	-	425	130
Comprehensive income (loss) for the period	**$ (1,065)**	**$ (312)**	**$ (1,345)**	**$ (2,722)**	**$ (782)**	**$ 201**	**$ (2,821)**	**$ (3,402)**

	For the nine-month period ended September 30, 2014				For the nine-month period ended September 30, 2013			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 29,650**	**$ -**	**$ -**	**$ 29,650**	**$ 44,396**	**$ 9,244**	**$ -**	**$ 53,640**
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)
Loss before income taxes	**(3,732)**	**(461)**	**(5,046)**	**(9,239)**	**(4,553)**	**(6,494)**	**(8,048)**	**(19,095)**
Current and deferred income tax recovery	1,902	-	-	1,902	3,854	-	-	3,854
Other comprehensive income (loss)	-	-	289	289	(886)	-	451	(435)
Comprehensive loss for the period	**$ (1,830)**	**$ (461)**	**$ (4,757)**	**$ (7,048)**	**$ (1,585)**	**$ (6,494)**	**$ (7,597)**	**$ (15,676)**

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.

U.S. SILVER & GOLD INC.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012
(Unaudited – 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, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 5,814	$ 18,947
Trade receivables (note 5)	6,973	7,684
Inventories (note 6)	6,536	10,225
Prepaid expenses	697	347
	20,020	37,203
Non-current assets		
Restricted cash	165	165
Long-term investments	110	184
Property, plant and equipment (note 7)	82,921	82,487
Goodwill	12,780	12,780
Deferred income tax asset (note 10)	12,636	7,750
Total assets	$ 128,632	$ 140,569
Liabilities		
Current liabilities		
Trade and other payables	$ 7,729	$ 12,696
Income tax payable	998	582
Credit facility (note 8)	-	7,900
	8,727	21,178
Non-current liabilities		
Other long-term liabilities	548	468
Credit facility (note 8)	4,947	-
Post-employment benefit obligations	9,276	8,299
Decommissioning provision (note 9)	4,688	4,801
Total liabilities	28,186	34,746
Equity		
Share capital (note 11)	120,769	117,441
Contributed surplus	16,952	9,981
Accumulated other comprehensive loss	356	(95)
Deficit	(37,631)	(21,504)
	100,446	105,823
Total liabilities and equity	$ 128,632	$ 140,569

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, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues	$ 13,879	$ 33,393	$ 53,640	$ 69,373
Cost of sales	(12,015)	(24,282)	(51,737)	(49,357)
Care and maintenance costs	(271)	-	(805)	-
General and administration	(1,553)	(3,489)	(4,847)	(6,719)
Exploration costs	(278)	(3,145)	(2,076)	(5,738)
Depreciation, depletion and amortization (note 7)	(2,094)	(2,207)	(8,444)	(5,357)
Share-based compensation (note 11)	(498)	(1,222)	(1,809)	(2,452)
Impairment charges (note 7)	-	-	(1,357)	-
Foreign exchange gain (loss)	(208)	(84)	(280)	(83)
Loss before finance costs and income taxes	(3,038)	(1,036)	(17,715)	(333)
Finance costs	(1,000)	(101)	(1,380)	(81)
Loss before income taxes	(4,038)	(1,137)	(19,095)	(414)
Current income tax expense (note 10)	(195)	(535)	(826)	(935)
Deferred income tax recovery (expense) (note 10)	701	(101)	4,680	109
Income tax recovery (expense)	506	(636)	3,854	(826)
Net loss for the period	(3,532)	(1,773)	(15,241)	(1,240)
Other comprehensive income (loss)				
Items that will not be reclassified to net loss				
Actuarial losses on post-employment benefit obligations, net of taxes $100 for the three-month period ended and $299 for the nine-month period ended (2012: nil)	(295)	-	(886)	-
Items that may be reclassified subsequently to net loss				
Cumulative translation adjustment	425	1,072	451	1,215
Other comprehensive income (loss) for the period	130	1,072	(435)	1,215
Comprehensive loss for the period	$ (3,402)	$ (701)	$ (15,676)	$ (25)
Loss per share (expressed in $ per share)				
Basic	$ (0.06)	$ (0.03)	$ (0.25)	$ (0.02)
Diluted	$ (0.06)	$ (0.03)	$ (0.25)	$ (0.02)
Weighted average number of common shares outstanding				
Basic	64,123,398	60,238,051	61,407,966	61,287,922
Diluted	64,123,398	60,238,051	61,407,966	61,287,922

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 period ended September 30, 2013 and 2012
(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
Balance – January 1, 2012	61,837	$ 79,248	$ 6,972	$ 210	$ (2,494)	$ 83,936
Net loss for the period	-	-	-	-	(1,240)	(1,240)
Other comprehensive income (net of tax)	-	-	-	1,215	-	1,215
Comprehensive income for the period	-	-	-	1,215	(1,240)	(25)
Reduction of US Silver shares on acquisition	(20,198)	-	-	-	-	-
Shares issued on acquisition of RX Gold	18,418	38,223	-	-	-	38,223
Employee share options:						
Value of services recognized (note 11)	-	-	2,452	-	-	2,452
Proceeds from exercise of share options	667	1,150	(357)	-	-	793
Common shares repurchased and cancelled	(963)	(1,726)	-	-	-	(1,726)
Balance – September 30, 2012	59,761	$ 116,895	$ 9,067	$ 1,425	$ (3,734)	$123,653
Balance – January 1, 2013	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
Balance – September 30, 2013	69,674	$ 120,769	$ 16,952	$ 356	$(37,631)	$100,446

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)

	For the nine-month period ended September 30, 2013	September 30, 2012
Cash flow provided by (used in)		
Operating activities		
Net income (loss) for the period	$ (15,241)	$ (1,240)
Adjustments for:		
Depreciation, depletion and amortization (note 7)	8,444	5,357
Accretion on credit facility (note 8)	189	-
Finance costs on credit facility (note 8)	529	-
Accretion on decommissioning provision (note 9)	33	29
Accretion of interest	-	(46)
Foreign exchange loss	280	83
Deferred income tax recovery	(4,979)	(109)
Other long-term liabilities	80	105
Non-cash impact of post-employment benefit obligations	91	(647)
Non-cash inventory adjustment	-	2,608
Long-term investments	74	-
Advance on concentrates revenue	-	84
Share-based payments (note 11)	1,809	2,452
Impairment charges (note 7)	1,357	-
Changes in items of working capital:		
Trade receivables (note 5)	711	(10,715)
Income tax receivable	-	1,219
Inventories	3,689	(3,015)
Prepaid expenses	(350)	80
Trade and other payables	(4,967)	6,172
Income tax payable	416	-
Net cash generated from (used in) operating activities	(7,835)	2,417
Investing activities		
Purchase of property, plant and equipment (note 7)	(2,977)	(7,084)
Investment in mining properties (note 7)	(7,404)	(7,047)
Acquisition of RX Gold	-	2,062
Net cash used in investing activities	(10,381)	(12,069)
Financing activities		
Common shares repurchased and cancelled (note 11)	-	(1,726)
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)	5,192	-
Proceeds from exercise of options and warrants (note 11)	53	1,150
Net cash generated from (used in) financing activities	4,816	(576)
Effect of exchange rate changes on cash	267	3
Decrease in cash	(13,133)	(10,225)
Cash and cash equivalents – beginning of period	18,947	26,985
Cash and cash equivalents – end of period	$ 5,814	$ 16,760
Cash recovered for income tax	$ (501)	$ (3,300)
Cash paid for income tax	910	500
Cash paid for interest	626	59

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

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 plans 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.

On April 24, 2013, the Company announced that due to current gold prices and recent mine performance, production at the Drumlummon mine site in Montana was discontinued and the mine was put on care and maintenance effective May 31, 2013.

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, 2012.

Certain of the prior period's comparative numbers have been reclassified to reflect the current period's financial presentation. Prior period's share-based compensation for $1.2 million during the three-month period ended and $2.5 million during the nine-month period ended, and depreciation, depletion and amortization for $2.2 million during the three-month period ended and $5.4 million during nine-month period ended were reclassified from general and administration and cost of sales, respectively, and presented separately on the condensed interim consolidated statement of loss and comprehensive loss. Prior period's non-payable metal deductions from cost of sales for $1.0 million during the three-month period ended and $2.8 million during the nine-month period ended were netted against revenues on the condensed interim consolidated statement of loss and comprehensive loss.

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 13, 2013.

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, 2012, 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, 2013, unless otherwise noted. These changes were made in accordance with the applicable transitional provisions.

IFRS 7 – Financial instruments: disclosures

IFRS 7, "Financial instruments: disclosures" was amended to provide guideline on the eligibility criteria for offsetting assets and liabilities as a single net amount in the consolidated statement of financial position. The Company assessed its criteria for offsetting assets and liabilities and where applicable, disclosures in the condensed interim consolidated financial statements have been prepared in accordance with the Company's adoption of this standard.

IFRS 10 – Consolidated financial statements

IFRS 10, "Consolidated financial statements" ("IFRS 10") was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees.

IFRS 11 – Joint arrangements

IFRS 11, "Joint arrangements" ("IFRS 11") was issued by the IASB in May 2011 and will supersede IAS 31, "Interests in joint ventures" and SIC 13, "Jointly controlled entities – Non-monetary contributions by venturers" by removing the option to account for joint ventures using proportionate consolidation and requiring equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. In addition, IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, "Disclosure of interests in other entities" ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The Company assessed its interests in other entities on January 1, 2013 and determined that the adoption of IFRS 12 did not result in any changes in the accounting for its interests in other entities.

IFRS 13 – Fair value measurement

IFRS 13, "Fair value measurement" ("IFRS 13") was issued by the IASB in May 2011. This standard clarifies the definition of fair value, required disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1 – Presentation of financial statements

IAS 1, "Presentation of financial statements" has been amended to require entities to separate items presented in other comprehensive income (loss) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income (loss) items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has adopted the amendments to IAS 1 effective January 1, 2013 and has reclassified comprehensive income (loss) items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive income (loss).

IAS 19 – Employee benefits

IAS 19, "Employee benefits" has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short- term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. The adoption of IAS 19 did not require any changes to the recognition of actuarial gains and losses or past service costs used by the Company and did not result in any retrospective adjustments to prior period comparative information.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" ("IAS 28") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The Company assessed its investments in associates and joint ventures on January 1, 2013 and determined that the amendments to IAS 28 did not result in any changes in the accounting for its investments in associates and joint ventures.

IAS 36 – Impairment of assets

IAS 36, "Impairment of assets" ("IAS 36") has been amended to require entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed, and to provide detailed disclosure on how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. These changes did not result in any changes in the accounting for impairment of assets.

b. Accounting standards issued but not yet applied

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

IFRS 9 – Financial instruments

IFRS 9, "Financial instruments" ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

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

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather be left open pending the finalization of the impairment and classification and measurement requirements.

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.

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, 2012.

5. TRADE RECEIVABLES

	September 30, 2013	December 31, 2012
Concentrate receivables	$ 6,870	$ 7,339
Other	103	345
	$ 6,973	$ 7,684

Concentrate receivables represent the value of silver concentrate shipped for smelting and refining, using the September 30, 2013 forward metal pricing when significant risks and rewards have transferred to third parties. The concentrate receivables are due from two customers at September 30, 2013 (December 31, 2012 – two customers). A reserve for doubtful accounts has not been established, as in the opinion of management, the amounts due will be fully collected.

6. INVENTORIES

	September 30, 2013	December 31, 2012
Concentrates - Mill	$ 2,332	$ 4,435
Concentrates - In transit	1,747	3,160
Materials and supplies	2,457	2,630
	$ 6,536	$ 10,225

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

The cost of inventories recognized as an expense and included in cost of sales was $13.3 million during the three-month period ended September 30, 2013 (2012 – $20.1 million) and $55.4 million during the nine-month period ended September 30, 2013 (2012 – $45.5 million).

The Company recognized a write-down of concentrates to net realizable value of $0.5 million during the three-month period ended September 30, 2013 (2012 – nil) and $1.2 million during the nine-month period ended September 30, 2013 (2012 – nil).

7. PROPERTY, PLANT AND EQUIPMENT

	Mining Properties	Mining Equipment	Building	Construction in Progress	Total
Year ended December 31, 2012					
Carrying value, January 1, 2012	$ 44,763	$ 4,041	$ 4,686	$ 3,976	$ 57,466
Additions/disposals (transfers)	10,718	4,253	5,196	(561)	19,606
Acquired through the merger	23,809	2,946	1,225	-	27,980
Depreciation for the year	(7,760)	(2,010)	(990)	-	(10,760)
Impairment charges	(11,805)	-	-	-	(11,805)
Closing net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
As at year ended December 31, 2012					
Cost	$ 97,661	$ 16,446	$ 12,830	$ 3,415	$ 130,352
Accumulated depreciation and impairment charges	(37,936)	(7,216)	(2,713)	-	(47,865)
Net book value	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
Period ended September 30, 2013					
Carrying value, January 1, 2013	$ 59,725	$ 9,230	$ 10,117	$ 3,415	$ 82,487
Additions/disposals (transfers)	7,258	1,309	2,089	(421)	10,235
Depreciation for the year	(5,230)	(1,973)	(1,241)	-	(8,444)
Impairment charges	(1,357)	-	-	-	(1,357)
Closing net book value	$ 60,396	$ 8,566	$ 10,965	$ 2,994	$ 82,921
As at period ended September 30, 2013					
Cost	$ 104,919	$ 17,755	$ 14,919	$ 2,994	$ 140,587
Accumulated depreciation and impairment charges	(44,523)	(9,189)	(3,954)	-	(57,666)
Net book value	$ 60,396	$ 8,566	$ 10,965	$ 2,994	$ 82,921

Non-current assets are tested for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable. For the nine-month period ended September 30, 2013, the Company determined that declining comparable market valuations were potential indicators of impairment and recorded an impairment charge of $1.4 million for the Drumlummon mine. 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, the lowest level for which identifiable cash flows are largely independent of cash flows of other assets. The key assumptions and estimates used in determining the recoverable amount for the Drumlummon mine are related to commodity prices, enterprise values of comparable entities and inclusion of reserves and resources in market multiples.

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 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.

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

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, 2013, the fair value of the financing cost payable is nil.

As at September 30, 2013, the Company had drawn C$8.5 million on the facility. Interest of $0.2 million during the three-month period ended September 30, 2013 (2012 – $0.1 million) and $0.6 million during the nine-month period ended September 30, 2013 (2012 – $0.1 million) has been charged to the condensed interim consolidated statement of loss and comprehensive loss.

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

	September 30, 2013	December 31, 2012
Credit facility	$ 8,250	$ 7,900
Discount from warrants issued	(2,673)	-
Transaction costs	(630)	-
	$ 4,947	$ 7,900

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 Complex 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.

The following is a reconciliation of the decommissioning provision:

Balance, January 1, 2012	$ 2,807
Addition through the Merger	2,051
Change in estimate	(94)
Accretion	37
Balance, December 31, 2012	4,801
Change in estimate	(146)
Accretion	33
Balance, September 30, 2013	$ 4,688

At September 30, 2013, the total undiscounted amount of estimated cash flows required to settle the obligations is $5.0 million (December 31, 2012 – $5.0 million). These obligations have been discounted using a risk-free discount rate (U.S. Treasury yields) between 0.25% and 2.02% (December 31, 2012 – between 0.31% and 1.18%).

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, 2012 was 25.20% and for the three-month and nine-month periods ended September 30, 2013 was 25.20%.

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:

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

	September 30, 2013	December 31, 2012
Deferred income tax asset	$ 13,854	$ 8,875
Deferred income tax liability	(1,218)	(1,125)
Deferred income tax asset (net)	$ 12,636	$ 7,750

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 7, 2013, the Company issued 10,625,000 warrants in connection with the RCM Credit Agreement (see credit facility note 8). Each warrant is exercisable for one common share at an exercise price of C$0.68 for a period of five years. Until December 31, 2013, the exercise price of the warrants will be subject to downward adjustment to equal the exercise price of any warrants issued by the Company with a lower exercise price in connection with certain equity offerings (subject to the approval of the TSX and a floor exercise price of the market price at the time).

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 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 C$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.

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

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$)
Balance, January 1, 2012	4,258,338	$ 2.05
Granted	929,125	2.11
Exercised	(330,662)	0.75
Cancelled/Forfeited	(124,002)	2.66
Expired	(259,987)	5.44
Balance, August 12, 2012	4,472,812	1.93
Reduction of US Silver options on acqusition	(1,474,245)	2.88
Options issued on acquisition of RX Gold	1,108,333	4.38
Granted	2,433,500	2.13
Exercised	(562,351)	1.43
Cancelled/Forfeited	(182,295)	3.46
Expired	(182,240)	5.76
Balance, December 31, 2012	5,613,514	2.89
Granted	1,160,000	0.73
Exercised	(35,731)	0.98
Cancelled/Forfeited	(809,859)	2.40
Expired	(490,568)	4.15
Balance, September 30, 2013	5,437,356	$ 2.40

Options granted during the nine-month period ended September 30, 2013 are as follows:

Grant Date	Options Granted	Fair Value (C$)	Exercise Price (C$)	Expected Volatility	Interest Rate	Forfeiture Rate	Term in Years	Dividend Yield
January 16, 2013	60,000	$ 1.00	$ 1.99	76.76%	1.24%	13.40%	3	Nil
July 16, 2013	979,000	$ 0.34	$ 0.65	78.81%	1.22%	13.83%	3	Nil
August 26, 2013	121,000	$ 0.40	$ 0.78	78.36%	1.31%	14.38%	3	Nil

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

Share options outstanding as at September 30, 2013 have the following expiry dates and exercise prices:

Exercise Price per Share (in C$)	Options Outstanding	Weighted Average Remaining Life (Years)	Options Exercisable
0.65	919,666	2.8	326,327
0.75	33,500	0.1	33,500
0.78	113,666	2.9	40,327
0.98	53,600	0.8	53,600
0.98	79,726	1.0	79,726
1.35	26,800	1.3	26,800
1.68	171,068	1.7	171,068
1.76	2,233	1.9	2,233
1.82	576,667	2.2	203,336
1.99	60,000	2.3	19,999
2.23	1,488,500	3.9	913,100
2.33	125,000	4.0	75,000
3.10	367,189	3.3	156,900
3.44	93,800	3.3	31,268
3.58	11,807	0.5	11,807
3.58	23,616	3.5	23,616
3.96	510,541	2.7	345,732
4.03	151,866	2.6	151,866
4.50	523,196	2.8	523,196
4.86	26,800	3.0	17,867
4.87	5,450	0.5	5,450
5.05	72,665	2.9	72,665
2.40	**5,437,356**	**3.0**	**3,285,383**

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:

	2013	2012
Expected volatility	76.76% - 78.81%	76.70% - 97.19%
Risk-free interest rate	1.22% - 1.31%	1.21% - 1.40%
Forfeiture rate	13.40% - 14.38%	12.74% - 14.73%
Term (years)	3	3 - 5
Dividend yield	Nil	Nil

The fair value of share options is recognized as share-based compensation in the condensed interim consolidated statement of loss and comprehensive loss over the vesting period of the share options. The Company incurred $0.5 million in share-based compensation during the three-month period ended September 30, 2013 (2012 – $1.2 million) and $1.8 million during the nine-month period ended September 30, 2013 (2012 – $2.5 million).

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

Warrants:

As at September 30, 2013, the number of common shares issuable on the exercise of warrants is 17,411,155, the basis for which is described as follows:

Type	Number of Warrants	Exercise Price (C$)	Issuance Date	Expiry Date	Fair Value
Company	10,625,000	0.68	Aug 2013	Aug 7, 2018	$ 3,338,294
Company	4,818,165	0.75	Aug 2013	Aug 22, 2016	$ 1,730,570
Company	540,000	0.64	Aug 2013	Aug 22, 2016	$ 202,323
US Silver	1,427,990	1.16	Jul 2009	Jul 16, 2014	$ 294,858

The US Silver warrants represent the 10,656,641 warrants previously issued by US Silver and were not converted in connection with the Consolidation or Merger. The effects of the Consolidation (5 times) and Merger (0.67) are cumulative upon the exercise of the warrants. Upon exercise, the warrant holder would surrender 7.46 US Silver warrants and C$1.16 to obtain a single share of the Company. On a post-Consolidation and Merger basis, the US Silver warrant holders are entitled to a total of 1,427,990 shares of the Company.

Total proceeds of $18 were received from the exercise of 115,000 US Silver warrants during the nine-month period ended September 30, 2013 (2012 – nil).

12. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period.

	For the three-month period ended September 30, 2013	For the three-month period ended September 30, 2012	For the nine-month period ended September 30, 2013	For the nine-month period ended September 30, 2012
Net loss to common shareholders	$ (3,532)	$ (1,773)	$ (15,241)	$ (1,240)
Weighted average number of common shares outstanding - basic	64,123,398	60,238,051	61,407,966	61,287,922
Basic loss per share	$ (0.06)	$ (0.03)	$ (0.25)	$ (0.02)

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: share options and warrants. For both, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period), based on the exercise prices attached to the warrants and share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming exercise of the warrants and share options. The effect of share options and warrants was excluded from the calculation of diluted loss per share for the three-month and nine-month periods ended September 30, 2013 as they are anti-dilutive.

	For the three-month period ended September 30, 2013	For the three-month period ended September 30, 2012	For the nine-month period ended September 30, 2013	For the nine-month period ended September 30, 2012
Net loss to common shareholders	$ (3,532)	$ (1,773)	$ (15,241)	$ (1,240)
Weighted average number of common shares outstanding - basic	64,123,398	60,238,051	61,407,966	61,287,922
Adjustments for assumed exercise of share options and warrants	-	-	-	-
Weighted average number of common shares outstanding - diluted	64,123,398	60,238,051	61,407,966	61,287,922
Diluted loss per share	$ (0.06)	$ (0.03)	$ (0.25)	$ (0.02)

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

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 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; 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, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Assets		
Loans and receivables		
Cash and cash equivalents	5,814	18,947
Trade receivables	6,904	8,405
Restricted cash	165	165
	12,883	27,517
Fair value through profit and loss		
Embedded derivatives within trade receivables	69	(721)
Available-for-sale		
Long-term investments	110	184
Liabilities		
Amortized cost		
Trade and other payables	7,729	12,696
Credit facility	4,947	7,900
Other long-term liabilities	548	468

Fair values, including valuation methods and assumptions

The following table summarizes the fair value of financial assets and liabilities as at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents	5,814	18,947
Trade receivables	6,973	7,684
Restricted cash	165	165
Long-term investments	110	184
Liabilities		
Trade and other payables	7,729	12,696
Credit facility	4,947	7,900
Other long-term liabilities	548	468

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

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

- 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 accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues. The Company recorded on the condensed interim consolidated statement of loss and comprehensive loss a positive price adjustment of $4.3 million in revenues from provisionally priced sales during the three-month period ended September 30, 2013 (2012 – positive price adjustment of $5.6 million in revenues from provisionally priced sales) and a positive price adjustment of $0.8 million in revenues from provisionally priced sales during the nine-month period ended September 30, 2013 (2012 – positive price adjustment of $5.4 million in revenues from provisionally priced sales). 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, 2013, there are no derivative and non-derivative instruments outstanding.

Fair value hierarchy

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

	September 30, 2013	**December 31, 2012**
Level 2		
Embedded derivatives within trade receivables	69	(721)
Long-term investments	110	184

14. SEGMENT REPORTING AND ECOMONIC DEPENDENCE

The Company's operations comprise two 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 executive officer that are used to make strategic decisions.

The following segmented information is presented as at September 30, 2013 and December 31, 2012, and for the three-month and nine-month periods ended September 30, 2013 and 2012.

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

	As at September 30, 2013				As at December 31, 2012			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Cash and cash equivalents	$ 2,338	$ 268	$ 3,208	$ 5,814	$ 15,918	$ 2,627	$ 402	$ 18,947
Trade receivables	6,951	-	22	6,973	7,396	3	285	7,684
Inventories	6,536	-	-	6,536	7,658	2,567	-	10,225
Other current assets	405	36	256	697	16	15	316	347
Property, plant and equipment	73,608	9,184	129	82,921	69,278	13,171	38	82,487
Goodwill	12,780	-	-	12,780	12,780	-	-	12,780
Other non-current assets	12,751	50	110	12,911	7,865	50	184	8,099
Total assets	**$ 115,369**	**$ 9,538**	**$ 3,725**	**$ 128,632**	**$ 120,911**	**$ 18,433**	**$ 1,225**	**$ 140,569**
Trade and other payables	$ 4,437	$ 1,651	$ 1,641	$ 7,729	$ 6,135	$ 4,823	$ 1,738	$ 12,696
Other current liabilities	-	-	998	998	-	7,900	582	8,482
Post-employment benefit obligations	9,276	-	-	9,276	8,299	-	-	8,299
Decommissioning provision	2,626	2,062	-	4,688	2,741	2,060	-	4,801
Other long-term liabilities	548	-	4,947	5,495	468	-	-	468
Total liabilities	**$ 16,887**	**$ 3,713**	**$ 7,586**	**$ 28,186**	**$ 17,643**	**$ 14,783**	**$ 2,320**	**$ 34,746**

	For the three-month period ended September 30 ,2013				For the three-month period ended September 30 ,2012			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 13,268**	**$ 611**	**$ -**	**$ 13,879**	**$ 27,743**	**$ 5,650**	**$ -**	**$ 33,393**
Cost of sales	(11,981)	(34)	-	(12,015)	(18,747)	(5,535)	-	(24,282)
Care and maintenance costs	-	(271)	-	(271)	-	-	-	-
General and administration	-	-	(1,553)	(1,553)	-	-	(3,489)	(3,489)
Exploration costs	(228)	(50)	-	(278)	(2,169)	(976)	-	(3,145)
Depreciation, depletion and amortization	(2,030)	(55)	(9)	(2,094)	(2,059)	(148)	-	(2,207)
Share-based compensation	(22)	-	(476)	(498)	(265)	-	(957)	(1,222)
Impairment charges	-	-	-	-	-	-	-	-
Other expenses	-	-	(1,208)	(1,208)	-	-	(185)	(185)
Income (loss) before income taxes	**(993)**	**201**	**(3,246)**	**(4,038)**	**4,503**	**(1,009)**	**(4,631)**	**(1,137)**
Current and deferred income tax recovery (expense)	506	-	-	506	(636)	-	-	(636)
Other comprehensive income (loss)	(295)	-	425	130	-	-	1,072	1,072
Comprehensive income (loss) for the year	**$ (782)**	**$ 201**	**$ (2,821)**	**$ (3,402)**	**$ 3,867**	**$ (1,009)**	**$ (3,559)**	**$ (701)**

	For the nine-month period ended September 30 ,2013				For the nine-month period ended September 30 ,2012			
	Idaho Operations	Montana Operations	Corporate and Other	Total	Idaho Operations	Montana Operations	Corporate and Other	Total
Revenues	**$ 44,396**	**$ 9,244**	**$ -**	**$ 53,640**	**$ 63,723**	**$ 5,650**	**$ -**	**$ 69,373**
Cost of sales	(40,639)	(11,098)	-	(51,737)	(43,822)	(5,535)	-	(49,357)
Care and maintenance costs	-	(805)	-	(805)	-	-	-	-
General and administration	-	-	(4,847)	(4,847)	-	-	(6,719)	(6,719)
Exploration costs	(1,507)	(569)	-	(2,076)	(4,762)	(976)	-	(5,738)
Depreciation, depletion and amortization	(6,512)	(1,909)	(23)	(8,444)	(5,209)	(148)	-	(5,357)
Share-based compensation	(291)	-	(1,518)	(1,809)	(754)	-	(1,698)	(2,452)
Impairment charges	-	(1,357)	-	(1,357)	-	-	-	-
Other expenses	-	-	(1,660)	(1,660)	-	-	(164)	(164)
Income (loss) before income taxes	**(4,553)**	**(6,494)**	**(8,048)**	**(19,095)**	**9,176**	**(1,009)**	**(8,581)**	**(414)**
Current and deferred income tax recovery (expense)	3,854	-	-	3,854	(826)	-	-	(826)
Other comprehensive income (loss)	(886)	-	451	(435)	-	-	1,215	1,215
Comprehensive income (loss) for the year	**$ (1,585)**	**$ (6,494)**	**$ (7,597)**	**$ (15,676)**	**$ 8,350**	**$ (1,009)**	**$ (7,366)**	**$ (25)**

For the three-month and nine-month periods ended September 30, 2013, the Company delivered all of its concentrate to two customers from Idaho operations and three customers from Montana Operations (2012 – two customers from Idaho operations). Approximately 78% and 18% of the Company's total revenues during the three-month period ended September 30, 2013 (2012 – 77% and 23%) and approximately 59% and 24% of the Company's total revenues during the nine-month period ended September 30, 2013 (2012 – 79% and 21%) 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 12, 2013, the Company entered into an agreement to sell certain non-core patented and unpatented mining claims to a third party for gross proceeds of approximately $2.85 million subject to customary closing conditions. These mining claims are located in the State of Idaho situated in non-operating areas within the Galena Complex.