

# **IMPACT SILVER CORP.**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2011

Unaudited

NOTICE OF NO REVIEW BY AUDITOR

In accordance with National Instrument 51 – 102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators **WE HEREBY GIVE NOTICE THAT** the interim consolidated financial statements which follow this notice have not been reviewed by an auditor.

# IMPACT Silver Corp.

Statement 1

## Consolidated Statements of Financial Position

As at September 30

(Canadian dollars)

Unaudited

<b>ASSETS</b>	<b>September 30, 2011</b>	December 31, 2010	January 1, 2010
<b>Current</b>			
Cash and cash equivalents	\$ 33,746,350	\$ 18,690,023	\$ 5,294,881
Trade and other receivables	1,918,717	3,190,820	1,289,672
Inventories (Note 5)	1,884,432	788,342	919,808
Investments	45,000	150,000	82,500
	<b>37,594,499</b>	22,819,185	7,586,861
<b>Tax reassessment deposit (Note 15)</b>	<b>595,996</b>	636,604	-
<b>Property, plant and equipment (Note 6)</b>	<b>11,854,491</b>	10,954,257	5,299,302
<b>Exploration properties (Schedule, Note 7)</b>	<b>15,657,496</b>	12,528,970	13,750,976
	<b>\$ 65,702,482</b>	\$ 46,939,016	\$ 26,637,139
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 1,928,996	\$ 1,234,740	\$ 843,942
Income taxes payable	1,297,808	981,840	236,063
Due to related party (Note 8)	1,238,348	415,665	274,560
	<b>4,465,152</b>	2,632,245	1,354,565
<b>Deferred income tax liabilities</b>	<b>3,837,152</b>	3,010,461	2,529,442
	<b>8,302,304</b>	5,642,706	3,884,007
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share capital (Note 11)</b>	<b>53,277,962</b>	39,569,550	27,648,195
<b>Contributed surplus</b>	<b>2,051,815</b>	1,860,196	1,290,957
<b>Accumulated other comprehensive income</b>	<b>(2,084,134)</b>	109,252	32,500
<b>Retained earnings (deficit)</b>	<b>4,154,535</b>	(2,784,351)	(6,218,520)
	<b>57,400,178</b>	41,296,310	22,753,132
	<b>\$ 65,702,482</b>	\$ 46,939,016	\$ 26,637,139

Contingencies (Note 15)

Subsequent event (Note 16)

ON BEHALF OF THE BOARD:

"F.W. Davidson" \_\_\_\_\_, Director

"P. Tredger" \_\_\_\_\_, Director

-The accompanying notes form an integral part of these consolidated financial statements-

# IMPACT Silver Corp.

Statement 2

## Consolidated Statements of Income and Deficit For the Three and Nine Months Ended September 30

(Canadian dollars)

Unaudited

	Three Months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
<b>Revenues</b>	\$ 4,163,532	\$ 3,208,502	\$ 19,418,796	\$ 9,857,851
<b>Expenses</b>				
Operating expenses	1,401,661	1,726,282	7,013,939	5,252,377
Amortization and depletion	213,669	201,601	758,452	713,307
	<b>1,615,330</b>	1,927,883	<b>7,772,391</b>	5,965,684
<b>Mine operating earnings</b>	<b>2,548,202</b>	1,280,619	<b>11,646,405</b>	3,892,167
<b>General and administrative expenses</b>				
Accounting, audit and legal	40,030	44,369	194,223	156,314
Amortization	11,793	6,029	23,797	17,874
Business development investigations	-	28,469	-	78,469
Investor relations, promotion and travel	73,015	19,995	215,657	78,911
Management fees and consulting	37,317	43,921	139,764	108,489
Office, rent, insurance and sundry	80,369	58,209	300,526	234,530
Office salaries and services	222,208	169,312	462,828	371,126
Share-based payments	410,727	98,072	481,753	350,578
	<b>875,459</b>	468,376	<b>1,818,548</b>	1,396,291
<b>Earnings before the following</b>	<b>1,672,743</b>	812,243	<b>9,827,857</b>	2,495,876
<b>Other income (expenses)</b>				
Foreign exchange (loss) gain	1,235,033	(47,673)	963,650	(93,705)
Interest income	70,930	1,899	145,866	1,040
Other income	2,819	(24)	5,500	1,532
	<b>1,308,782</b>	(45,798)	<b>1,115,016</b>	(91,133)
<b>Earnings before taxes</b>	<b>2,981,525</b>	766,445	<b>10,942,873</b>	2,404,743
Current income tax expense	(550,808)	(68,941)	(3,141,945)	(322,923)
Deferred income tax expense	(436,513)	(283,011)	(862,042)	(734,403)
<b>Net earnings</b>	<b>1,994,204</b>	414,493	<b>6,938,886</b>	1,347,417
Retained earnings (deficit) - Beginning of period	2,160,331	(5,285,596)	(2,784,351)	(6,218,520)
<b>Retained earnings (deficit) - End of period</b>	<b>\$ 4,154,535</b>	\$ (4,871,103)	<b>\$ 4,154,535</b>	\$ (4,871,103)
<b>Earnings per share -Basic</b>	\$ 0.03	\$ 0.01	\$ 0.11	\$ 0.03
<b>- Diluted</b>	\$ 0.03	\$ 0.01	\$ 0.11	\$ 0.03
Weighted average number of shares outstanding - Basic	68,001,468	49,043,455	64,197,914	48,800,785
Weighted average number of shares outstanding - Diluted	69,728,769	49,951,836	65,863,089	49,800,837

-The accompanying notes form an integral part of these consolidated financial statements-

# IMPACT Silver Corp.

Statement 3

## Consolidated Statements of Comprehensive Income For the Three and Nine Months Ended September 30

(Canadian dollars)

Unaudited

	Three Months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
<b>Net earnings</b>	<b>\$ 1,994,204</b>	\$ 414,493	<b>\$ 6,938,886</b>	\$ 1,347,417
<b>Other comprehensive income (loss)</b>				
Unrealized gain (loss) on investments held as available-for-sale	<b>(15,000)</b>	30,000	<b>(105,000)</b>	(25,000)
Cumulative translation adjustment	<b>(2,517,946)</b>	(239,948)	<b>(2,088,386)</b>	268,979
<b>Comprehensive income</b>	<b>\$ (538,742)</b>	\$ 204,545	<b>\$ 4,745,500</b>	\$ 1,591,396

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# IMPACT Silver Corp.

Statement 4

## Consolidated Statements of Changes in Equity For the Three and Nine Months Ended September 30

(Canadian dollars)

Unaudited

	Shares Outstanding g	Share Capital (\$)	Warrants (\$)	Contributed Surplus (\$)	Accumulated Other Comprehensive Income (\$)	Retained Earnings (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2010	48,389,585	27,648,195	-	1,290,957	32,500	(6,218,520)	22,753,132
Earnings for the period	-	-	-	-	-	1,347,417	1,347,417
Common shares issued for exploration properties	100,000	106,000	-	-	-	-	106,000
Stock options exercised	563,000	244,520	-	-	-	-	244,520
Fair value of stock options exercised	-	167,696	-	(167,696)	-	-	-
Fair value of stock options vested	-	-	-	350,578	-	-	350,578
Cumulative translation adjustments	-	-	-	-	268,979	-	268,979
Unrealized gains (losses) on investments	-	-	-	-	(25,000)	-	(25,000)
<b>Balance at September 30, 2010</b>	<b>49,052,585</b>	<b>28,166,411</b>	<b>-</b>	<b>1,473,839</b>	<b>276,479</b>	<b>(4,871,103)</b>	<b>25,045,626</b>
Earnings for the period	-	-	-	-	-	2,086,752	2,086,752
Stock options exercised	192,500	114,125	-	-	-	-	114,125
Fair value of stock options exercised	-	73,819	-	(73,819)	-	-	-
Fair value of stock options vested	-	-	-	60,884	-	-	60,884
Fair value of warrants issued	-	-	2,541,663	-	-	-	2,541,663
Fair value of agent compensation options	-	-	-	399,292	-	-	399,292
Shares issued in relation to a private placement	12,000,000	12,458,337	-	-	-	-	12,458,337
Share issue costs	-	(1,243,142)	-	-	-	-	(1,243,142)
Cumulative translation adjustments	-	-	-	-	(259,727)	-	(259,727)
Unrealized gains (losses) on investments	-	-	-	-	92,500	-	92,500
<b>Balance at December 31, 2010</b>	<b>61,245,085</b>	<b>39,569,550</b>	<b>2,541,663</b>	<b>1,860,196</b>	<b>109,252</b>	<b>(2,784,351)</b>	<b>41,296,310</b>
Earnings for the period	-	-	-	-	-	6,938,886	6,938,886
Stock options exercised	676,125	499,244	-	-	-	-	499,244
Fair value of stock options exercised	-	205,979	-	(205,979)	-	-	-
Warrants exercised	5,533,500	9,683,620	-	-	-	-	9,683,620
Agents options exercised	555,000	693,750	-	-	-	-	693,750
Fair value of agents options issued	-	(117,552)	117,552	-	-	-	-
Fair value of agents options exercised	-	399,292	-	(399,292)	-	-	-
Fair value of warrants exercised	-	2,344,079	(2,344,079)	-	-	-	-
Fair value of stock options vested	-	-	-	481,754	-	-	481,753
Reallocation of fair value of expired agents warrants	-	-	(315,136)	315,136	-	-	-
Cumulative translation adjustments	-	-	-	-	(2,088,386)	-	(2,088,386)
Unrealized gains (losses) on investments	-	-	-	-	(105,000)	-	(105,000)
<b>Balance at September 30, 2011</b>	<b>68,009,710</b>	<b>53,277,962</b>	<b>-</b>	<b>2,051,815</b>	<b>(2,084,134)</b>	<b>4,154,535</b>	<b>57,400,178</b>

- The accompanying notes form an integral part of these unaudited interim consolidated financial statements -

# IMPACT Silver Corp.

Statement 5

## Consolidated Statements of Cash Flows

For the Three and Nine Months Ended September 30

(Canadian dollars)

Unaudited

	Three months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
<b>Cash resources provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings	\$ 1,994,204	\$ 414,493	\$ 6,938,886	\$ 1,347,417
Items not affecting cash				
Amortization and depletion	225,462	207,630	782,249	731,181
Share-based payments	410,727	98,072	481,753	350,579
Deferred income taxes	436,513	283,011	862,042	734,403
Gain on sale of resource property	-	-	-	-
Unrealized loss (gain) on foreign exchange	-	-	-	-
Changes in non-cash working capital				
Trade and other receivables	1,907,752	(228,149)	1,116,193	(1,572,051)
Inventories	(1,059,610)	(234,896)	(1,028,271)	(192,963)
Trade and other payables	281,326	(104,259)	793,283	47,319
Income taxes payable	(26,951)	(140,060)	312,544	(376,946)
Due to related party	141,096	259,517	908,392	422,443
	<b>4,310,519</b>	<b>555,359</b>	<b>11,167,071</b>	<b>1,491,382</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(624,373)	(575,244)	(1,034,907)	(898,715)
Exploration property costs	(2,006,115)	(1,022,499)	(5,358,731)	(3,197,296)
	<b>(2,630,488)</b>	<b>(1,597,743)</b>	<b>(6,393,638)</b>	<b>(4,096,011)</b>
<b>Financing activities</b>				
Share capital issued	37,752	11,001	10,876,623	244,522
	<b>37,752</b>	<b>11,001</b>	<b>10,876,623</b>	<b>244,522</b>
Effect of exchange rate changes on cash and cash equivalents	(604,802)	(2,754)	(593,729)	4,182
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,112,981</b>	<b>(1,034,137)</b>	<b>15,056,327</b>	<b>(2,355,925)</b>
Cash and cash equivalents - Beginning of period	<b>32,633,369</b>	<b>3,973,094</b>	<b>18,690,023</b>	<b>5,294,881</b>
<b>Cash and cash equivalents – End of period</b>	<b>\$ 33,746,350</b>	<b>\$ 2,938,957</b>	<b>\$ 33,746,350</b>	<b>\$ 2,938,956</b>

-The accompanying notes form an integral part of these consolidated financial statements-

# IMPACT Silver Corp.

Statement 6

## Consolidated Schedules of Exploration Properties For the three and Nine Months Ended September 30

(Canadian dollars)

Unaudited

	Three Months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
<b>Zacualpan mine and concessions, Mexico – (Note 7b)</b>				
Deferred exploration costs				
Assaying	\$ 255,124	\$ 62,550	\$ 517,381	\$ 266,917
Development	-	-	-	3,512
Drilling	670,208	515,227	1,495,151	1,552,399
Field administration, travel and other	208,441	153,306	676,311	434,357
Wages and consulting	328,791	256,929	1,003,679	819,182
	<b>1,462,564</b>	988,012	<b>3,692,522</b>	3,076,367
Amount allocated to property, plant and equipment	-	-	-	(2,602,899)
Foreign exchange movement	(782,117)	(106,436)	(615,357)	141,381
	<b>680,447</b>	881,576	<b>3,077,165</b>	614,849
<b>Zacatecas properties, Mexico – (Note 7c)</b>				
Acquisition costs	-	9,322	-	9,322
Deferred exploration costs				
Field administration, travel and other	5,236	6,924	28,556	37,318
Wages and consulting	16,089	17,191	55,277	42,922
	<b>21,325</b>	24,115	<b>83,833</b>	80,240
Amount allocated to property, plant and equipment	-	-	-	(1,156,347)
Foreign exchange movement	(49,294)	(6,310)	(37,900)	40,765
	<b>(27,969)</b>	27,127	<b>45,933</b>	(1,026,020)
<b>Other properties, Dominican Republic – (Notes 7d)</b>				
Deferred exploration costs				
Field administration, travel and other	705	4,319	3,793	7,327
Wages and consulting	393	287	1,635	1,669
	<b>1,098</b>	4,606	<b>5,428</b>	8,996
<b>Costs for the period</b>	<b>653,576</b>	913,309	<b>3,128,526</b>	(402,175)
Balance - Beginning of period	<b>15,003,920</b>	12,435,492	<b>12,528,970</b>	13,750,976
<b>Balance - End of period</b>	<b>\$ 15,657,496</b>	\$ 13,348,801	<b>\$ 15,657,496</b>	\$ 13,348,801



# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 1. Nature of operations

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and the Dominican Republic. The Company operates the Royal Mines of Zacualpan in the State of Mexico and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The Company is also active in the exploration of silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. The recovery of the Company's investment in these Exploration properties and the attainment of profitable operations are dependent upon the discovery and development of economic ore reserves on these properties and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

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### 2. Basis of preparation

#### Statement of compliance

These interim consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements, including IAS 34 'Interim Financial Reporting' ("IAS 34") and IFRS 1.

These are the Company's IFRS interim consolidated financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its annual consolidated and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 4.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 24, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 4 discloses IFRS information for the year ended December 31, 2010 that is material to the understanding of these consolidated interim financial statements.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### **2. Basis of preparation - continued**

#### **Significant accounting judgments and estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the revision affects both current and future periods. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates.

Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring the use of management estimates include, but are not limited to, assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values used to establish the purchase price allocation, fair values for purposes of impairment analysis, reclamation obligation, non-cash share based payments expense, valuation allowances for deferred income tax assets and liabilities, estimated net realizable value of inventories, and the recoverability of accounts receivables.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the notes to the financial statements where applicable.

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### **3. Significant accounting policies**

#### **a) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income for the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-Company transactions and balances are eliminated on consolidation. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as of the Company. These consolidated financial statements include the accounts of the Company and all of its subsidiaries, including:

- Jade Oil Corporation ("Jade"), Chalco Services Inc. ("Chalco") both located in Canada;
- Minera Aguila Plateada S.A. de C.V. ("MAP"), Minera El Porvenir de Zacualpan S.A. de C.V. ("MPZ") and its wholly owned subsidiary Minera Laureles, S.A. de C.V., and Minera Impact Silver de Mexico S.A. de C.V. each located in Mexico; and
- Proyectos Mineros, S.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP"), both located in the Dominican Republic.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

#### b) Revenue recognition

Revenue from the sale of metals contained in concentrates is recognized when 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, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. These differences create an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales. Refining charges are netted against revenue for sales of metal concentrates.

#### c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid money-market investments with an original term to maturity of three months or less and which are readily convertible to known amounts of cash.

#### d) Inventories

Materials and supplies are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at the lower of average production cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization of mining interests.

#### e) Investments

Investments in equity securities are classified as available-for-sale because the Company does not hold these securities for the purpose of trading. Equity securities are valued at market value, using quoted market prices, and unrealized holding gains and losses are excluded from net income and are included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred.

#### f) Exploration and evaluation expenditures

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquiring the rights to explore;
- researching and analyzing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements, and
- compiling pre-feasibility and feasibility studies.

Capitalization of exploration and evaluation expenditures commence on acquisition of a beneficial interest or option in mineral rights. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

Exploration and evaluation expenditures are transferred to tangible mining assets when the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

#### g) Mining assets

Exploration, development and field support costs directly related to mining assets are deferred until the property to which they relate is developed for production, sold, abandoned or subject to a condition of impairment. The deferred costs are amortized over the useful life of the ore body following achievement of commercial production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

The acquisition, development and deferred exploration costs are depleted on a units-of-production basis over the estimated economic life of the ore body following commencement of production. The commencement of commercial production is deemed to occur on a determination made by management with reference to factors such as the asset's ability to operate at its designed capacity over a reasonable period of time.

#### Mineral property titles

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, except for certain exploration concessions in the Dominican Republic where exploration concessions have been reapplied for in the normal course of business.

#### Property option payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its resource property costs in good standing.

#### h) Property, plant and equipment

Plant and equipment is recorded at cost less accumulated depreciation and applicable impairment losses and is amortized using a straight-line method over the assets expected useful life. All vehicles, including mine mobile equipment as well as office furniture and equipment are amortized on a declining balance at rates varying from 10% to 30% annually.

Cost includes the purchase price and directly attributable costs to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. When an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspections and overhaul expenditures, are capitalized. The costs of day-to-day servicing, commonly referred to as "repairs and maintenance", are recognized in the statement of comprehensive income as an expense as incurred.

Subsequent costs are recognized in the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognized in the statement of comprehensive income as an expense as incurred.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

An item of property, plant and equipment and any significant parts initially recognised is derecognised upon disposal or when no future economic benefits are expected from its continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

Depreciation methods, useful lives and residual values are reassessed each reporting date and any changes arising from the assessment are applied prospectively.

#### i) Asset impairment

Management reviews the carrying value of its mineral properties and mining assets at each reporting date or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of asset that generates cash inflows from other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Recoverable amount is the higher of an asset's or CGU fair value less costs to sell (FVLCS) and its value in use (VIU). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which future cash flows have not been adjusted. The FVLCS is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis between knowledgeable, willing parties, less costs of disposal. FVLCS is primarily derived using discounted cash flow techniques, which incorporates market participant assumptions and are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss recognized in prior years for long-lived assets shall be reversed only if there has been a significant change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. This reversal is recognised in the statement of comprehensive income and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, any depreciation charge is adjusted prospectively.

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and if their carrying values are appropriate. These costs would be allocated to the related operating mines.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as Exploration properties represent costs incurred to date and do not necessarily reflect present or future values.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

#### j) Earnings per share

Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted Earnings Per Share is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

#### k) Stock options

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. The directors, subject to the policies of the TSX Venture Exchange, may determine and impose terms upon how each grant of options shall become vested.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. The fair value is recognized as expense with a corresponding increase in equity. At each reporting date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

#### l) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for tax payable with regards to previous periods.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, we do not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

As an exception, deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle its current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### m) Foreign currency translation

The functional currency for each of the Company's subsidiaries and associates is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of IMPACT Silver Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of our consolidated financial statements.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income are translated at a quarterly average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in this separate component of equity through other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in the statement of income.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

#### n) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

**Financial assets and liabilities at fair value through profit or loss (FVTPL):** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term and are measured at fair value with unrealized gains and losses recorded through earnings. The Company's cash and cash equivalents are classified as FVTPL.

**Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories and are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company's short-term investments are designated as available-for-sale and are measured at fair value as determined by reference to quoted market prices.

**Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortized cost. The Company's trade and other receivables, and accounts payable, accrued liabilities and due to related parties are designated as other liabilities, are classified as loans and receivables.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of all financial assets, excluding trade receivables (see above section "*Trade and other receivables*"), is directly reduced by the impairment loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

A financial asset is derecognized when the contractual right to the asset's cash flows expires or if the Company transfers the financial asset and all risks and rewards of ownership to another entity.



# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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### 3. Significant accounting policies - continued

#### o) Restoration provisions

The Company recognizes liabilities for constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of assets. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The associated restoration costs are capitalized as part of the carrying amount of the related long-lived asset and amortized over the expected useful life of the asset.

#### p) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended September 30, 2011:

- IFRS 9, Financial Instruments - New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets <sup>(iii)</sup>
- IFRS 10, New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities<sup>(i)</sup>
- IFRS 12, New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39<sup>(i)</sup>
- IFRS 13, New standard on the measurement and disclosure of fair value<sup>(i)</sup>
- IAS 1, Presentation of Financial Statements (Amendment) - Presentation of other comprehensive income <sup>(ii)</sup>
- IAS 28, (Amendment) New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures<sup>(i)</sup>

(i) Effective for annual periods beginning on or after January 1, 2013

(ii) Effective for annual periods beginning on or after July 1, 2012

(iii) Effective for annual periods beginning on or after January 1, 2013, current proposal to delay until 2015

The Company has not yet assessed the impact of the standards.

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### 4. First-time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following IFRS 1 optional exemptions:

#### Exemptions applied

##### a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the transition date to IFRS. The Company has applied this election and has applied IFRS 3 to business combinations that take place on or after January 1, 2010. As such, Canadian GAAP balances relating to the business combination entered before that date, including goodwill, have been carried forward without adjustment.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

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#### 4. First-time adoption of IFRS - continued

##### b) Cumulative foreign currency translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates* for cumulative foreign currency translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative foreign currency translation difference and adjusted retained earnings by the same amount.

##### c) Share-based payment expense

In accordance with IFRS 1, the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening balance sheet dated January 1, 2010.

Reconciliation of assets, liabilities and equity as well as comprehensive income (loss) reported in accordance with Canadian GAAP to assets, liabilities and equity as well as total comprehensive income prepared in accordance with IFRS.

IFRS employs a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP balance sheet, income statement, statement of comprehensive income and statement of cash flows for the quarter ended September 30, 2010 and the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained.

The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS statement of financial position on January 1, 2010, the transition date.

In preparation of these consolidated financial statements, the financial statements for the year ended December 31, 2010 have been adjusted from the amounts reported previously in the financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's statement of financial position and statement of comprehensive income is set out in the following statements.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

### 4. First-time adoption of IFRS - continued

ASSETS	Reconciliation of the Statement in Financial Position as at January 1, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Current assets</b>			
Cash and cash equivalents	\$ 5,294,881	\$ -	\$ 5,294,881
Trade and other receivables	1,289,672	-	1,289,672
Inventories	919,808	-	919,808
Investments	82,500	-	82,500
Deferred income tax assets (Note 4e)	44,648	(44,648)	-
	7,631,509	(44,648)	7,586,861
<b>Non-current assets</b>			
Property, plant and equipment (Notes 4a,c,e)	3,252,154	2,047,148	5,299,302
Exploration properties (Notes 4a,c,e)	20,805,894	(7,054,918)	13,750,976
	24,058,048	(5,007,770)	19,050,278
	\$ 31,689,557	\$ (5,052,418)	\$ 26,637,139
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 843,942	\$ -	\$ 843,942
Income taxes payable	236,063	-	236,063
Due to related party	274,560	-	274,560
	1,354,565	-	1,354,565
<b>Deferred income tax liabilities (Note 4e)</b>	4,196,399	(1,666,957)	2,529,442
	5,550,964	(1,666,957)	3,884,007
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	27,648,195	-	27,648,195
Contributed surplus (Note 4d)	1,187,198	103,759	1,290,957
Accumulated other comprehensive income (Note 4e)	28,437	4,063	32,500
Retained earnings (Notes 4b,f)	(2,725,237)	(3,493,283)	(6,218,520)
	26,138,593	(3,385,461)	22,753,132
	\$ 31,689,557	\$ (5,052,418)	\$ 26,637,139

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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(Canadian dollars)

Unaudited

### 4. First-time adoption of IFRS – continued

ASSETS	Reconciliation of the Statement of Financial Position as at September 30, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Current assets</b>			
Cash and cash equivalents	\$ 2,938,956	\$ -	\$ 2,938,956
Trade and other receivables	3,023,046	-	3,023,046
Inventories	1,122,230	-	1,122,230
Investments	57,500	-	57,500
Deferred income tax assets (Note 4e)	44,648	(44,648)	-
	7,186,380	(44,648)	7,141,732
<b>Non-current assets</b>			
Property, plant and equipment (Notes 4a,c,e)	5,428,490	4,005,995	9,434,485
Exploration properties (Notes 4a,c,e)	22,349,928	(9,001,126)	13,348,802
	27,778,418	(4,995,131)	22,783,287
	\$ 34,964,798	\$ (5,039,779)	\$ 29,925,019
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 904,238	\$ -	\$ 904,238
Due to related party	701,592	-	701,592
	1,605,830	-	1,605,830
<b>Deferred income tax liabilities (Note 4e)</b>	5,171,560	(1,897,997)	3,273,563
	6,777,390	(1,897,997)	4,879,393
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	28,166,411	-	28,166,411
Contributed surplus (Note 4d)	1,411,015	62,824	1,473,839
Accumulated other comprehensive income (Note 4a)	7,500	268,979	276,479
Retained earnings (Note 4f)	(1,397,518)	(3,473,585)	(4,871,103)
	28,187,408	(3,141,782)	25,045,626
	\$ 34,964,798	(5,039,779)	\$ 29,925,019

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

### 4. First-time adoption of IFRS – continued

<b>Reconciliation of the Statement of Financial Position as at December 31, 2010</b>			
<b>ASSETS</b>	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Current assets</b>			
Cash and cash equivalents	\$ 18,690,023	\$ -	\$ 18,690,023
Trade and other receivables	3,190,820	-	3,190,820
Inventories	788,342	-	788,342
Investments	150,000	-	150,000
Deferred income tax assets (Note 4e)	231,807	(231,807)	-
	23,050,992	(231,807)	22,819,185
<b>Non-current assets</b>			
Tax reassessment deposit	636,604	-	636,604
Property, plant and equipment (Notes 4a,c,e)	5,613,723	5,340,534	10,954,257
Exploration properties (Notes 4a,c,e)	23,249,513	(10,720,543)	12,528,970
	29,499,840	(5,380,009)	24,119,831
	\$ 52,550,832	\$ (5,611,816)	\$ 46,939,016
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,234,740	\$ -	\$ 1,234,740
Income taxes payable	981,840	-	981,840
Due to related party	415,665	-	415,665
	2,632,245	-	2,632,245
<b>Deferred income tax liabilities (Note 4e)</b>	5,214,287	(2,203,826)	3,010,461
	7,846,532	(2,203,826)	5,642,706
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	39,569,550	-	39,569,550
Warrants	2,541,663	-	2,541,663
Contributed Surplus (Note 4d)	1,793,149	67,047	1,860,196
Accumulated other comprehensive income (Note 4a)	87,500	21,752	109,252
Retained earnings (Note 4f)	712,438	(3,496,789)	(2,784,351)
	44,704,300	(3,407,990)	41,296,310
	\$ 52,550,832	\$ (5,611,816)	\$ 46,939,016

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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(Canadian dollars)

Unaudited

### 4. First-time adoption of IFRS – continued

	<b>Consolidated reconciliation of comprehensive income for the nine months ended September 30, 2010</b>		
	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>	\$ 9,857,851	\$ -	\$ 9,857,851
<b>Expenses</b>			
Operating Expenses	5,252,377	-	5,252,377
Amortization and depletion	713,307	-	713,307
	<u>5,965,684</u>	<u>-</u>	<u>5,965,684</u>
<b>Mine operating earnings</b>	<u>3,892,167</u>	<u>-</u>	<u>3,892,167</u>
<b>General and administrative expenses</b>			
Accounting, audit and legal	156,314	-	156,314
Amortization	17,874	-	17,874
Business development investigations	78,469	-	78,469
Investor relations, promotion and travel	78,911	-	78,911
Management fees and consulting	108,489	-	108,489
Office, rent, insurance and sundry	234,530	-	234,530
Office salaries and services	371,126	-	371,126
Share-based payments (Note 4d)	391,513	(40,935)	350,578
	<u>1,437,226</u>	<u>(40,935)</u>	<u>1,396,291</u>
<b>Earnings before the following</b>	<u>2,454,941</u>	<u>40,935</u>	<u>2,495,876</u>
<b>Other income (expense)</b>			
Foreign exchange loss (Note 4a)	(68,405)	(25,300)	(93,705)
Other income (expense)	2,572	-	2,572
	<u>(65,833)</u>	<u>(25,300)</u>	<u>(91,133)</u>
<b>Earnings before taxes</b>	<u>2,389,108</u>	<u>15,635</u>	<u>2,404,743</u>
Current and other income taxes	(322,923)	-	(322,923)
Deferred income taxes (Note 4e)	(738,466)	4,063	(734,403)
<b>Net earnings</b>	<u>1,327,719</u>	<u>19,698</u>	<u>1,347,417</u>
Deficit – Beginning of period	(2,725,237)	(3,493,283)	(6,218,520)
<b>Deficit – End of period</b>	<u>\$ (1,397,518)</u>	<u>\$ (3,473,585)</u>	<u>\$ (4,871,103)</u>
<b>Net Earnings</b>	\$ 1,327,719	\$ 19,698	\$ 1,347,417
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on investments held as available-for-sale (Note 4e)	(20,937)	(4,063)	(25,000)
Cumulative translation adjustment (Note 4a)	-	268,979	268,979
<b>Comprehensive income</b>	<u>\$ 1,306,782</u>	<u>\$ 284,614</u>	<u>\$ 1,591,396</u>

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

(Canadian dollars)

Unaudited

### 4. First-time adoption of IFRS – continued

<b>Consolidated reconciliation of comprehensive income for the year ended December 31, 2010</b>			
	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue</b>	\$ 16,677,710	\$ -	\$ 16,677,710
<b>Expenses</b>			
Operating Expenses	8,210,040	-	8,210,040
Amortization and depletion	1,032,186	-	1,032,186
	<u>9,242,226</u>	<u>-</u>	<u>9,242,226</u>
<b>Mine operating earnings</b>	<u>7,435,484</u>	<u>-</u>	<u>7,435,484</u>
<b>General and administrative expenses</b>			
Accounting, audit and legal	189,560	-	189,560
Amortization	23,846	-	23,846
Business development investigations	82,582	-	82,582
Investor relations, promotion and travel	118,548	-	118,548
Management fees and consulting	204,801	-	204,801
Office, rent, insurance and sundry	297,358	-	297,358
Office salaries and services	481,369	-	481,369
Share-based payments (Note 4d)	448,174	(36,712)	411,462
	<u>1,846,238</u>	<u>(36,712)</u>	<u>1,809,526</u>
<b>Earnings before the following</b>	<u>5,589,246</u>	<u>36,712</u>	<u>5,625,958</u>
<b>Other income (expense)</b>			
Foreign exchange loss (Note 4a)	(195,753)	28,244	(167,509)
Interest income	10,790	-	10,790
Other income (expense)	1,540	-	1,540
	<u>(183,423)</u>	<u>28,244</u>	<u>(155,179)</u>
<b>Earnings before taxes</b>	<u>5,405,823</u>	<u>64,956</u>	<u>5,470,779</u>
Current and other income taxes	(1,555,409)	-	(1,555,409)
Deferred income taxes (Note 4e)	(412,739)	(68,462)	(481,201)
<b>Net earnings</b>	<u>3,437,675</u>	<u>(3,506)</u>	<u>3,434,169</u>
Deficit – Beginning of period	(2,725,237)	(3,493,283)	(6,218,520)
<b>Retained earnings – End of period</b>	<u>\$ 712,438</u>	<u>(3,496,789)</u>	<u>(2,784,351)</u>
<b>Net earnings</b>	3,437,675	(3,506)	3,434,169
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on investments held as available-for-sale (Note 4e)	59,063	8,437	67,500
Cumulative translation adjustment (Note 4a)	-	9,252	9,252
<b>Comprehensive income</b>	<u>3,496,738</u>	<u>14,183</u>	<u>3,510,921</u>

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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(Canadian dollars)

Unaudited

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### 4. First-time adoption of IFRS – continued

#### Explanatory notes

##### a) Translation of non-monetary assets

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated using the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either “self-sustaining” or “integrated”. Self-sustaining subsidiaries are translated using the current rate method. Integrated subsidiaries are translated using the temporal method.

As a result of the method used to translate non-monetary assets, the balances in the subsidiaries have been adjusted. Assets which are monetary in nature remain unchanged.

##### b) Foreign currency translation adjustment

As noted in section entitled “Exemptions applied”, the Company has applied a one-time exemption to set the foreign currency cumulative translation adjustment (“CTA”) to zero as at January 1, 2010. The cumulative adjustment balance as of January 1, 2010 was recognized as an adjustment to retained earnings. The application of this exemption had no impact on net equity as at transition to IFRS.

##### c) Mineral interest and property, plant and equipment reclassification

Under IFRS, exploration and evaluation assets should be reclassified to property, plant and equipment when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Under Canadian GAAP, the Company presented its exploration assets and mineral assets in one schedule.

##### d) Share based payments

Under IFRS, the company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the company policy under Canadian GAAP.

##### e) Deferred tax asset / liability

Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or liabilities must be classified as current.

Under IFRS, additions to mineral property that do not result in an equivalent increase in current or future tax deductible amounts are treated as a permanent difference. Under Canadian GAAP an increase in mineral property and deferred income tax liability was recorded to reflect the inherent tax cost to the company from the acquisition of an asset that was not deductible for tax purposes.



# IMPACT Silver Corp.

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### 4. First-time adoption of IFRS – continued

Under IFRS, a tax expense is recorded against the Other Comprehensive Income if the amount recorded results in a current or deferred tax liability. When the Company does not expect the amount recorded as Other Comprehensive income to result in a tax liability, it does not record a tax expense in Other Comprehensive Income. Under Canadian GAAP, a tax expense was recorded on any income in Other Comprehensive Income even if the income would not result in a current or deferred tax liability being recorded due to previously unrecognized deferred income tax assets. This caused the Company to record an offsetting income tax recovery.

Under IFRS, when calculating deferred income taxes the tax basis includes the increase or decrease due to inflationary adjustments to the tax basis. Under Canadian GAAP, the inflationary adjustments were only recognized when they were realized as an adjustment to current income tax.

#### f) Adjustment to retained earnings

The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS.

	December 31, 2010	September 30, 2010	January 1, 2010
<b>Retained earnings as reported under Canadian GAAP</b>	\$ 712,438	\$ (1,397,518)	\$ (2,725,237)
<b>IFRS adjustments increase (decrease)</b>			
Amortization of employee stock options	\$ (67,047)	\$ (62,824)	\$ (103,759)
Deferred income tax	(100,117)	(27,592)	(31,655)
Cumulative translation adjustment	(3,329,625)	(3,383,169)	(3,357,869)
	(3,496,789)	(3,473,585)	(3,493,283)
<b>Retained earnings as reported under IFRS</b>	\$ (2,784,351)	\$ (4,871,103)	\$ (6,218,520)

#### g) Adjustments to the statements of cash flows

The adoption of IFRS had no significant impact on the net cash flows of the Company except that under IFRS cash flows relating to interest are classified in a consistent manner as operating, investing or financing under each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating. This has resulted in reclassifications of various amounts on the statements of cash flows. However, as there have been no changes in the net cash flows, no reconciliations have been presented.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 5. Inventories

The following table details the composition of inventories at:

	<b>September 30, 2011</b>	December 31, 2010	January 1, 2010
Materials and supplies	<b>\$ 606,286</b>	\$ 591,528	\$ 410,720
Finished goods – lead and zinc concentrates	<b>1,278,146</b>	196,814	509,088
<b>Total inventories</b>	<b>\$ 1,884,432</b>	\$ 788,342	\$ 919,808

The amount of inventories recognized as an expense during the nine months ended September 30, 2011 was \$6,676,301 (September 30, 2010 - \$5,763,262).

# IMPACT Silver Corp.

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### 6. Property, plant and equipment

	Mine equipment (\$)	Mobile equipment (\$)	Office furniture and equipment (\$)	Plant equipment (\$)	Surface rights (\$)	Vehicles (\$)	Mining Assets (\$)	Building Improvement (\$)	Total (\$)
<b>Cost</b>									
Balance at January 1, 2010	1,319,415	416,897	86,684	959,135	574,307	295,664	5,580,600	-	<b>9,232,702</b>
Additions	392,046	-	3,844	1,584,306	461,530	-	4,168,618	-	<b>6,610,344</b>
Foreign exchange movement	7,575	2,394	171	5,507	3,297	1,698	24,919	-	<b>45,561</b>
Balance at December 31, 2010	1,719,036	419,291	90,699	2,548,948	1,039,134	297,362	9,774,137	-	<b>15,888,607</b>
Additions	436,218	30,275	6,453	189,543	-	77,833	1,411,686	208,514	<b>2,360,522</b>
Foreign exchange movement	(109,653)	(26,746)	(1,988)	(162,591)	(66,284)	(18,968)	(501,984)	-	<b>(888,214)</b>
<b>Balance at September 30, 2011</b>	<b>2,045,601</b>	<b>422,820</b>	<b>95,164</b>	<b>2,575,900</b>	<b>972,850</b>	<b>356,227</b>	<b>10,683,839</b>	<b>208,514</b>	<b>17,360,915</b>
<b>Accumulated depreciation</b>									
Balance at January 1, 2010	274,440	374,291	59,002	185,224	-	107,563	2,932,880	-	<b>3,933,400</b>
Depreciation for the period	145,889	14,524	7,958	96,110	-	53,504	663,818	-	<b>981,803</b>
Foreign exchange movement	1,576	2,149	95	1,063	-	618	13,646	-	<b>19,147</b>
Balance at December 31, 2010	421,905	390,964	67,055	282,397	-	161,685	3,610,344	-	<b>4,934,350</b>
Depreciation for the period	124,082	11,439	5,834	87,748	-	43,210	565,001	-	<b>837,314</b>
Foreign exchange movement	(26,912)	(24,938)	(1,294)	(18,013)	-	(10,313)	(183,770)	-	<b>(265,240)</b>
<b>Balance at September 30, 2011</b>	<b>519,075</b>	<b>377,465</b>	<b>71,595</b>	<b>352,132</b>	<b>-</b>	<b>194,582</b>	<b>3,991,575</b>	<b>-</b>	<b>5,506,424</b>
<b>Net book value</b>									
At January 1, 2010	1,044,975	42,606	27,682	773,911	574,307	188,101	2,647,720	-	<b>5,299,302</b>
At December 31, 2010	1,297,131	28,327	23,644	2,266,551	1,039,134	135,677	6,163,793	-	<b>10,954,257</b>
<b>At September 30, 2011</b>	<b>1,526,526</b>	<b>45,355</b>	<b>23,569</b>	<b>2,223,768</b>	<b>972,850</b>	<b>161,645</b>	<b>6,692,264</b>	<b>208,514</b>	<b>11,854,491</b>

# IMPACT Silver Corp.

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### 7 Exploration properties

a) Details are as follows:

	<b>September 30, 2011</b>	December 31, 2010	January 1, 2010
<b>Zacualpan mines and concessions - Mexico</b>			
Acquisition costs	<b>\$ 2,076,313</b>	\$ 2,209,063	\$ 2,197,183
Exploration	<b>11,798,348</b>	8,590,501	8,840,879
Recoveries	<b>(49,036)</b>	(52,377)	(52,078)
	<b>13,825,625</b>	10,747,187	10,985,984
<b>Zacatecas properties – Mexico</b>			
Acquisition costs	<b>233,774</b>	249,702	248,277
Exploration	<b>883,553</b>	842,328	1,834,128
Recoveries	<b>(416,629)</b>	(437,090)	(435,258)
	<b>700,698</b>	654,940	1,647,147
<b>PMSA and MMP concessions – Dominican Republic</b>			
Acquisition	<b>582,000</b>	582,000	582,000
Exploration and development	<b>549,173</b>	544,843	535,845
	<b>1,131,173</b>	1,126,843	1,117,845
	<b>\$ 15,657,496</b>	\$ 12,528,970	\$ 13,750,976

### b) Zacualpan agreements

On June 14, 2004, the Company signed two option agreements with third parties in the Royal Mines of Zacualpan Silver District in Central Mexico. These agreements were later amended and in January 2006 the Company, through its 100% Mexican subsidiary MAP, exercised its purchase options and as a result acquired a 100% interest to mineral concessions, surface rights and equipment with no underlying royalties.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 7. Exploration properties - continued

#### b) Zacualpan agreements - continued

In February 2007, the Company acquired the right to purchase a concession known as the Mamatla Mining District adjacent to the Company's Royal Mines of Zacualpan Silver Project in Central Mexico. The purchase price for the Mamatla Mining District was approximately \$215,700, of which \$91,690 was paid in 2007 and the balance of \$124,010 was paid in February 2008. The Mamatla concession is subject to a 1% NSR.

In February 2008, the Company acquired six concessions directly from the Mexican government through normal procedures. These concessions, named the Zacualpan Northwest concessions, cover 140 square kilometers. In June 2009, the Company acquired the Cadena concession and the Zapote concession from private Mexican vendors. The Company spent \$307,236 in concession acquisition costs in the Zacualpan Silver Mining District in the year ended December 31, 2008.

In 2009, the Company acquired four concessions from a private Mexican vendor. The Company spent \$12,720 in concession acquisition costs in the year ended December 31, 2009.

#### c) Zacatecas and Defiance agreements

Under an agreement dated July 10, 2006, the Company, through its wholly owned subsidiary MAP, acquired a four-year option from a third party to purchase a 200-tonne-per-day processing plant and associated surface rights in the Zacatecas Mining District of Mexico. Under the agreement, MAP could purchase the assets for US\$1,110,000 and 500,000 shares in stages, plus commit to US\$700,000 in work expenditures.

On March 17, 2010 the Company exercised its option to purchase the 200 tonne-per-day Veta Grande processing plant in Zacatecas, Mexico. The total consideration paid was US\$1,080,000 and 500,000 shares. Cash paid and IMPACT common shares issued as option payments in 2006 through 2009 were originally assigned to Exploration properties. With the completion of this purchase IMPACT reallocated the costs originally assigned to Exploration properties to property, plant and equipment as follows:

Land	\$	472,871
Plant equipment		683,469
		<hr/>
Exploration properties	\$	(1,156,340)

Under separate purchase agreements, the Company acquired eleven mineral concessions in the Zacatecas area during 2006 and two concessions in 2007. The Company now holds a total of thirteen concessions, three of which are under an option agreement with a third party. No further payments or commitments exist for these concessions.

During 2006, the Company entered into an option agreement with a third party in which the third party was given the right to earn a 65% interest in four concessions at Zacatecas. To earn its interest the third party was required to reimburse the Company US\$15,000 per concession, pay for all acquisition costs and incur a minimum expenditure of US\$100,000 in exploration per concession. In May 2008 the third party fulfilled its obligations to earn its 65% interest in the four concessions. In June 2008, the Company sold its remaining 35% interest in one of the concessions for US\$325,000 plus a 1% NSR Royalty interest. The Company realized a gain of \$328,249 on the sale of this concession.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 7. Exploration properties - continued

The Company retained its 35% interest in the other three concessions. In August 2008 the Company entered into a formal joint venture agreement with respect to these three property concessions. Since the signing of the agreement the joint venture partner has incurred expenditures and thereby diluted the Company's interest in these three concessions to 28% at December 31, 2010.

On August 12, 2011 and subsequently amended on September 9, 2011, the Company signed an agreement with Defiance Silver Corp. ("Defiance") to option its Veta Grande Project assets in Zacatecas, Mexico in exchange for a major shareholding in Defiance. The Zacatecas Veta Grande Project assets include the 200 tonne per day processing plant, surface rights, 10 mineral concessions owned 100% by IMPACT.

The option agreement consisted of two staged payments to IMPACT. The initial payment of 1,787,000 common shares of Defiance is to occur on or before 90 days from the signing of the option agreement. The second and final payment of \$1,955,200 in cash is to occur on the final closing defined as on or before the earlier of two years from signing of the option agreement or on achieving commercial production at the Santa Gabriela mill. Under the option agreement, Defiance will complete a financing for a minimum of \$1,500,000 prior to exercising the option and IMPACT will have the right to have a representative appointed to the board of Defiance during the term of the option agreement. Defiance has not completed the initial payment as of the balance sheet date, as the option agreement was approved by the TSX Venture Exchange subsequent to the end of the quarter.

As at this interim reporting period, there is insufficient data available to produce an estimate of the financial effect of this transaction on the financial statements of the Company.

#### d) Dominican Republic agreements

By various agreements dated October 22, 1996 to July 15, 1999 and effective August 20, 1999, the Company acquired 100% of the shares of the Dominican Republic registered company PMSA. PMSA has exploration concessions located in various parts of the Cordillera Oriental in the Dominican Republic, including the El Brujo concession. The concessions are subject to a 1% NSR to a maximum of US\$1,000,000.

By agreement dated July 15, 1999, the Company acquired 100% of the shares of the Canadian company, "Jade", which owns 100% of the shares of the Dominican Republic registered company, Minera Monte Plata, S.A. ("MMP"). MMP holds the Baritina exploration concession located in the Cordillera Oriental in the Dominican Republic. The concessions are subject to a 1% NSR to a maximum of US\$1,000,000.

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### 8. Due to related party

At September 30, 2011, an amount of \$1,238,348 (December 31, 2010 - \$415,665) was due to Energold Drilling Corp., a significant shareholder of the Company. Monies owed to Energold Drilling Corp. are unsecured, non-interest bearing and without specific repayment terms. Management anticipates that the amount will be repaid within one year and accordingly it has been classified as current.

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# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 9. Related party transactions

Related party transactions are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions are as follows:

During the nine months ended September 30, 2011, fees in the amount of \$2,362,751 (2010 – \$1,538,064) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan mines and concessions.

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### 10. Key management personnel compensation

	Three Months ended September 30		Nine Months ended September 30	
	2011	2010	2011	2010
Salaries and fees	\$ 152,300	\$ 119,756	\$ 310,731	\$ 241,775

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### 11. Share capital

#### a) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Under the stock option plan, 12,352,242 options have been authorized for issuance, of which 5,202,500 have been allocated as at September 30, 2011. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. Options vest 25% on the date granted and 12.5% every quarter thereafter.

A summary of the Company's stock options as at September 30, 2011 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price
At December 31, 2009	3,752,875	0.80
Granted	1,012,500	1.10
Exercised	(755,500)	0.47
Forfeited	(76,250)	1.00
Expired	(35,000)	1.44
At December 31, 2010	<b>3,898,625</b>	<b>0.93</b>
Exercised	(676,125)	0.69
Forfeited	(20,000)	1.10
Granted	2,000,000	1.85
At September 30, 2011	<b>5,202,500</b>	<b>1.31</b>

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 11. Share capital – continued

The following table summarizes information about the stock options outstanding September 30, 2011:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
\$1.40	867,500	0.93	867,500
\$1.67	75,000	1.06	75,000
\$0.55	1,332,500	2.27	1,332,500
\$1.10	927,500	3.69	805,313
\$1.85	2,000,000	5.00	500,000
	<b>5,202,500</b>	<b>3.33</b>	<b>3,580,313</b>

On June 6, 2010, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,012,500 shares of the Company, with an estimated value of \$436,826 on the grant date. The options are exercisable on or before January 6, 2015 at a price of \$1.10 per share.

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the assumptions as follows:

Date Granted	June 6, 2010
Number of options granted	1,012,500
Risk-free interest rate	1.45%
Expected dividend yield	NIL
Expected stock price volatility	63%
Expected option life in years	3
Forfeiture rate	2%

On September 27, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 2,000,000 shares of the Company, with an estimated value of \$1,812,219 on the grant date. The options are exercisable on or before September 30, 2016 at a price of \$1.85 per share.

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the assumptions as follows:

Date Granted	September 27, 2011
Number of options granted	2,000,000
Risk-free interest rate	1.01%
Expected dividend yield	NIL
Expected stock price volatility	75%
Expected option life in years	3
Forfeiture rate	2%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.



# IMPACT Silver Corp.

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### 11. Share capital – continued

The expected volatility is based on the historical and implied volatility of the Company's common share price on the Toronto Venture Exchange. The risk-free interest rate assumption is based on the Bank of Canada marketable bonds with a remaining term equal to the stock options' expected life.

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### 12. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

The capital of the Company consists of the items included in shareholders' equity and cash and cash equivalents net of debt obligations. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders' equity which includes accumulated other comprehensive income (loss), share capital, contributed surplus and retained earnings or deficit.

The Company's policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle and the business opportunities outlook foreseen by the Company. As a general guideline, the Company's policy will be to keep its debt to debt-plus-equity ratio to a minimal level, except in unusual circumstances such as a major acquisition. Currently the Company has no debt and is in full compliance with its capital risk management policies. The Company's Board of Director's approves management's annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company's management.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient cash and cash equivalents to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

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### 13. Financial instruments

#### Financial assets and liabilities

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties, carrying value is considered to be fair value due to the short-term nature of these instruments. The fair value of investments is determined by quoted prices in active markets for identical assets at the balance sheet date. At September 30, 2011 all equity investments held were classified as Level 1 and cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were classified as Level 2 on the fair value hierarchy.

#### Financial instrument risk exposure

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, currency, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of cash flow of its operations would warrant such hedging activities.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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Unaudited

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### 13. Financial instruments - continued

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, accounts receivable and investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. As is typical within the mining industry the Company deals with two refiners for the processing of all of its mineral concentrates. The Company has a significant concentration of credit risk exposure to its Mexican refining and smelting companies Met-Mex Penoles, S.A. de C.V. and Consorcio Minero de Mexico Cormin Mex S.A. de C.V. at any one time but is satisfied that this company has an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (\$33.7 million), accounts receivable (\$1.9 million) and investments (\$0.045 million).

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary.

Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At September 30, 2011 the Company did not have any significant future debt obligations.

#### Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and any short term investments mature and the proceeds are invested at lower interest rates.

#### Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At September 30, 2011 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at September 30, 2011, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$946,000 decrease or increase in the Company's net earnings for the nine months ended September 30, 2011.

#### Commodity price risk

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include silver, lead, zinc, and gold. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. The Company has elected not to actively manage our exposure to metal prices at this time.

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

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### 13. Financial instruments - continued

Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's net earnings in the nine months ended September 30 as follows:

	<b>2011</b>	2010
Silver price	<b>\$ 1,397,000</b>	\$ 649,000
Lead price	<b>\$ 70,000</b>	\$ 74,000
Zinc price	<b>\$ 108,000</b>	\$ 93,000
Gold price	<b>\$ 36,000</b>	\$ 31,000

### 14. Segmented information

The Company has three reportable segments based on geographic area: Mexico, the Caribbean, and Canada (Corporate) based on the reports reviewed by the Chief Executive Officer (who is considered the Chief Operating Decision Maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Details at September 30 are as follows:

	Three Months ended September 30		Nine Months ended September 30	
	<b>2011</b>	2010	<b>2011</b>	2010
Revenues by geographic area				
Mexico	<b>\$ 4,163,532</b>	\$ 3,208,502	<b>\$ 19,418,796</b>	\$ 9,857,851
Net earnings (loss) by geographic area				
Mexico	<b>\$ 2,495,634</b>	\$ 597,977	<b>\$ 8,089,201</b>	\$ 2,006,639
Canada	<b>(501,430)</b>	(183,484)	<b>(1,150,315)</b>	(659,222)
	<b>\$ 1,994,204</b>	\$ 414,493	<b>\$ 6,938,886</b>	\$ 1,347,417
Assets by geographical area				
Mexico	<b>\$ 38,501,509</b>	\$ 28,258,466	\$ 20,349,199	
Canada	<b>26,068,703</b>	17,553,708	5,170,095	
Caribbean	<b>1,132,270</b>	1,126,842	1,117,845	
	<b>\$ 65,702,482</b>	\$ 46,939,016	\$ 26,637,139	
Property, plant and equipment by geographical area				
Mexico	<b>\$ 11,839,989</b>	\$ 10,941,488	\$ 5,284,890	
Canada	<b>14,502</b>	12,769	14,412	
	<b>\$ 11,854,491</b>	\$ 10,954,257	\$ 5,299,302	

# IMPACT Silver Corp.

## Notes to the Interim Consolidated Financial Statements

September 30, 2011

*(Canadian dollars)*

*Unaudited*

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### **15. Contingencies**

The Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities Servicio de Administracion Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT. The total reassessment was for \$0.6 million.

MPZ believes, based on discussions with tax advisors, that this matter may be satisfactorily contested and constructively resolved through the SAT tax assessment appeal formal litigation process. On November 30, 2010 MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount has been transferred to SAT pending the outcome of the Company's appeal. Management believes that the Company has a strong case to win this appeal. Therefore, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense has been recognized in the current year. No decision on this matter is expected prior to mid 2012.

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### **16. Subsequent event**

On October 17, 2011 shipments of lead-silver concentrate to the smelter have resumed after a temporary lack of capacity at the Company's principal refinery. The 500-tpd (tonnes per day) Guadalupe Plant operated normally throughout this period of disrupted shipments announced September 13, 2011 and concentrate produced was stockpiled. The plant will continue to operate at near capacity with the stockpiled concentrate to be sold on an accelerated schedule.

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