

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2012 and 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 condensed consolidated interim financial statements which follow this notice have not been reviewed by an auditor.

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Financial Position

Canadian dollars

Unaudited

ASSETS	March 31, 2012		December 31, 2011	
Current assets				
Cash	\$	28,065,354	\$	30,775,250
Trade and other receivables		5,298,366		3,226,929
Inventories (Note 3)		1,543,479		1,370,487
Investments		1,215,115		55,000
Tax reassessment deposit (Note 9)		616,063		-
		36,738,377		35,427,666
Non-current assets				
Tax reassessment deposit (Note 9)		-		575,772
Property, plant and equipment (Note 4)		14,249,719		13,617,664
Exploration properties (Note 5)		16,853,571		14,979,046
	\$	67,841,667	\$	64,600,148
LIABILITIES				
Current				
Trade payables	\$	2,582,123	\$	1,966,074
Income taxes payable		1,028,224		1,149,854
Due to related party		990,827		412,619
		4,601,174		3,528,547
Non-current assets				
Deferred income tax liabilities		3,589,420		3,294,548
		8,190,594		6,823,095
SHAREHOLDERS' EQUITY				
Share capital		53,306,762		53,304,772
Contributed surplus		2,472,206		2,256,643
Accumulated other comprehensive (loss)		(772,352)		(2,576,301)
Retained earnings		4,644,457		4,791,939
		59,651,073		57,777,053
	\$	67,841,667	\$	64,600,148

ON BEHALF OF THE BOARD:

"F.W. Davidson" _____, Director

"P. Tredger" _____, Director

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Income and Retained Earnings For the Three Months Ended March 31

Canadian dollars
Unaudited

	2012	2011
Revenues	\$ 4,466,645	\$ 7,258,085
Expenses		
Operating expenses (Note 6)	2,536,283	2,408,364
Amortization and depletion	352,312	250,205
	2,888,595	2,658,569
Mine operating earnings	1,578,050	4,599,516
General and administrative expenses		
Accounting, audit and legal	68,908	48,302
Amortization	9,940	4,843
Investor relations, promotion and travel	66,148	81,814
Management fees and consulting	71,476	59,925
Office, rent, insurance and sundry	105,208	125,025
Office salaries and services	176,003	114,696
Share-based payments	216,178	42,520
	713,861	477,125
Operating Income	864,189	4,122,391
Other income (expenses)		
Foreign exchange (loss)	(693,784)	(216,296)
Finance income	61,946	35,526
Other income	(1,520)	2,682
	(633,358)	(178,088)
Earnings before taxes	230,831	3,944,303
Current income tax expense	118,518	1,119,370
Deferred income tax expense	259,795	351,044
Net earnings	(147,482)	2,473,889
Retained Earnings (Deficit)- Beginning of period	4,791,939	(2,784,351)
Retained Earnings (Deficit) - End of period	\$ 4,644,457	\$ (310,462)
Earnings per share – Basic (Note 7)	\$ 0.00	\$ 0.04
– Diluted (Note 7)	\$ 0.00	\$ 0.04
Weighted average number of shares outstanding - Basic	68,027,566	61,356,746
Weighted average number of shares outstanding - Diluted	69,400,424	63,627,449

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Comprehensive Income For the Three Months Ended March 31

Canadian dollars
Unaudited

	2012	2011
Net earnings	\$ (147,482)	\$ 2,473,889
Other comprehensive income		
Unrealized gain (loss) on investments held as available-for-sale	(255,550)	35,000
Cumulative translation adjustment	2,059,499	152,499
Comprehensive income	\$ 1,656,467	\$ 2,661,388

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Changes in Equity For the Three Months Ended March 31

Canadian dollars

Unaudited

	Shares Outstanding	Share Capital (\$)	Warrants (\$)	Contributed Surplus (\$)	Accumulated Other Comprehensive Income (\$)	Retained Earnings (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2012	68,027,210	53,304,772	-	2,256,643	(2,576,301)	4,791,939	57,777,053
Earnings for the period	-	-	-	-	-	(147,482)	(147,482)
Stock options exercised	2,500	1,375	-	-	-	-	1,375
Fair value of stock options exercised	-	615	-	(615)	-	-	-
Share based payments expense	-	-	-	216,178	-	-	216,178
Cumulative translation adjustments	-	-	-	-	2,059,499	-	2,059,499
Unrealized gains (losses) on investments	-	-	-	-	(255,550)	-	(255,550)
Balance at March 31, 2012	68,029,710	53,306,762	-	2,472,206	(772,352)	4,644,457	59,651,073
Balance at January 1, 2011	61,245,085	39,569,550	2,541,663	1,860,196	109,252	(2,784,351)	41,296,310
Earnings for the period	-	-	-	-	-	2,473,889	2,473,889
Stock options exercised	456,125	314,493	-	-	-	-	314,493
Fair value of stock options exercised	-	160,412	-	(160,412)	-	-	-
Share based payments expense	-	-	-	42,520	-	-	42,520
Cumulative translation adjustments	-	-	-	-	152,499	-	152,499
Unrealized gains on investments	-	-	-	-	35,000	-	35,000
Balance at March 31, 2011	61,701,210	40,044,455	2,541,663	1,742,304	296,751	(310,462)	44,314,711

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IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Cash Flows For Three Months Ended March 31

Canadian dollars
Unaudited

Cash resources provided by (used in)	2012	2011
Operating activities		
Net earnings	\$ (147,482)	\$ 2,473,889
Items not affecting cash		
Amortization and depletion	362,252	255,048
Share-based payments expense	216,178	42,520
Deferred income taxes	259,795	351,044
Changes in non-cash working capital		
Trade and other receivables	(1,830,233)	(1,014,230)
Inventories	(63,442)	(148,302)
Trade payables	574,404	462,168
Income taxes payable	(214,031)	(13,743)
Due to related party	466,604	290,796
	<u>(375,955)</u>	<u>2,699,190</u>
Investing activities		
Acquisition of property, plant and equipment	(102,799)	(169,353)
Exploration property expenditure	(2,679,643)	(1,581,272)
	<u>(2,782,442)</u>	<u>(1,750,625)</u>
Financing activities		
Share capital issued, net	1,375	314,494
	<u>1,375</u>	<u>314,494</u>
Effect of exchange rate changes on cash	447,126	15,109
	<u>447,126</u>	<u>15,109</u>
Net increase in cash	(2,709,896)	1,278,168
Cash - Beginning of period	30,775,250	18,690,023
Cash - End of period	\$ 28,065,354	\$ 19,968,191

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

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

1. Corporate information

IMPACT Silver Corp. (the "Company" or "IMPACT") is a corporation governed by the Business Corporation Act (British Columbia). The Company is 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.

2. Basis of preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements. As such, these interim statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2011. The statements of income for the periods presented are not necessarily indicative of results expected for any future period, nor for the entire year.

Except when otherwise stated, all amounts are presented in Canadian ("CDN") dollars which is the presentation currency of the Company.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 28, 2012.

3. Inventories

The following table details the composition of inventories at:

	March 31, 2012	December 31, 2011
Materials and supplies	\$ 816,961	\$ 696,772
Stockpile inventory	153,099	165,546
Concentrate inventory	573,419	508,169
Total inventories	\$ 1,543,479	\$ 1,370,487

The amount of inventories recognized as an expense during the year ended March 31, 2012 was \$2,363,291 (March 31, 2011 - \$2,229,009).

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

4. Property, plant and equipment

	Mine equipment (\$)	Mobile equipment (\$)	Office furniture and equipment (\$)	Plant equipment (\$)	Surface rights (\$)	Vehicles (\$)	Mining Assets (\$)	Building Improvement (\$)	Total (\$)
Cost									
Balance at December 31, 2011	2,162,793	408,473	94,080	2,574,397	939,837	305,707	12,402,235	453,139	19,340,661
Additions	43,428	-	18,273	-	-	-	889,477	243	951,421
Disposal on option payment*	-	-	-	(816,359)	-	-	-	-	(816,359)
Foreign exchange movement	151,349	28,584	2,042	180,150	65,768	42,306	713,701	26,829	1,210,729
Balance at March 31, 2012	2,357,570	437,057	114,395	1,938,188	1,005,605	348,013	14,005,413	480,211	20,686,452
Accumulated amortization									
Balance at December 31, 2011	597,175	364,773	72,056	330,984	-	157,415	4,183,933	16,661	5,722,997
Amortization for the period	78,640	2,338	2,342	15,290	-	13,602	247,676	22,781	382,669
Foreign exchange movement	41,790	25,526	1,477	22,952	-	14,501	223,765	1,056	331,066
Balance at March 31, 2012	717,605	392,637	75,875	369,226	-	185,518	4,655,374	40,498	6,436,733
Net book value									
At December 31, 2011	1,565,618	43,700	22,024	2,243,413	939,837	148,292	8,218,302	436,478	13,617,664
At March 31, 2012	1,639,965	44,420	38,520	1,568,962	1,005,605	162,495	9,350,039	439,713	14,249,719

*See note 5 (b).

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

5. Exploration properties

a) Details are as follows:

	March 31, 2012	December 31, 2011
Zacualpan mines and concessions - Mexico		
Acquisition costs	\$ 2,141,913	\$ 2,010,196
Exploration	13,480,778	11,190,229
Recoveries	(50,687)	(47,372)
	15,572,004	13,153,053
Zacatecas properties – Mexico		
Acquisition costs	241,646	225,841
Exploration	936,506	872,229
Disposal on option payment*	(604,306)	-
Recoveries	(426,740)	(406,438)
	147,106	691,632
PMSA and MMP concessions – Dominican Republic		
Acquisition	582,000	582,000
Exploration and development	552,461	552,361
	1,134,461	1,134,361
	\$ 16,853,571	\$ 14,979,046

*See note 5(b) below.

b) Zacatecas agreement

On September 9, 2011 the Company signed an agreement with Defiance Silver Corp. (“Defiance”), a Canadian public company, to option its Veta Grande Project assets in Zacatecas, Mexico in exchange for a shareholding in Defiance. The Zacatecas Veta Grande Project assets include the 200-tonne-per-day processing plant, surface rights, and ten mineral concessions owned 100% by IMPACT.

The option agreement consists of two staged payments to the Company. The initial payment of 2,680,500 common shares of Defiance paid February 28, 2012 resulted in the Company owning a 16.6% interest in Defiance and receiving total consideration of \$1,420,665. 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 processing plant. Under the option agreement, Defiance is required to complete a financing for a minimum of \$1,500,000 prior to exercising the option and the Company will have the right to have a representative appointed to the board of Defiance during the term of the option agreement.

The Company still retains a carried interest in three remaining concessions through a formal joint venture agreement. 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 March 31, 2012.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

6. Expenses by nature

	For the three months ended March 31,	
	2012	2011
Production costs	\$ 1,587,627	\$ 1,392,763
Administration	364,533	349,781
Transportation	56,970	116,471
Wages and salaries	527,153	549,349
	\$ 2,536,283	\$ 2,408,364

7. Equity

a) Share capital

Authorised share capital consists of an unlimited number of common shares without par value.

b) 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 5,152,500 are outstanding as at March 31, 2012. 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 March 31, 2012 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At December 31, 2011	5,155,000	1.31
Exercised	(2,500)	0.55
At March 31, 2012	5,152,500	1.31

The following table summarizes information about the stock options outstanding March 31, 2012:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
\$1.40	867,500	0.68	867,500
\$1.67	75,000	0.81	75,000
\$0.55	1,310,000	2.02	1,310,000
\$1.10	900,000	3.44	900,000
\$1.85	2,000,000	4.75	1,000,000
	5,152,500	3.08	4,152,500

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

7. Equity – continued

The fair value of the services provided cannot be reliably measured; therefore, the fair value of each option granted is estimated at the time of grant using the Black-Scholes Option Pricing Model with assumptions as follows:

Date Granted	June 6, 2010	September 27, 2011
Number of options granted	1,012,500	2,000,000
Risk-free interest rate	1.45%	1.01%
Expected dividend yield	NIL	NIL
Expected stock price volatility	63%	75%
Expected option life in years	3	3
Forfeiture rate	2%	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.

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.

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the three months ended March 31, 2012 is \$216,178 (March 31, 2011 - \$42,520)

c) Earnings per share

Details of the calculation of earnings per share are set out below:

	For the three months ended March 31,	
	2012	2011
Net income attributable to shareholders	\$ (147,482)	\$ 2,473,889
Weighted average number of shares - basic	68,027,566	61,356,746
Adjustment for:		
Share options	1,372,858	2,270,703
Weighted average number of shares outstanding - Diluted	69,400,424	63,627,449

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
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8. 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 March 31 are as follows:

	2012	2011
Revenues by geographic area		
Mexico	\$ 4,466,645	\$ 7,258,085
Net earnings (loss) by geographic area		
Mexico	\$ 414,587	\$ 2,864,677
Canada	(562,069)	(390,788)
	\$ (147,482)	\$ 2,473,889
	March 31,	December 31,
	2012	2011
Assets by geographical area		
Mexico	\$ 41,651,272	\$ 38,068,938
Canada	24,970,930	25,396,850
Caribbean	1,219,465	1,134,360
	\$ 67,841,667	\$ 64,600,148
Property, plant and equipment by geographical area		
Mexico	\$ 14,232,949	\$ 13,603,700
Canada	16,770	13,964
	\$ 14,249,719	\$ 13,617,664

All tax expense within the year is related to operations in Mexico.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three Months Ended March 31, 2012

Canadian dollars
Unaudited

9. Tax reassessment deposit

In 2010, 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.

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. As management believes that the Company has a strong case to win this appeal, 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.

In December 2011, the appeal went forward to the Superior Court where a favourable judgement was attained for MPZ. No further appeal was launched by SAT against this judgement and as of the final court decision on March 1, 2012, MPZ has successfully won its appeal of the reassessment. As MPZ is now in the process of having the tax reassessment deposit funds refunded, the balance is now classified as a current asset.
