

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 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	June 30, 2012		December 31, 2011	
Current assets				
Cash	\$	23,057,174	\$	30,775,250
Trade and other receivables		5,817,668		3,226,929
Inventories (Note 3)		2,289,444		1,370,487
Investments		725,688		55,000
Tax reassessment deposit (Note 9)		600,342		-
		32,490,316		35,427,666
Non-current assets				
Tax reassessment deposit (Note 9)		-		575,772
Property, plant and equipment (Note 4)		15,638,181		13,617,664
Exploration properties (Note 5)		17,347,488		14,979,046
	\$	65,475,985	\$	64,600,148
LIABILITIES				
Current				
Trade payables	\$	1,384,343	\$	1,966,074
Income taxes payable		299,540		1,149,854
Due to related party		1,349,671		412,619
		3,033,554		3,528,547
Non-current liabilities				
Deferred income tax liabilities		3,862,899		3,294,548
		6,896,453		6,823,095
SHAREHOLDERS' EQUITY				
Share capital		53,306,762		53,304,772
Contributed surplus		2,701,682		2,256,643
Accumulated other comprehensive (loss)		(2,351,650)		(2,576,301)
Retained earnings		4,922,738		4,791,939
		58,579,532		57,777,053
	\$	65,475,985	\$	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 and Six Months Ended June 30

Canadian dollars

Unaudited

	Three months ended		Six months ended	
	2012	June 30 2011	2012	June 30 2011
Revenues	\$ 3,618,971	\$ 7,997,179	\$ 8,085,616	\$ 15,255,264
Expenses				
Operating expenses (Note 6)	1,895,466	3,203,914	4,431,749	5,612,278
Amortization and depletion	423,304	294,578	775,617	544,783
	2,318,770	3,498,492	5,207,366	6,157,061
Mine operating earnings	1,300,201	4,498,687	2,878,250	9,098,203
General and administrative expenses				
Accounting, audit and legal	74,034	105,891	142,942	154,193
Amortization	10,480	7,161	20,420	12,004
Investor relations, promotion and travel	86,052	60,828	152,200	142,642
Management fees and consulting	85,652	42,522	157,128	102,447
Office, rent, insurance and sundry	209,800	95,132	315,011	220,157
Office salaries and services	305,018	125,924	481,021	240,620
Share-based payments	229,479	28,506	445,654	71,026
	1,000,515	465,964	1,714,376	943,089
Earnings before the following	299,686	4,032,723	1,163,874	8,155,114
Other income (expenses)				
Foreign exchange (loss) gain	336,808	(55,087)	(356,974)	(271,383)
Finance income	58,989	39,410	120,936	74,936
Other income	15,502	(1)	13,981	2,681
	411,299	(15,678)	(222,057)	(193,766)
Earnings before taxes	710,985	4,017,045	941,817	7,961,348
Current income tax expense	(145,538)	(1,471,767)	(264,057)	(2,591,137)
Deferred income tax expense	(287,166)	(74,485)	(546,961)	(425,529)
Net earnings	278,281	2,470,793	130,799	4,944,682
Retained earnings (deficit) - Beginning of period	4,644,457	(310,462)	4,791,939	(2,784,351)
Retained earnings - End of period	\$ 4,922,738	\$ 2,160,331	\$ 4,922,738	\$ 2,160,331
Earnings per share -Basic	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.08
- Diluted	\$ 0.00	\$ 0.04	\$ 0.00	\$ 0.08
Weighted average number of shares outstanding - Basic	68,029,710	63,835,770	68,028,190	62,603,106
Weighted average number of shares outstanding - Diluted	68,967,738	65,550,654	69,194,810	62,247,295

-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 and Six Months Ended June 30

Canadian dollars
Unaudited

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Net earnings	\$ 278,281	\$ 2,470,793	\$ 130,799	\$ 4,944,682
Other comprehensive income (loss)				
Unrealized gain (loss) on investments held as available- for-sale	(581,678)	(125,000)	(837,228)	(90,000)
Cumulative translation adjustment	(997,620)	277,062	1,061,879	429,561
Comprehensive (loss) income	\$ (1,301,017)	\$ 2,622,855	\$ 355,450	\$ 5,284,243

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 Six Months Ended June 30

Canadian dollars
Unaudited

	2012		2011	
Share Capital				
Beginning of period	\$	53,304,772	\$	39,569,550
Stock options exercised		1,375		461,494
Fair value of stock options exercised		615		191,925
Warrants exercised		-		9,683,625
Agents options exercised		-		693,750
Fair value of agents options issued		-		(117,552)
Fair value of agents options exercised		-		399,292
Fair value of warrants exercised		-		2,344,079
	\$	53,306,762	\$	53,226,163
Warrants				
Beginning of period	\$	-	\$	2,541,663
Fair value of warrants exercised		-		(2,344,079)
	\$	-	\$	197,584
Contributed Surplus				
Beginning of period	\$	2,256,643	\$	1,860,196
Fair value of stock options exercised		(615)		(191,925)
Fair value of agents options issued		-		117,552
Fair value of agents options exercised		-		(399,292)
Share based payments expense		445,654		71,026
	\$	2,701,682	\$	1,457,557
Accumulated Other Comprehensive Income				
Beginning of period	\$	(2,576,301)	\$	109,252
Cumulative translation adjustment		1,061,879		429,561
Unrealized gains (losses) on investments		(837,228)		(90,000)
	\$	(2,351,650)	\$	448,813
Retained Earnings				
Beginning of period	\$	4,791,939	\$	(2,784,351)
Earnings for the period		130,799		4,944,682
	\$	4,922,738	\$	2,160,331
Total Equity	\$	58,579,532	\$	57,490,448

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IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Cash Flows For Six Months Ended June 30

Canadian dollars
Unaudited

Cash resources provided by (used in)	2012	2011
Operating activities		
Net earnings	\$ 130,799	\$ 4,944,682
Items not affecting cash		
Amortization and depletion	796,037	556,787
Share-based payments expense	445,654	71,026
Deferred income taxes	546,961	425,529
Changes in non-cash working capital		
Trade and other receivables	(2,474,949)	(791,559)
Inventories	(780,808)	31,339
Trade payables	(545,379)	511,957
Income taxes payable	(900,082)	339,495
Due to related party	840,601	767,296
	(1,941,166)	6,856,552
Investing activities		
Purchase of short-term investment	(92,250)	-
Acquisition of property, plant and equipment	(3,135,837)	(410,534)
Exploration property expenditure	(2,604,690)	(3,352,616)
	(5,832,777)	(3,763,150)
Financing activities		
Share capital issued, net	1,375	10,838,871
Effect of exchange rate changes on cash	54,492	11,073
Net increase (decrease) in cash	(7,718,076)	13,943,346
Cash - Beginning of period	30,775,250	18,690,023
Cash- End of period	\$ 23,057,174	\$ 32,633,369

-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 and Six Months Ended June 30, 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 financial 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 August 20, 2012.

3. Inventories

The following table details the composition of inventories at:

	June 30, 2012	December 31, 2011
Materials and supplies	\$ 884,186	\$ 696,772
Stockpile inventory	530,158	165,546
Concentrate inventory	875,100	508,169
Total inventories	\$ 2,289,444	\$ 1,370,487

The amount of inventories recognized as an expense during the year ended June 30, 2012 was \$3,512,792 (June 30, 2011 - \$6,178,220).

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three and Six Months Ended June 30, 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	305,657	-	51,352	-	-	63,019	2,713,644	-	3,133,672
Disposal on option payment*	-	-	-	(795,526)	-	-	-	-	(795,526)
Foreign exchange movement	92,294	17,431	1,245	109,856	40,106	33,425	427,591	16,360	738,308
Balance at June 30, 2012	2,560,744	425,904	146,677	1,888,727	979,943	402,151	15,543,470	469,499	22,417,115
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	155,304	4,556	6,077	29,800	-	26,556	586,663	45,097	854,053
Foreign exchange movement	25,483	15,566	901	10,998	-	10,114	138,178	644	201,884
Balance at June 30, 2012	777,962	384,895	79,034	371,782	-	194,085	4,908,774	62,402	6,778,934
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 June 30, 2012	1,782,782	41,009	67,643	1,516,945	979,943	208,066	10,634,696	407,097	15,638,181

*See note 5 (b).

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three and Six Months Ended June 30, 2012

Canadian dollars
Unaudited

5. Exploration properties

a) Details are as follows:

	June 30, 2012	December 31, 2011
Zacualpan mines and concessions - Mexico		
Acquisition costs	\$ 2,090,518	\$ 2,010,196
Exploration	14,012,491	11,190,229
Recoveries	(49,394)	(47,372)
	16,053,615	13,153,053
Zacatecas properties – Mexico		
Acquisition costs	235,479	225,841
Exploration	926,435	872,229
Disposal on option payment*	(592,365)	-
Recoveries	(418,818)	(406,438)
	150,731	691,632
PMSA and MMP concessions – Dominican Republic		
Acquisition	582,000	582,000
Exploration and development	561,142	552,361
	1,143,142	1,134,361
	\$ 17,347,488	\$ 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 June 30, 2012.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three and Six Months Ended June 30, 2012

Canadian dollars
Unaudited

6. Expenses by nature

	Six months ended June 30	
	2012	2011
Production costs	\$ 2,446,909	\$ 3,034,762
Administration	823,963	985,599
Transportation	104,718	255,167
Wages and salaries	1,056,159	1,336,750
	\$ 4,431,749	\$ 5,612,278

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 June 30, 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 June 30, 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 June 30, 2012	5,152,500	1.31

The following table summarizes information about the stock options outstanding June 30, 2012:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
\$1.40	867,500	0.18	867,500
\$1.67	75,000	0.31	75,000
\$0.55	1,310,000	1.52	1,310,000
\$1.10	900,000	2.94	900,000
\$1.85	2,000,000	4.25	1,250,000
	5,152,500	2.58	4,402,500

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three and Six Months Ended June 30, 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 six months ended June 30, 2012 is \$445,654 (June 30, 2011 - \$71,026)

c) Earnings per share

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

	Six months ended June 30	
	2012	2011
Net income attributable to shareholders	\$ 130,799	\$ 4,944,682
Weighted average number of shares - basic	68,028,190	62,603,106
Adjustment for:		
Share options	1,166,620	1,644,189
Weighted average number of shares outstanding - Diluted	69,194,810	64,247,295

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements For Three and Six Months Ended June 30, 2012

Canadian dollars
Unaudited

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 June 30 are as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Revenues by geographic area				
Mexico	\$ 3,618,971	\$ 7,997,179	\$ 8,085,616	\$ 15,255,264
Net earnings (loss) by geographic area				
Mexico	\$ 947,307	\$ 2,785,623	\$ 1,361,894	\$ 5,593,567
Canada	(669,027)	(314,830)	(1,231,094)	(648,885)
	\$ 278,281	\$ 2,470,793	\$ 130,799	\$ 4,944,682
Assets by geographical area			June 30, 2012	December 31, 2011
Caribbean			\$ 1,228,142	\$ 1,134,360
Canada			21,697,007	25,396,850
Mexico			42,550,836	38,068,938
			\$ 65,475,985	\$ 64,600,148
Property, plant and equipment by geographical area				
Mexico			\$ 15,606,143	\$ 13,603,700
Canada			32,038	13,964
			\$ 15,638,181	\$ 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 and Six Months Ended June 30, 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.
