

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014	December 31, 2013
Current		
Cash	\$ 1,679,970	\$ 3,485,180
Trade and other receivables (Note 3)	3,960,540	4,485,903
Inventories (Note 4)	1,234,866	1,112,667
Available-for-sale investments	95,380	139,510
	6,970,756	9,223,260
Value added taxes receivable	4,368,184	4,465,447
Property, plant and equipment (Note 5)	26,992,859	27,438,447
Mineral properties (Note 6)	23,302,422	21,991,493
	\$ 61,634,221	\$ 63,118,647
LIABILITIES		
Current		
Trade payables and accrued liabilities	\$ 1,339,120	\$ 1,330,123
Due to related party (Note 7)	1,296,348	946,828
	2,635,468	2,276,951
Reclamation provision (Note 9)	323,394	307,427
Deferred income tax liabilities	6,086,050	6,412,603
	9,044,912	8,996,981
SHAREHOLDERS' EQUITY		
Share capital	53,495,947	53,495,947
Contributed surplus	4,754,120	4,630,492
Accumulated other comprehensive income	1,499,008	867,142
Deficit	(7,159,766)	(4,871,915)
	52,589,309	54,121,666
	\$ 61,634,221	\$ 63,118,647

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.

Condensed Consolidated Interim Statements of Income (Loss)

For the Three and Six Months Ended June 30

Canadian dollars

Unaudited

	Three months ended		Six months ended	
	2014	2013	2014	2013
Revenues	\$ 2,551,710	\$ 3,779,290	\$ 5,513,977	\$ 7,952,132
Expenses				
Operating expenses (Note 10)	2,924,909	3,170,092	6,029,710	5,834,145
Amortization and depletion	709,649	484,043	1,418,922	899,294
	3,634,558	3,654,135	7,448,632	6,733,439
Mine operating earnings	(1,082,848)	125,155	(1,934,655)	1,218,693
General and administrative expenses				
Accounting, audit and legal	65,839	111,606	127,092	170,200
Amortization	10,535	138	20,897	20,782
Investor relations, promotion and travel	47,583	54,927	77,356	121,812
Management fees and consulting	56,427	99,718	135,189	177,921
Office, rent, insurance and sundry	99,817	89,799	181,378	194,913
Office salaries and services	120,639	217,135	330,517	447,731
Property investigations	-	46,899	-	46,899
Share-based payments	47,025	747,396	123,628	1,471,020
	447,865	1,367,618	996,057	2,651,278
Operating loss	(1,530,713)	(1,242,463)	(2,930,712)	(1,432,585)
Other income (expenses)				
Finance cost	(5,996)	(10,206)	(11,954)	(20,141)
Finance income	2,394	27,690	6,718	63,582
Foreign exchange (loss) gain	(15,867)	(51,352)	5,660	(164,633)
Other income	6,819	15,091	9,170	15,795
Gain (loss) on available-for-sale investment (Note 6(b))	213,550	(624,263)	213,550	(624,263)
	200,900	(643,040)	223,144	(729,660)
Loss before taxes	(1,329,813)	(1,885,503)	(2,707,568)	(2,162,245)
Current income tax expense	-	120,381	-	244,799
Deferred income tax expense (recovery)	(306,147)	(64,007)	(419,717)	189,582
Net loss	(1,023,666)	(1,941,877)	(2,287,851)	(2,596,626)
Earnings per share –Basic (Note 11(c))	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.04)
- Diluted (Note 11(c))	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Weighted average number of shares outstanding - Basic	68,128,244	68,128,224	68,128,244	68,128,224
Weighted average number of shares outstanding - Diluted	68,128,244	68,128,224	68,128,244	68,128,224

-The accompanying notes form an integral part of these consolidated 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	
	2014	2013	2014	2013
Net loss	\$ (1,023,666)	\$ (1,941,877)	\$ (2,287,851)	\$ (2,596,626)
Other comprehensive income (loss)				
Unrealized gain (loss) on investments held as available-for-sale	2,830	(286,315)	495,870	(666,763)
Reclassification on write-down of available-for-sale investment	-	624,263	-	624,263
Reclassification on sale of available-for-sale investment (Note 6(b))	(432,000)	-	(432,000)	-
Cumulative translation adjustment	(1,340,645)	(611,926)	567,996	2,392,752
Comprehensive (loss) income	\$ (2,793,481)	\$ (2,215,855)	\$ (1,655,985)	\$ (246,374)

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Changes in Equity

For the Six Months Ended June 30

(Canadian dollars)

Unaudited

	Shares Outstanding	Share Capital (\$)	Contributed Surplus (\$)	Accumulated Other Comprehensive Income (\$)	Retained Earnings (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2013	68,128,244	53,495,947	3,156,199	(1,356,896)	3,647,093	58,942,343
Loss for the period	-	-	-	-	(2,596,626)	(2,596,626)
Share-based payments expense	-	-	1,471,020	-	-	1,471,020
Cumulative translation adjustments	-	-	-	2,392,752	-	2,392,752
Reclassification on write-down of available-for-sale investment	-	-	-	624,263	-	624,263
Unrealized losses on available-for-sale investments	-	-	-	(666,763)	-	(666,763)
Balance at June 30, 2013	68,128,244	53,495,947	4,627,219	993,356	1,050,467	60,166,989
Balance at January 1, 2014	68,128,244	53,495,947	4,630,492	867,142	(4,871,915)	54,121,666
Loss for the period	-	-	-	-	(2,287,851)	(2,287,851)
Share-based payments expense	-	-	123,628	-	-	123,628
Cumulative translation adjustments	-	-	-	567,996	-	567,996
Unrealized gains on available-for-sale investments	-	-	-	63,870	-	63,870
Balance at June 30, 2014	68,128,244	53,495,947	4,754,120	1,499,008	(7,159,766)	52,589,309

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statement of Cash Flows For the Three and Six Months Ended June 30

(Canadian dollars)

Unaudited

	For the three months ended June 30		For the six months ended June 30	
Cash resources provided by (used in)	2014	2013	2014	2013
Operating activities				
Net loss	\$ (1,023,666)	\$ (1,941,877)	\$ (2,287,851)	\$ (2,596,626)
Items not affecting cash				
Amortization and depletion	720,184	484,181	1,439,819	920,076
Share-based payments expense	47,025	747,396	123,628	1,471,020
Deferred income taxes	(306,147)	(64,007)	(419,717)	189,582
Accretion expense	5,996	10,206	11,954	20,141
Write-down (gain) on available-for-sale investment	(213,550)	624,263	(213,550)	624,263
Write-down of inventory	13,271	-	58,238	-
Changes in non-cash working capital				
Trade and other receivables	(113,356)	(543,888)	883,728	148,014
Income taxes receivable	100,114	(29,405)	(109,160)	85,410
Inventories	(148,679)	247,792	(110,016)	213,866
Value added taxes receivable	238,282	116,619	(22,718)	(821,911)
Trade payables	150,946	349,612	(2,780)	337,831
Due to related party	234,076	195,286	342,115	781,012
	(295,504)	196,178	(306,310)	1,372,678
Investing activities				
Acquisition of property, plant and equipment	(139,168)	(2,184,407)	(153,673)	(4,526,923)
Proceeds on sale of available-for-sale investment	321,550	-	321,550	-
Proceeds from the sale of concentrate from commission phase	-	-	120,580	-
Mineral property expenditures	(702,407)	(1,428,781)	(1,742,319)	(3,029,442)
	(520,025)	(3,613,188)	(1,453,862)	(7,556,365)
Effect of exchange rate changes on cash	(42,678)	50,212	(45,038)	143,935
Net decrease in cash	(858,207)	(3,366,798)	(1,805,210)	(6,039,752)
Cash - Beginning of period	2,538,177	13,340,291	3,485,180	16,013,245
Cash - End of period	\$ 1,679,970	\$ 9,973,493	\$ 1,679,970	\$ 9,973,493

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

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

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 a series of mines near Zacualpan in the State of Mexico and in Guerrero State and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The Company is actively exploring for silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic. The registered address of the Company is 1100 – 543 Granville Street, Vancouver, British Columbia.

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 mineral properties and the attainment of profitable operations are dependent upon the discovery and development of economic ore on these properties and the ability to arrange sufficient financing to bring the ore estimates into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. Basis of preparation and statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. All material intercompany balances have been eliminated. As all the disclosures required by IFRS are not included, these interim statements should be read in conjunction with the audited financial statements of IMPACT Silver Corp. ("the Company") for the year ended December 31, 2013.

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

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on August 25, 2014.

3. Trade and other receivables

The following table details the composition of trade and other receivables at:

	June 30, 2014	December 31, 2013
Value added taxes receivable – current portion	\$ 2,648,710	\$ 2,528,729
Trade and other receivables	1,184,000	1,684,235
Prepays	127,830	272,939
Total trade and other receivables	\$ 3,960,540	\$ 4,485,903

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

4. Inventories

The following table details the composition of inventories at:

	June 30, 2014	December 31, 2013
Materials and supplies	\$ 650,304	\$ 763,476
Stockpile inventory	2,561	1,732
Concentrate inventory	582,001	347,459
Total inventories	\$ 1,234,866	\$ 1,112,667

The amount of inventories recognized as an expense during the period ended June 30, 2014 was \$6,029,710 (June 30, 2013 – \$5,834,145).

The amount of write-down of inventories to net realizable value during the six months ended June 30, 2014 was \$58,238 (June 30, 2013 - \$nil) relating to concentrate inventory.

5. Property, plant and equipment

	Plant and mine equipment (S)	Vehicles (S)	Office furniture and equipment (S)	Surface rights (S)	Mining Assets (S)	Total (S)
Cost						
Balance at January 1, 2013	5,890,269	413,846	179,725	1,235,182	18,315,642	26,034,664
Additions	3,380,595	57,689	42,814	50,057	72,161	3,603,316
Transfers	-	-	-	-	7,400,473	7,400,473
Reclassification	1,252,970	-	-	-	(1,252,970)	-
Change in reclamation estimate	-	-	-	-	(536,864)	(536,864)
Foreign exchange movement	309,370	23,998	5,249	71,626	965,948	1,376,191
Balance at December 31, 2013	10,833,204	495,533	227,788	1,356,865	24,964,390	37,877,780
Additions	136,312	-	3,174	-	1,853	141,339
Transfers	-	-	-	-	528,026	528,026
Foreign exchange movement	147,154	6,775	1,752	18,550	305,723	479,954
Balance at June 30, 2014	11,116,670	502,308	232,714	1,375,415	25,799,992	39,027,099
Accumulated amortization						
Balance at January 1, 2013	1,899,705	221,576	88,732	-	5,423,776	7,633,789
Amortization for the period	510,744	46,988	28,336	-	1,710,739	2,296,807
Foreign exchange movement	234,858	13,069	1,941	-	258,869	508,737
Balance at December 31, 2013	2,645,307	281,633	119,009	-	7,393,384	10,439,333
Amortization for the period	564,975	28,419	14,899	-	889,337	1,497,630
Foreign exchange movement	24,374	3,399	553	-	68,951	97,277
Balance at June 30, 2014	3,234,656	313,451	134,461	-	8,351,672	12,034,240
Net book value						
December 31, 2013	8,187,897	213,900	108,779	1,356,865	17,571,006	27,438,447
June 30, 2014	7,882,014	188,857	98,253	1,375,415	17,448,320	26,992,859

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

6. Mineral properties

a) Details are as follows:

	Zacualpan and Mamatla (\$)	Zacatecas (\$)	Dominican Republic (\$)	Total (\$)
Balance at January 1, 2013	21,056,155	163,100	1,260,447	22,479,702
Additions	8,650,918	350	(75,090)	8,576,178
Recoveries	-	(1,234)	-	(1,234)
Transfers to mining assets	(7,400,473)	-	-	(7,400,473)
Write-off	(1,598,408)	-	(985,357)	(2,583,765)
Foreign exchange	911,636	9,449	-	921,085
Balance at December 31, 2013	21,619,828	171,665	200,000	21,991,493
Additions	1,560,176	30,464	11,603	1,602,243
Transfers to mining assets	(528,026)	-	-	(528,026)
Foreign exchange	234,355	2,357	-	236,712
Balance at June 30, 2014	22,886,333	204,486	211,603	23,302,422

b) Zacatecas agreement

As at June 30, 2014, the Company owns a total of 467,000 shares (December 31, 2013 – 4,067,000) of Defiance Silver Corp. (“Defiance”), a Canadian public company, that were obtained in an agreement to option its Veta Grande Project assets in Zacatecas, Mexico. In January 2014, Defiance terminated its option agreement with the Company. As a result of this termination the Company retained the Veta Grande Project assets, and the shares of Defiance already granted under the option agreement.

It was determined that as at December 31, 2013, there was a prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company recorded a non-cash write-down of \$803,305.

In June 2014, the Company sold 3,600,000 shares of Defiance for proceeds of \$321,550. A gain of \$213,550 was realized on the sale of these shares, and unrealized gains of \$432,000 recorded in March 2014 were reversed.

7. Related party transactions

Related party transactions are recorded at the amount of consideration paid or received as agreed by the parties.

During the six months ended June 30, 2014, fees in the amount of \$237,646 (2013 – \$2,738,775) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Guadalupe and Capire Production Centres. At June 30, 2014, an amount of \$1,296,348 (December 31, 2013 - \$946,828) was due to Energold Drilling Corp. 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.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

8. Key management personnel compensation

Key management includes the Chief Executive Officer, Chief Financial Officer, Vice-President Exploration and Board of Directors and Audit Committee members. The remuneration of directors and other members of key management personnel at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Salaries and fees	\$ 243,294	198,634
Share based compensation	66,548	711,336
Total compensation	\$ 309,842	909,970

9. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's increased development of the open pit Capire Mine and mill. The total undiscounted amount of the estimated costs required to settle the provision is approximately \$1,013,002 (2013 – \$1,007,508). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.6% (2013 – 3.6%) and discounted using a Mexican risk-free rate of 7.6% (2013 – 7.6%). Settlement of the liability may extend up to 30 years in the future.

Additions to the reclamation provision were as follows:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Reclamation provision, beginning of the year	\$ 307,427	\$ 771,416
Foreign exchange movement	4,013	32,679
Accretion of reclamation provision	11,954	40,196
Revisions to estimated cashflows	-	(536,864)
Total reclamation provision	\$ 323,394	\$ 307,427

Accretion for the reclamation provision recognized for the six months ended June 30, 2014 is \$11,954 (2013 - \$20,141).

10. Expenses by nature

The following table details the nature of expenses within operating expenses as at:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Production costs	\$ 1,157,157	\$ 1,483,954	\$ 2,710,205	\$ 3,022,220
Administration	177,127	486,404	385,613	877,408
Transportation	128,593	111,086	250,338	181,857
Wages and salaries	1,462,032	1,088,648	2,683,554	1,752,660
Total operating expenses	\$ 2,924,909	\$ 3,170,092	\$ 6,029,710	\$ 5,834,145

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

11. 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 terms of the Company's stock option plan, the maximum number of shares reserved for issuance is 10% of the issued shares of the Company on a rolling basis. Options granted must be exercised no later than five years from date of grant or extension 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, 2014 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2013	4,210,000	1.31
Issued	2,285,000	1.20
Expired	(62,500)	1.46
At December 31, 2013	6,432,500	1.25
Expired	(115,000)	1.57
At June 30, 2014	6,317,500	1.25

The following table summarizes information about the stock options outstanding at June 30, 2014:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$1.10	867,500	0.93	867,500	June 6, 2015
\$1.85	1,920,000	2.24	1,920,000	September 26, 2016
\$1.20	2,220,000	3.57	1,934,375	January 22, 2018
\$0.55	1,310,000	4.52	1,310,000	January 6, 2019
	6,317,500	3.00	6,031,875	

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

11. Equity – continued

b) Stock options – continued

On January 23, 2013, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 2,500,000 shares of the Company, with an estimated value of \$1,926,759 on the grant date. The options are exercisable on or before January 22, 2018 at a price of \$1.20 per share.

On May 30, 2013, the Company extended the exercise period of the \$0.55 options from January 6, 2014 to January 6, 2019 which were originally granted on January 6, 2009 and are exercisable for 1,310,000 shares of the Company to various directors, officers, employees and consultants of the Company. The modification to the term of the exercise period of these fully vested options resulted in an additional charge of \$196,742, which was expensed in the second quarter of 2013.

The Black Scholes Option Pricing Model was 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 following assumptions:

	January 23,
Date Granted	2013
Number of options granted	2,285,000
Risk-free interest rate	1.13%
Expected dividend yield	Nil
Expected share price volatility	67%
Expected option life in years	3

The expected volatility is based on the historical and implied volatility of the Company's common share price on the TSX 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.

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.

c) Earnings per share

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Net income attributable to shareholders	\$ (1,023,666)	\$ (1,941,877)	\$ (2,287,150)	\$ (2,596,626)
Weighted average number of shares outstanding - Basic and diluted	68,128,244	68,128,244	68,128,244	68,128,244
Loss per share – Basic and diluted	(0.02)	(0.03)	(0.03)	(0.04)

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2014

(Canadian dollars)

Unaudited

12. Segmented information

The Company has one operating segment and three reportable segments based on geographic area: Mexico, the Caribbean, and Canada (Corporate). The segments are determined 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 are as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues by geographic area				
Mexico	\$ 2,551,710	\$ 3,779,290	\$ 5,513,977	\$ 7,952,132
Net earnings (loss) by geographic area				
Mexico	\$ (836,009)	\$ (143,153)	\$ (1,611,846)	\$ 314,565
Canada	(187,657)	(1,798,724)	(676,005)	(2,911,191)
	\$ (1,023,666)	\$ (1,941,877)	\$ (2,287,851)	\$ (2,596,626)
Assets by geographical area			June 30, 2014	December 31, 2013
Mexico			\$ 60,177,284	\$ 59,950,148
Canada			1,245,334	2,968,499
Caribbean			211,603	200,000
			\$ 61,634,221	\$ 63,118,647
Property, plant and equipment by geographical area				
Mexico			\$ 26,960,603	\$ 27,405,048
Canada			32,256	33,399
			\$ 26,992,859	\$ 27,438,447

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