

# **IMPACT SILVER CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**September 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

<b>ASSETS</b>	<b>September 30, 2012</b>		December 31, 2011	
<b>Current assets</b>				
Cash	\$	<b>19,562,622</b>	\$	30,775,250
Trade and other receivables (Note 4)		<b>5,142,710</b>		3,226,929
Income taxes receivable		<b>735,844</b>		-
Inventories (Note 3)		<b>2,696,285</b>		1,370,487
Investments		<b>813,051</b>		55,000
		<b>28,950,512</b>		35,427,666
<b>Non-current assets</b>				
Tax reassessment deposit (Note 10)		-		575,772
Property, plant and equipment (Note 5)		<b>16,845,074</b>		13,617,664
Exploration properties (Note 6)		<b>19,176,526</b>		14,979,046
	\$	<b>64,972,112</b>	\$	64,600,148
<b>LIABILITIES</b>				
<b>Current</b>				
Trade payables	\$	<b>1,281,413</b>	\$	1,966,074
Income taxes payable		-		1,149,854
Due to related party		<b>751,932</b>		412,619
		<b>2,033,345</b>		3,528,547
<b>Non-current liabilities</b>				
Deferred income tax liabilities		<b>4,190,827</b>		3,294,548
		<b>6,224,172</b>		6,823,095
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		<b>53,495,947</b>		53,304,772
Contributed surplus		<b>2,897,002</b>		2,256,643
Accumulated other comprehensive (loss)		<b>(2,131,424)</b>		(2,576,301)
Retained earnings		<b>4,486,415</b>		4,791,939
		<b>58,747,940</b>		57,777,053
	\$	<b>64,972,112</b>	\$	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 Nine Months Ended September 30

Canadian dollars

Unaudited

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
<b>Revenues</b>	\$ <b>3,193,836</b>	4,163,532	<b>11,279,451</b>	19,418,796
<b>Expenses</b>				
Operating expenses (Note 7)	<b>2,154,818</b>	1,401,661	<b>6,586,567</b>	7,013,939
Amortization and depletion	<b>337,074</b>	213,669	<b>1,112,690</b>	758,452
	<b>2,491,892</b>	1,615,330	<b>7,699,257</b>	7,772,391
<b>Mine operating earnings</b>	<b>701,944</b>	2,548,202	<b>3,580,194</b>	11,646,405
<b>General and administrative expenses</b>				
Accounting, audit and legal	<b>43,204</b>	40,030	<b>186,145</b>	194,223
Amortization	<b>13,327</b>	11,793	<b>33,747</b>	23,797
Investor relations, promotion and travel	<b>43,218</b>	73,015	<b>195,418</b>	215,657
Management fees and consulting	<b>85,124</b>	37,317	<b>242,252</b>	139,764
Office, rent, insurance and sundry	<b>87,952</b>	80,369	<b>402,963</b>	300,526
Office salaries and services	<b>208,731</b>	222,208	<b>689,756</b>	462,828
Share-based payments	<b>246,561</b>	410,727	<b>692,211</b>	481,753
	<b>728,117</b>	875,459	<b>2,442,492</b>	1,818,548
<b>Earnings (loss) before the following</b>	<b>(26,173)</b>	1,672,743	<b>1,137,702</b>	9,827,857
<b>Other income (expenses)</b>				
Foreign exchange (loss) gain	<b>(57,749)</b>	1,235,033	<b>(414,724)</b>	963,650
Finance income	<b>54,346</b>	70,930	<b>175,280</b>	145,866
Other income	<b>38,385</b>	2,819	<b>52,367</b>	5,500
	<b>34,982</b>	1,308,782	<b>(187,077)</b>	1,115,016
<b>Earnings before taxes</b>	<b>8,809</b>	2,981,525	<b>950,625</b>	10,942,873
Current income tax expense	<b>(120,506)</b>	(550,808)	<b>(384,562)</b>	(3,141,945)
Deferred income tax expense	<b>(324,626)</b>	(436,513)	<b>(871,587)</b>	(862,042)
<b>Net earnings (loss)</b>	<b>(436,323)</b>	1,994,204	<b>(305,524)</b>	6,938,886
Retained earnings (deficit) - Beginning of period	<b>4,922,738</b>	2,160,331	<b>4,791,939</b>	(2,784,351)
<b>Retained earnings - End of period</b>	\$ <b>4,486,415</b>	4,154,535	<b>4,486,415</b>	4,154,535
<b>Earnings (loss) per share - Basic</b>	\$ <b>(0.01)</b>	0.03	<b>(0.00)</b>	0.11
<b>- Diluted</b>	\$ <b>(0.01)</b>	0.03	<b>(0.00)</b>	0.11
Weighted average number of shares outstanding - Basic	<b>68,036,459</b>	68,001,468	<b>68,035,568</b>	64,197,914
Weighted average number of shares outstanding - Diluted	<b>68,971,041</b>	69,728,769	<b>69,080,789</b>	65,863,089

-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 Nine Months Ended September 30

Canadian dollars  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
<b>Net earnings</b>	<b>\$ (436,323)</b>	1,994,204	<b>\$ (305,524)</b>	6,938,886
<b>Other comprehensive income (loss)</b>				
Unrealized gain (loss) on investments held as available- for-sale	<b>(3,036)</b>	(15,000)	<b>(840,265)</b>	(105,000)
Cumulative translation adjustment	<b>223,262</b>	(2,517,946)	<b>1,285,142</b>	(2,088,386)
<b>Comprehensive (loss) income</b>	<b>\$ (216,097)</b>	(538,742)	<b>\$ 139,353</b>	4,745,500

-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 Nine Months Ended September 30

Canadian dollars  
Unaudited

	2012	2011
<b>Share Capital</b>		
Balance at January 1,	\$ 53,304,772	39,569,550
Stock options exercised	139,323	499,244
Fair value of stock options exercised	51,852	205,979
Warrants exercised	-	9,683,620
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
	<b>\$ 53,495,947</b>	<b>53,277,962</b>
<b>Warrants</b>		
Balance at January 1,	\$ -	2,541,663
Fair value of warrants exercised	-	(2,344,079)
Fair value of agents options issued	-	117,552
Reallocation of fair value of expired agents warrants	-	(315,136)
	<b>\$ -</b>	<b>-</b>
<b>Contributed Surplus</b>		
Balance at January 1,	\$ 2,256,643	1,860,196
Fair value of stock options exercised	(51,852)	(205,979)
Fair value of agents options exercised	-	(399,292)
Reallocation of fair value of expired agents warrants	-	315,136
Share based payments expense	692,211	481,754
	<b>\$ 2,897,002</b>	<b>2,051,815</b>
<b>Accumulated Other Comprehensive Income</b>		
Balance at January 1,	\$ (2,576,301)	109,252
Cumulative translation adjustment	1,285,142	(2,088,386)
Unrealized gains (losses) on investments	(840,265)	(105,000)
	<b>\$ (2,131,424)</b>	<b>(2,084,134)</b>
<b>Retained Earnings</b>		
Balance at January 1,	\$ 4,791,939	(2,784,351)
Earnings for the period, September 30	(305,524)	6,938,886
	<b>\$ 4,486,415</b>	<b>4,154,535</b>
<b>Total Equity</b>	<b>\$ 58,747,940</b>	<b>57,400,178</b>

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

# IMPACT Silver Corp.

## Condensed Consolidated Interim Statements of Cash Flows For Nine Months Ended September 30

Canadian dollars  
Unaudited

<b>Cash resources provided by (used in)</b>	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net earnings	\$ (305,524)	6,938,886
Items not affecting cash		
Amortization and depletion	1,146,437	782,249
Share-based payments expense	692,212	481,753
Deferred income taxes	871,587	862,042
Changes in non-cash working capital		
Trade and other receivables	(2,973,123)	1,116,193
Inventories	(1,087,843)	(1,028,271)
Trade payables	(654,731)	793,283
Income taxes payable	(719,602)	312,544
Due to related party	242,659	908,392
	<u>(2,787,928)</u>	<u>11,167,071</u>
<b>Investing activities</b>		
Purchase of short-term investment	(182,650)	-
Acquisition of property, plant and equipment	(4,673,427)	(1,034,907)
Exploration property expenditure	(3,758,160)	(5,358,731)
	<u>(8,614,237)</u>	<u>(6,393,638)</u>
<b>Financing activities</b>		
Share capital issued, net	140,698	10,876,623
	<u>140,698</u>	<u>10,876,623</u>
Effect of exchange rate changes on cash	48,839	(593,729)
	<u>48,839</u>	<u>(593,729)</u>
<b>Net increase (decrease) in cash</b>	<b>(11,212,628)</b>	<b>15,056,327</b>
Cash - Beginning of period	30,775,250	18,690,023
<b>Cash- End of period</b>	<b>\$ 19,562,622</b>	<b>33,746,350</b>

-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 Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

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### 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. The Company is located at #1100-543 Granville Street, Vancouver, British Columbia, Canada, V6C 1X8.

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### 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 November 12, 2012.

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### 3. Inventories

The following table details the composition of inventories at:

	<b>September 30, 2012</b>	December 31, 2011
Materials and supplies	<b>\$ 818,348</b>	\$ 696,772
Stockpile inventory	<b>424,996</b>	165,546
Concentrate inventory	<b>1,452,941</b>	508,169
	<b>\$ 2,696,285</b>	\$ 1,370,487

The amount of inventories recognized as an expense during the nine months ended September 30, 2012 was \$5,260,770. (September 30, 2011 - \$6,676,301).

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# IMPACT Silver Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For Three and Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

### 4. Trade and other receivables

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

	<b>September 30, 2012</b>	December 31, 2011
Trade receivables	<b>\$ 1,619,826</b>	\$ 1,518,604
Other receivables	<b>294,407</b>	37,815
Commodity tax receivables	<b>2,878,189</b>	1,520,688
Prepays	<b>350,288</b>	149,822
	<b>\$ 5,142,710</b>	\$ 3,226,929

### 5. Property, plant and equipment

	Mine equipment (\$)	Mobile equipment (\$)	Office furniture and equipment (\$)	Plant equipment (\$)	Surface rights (\$)	Vehicles (\$)	Mining Assets (\$)	Building Improvement (\$)	<b>Total (\$)</b>
<b>Cost</b>									
Balance at December 31, 2011	2,162,793	408,473	94,080	2,574,397	939,837	305,707	12,402,235	453,139	<b>19,340,661</b>
Additions	293,169	4,680	77,418	171,661	-	80,088	4,073,912	6,936	<b>4,707,864</b>
Disposal on option payment*	-	-	-	(800,552)	-	-	-	-	<b>(800,552)</b>
Foreign exchange movement	106,538	20,121	1,437	126,812	46,296	35,567	496,602	18,886	<b>852,259</b>
<b>Balance at September 30, 2012</b>	<b>2,562,500</b>	<b>433,274</b>	<b>172,935</b>	<b>2,072,318</b>	<b>986,133</b>	<b>421,362</b>	<b>16,972,749</b>	<b>478,961</b>	<b>24,100,232</b>
<b>Accumulated amortization</b>									
Balance at December 31, 2011	597,175	364,773	72,056	330,984	-	157,415	4,183,933	16,661	<b>5,722,997</b>
Amortization for the period	240,943	7,229	10,886	44,982	-	43,446	883,644	67,988	<b>1,299,118</b>
Foreign exchange movement	29,416	17,969	1,040	16,156	-	11,172	156,547	743	<b>233,043</b>
<b>Balance at September 30, 2012</b>	<b>867,534</b>	<b>389,971</b>	<b>83,982</b>	<b>392,122</b>	<b>-</b>	<b>212,033</b>	<b>5,224,124</b>	<b>85,392</b>	<b>7,255,158</b>
<b>Net book value</b>									
At December 31, 2011	1,565,618	43,700	22,024	2,243,413	939,837	148,292	8,218,302	436,478	<b>13,617,664</b>
<b>September 30, 2012</b>	<b>1,694,966</b>	<b>43,303</b>	<b>88,953</b>	<b>1,680,196</b>	<b>986,133</b>	<b>209,329</b>	<b>11,748,625</b>	<b>393,569</b>	<b>16,845,074</b>

\*See note 6 (b).

# IMPACT Silver Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For Three and Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

### 6. Exploration properties

a) Details are as follows:

	<b>September 30, 2012</b>	December 31, 2011
Zacualpan mines and concessions - Mexico		
Acquisition costs	\$ 2,102,915	\$ 2,010,196
Exploration	15,785,029	11,190,229
Recoveries	(49,706)	(47,372)
	<b>17,838,238</b>	13,153,053
Zacatecas properties – Mexico		
Acquisition costs	236,967	225,841
Exploration	930,699	872,229
Disposal on option payment*	(595,245)	-
Recoveries	(420,729)	(406,438)
	<b>151,692</b>	691,632
PMSA and MMP concessions – Dominican Republic		
Acquisition	582,000	582,000
Exploration and development	604,596	552,361
	<b>1,186,596</b>	1,134,361
	<b>\$ 19,176,526</b>	\$ 14,979,046

\*See note 6(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 September 30, 2012.

# IMPACT Silver Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For Three and Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

### 7. Expenses by nature

The table below details the composition of operating expenses for the following periods:

	Nine months ended September 30	
	2012	2011
Production costs	\$ 3,557,079	\$ 3,818,963
Administration	1,200,353	1,116,154
Transportation	179,987	301,979
Wages and salaries	1,649,148	1,776,843
	<u>\$ 6,586,567</u>	<u>\$ 7,013,939</u>

### 8. 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 4,285,000 are outstanding as at September 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 September 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	(101,034)	1.38
Expired	(768,966)	1.40
At September 30, 2012	<b>4,285,000</b>	<b>1.29</b>

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

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
\$1.67	75,000	0.06	75,000
\$0.55	1,310,000	1.27	1,310,000
\$1.10	900,000	2.68	900,000
\$1.85	2,000,000	3.99	1,500,000
	<b>4,285,000</b>	<b>2.82</b>	<b>3,785,000</b>

# IMPACT Silver Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For Three and Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

### 8. 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	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.

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 nine months ended September 30, 2012 is \$692,211 (September 30, 2011 - \$481,753).

### c) Earnings per share

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

	Nine months ended September 30	
	2012	2011
Net income attributable to shareholders	\$ (305,524)	\$ 6,938,886
Weighted average number of shares - basic	68,035,568	64,197,914
Adjustment for:		
Share options	1,045,221	1,665,175
Weighted average number of shares outstanding - Diluted	69,080,789	65,863,089

# IMPACT Silver Corp.

## Notes to the Condensed Consolidated Interim Financial Statements For Three and Nine Months Ended September 30, 2012

Canadian dollars  
Unaudited

### 9. 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	
	2012	2011	2012	2011
Revenues by geographic area				
Mexico	\$ 3,193,836	\$ 4,163,532	\$ 11,279,451	\$ 19,418,796
Net earnings (loss) by geographic area				
Mexico	\$ 184,980	\$ 2,495,634	\$ 1,546,874	\$ 8,089,201
Canada	(621,303)	(501,430)	(1,852,398)	(1,150,315)
	\$ (436,323)	\$ 1,994,204	\$ (305,524)	\$ 6,938,886
Assets by geographical area			September 30, 2012	December 31, 2011
Caribbean			\$ 1,271,596	\$ 1,134,360
Canada			19,028,248	25,396,850
Mexico			44,672,268	38,068,938
			\$ 64,972,112	\$ 64,600,148
Property, plant and equipment by geographical area				
Mexico			\$ 31,542	\$ 13,603,700
Canada			16,813,532	13,964
			\$ 16,845,074	\$ 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 Nine Months Ended September 30, 2012

*Canadian dollars  
Unaudited*

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### **10. 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. Within the current period, the Company has received the balance owing for the tax reassessment deposit from SAT.

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