

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2016 and 2015

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, 2016	December 31, 2015
Current		
Cash	\$ 7,707,227	\$ 717,369
Trade and other receivables (Note 3)	4,605,155	3,972,634
Inventories (Note 4)	1,097,014	1,103,970
Available for sale investments	7,500	5,000
	13,416,896	5,798,973
Value added and other taxes receivable	878,881	2,628,652
Property, plant and equipment (Note 5)	22,921,696	26,572,115
Exploration and evaluation assets (Note 6)	20,873,832	22,622,890
Deferred income tax assets	359,029	414,940
	\$ 58,450,334	\$ 58,037,570
LIABILITIES		
Current		
Trade payables and accrued liabilities	\$ 1,939,956	\$ 1,453,148
Due to related party	-	1,452,876
	1,939,956	2,906,024
Reclamation provision	592,905	656,515
Deferred income tax liabilities	4,768,497	5,229,494
	7,301,358	8,792,033
SHAREHOLDERS' EQUITY		
Share capital	59,790,981	53,495,947
Warrants	973,378	-
Contributed surplus	4,776,173	4,776,173
Accumulated other comprehensive loss	(4,146,917)	759,924
Accumulated deficit	(10,244,639)	(9,786,507)
	51,148,976	49,245,537
	\$ 58,450,334	\$ 58,037,570

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 Loss For the Three and Six Months Ended June 30

Canadian dollars

Unaudited

	Three months ended		Six months ended	
	2016	2015	2016	2015
Revenues	\$ 4,393,488	\$ 2,735,120	\$ 8,155,894	\$ 6,646,742
Expenses				
Operating expenses (Note 8)	3,100,374	2,962,303	6,103,275	6,143,407
Amortization and depletion	562,481	531,181	1,049,623	1,057,184
	3,662,855	3,493,484	7,152,898	7,200,591
Mine operating income (loss)	730,633	(758,364)	1,002,996	(553,849)
General and administrative expenses				
Accounting, audit and legal	47,109	64,338	99,754	123,897
Amortization	6,131	7,939	12,216	15,969
Investor relations, promotion and travel	42,843	18,168	57,027	30,144
Management fees and consulting	76,272	83,000	111,908	229,581
Office, rent, insurance and sundry	89,747	98,359	162,859	183,987
Office salaries and services	165,791	159,965	329,204	322,585
	427,893	431,769	772,968	906,163
Operating income (loss)	302,740	(1,190,133)	230,028	(1,460,012)
Other income (expenses)				
Finance cost	(17,786)	(7,196)	(40,252)	(14,641)
Finance income	6,153	110	6,267	133,063
Foreign exchange loss	(358,395)	(149,128)	(673,405)	(254,994)
Other income	136,930	15,086	242,484	15,609
Gain (loss) on disposal of assets	-	-	3,629	(679)
	(233,098)	(141,128)	(461,277)	(121,642)
(Loss) income before taxes	69,642	(1,331,261)	(231,249)	(1,581,654)
Current income tax expense	20,048	5,623	35,395	11,652
Deferred income tax expense (recovery)	196,586	(291,358)	191,488	(267,143)
Net loss	(146,992)	(1,045,526)	(458,132)	(1,326,163)
Loss per share – Basic and Diluted (Note 9(d))	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding – Basic and Diluted	78,374,565	68,128,244	73,251,404	68,128,244

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Comprehensive Loss For the Three and Six Months Ended June 30

(Canadian dollars)
Unaudited

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net loss	\$ (146,992)	\$ (1,045,526)	\$ (458,132)	\$ (1,326,163)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Unrealized gain (loss) on investments held as available-for-sale	2,500	(5,000)	2,500	(7,500)
Cumulative translation adjustment	(2,340,977)	(1,958,875)	(4,909,341)	718,926
Comprehensive loss	\$ (2,485,469)	\$ (3,009,401)	\$ (5,364,973)	\$ (614,737)

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 (\$)	Warrants (\$)	Contributed Surplus (\$)	Accumulated Other Comprehensive Income (\$)	Retained Deficit (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2015	68,128,244	53,495,947		4,776,173	(168,798)	(8,358,669)	49,744,653
Loss for the period	-	-		-	-	(1,326,163)	(1,326,163)
Cumulative translation adjustments	-	-		-	718,926	-	718,926
Unrealized loss on investments	-	-		-	(7,500)	-	(7,500)
Balance at June 30, 2015	68,128,244	53,495,947	-	4,776,173	542,628	(9,684,832)	49,129,916
Balance at January 1, 2016	68,128,244	53,495,947	-	4,776,173	759,924	(9,786,507)	49,245,537
Loss for the period	-	-	-	-	-	(458,132)	(458,132)
Shares issued in relation to private placements	17,438,596	7,620,000	-	-	-	-	7,620,000
Share issue costs	-	(351,588)	-	-	-	-	(351,588)
Warrants issued in relation to private placements	-	(973,378)	973,378	-	-	-	-
Cumulative translation adjustments	-	-	-	-	(4,909,341)	-	(4,909,341)
Unrealized gain on investments	-	-	-	-	2,500	-	2,500
Balance at June 30, 2016	85,566,840	59,790,981	973,378	4,776,173	(4,146,917)	(10,244,639)	51,148,976

- 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

Cash resources provided by (used in)	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
Operating activities				
Net loss	\$ (146,992)	\$ (1,045,526)	\$ (458,132)	\$ (1,326,163)
Items not affecting cash				
Amortization and depletion	568,612	539,120	1,061,839	1,073,153
Deferred income taxes	196,586	(291,358)	191,488	(267,143)
(Gain) loss on disposal of assets	-	-	(3,629)	679
Accretion expense	9,676	7,196	20,019	14,641
(Recovery) write-down of inventory	(53,891)	91,823	-	159,971
Changes in non-cash working capital				
Trade and other receivables	(402,334)	1,591,240	(42,283)	1,424,950
Income taxes receivable	119,013	124,103	577,069	2,070
Inventories	14,819	(190,013)	(73,450)	(88,527)
Trade payables	469,650	(268,687)	633,027	(86,235)
Income taxes payable	16,506	26,010	(193,835)	30,098
Due to related party	(1,128,588)	35,302	(1,352,640)	112,412
	(336,943)	619,210	359,473	1,049,906
Investing activities				
Acquisition of property, plant and equipment	(123,441)	(4,360)	(171,151)	(13,058)
Proceeds on sale of assets	-	-	6,504	325
Exploration and evaluation asset expenditures	(434,200)	(444,936)	(1,057,784)	(1,113,758)
	(557,641)	(449,296)	(1,222,431)	(1,126,491)
Financing activities				
Proceeds from private placements, net	7,268,412	-	7,268,412	-
Effect of exchange rate changes on cash	356,065	105,364	584,404	243,310
Net change in cash	6,729,893	275,278	6,989,858	166,725
Cash - Beginning of period	977,334	466,791	717,369	575,344
Cash - End of period	\$ 7,707,227	\$ 742,069	\$ 7,707,227	\$ 742,069

-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, 2016

(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. 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. 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 exploration and evaluation assets comprise a significant portion of the Company's assets. The recovery of the Company's investment in these exploration and evaluation assets and the attainment of profitable operations are dependent upon future commodity prices, the ongoing 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. The accounting policies applied in the preparation of these unaudited financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015. 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, 2015.

Except when otherwise stated, all amounts are presented in 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 22, 2016.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

3. Trade and other receivables

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

	June 30, 2016	December 31, 2015
Value added and other taxes receivable – current portion	\$ 2,324,884	\$ 2,170,045
Trade and other receivables	2,097,630	1,642,606
Prepays	182,641	159,983
Total trade and other receivables	\$ 4,605,155	\$ 3,972,634

4. Inventories

The following table details the composition of inventories at:

	June 30, 2016	December 31, 2015
Materials and supplies	\$ 619,058	\$ 782,345
Stockpile inventory	-	8,932
Concentrate inventory	477,956	312,693
Total inventories	\$ 1,097,014	\$ 1,103,970

The amount of inventories recognized as an expense during the period ended June 30, 2016 was \$6,103,275 (June 30, 2015 – \$6,143,407).

The amount of write-down of inventories to net realizable value during the period ended June 30, 2016 was \$nil (June 30, 2015 - \$159,971) relating to concentrate inventory.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

5. Property, plant and equipment

	Plant and mine equipment (\$)	Vehicles (\$)	Office furniture and equipment (\$)	Surface rights (\$)	Mining Assets (\$)	Total (\$)
Cost						
Balance at January 1, 2015	10,625,863	480,030	226,954	1,314,416	26,773,027	39,420,290
Additions	119,656	-	4,183	-	-	123,839
Transfers	-	-	-	-	1,130,201	1,130,201
Disposals	(106,862)	-	(1,710)	-	-	(108,752)
Change in reclamation estimate	-	-	-	-	186,057	186,057
Foreign exchange movement	245,676	11,169	2,888	30,583	557,427	847,743
Balance at December 31, 2015	10,884,333	491,199	232,315	1,344,999	28,646,712	41,599,558
Additions	161,616	-	4,082	-	-	165,698
Transfers	-	-	-	-	459,005	459,005
Disposals	-	(7,968)	-	-	-	(7,968)
Foreign exchange movement	(1,362,897)	(61,888)	(16,002)	(169,462)	(3,252,249)	(4,862,498)
Balance at June 30, 2016	9,683,052	421,343	220,395	1,175,537	25,853,468	37,353,795
Accumulated amortization						
Balance at January 1, 2015	3,675,735	326,276	145,761	-	8,484,402	12,632,174
Amortization for the period	1,058,740	49,568	21,688	-	1,055,042	2,185,038
Disposals	(39,439)	-	(706)	-	-	(40,145)
Foreign exchange movement	83,091	7,497	1,619	-	158,169	250,376
Balance at December 31, 2015	4,778,127	383,341	168,362	-	9,697,613	15,027,443
Amortization for the period	456,747	19,309	7,972	-	643,836	1,127,864
Disposals	-	(5,312)	-	-	-	(5,312)
Foreign exchange movement	(620,192)	(48,783)	(11,198)	-	(1,037,723)	(1,717,896)
Balance at June 30, 2016	4,614,682	348,555	165,136	-	9,303,726	14,432,099
Net book value						
December 31, 2015	6,106,206	107,858	63,953	1,344,999	18,949,099	26,572,115
June 30, 2016	5,068,370	72,788	55,259	1,175,537	16,549,742	22,921,696

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

6. Exploration and evaluation assets

	Mexico (\$)	Dominican Republic (\$)	Total (\$)
Balance at January 1, 2015	21,523,503	215,203	21,738,706
Additions	2,174,116	-	2,174,116
Transfers to mining assets	(1,130,201)	-	(1,130,201)
Write down	(340,686)	(215,203)	(555,889)
Foreign exchange	396,158	-	396,158
Balance at December 31, 2015	22,622,890	-	22,622,890
Additions	1,018,386	-	1,018,386
Transfers to mining assets	(459,005)	-	(459,005)
Foreign exchange	(2,308,439)	-	(2,308,439)
Balance at June 30, 2016	20,873,832	-	20,873,832

7. Related party transactions

a) 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 for the six months ended June 30 is as follows:

	2016	2015
Salaries and fees	\$ 182,075	189,525

b) Transactions with other related parties

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions which is the amount of consideration paid or received as agreed by the parties. Related party transactions not disclosed elsewhere are as follows:

Prior to May 27, 2016, Energold Drilling Corp. ("Energold") owned 7,980,001 common shares, representing 10.39% of the issued and outstanding common shares in the capital of the Company and was considered a related party due to mutual management at the executive level and its shareholding and directorships in IMPACT. Subsequent to May 27, 2016, IMPACT completed a \$5.0 million private placement which diluted Energold's ownership position below 10%. As a result, Energold is no longer considered a related party.

Prior to May 27, 2016, fees in the amount of \$ 125,458 (2015 - \$132,510) were incurred to Energold for administrative services. On April 19, 2016, Energold acquired 1,000,000 of the Company's shares at a price of \$0.31 per share in a private placement.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

8. Expenses by nature

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Production costs	\$ 1,505,355	\$ 1,424,697	\$ 3,086,352	\$ 3,188,571
Administration	144,495	216,276	303,517	410,528
Transportation	124,977	109,752	234,740	244,889
Wages and salaries	1,325,547	1,211,578	2,478,666	2,299,419
Total operating expenses	\$ 3,100,374	\$ 2,962,303	\$ 6,103,275	\$ 6,143,407

9. Equity

a) Share capital

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

On April 12, 2016, the Company completed a \$2,000,000 private placement. A total of 6,666,666 common shares were issued to an accredited investor at a price of \$0.30 per share for aggregate gross proceeds of \$2,000,000. The securities issued under the offering are subject to a four month hold period.

On April 19, 2016, the Company completed a \$620,000 private placement. A total of 2,000,000 common shares were issued to accredited investors at a price of \$0.31 per share for aggregate gross proceeds of \$620,000. The securities issued under the offering are subject to a four month hold period.

On June 17, 2016, the Company closed a brokered private placement which was completed in four tranches. The private placement raised aggregate gross proceeds of \$5.0 million by issue of 8,771,930 units at a price of \$0.57 per unit. Each unit consists of one common share and one-half of one warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.90 per common share for a period of 36 months from the date of issuance. The securities issued under the offering are subject to a four month hold period from the date of issuance.

- On May 27, 2016, a total of 4,440,000 units were issued for aggregate gross proceeds of \$2,530,800.
- On June 3, 2016, a total of 1,395,200 units were issued for aggregate gross proceeds of \$795,264.
- On June 10, 2016, a total of 2,500,300 units were issued for aggregate gross proceeds of \$1,425,171.
- On June 17, 2016, a total of 436,430 units were issued for aggregate gross proceeds of \$248,765.

In consideration of their services, the Company paid the syndicate of agents a commission of 5% on the value of the units issued through the agents on the private placement.

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.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

9. Equity – continued

b) Stock options - continued

A summary of the Company's stock options as at June 30, 2016 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2015	5,951,250	1.24
Forfeited	(297,500)	1.32
Expired	(788,750)	1.10
At December 31, 2015 and June 30, 2016	4,865,000	1.26

The following table summarizes information about the stock options outstanding at June 30, 2016:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$1.85	1,660,000	0.24	1,660,000	September 26, 2016
\$1.20	1,995,000	1.56	1,995,000	January 22, 2018
\$0.55	1,210,000	2.52	1,210,000	January 6, 2019
	4,865,000	1.35	4,865,000	

c) Warrants

A summary of the Company's warrants as at June 30, 2016 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2015 and December 31, 2015	-	-
Issued	4,385,965	0.90
At June 30, 2016	4,385,965	0.90

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

Date Granted	May 27, 2016	June 3, 2016	June 10, 2016	June 17, 2016
Number of warrants granted	2,220,000	697,600	1,250,150	218,215
Risk-free interest rate	0.64%	0.51%	0.50%	0.52%
Expected dividend yield	Nil	Nil	Nil	Nil
Expected share price volatility	116.90%	117.29%	115.48%	113.19%
Expected warrant life in years	1.5	1.5	1.5	1.5

Pricing models require the input of highly subjective assumptions including the expected share 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 warrants.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016

(Canadian dollars)

Unaudited

9. Equity – continued

d) Loss 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	
	2016	2015	2016	2015
Net loss attributable to shareholders	\$ (146,992)	\$ (1,045,526)	\$ (458,132)	\$ (1,326,163)
Weighted average number of shares outstanding - Basic and diluted	78,374,565	68,128,244	73,251,404	68,128,244
Loss per share – Basic and diluted	0.00	(0.02)	(0.01)	(0.02)

10. 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	
	2016	2015	2016	2015
Revenues by geographic area				
Mexico	\$ 4,393,488	\$ 2,735,120	\$ 8,155,894	\$ 6,646,742
Net earnings (loss) by geographic area				
Mexico	\$ 95,093	\$ (753,727)	\$ 208,154	\$ (752,266)
Canada	(242,085)	(291,799)	(666,286)	(573,897)
	\$ (146,992)	\$ (1,045,526)	\$ (458,132)	\$ (1,326,163)
Assets by geographical area				
Mexico	\$ 52,232,543		\$ 57,794,840	
Canada	6,217,791		242,730	
	\$ 58,450,334		\$ 58,037,570	
Property, plant and equipment by geographical area				
Mexico	\$ 22,896,705		\$ 26,548,031	
Canada	24,991		24,084	
	\$ 22,921,696		\$ 26,572,115	

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

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11. Subsequent Events

On July 28, 2016, the Company granted a total of 1,860,000 stock options under its stock option plan to directors, officers and employees exercisable on or before July 27, 2021 at a price of \$0.98 per share.
