

# **IMPACT Silver Corp.**

## **Interim Consolidated Financial Statements**

**September 30, 2010**

**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 interim consolidated financial statements which follow this notice have not been reviewed by an auditor.

# IMPACT Silver Corp.

## Consolidated Balance Sheets

Canadian Dollars

Unaudited

<b>ASSETS</b>	<b>September 30 2010</b>	<b>December 31 2009</b>
<b>Current</b>		
Cash and cash equivalents	\$ 2,938,956	\$ 5,294,881
Accounts receivable and prepaid expenses	3,023,046	1,289,672
Inventories (Note 4)	1,122,230	919,808
Investments	57,500	82,500
Future income taxes	44,648	44,648
	<b>7,186,380</b>	<b>7,631,509</b>
<b>Property, plant and equipment</b> (Note 5)	<b>5,428,490</b>	<b>3,252,154</b>
<b>Resource properties</b> (Schedule and Note 6)	<b>22,349,928</b>	<b>20,805,894</b>
	<b>\$ 34,964,798</b>	<b>\$ 31,689,557</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 904,238	\$ 843,942
Income taxes payable	-	236,063
Due to related party (Note 7)	701,592	274,560
	<b>1,605,830</b>	<b>1,354,565</b>
<b>Future income taxes</b>	<b>5,171,560</b>	<b>4,196,399</b>
	<b>6,777,390</b>	<b>5,550,964</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 9a)	<b>28,166,411</b>	<b>27,648,195</b>
<b>Contributed surplus</b> (Note 9b)	<b>1,411,015</b>	<b>1,187,198</b>
<b>Accumulated other comprehensive income</b> (Note 9c)	<b>7,500</b>	<b>28,437</b>
<b>Deficit</b>	<b>(1,397,518)</b>	<b>(2,725,237)</b>
	<b>28,187,408</b>	<b>26,138,593</b>
	<b>\$ 34,964,798</b>	<b>\$ 31,689,557</b>

ON BEHALF OF THE BOARD:

"F.W. Davidson" \_\_\_\_\_, Director

"G. Gorzynski" \_\_\_\_\_, Director

# IMPACT Silver Corp.

## Consolidated Statements of Earnings and Deficit For the Three and Nine Months Ended September 30

Canadian Dollars  
Unaudited

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Revenues</b>	\$ 3,208,502	\$ 4,982,569	\$ 9,857,851	\$ 9,842,963
<b>Expenses</b>				
Operating expenses	1,726,282	2,534,687	5,252,377	5,016,874
Amortization and depletion	201,601	565,502	713,307	1,080,809
	<b>1,927,883</b>	3,100,189	<b>5,965,684</b>	6,097,683
<b>Mine operating earnings</b>	<b>1,280,619</b>	1,882,380	<b>3,892,167</b>	3,745,280
<b>General and administrative expenses</b>				
Accounting, audit and legal	44,370	43,935	156,314	127,903
Amortization	6,029	7,381	17,874	22,112
Business development investigations	28,469	-	78,469	-
Investor relations, promotion and travel	19,996	21,407	78,911	73,225
Management fees and consulting	43,921	20,130	108,489	43,762
Office, rent, insurance and sundry	58,208	57,034	234,530	166,777
Office salaries and services	169,312	98,281	371,126	301,165
Stock-based compensation expense (Note 9d)	108,273	84,854	391,513	370,201
	<b>478,578</b>	333,022	<b>1,437,226</b>	1,105,145
<b>Earnings before the following</b>	<b>802,041</b>	1,549,358	<b>2,454,941</b>	2,640,135
<b>Other income (expenses)</b>				
Foreign exchange gain (loss)	(82,030)	(203,476)	(68,405)	(312,851)
Other income (expense)	1,875	4,473	2,572	(328,341)
Gain on resource properties	-	-	-	1,599
	<b>(80,155)</b>	(199,003)	<b>(65,833)</b>	(639,593)
<b>Earnings before taxes</b>	<b>721,886</b>	1,350,355	<b>2,389,108</b>	2,000,542
Current income tax expense	(68,941)	108,463	(322,923)	(167,531)
Future income tax expense	(283,011)	(673,356)	(738,466)	(788,921)
<b>Net earnings</b>	<b>369,934</b>	785,462	<b>1,327,719</b>	1,044,090
Deficit - Beginning of period	(1,767,452)	(3,626,270)	(2,725,237)	(3,884,898)
<b>Deficit - End of period</b>	<b>\$ (1,397,518)</b>	\$ (2,840,808)	<b>\$ (1,397,518)</b>	\$ (2,840,808)
<b>Earnings per share – Basic and diluted</b>	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.02
Weighted average number of shares outstanding – Basic	49,043,455	48,253,090	48,800,785	48,188,104
Weighted average number of shares outstanding - Diluted	49,951,836	49,122,078	49,800,837	48,612,086

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

# IMPACT Silver Corp.

## Consolidated 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	
	2010	2009	2010	2009
<b>Net earnings</b>	\$ 369,934	\$ 785,462	\$ 1,327,719	\$ 1,044,090
<b>Other comprehensive income (loss)</b>				
Unrealized gain (loss) on available-for-sale short-term investments	30,000	(5,000)	(20,937)	10,000
<b>Comprehensive income</b>	\$ 399,934	\$ 780,462	\$ 1,306,782	\$ 1,054,090

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

# IMPACT Silver Corp.

## Consolidated Statements of Cash Flows

For the Three and Nine Months Ended September 30

Canadian Dollars

Unaudited

Cash resources provided by (used in)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Operating activities</b>				
Net earnings	\$ 369,935	\$ 785,462	\$ 1,327,720	\$ 1,044,090
Items not affecting cash				
Amortization and depletion	207,630	572,883	731,181	1,102,921
Stock-based compensation expense	108,273	84,854	391,513	370,201
Future income taxes	283,011	673,356	738,466	788,921
Gain on resource properties	-	-	-	(1,599)
Unrealized loss on foreign exchange	50,940	275,856	20,081	266,324
Changes in non-cash working capital				
Accounts receivable and prepaid expenses	(328,480)	973,688	(1,609,356)	49,455
Inventories	(227,405)	790,250	(211,203)	27,179
Accounts payable and accrued liabilities	(103,959)	(103,810)	48,488	154,263
Income taxes payable	(71,231)	(108,463)	(372,440)	167,531
Due to related party	269,530	(484,216)	432,416	(327,661)
Deferred revenue	-	(634,263)	-	-
	<b>558,244</b>	<b>2,825,597</b>	<b>1,496,866</b>	<b>3,641,625</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(575,245)	(160,233)	(901,759)	(177,394)
Resource property costs	(1,022,497)	(1,059,306)	(3,194,252)	(3,289,083)
	<b>(1,597,742)</b>	<b>(1,219,539)</b>	<b>(4,096,011)</b>	<b>(3,466,477)</b>
<b>Financing activities</b>				
Share capital issued	11,000	2,750	244,520	29,000
	<b>11,000</b>	<b>2,750</b>	<b>244,520</b>	<b>29,000</b>
Effect of exchange rate changes on cash and cash equivalents	(5,640)	(164,369)	(1,300)	(143,471)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,034,138)</b>	<b>1,444,439</b>	<b>(2,355,925)</b>	<b>60,677</b>
Cash and cash equivalents – Beginning of period	3,973,094	4,049,718	5,294,881	5,433,480
<b>Cash and cash equivalents – End of period</b>	<b>\$ 2,938,956</b>	<b>\$ 5,494,157</b>	<b>\$ 2,938,956</b>	<b>\$ 5,494,157</b>

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

# IMPACT Silver Corp.

Schedule

## Consolidated Schedules of Resource Properties For the Three and Nine Months Ended September 30

Canadian Dollars  
Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
<b>Zacualpan Mine and Concessions, Mexico (Note 6)</b>				
Acquisition cost	\$ -	\$ 7,461	\$ -	\$ 12,720
Deferred exploration costs				
Assaying	62,292	61,804	264,412	160,493
Development	-	9,451	3,465	9,451
Drilling	513,079	499,733	1,538,064	1,749,672
Field administration, travel and other	152,787	127,318	431,298	346,193
Future income taxes	72,113	87,678	238,504	256,680
Wages and consulting	256,434	254,534	815,861	776,633
	<b>1,056,705</b>	<b>1,040,518</b>	<b>3,291,604</b>	<b>3,299,122</b>
Amortization and depletion	(159,474)	(324,968)	(491,191)	(934,169)
	<b>897,231</b>	<b>723,011</b>	<b>2,800,413</b>	<b>2,377,673</b>
<b>Zacatecas Properties, Mexico (Note 6)</b>				
Acquisition cost	9,283	160,062	9,283	260,968
Deferred exploration costs				
Assaying	-	-	-	4,994
Field administration, travel and other	6,895	9,556	36,954	28,084
Future income taxes	-	58	2,255	5,876
Wages and consulting	17,120	306	42,628	11,481
	<b>24,015</b>	<b>9,920</b>	<b>81,837</b>	<b>50,435</b>
Recoveries	-	-	-	(2,842)
Amount allocated to property, plant and equipment	-	-	(1,356,496)	-
	<b>33,298</b>	<b>169,982</b>	<b>(1,265,376)</b>	<b>308,561</b>
<b>Dominican Republic Properties (Note 6)</b>				
Deferred exploration costs				
Field administration, travel and other	4,320	3,863	7,328	5,456
Wages and consulting	286	220	1,669	2,378
	<b>4,606</b>	<b>4,083</b>	<b>8,997</b>	<b>7,834</b>
<b>Costs for the period</b>	<b>935,135</b>	<b>897,076</b>	<b>1,544,034</b>	<b>2,694,068</b>
Balance - Beginning of period	21,414,793	19,210,911	20,805,894	17,413,919
<b>Balance - End of period</b>	<b>\$ 22,349,928</b>	<b>\$ 20,107,987</b>	<b>\$ 22,349,928</b>	<b>\$ 20,107,987</b>

# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

Canadian Dollars

Unaudited

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### 1. Description of business and 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, extraction and mineral processing. 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 for silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic.

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### 2. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles "GAAP" and follow the same accounting policies and methods of their application as the most recent audited annual consolidated financial statements, except as described in Note 3. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements as at December 31, 2009, as they do not contain all disclosures required by GAAP for annual financial statements. All dollar amounts are disclosed in Canadian currency unless otherwise noted. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

#### a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, including:

- Jade Oil Corporation ("Jade"), located in Canada;
- Minera Aguila Plateada S.A. de C.V. ("MAP"), Minera Porvenir de Zacualpan S.A. de C.V. ("MPZ") and its wholly owned subsidiary Minera Laureles, S.A. de C.V. each located in Mexico; and
- Proyectos Mineros, S.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP"), both located in the Dominican Republic.

All intercompany transactions and balances have been eliminated.

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### 3. Changes in accounting policies

#### Adoption of new accounting policies

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 – *Business Combinations* to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of the business combination.

The CICA concurrently issued Section 1601 – *Consolidated Financial Statements* and Section 1602 – *Non-Controlling Interests*, which replace Section 1600 – *Consolidated Financial Statements*. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 – *Business Combinations*. We have chosen to early adopt Sections 1582, 1601 and 1602 effective January 1, 2010. There is no effect on previous business combinations.

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# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

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#### 4. Inventories

The following table details the composition of inventories at:

	<b>September 30 2010</b>	December 31 2009
Materials and supplies	<b>\$ 518,759</b>	\$ 410,720
Finished goods – lead and zinc concentrates	<b>603,471</b>	509,088
Total inventories	<b>\$ 1,122,230</b>	\$ 919,808

The amount of inventories recognized as an expense during the nine months ended September 30, 2010 was \$5,965,684 (September 30, 2009 - \$6,097,683).

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#### 5. Property, plant and equipment

	<b>September 30 2010</b>			December 31 2009		
	<b>Cost \$</b>	<b>Accumulated amortization \$</b>	<b>Net Book Value \$</b>	Cost \$	Accumulated amortization \$	Net Book Value \$
Land	<b>1,266,622</b>	-	<b>1,266,622</b>	734,128	-	734,128
Mine equipment	<b>1,795,238</b>	<b>424,522</b>	<b>1,370,716</b>	1,579,727	316,446	1,263,281
Mobile equipment	<b>532,913</b>	<b>478,244</b>	<b>54,669</b>	532,913	467,226	65,687
Plant equipment	<b>2,800,975</b>	<b>276,505</b>	<b>2,524,470</b>	1,145,289	211,550	933,739
Vehicles	<b>390,206</b>	<b>207,497</b>	<b>182,709</b>	390,206	166,344	223,862
Office equipment	<b>106,627</b>	<b>77,323</b>	<b>29,304</b>	102,775	71,318	31,457
	<b>6,892,581</b>	<b>1,464,091</b>	<b>5,428,490</b>	4,485,038	1,232,884	3,252,154

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# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

Canadian Dollars

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### 6. Resource properties

a) Details are as follows:

	September 30 2010	December 31 2009
<b>Zacualpan Mines and Concessions - Mexico</b>		
Acquisition costs	\$ 5,973,794	\$ 5,973,794
Exploration	16,538,244	13,485,143
Future income taxes	1,838,796	1,600,293
Amortization and depletion	(3,833,963)	(3,342,772)
Recoveries	(67,990)	(67,990)
	<b>20,448,881</b>	17,648,468
<b>Zacatecas Properties - Mexico</b>		
Acquisition costs	1,721,197	1,711,913
Exploration	881,589	802,008
Future income taxes	51,864	49,609
Amount allocated to property, plant and equipment	(1,356,496)	-
Recoveries	(523,949)	(523,949)
	<b>774,205</b>	2,039,581
<b>Dominican Republic Properties</b>		
Acquisition	582,000	582,000
Exploration and development	544,842	535,845
	<b>1,126,842</b>	1,117,845
<b>Resource properties</b>	<b>\$ 22,349,928</b>	\$ 20,805,894

b) On March 17, 2010 the Company exercised its option to purchase the 200 tonne-per-day Veta Grande processing plant in Zacatecas, Mexico. Cash paid and IMPACT common shares issued as option payments in 2006 through 2009 were originally assigned to resource properties. With the completion of this purchase IMPACT reallocated the costs originally assigned to resource properties to property, plant and equipment as follows:

Land	\$ 532,494
Plant equipment	824,002
<b>Resource properties</b>	<b>\$ (1,356,496)</b>

### 7. Due to related party

At September 30, 2010, an amount of \$701,592 (December 31, 2009 - \$274,560) was due to Energold Drilling Corp., a significant shareholder of the Company. 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 Consolidated Financial Statements

September 30, 2010

Canadian Dollars

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### 8. Related party transactions

Related party transactions are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions are as follows:

- a) During the nine months ended September 30, 2010 fees in the amount of \$1,538,064 (September 30, 2009 – \$1,745,138) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan Mines and Concessions.

### 9. Share capital

- a) Details are as follows:

	Number	Amount
<b>Authorized:</b>		
Unlimited common shares without par value		
<b>Issued and outstanding:</b>		
Balance – December 31, 2008	48,000,210	\$ 27,436,653
Shares issued for property, plant and equipment and resource properties	100,000	75,000
Stock options exercised	289,375	82,656
Value assigned to options exercised	-	53,886
Balance – December 31, 2009	48,389,585	\$ 27,648,195
Shares issued for property, plant and equipment and resource properties	100,000	106,000
Stock options exercised	563,000	244,520
Value assigned to options exercised	-	167,696
Balance – September 30, 2010	<b>49,052,585</b>	<b>\$ 28,166,411</b>

- b) **Contributed surplus**

Balance – December 31, 2008	\$	794,992
Fair value of stock options vested		446,092
Value assigned to options exercised		(53,886)
Balance – December 31, 2009	\$	1,187,198
Fair value of stock options vested		391,513
Value assigned to options exercised		(167,696)
Balance – September 30, 2010	<b>\$</b>	<b>1,411,015</b>

- c) **Accumulated other comprehensive income (loss)**

Balance - December 31, 2008	\$	(30,000)
Unrealized gain on available-for-sale short-term investments		58,437
Balance – December 31, 2009	\$	28,437
Unrealized loss on available-for-sale short-term investments		(20,937)
Balance – September 30, 2010	<b>\$</b>	<b>7,500</b>

# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

Canadian Dollars

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### d) 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 9,725,117 options have been authorized for issuance, of which 4,091,125 have been allocated at September 30, 2010. 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 at September 30, 2010 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At December 31, 2008	1,891,000	1.01
Granted	2,235,000	0.55
Exercised	(289,375)	0.29
Cancelled	(83,750)	0.85
At December 31, 2009	3,752,875	0.80
Granted	1,012,500	1.10
Exercised	(563,000)	0.43
Cancelled	(76,250)	1.00
Expired	(35,000)	1.44
At September 30, 2010	<b>4,091,125</b>	<b>0.91</b>

The following table summarizes information about the stock options outstanding at September 30, 2010:

Exercise Price Per Share (\$)	Expiry Date	Options Outstanding	Options Exercisable
1.40	September 5, 2012	985,000	985,000
1.67	October 22, 2012	75,000	75,000
0.55	January 6, 2014	2,018,625	2,018,625
1.10	June 6, 2015	1,012,500	379,687
		<b>4,091,125</b>	<b>3,458,312</b>

On June 6, 2010, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,012,500 shares of the Company, with an estimated value of \$418,000 on the grant date. The options are exercisable on or before June 6, 2015 at a price of \$1.10 per share.

The Black Scholes Option Pricing Model is 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 graded vesting schedule using the assumptions as follows:

Date Granted	June 6, 2010
Number of options granted	1,012,500
Risk-free interest rate	1.75%
Expected dividend yield	NIL
Expected stock price volatility	57%
Expected option life in years	3

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.

# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

Canadian Dollars

Unaudited

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### 10. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

The capital of the Company consists of the items included in shareholders' equity and cash and cash equivalents net of debt obligations. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders' equity which includes accumulated other comprehensive income (loss), share capital, contributed surplus and retained earnings or deficit.

The Company's policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle and the business opportunities outlook foreseen by the Company. As a general guideline, the Company's policy will be to keep its debt to debt-plus-equity ratio to a minimal level, except in unusual circumstances such as a major acquisition. Currently the Company has no debt and is in full compliance with its capital risk management policies. The Company's Board of Director's approves management's annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company's management.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient cash and cash equivalents to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

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### 11. Financial instruments

#### Financial assets and liabilities

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and due to related parties. For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties, carrying value is considered to be fair value due to the short-term nature of these instruments. The fair value of investments is determined by quoted prices in active markets for identical assets at the balance sheet date. At September 30, 2010 all equity investments held were classified as Level 1 and cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were classified as Level 2 on the fair value hierarchy of Handbook Section 3862 – *Financial Instruments - Disclosures*.

#### Financial instrument risk exposure

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, currency, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of cash flow of its operations would warrant such hedging activities.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, accounts receivable and investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (\$2.9 million), accounts receivable (\$3.0 million) and investments (\$0.06 million).

# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

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### 11. Financial instruments - *continued*

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At September 30, 2010 the Company did not have any significant future debt obligations.

#### Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and any short term investments mature and the proceeds are invested at lower interest rates.

#### Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At September 30, 2010 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at September 30, 2010, a 5% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$55,000 (September 30, 2009 - \$80,000) decrease or increase in the Company's net earnings for the nine months ended September 30, 2010.

#### Commodity price risk

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include silver, lead, zinc, and gold. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. The Company has elected not to actively manage our exposure to metal prices at this time.

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### 12. Contingencies

The Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities SAT (Servicio de Administracion Tributaria) reassessing MPZ's tax return filings for the 2007 calendar year and requesting payment of an amount of \$7.4 million pesos (approx \$0.6 million Canadian funds) for taxes, profit sharing, interest and penalties. 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.

MPZ believes, based on discussions with tax advisors, that this matter may be satisfactorily contested and constructively resolved through the SAT tax assessment appeal formal litigation process.

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# IMPACT Silver Corp.

## Notes to Consolidated Financial Statements

September 30, 2010

Canadian Dollars

Unaudited

### 13. Segmented information

The Company has three reportable segments based on geographic area: Mexico, Caribbean, and Canada (Corporate).

Details are as follows:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenue by geographic area				
Mexico	\$ 3,208,502	\$ 4,982,569	\$ 9,857,851	\$ 9,842,963
Net earnings (loss) by geographic area				
Mexico	\$ 582,444	\$ 1,194,836	\$ 2,002,664	\$ 1,900,593
Canada	(212,510)	(409,374)	(674,945)	(856,503)
	\$ 369,934	\$ 785,462	\$ 1,327,719	\$ 1,044,090
Assets by geographic area			September 30 2010	December 31 2009
Mexico			\$ 30,789,036	\$ 25,401,617
Canada			3,048,920	5,170,095
Caribbean			1,126,842	1,117,845
			\$ 34,964,798	\$ 31,689,557
Property, plant and equipment by geographic area				
Mexico			\$ 5,414,645	\$ 3,237,742
Canada			13,845	14,412
			\$ 5,428,490	\$ 3,252,154

### 14. Subsequent events

On November 15<sup>th</sup> the Company engaged Fraser Mackenzie Limited (Agent) as financial advisers in connection with a private placement offering of units to raise up to \$15.0 million on a reasonable efforts basis.

Each unit is priced at \$1.25 and will consist of one common share of the Company and one-half of one common share purchase warrant, each whole warrant exercisable at \$1.75 to purchase one common share for a term of 24 months from the closing date. In the event that the common shares trade on the TSX Venture Exchange at a volume weighted average price of \$2.50 or more for a period of at least 10 consecutive trading days following the closing of the offering, the Company shall be entitled to accelerate the exercise upon 30 days notice to the holders of warrants.

The Agent will be paid a cash commission of 6 per cent of the gross proceeds from the offering raised by the Agent. As additional compensation, the Agent will be issued compensation options entitling the Agent to subscribe for units in the amount of 6 per cent of the number of units sold through the Agent at an exercise price of \$1.25 per Agent's unit. The Agent's units shall have the same terms and composition as the units.

Certain directors and officers of the Company may acquire units under the offering. Any such participation would be considered to be a related party transaction as defined under Multilateral Instrument 61-101. The transaction will be exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither the fair market value of any units issued to or the consideration paid by such persons will exceed 25 per cent of the Company's market capitalization.

The Company intends to use the net proceeds of the offering to accelerate the development and expansion of the Company's mineral properties in Mexico including the 423-square-kilometer Royal Mines of Zacualpan Silver-Gold District and the development of the initial construction phase of the pilot plant at the Capire Project in the 200-square-kilometer Mamatla Mineral District. The Company also intends to accelerate its extensive exploration and drilling programs.