

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018	December 31, 2017
Current		
Cash	\$ 2,931,968	\$ 4,713,580
Trade and other receivables (Note 4)	1,321,712	1,787,913
Inventories (Note 5)	1,144,637	1,008,370
Investments	128,596	474,299
	<u>5,526,913</u>	<u>7,984,162</u>
Value added and other taxes receivable	512,564	537,871
Property, plant and equipment (Note 6)	21,798,998	20,951,101
Exploration and evaluation assets (Note 7)	22,277,270	20,722,197
	<u>\$ 50,115,745</u>	<u>\$ 50,195,331</u>
LIABILITIES		
Current		
Trade payables and accrued liabilities	\$ 2,474,089	\$ 2,345,266
Reclamation provision	400,996	369,306
Deferred income tax liabilities	4,290,912	4,497,125
	<u>7,165,997</u>	<u>7,211,697</u>
SHAREHOLDERS' EQUITY		
Share capital	59,651,422	59,651,422
Warrants (Note 10(b))	973,378	973,378
Contributed surplus	6,240,620	6,259,079
Accumulated other comprehensive loss	(6,027,849)	(7,538,763)
Accumulated deficit	(17,887,823)	(16,361,482)
	<u>42,949,748</u>	<u>42,983,634</u>
	<u>\$ 50,115,745</u>	<u>\$ 50,195,331</u>

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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	\$ 3,108,724	\$ 3,592,290	\$ 6,984,840	\$ 8,191,274
Cost of sales				
Operating expenses (Note 9)	3,786,516	3,856,582	7,347,029	7,393,590
Amortization and depletion	405,430	598,517	796,792	1,121,573
	4,191,946	4,455,099	8,143,821	8,515,163
Mine operating loss	(1,083,222)	(862,809)	(1,158,981)	(323,889)
General and administrative expenses				
Accounting, audit and legal	43,420	53,250	81,841	92,549
Amortization	4,400	5,333	8,782	10,078
Investor relations, promotion and travel	24,197	19,296	45,540	40,129
Management fees and consulting	46,796	92,143	102,455	123,084
Office, rent, insurance and sundry	77,098	85,756	141,951	168,618
Office salaries and services	178,969	198,382	331,004	375,661
Share-based payments (Note 10(a))	-	124,668	(18,459)	295,084
	374,880	578,828	693,114	1,105,203
Operating loss	(1,458,102)	(1,441,637)	(1,852,095)	(1,429,092)
Other income (expenses)				
Finance cost	(7,443)	(9,194)	(14,987)	(17,481)
Finance income	10,447	13,660	21,280	27,118
Foreign exchange gain (loss)	111,147	(193,259)	(46,487)	(478,894)
Other income	(15,857)	5,130	(13,627)	59,310
Gain on disposal of assets	-	328,424	-	328,424
	98,294	144,761	(53,821)	(81,523)
Loss before taxes	(1,359,808)	(1,296,876)	(1,905,916)	(1,510,615)
Current income tax expense	13,474	23,181	20,170	25,466
Deferred income tax recovery	(357,090)	(292,760)	(399,745)	(156,559)
Net loss	(1,016,192)	(1,027,297)	(1,526,341)	(1,379,522)
Loss per share – Basic and Diluted (Note 10(c))	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding – Basic and Diluted	85,566,840	85,566,840	85,566,840	85,566,840

-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	
	2018	2017	2018	2017
Net loss	\$ (1,016,192)	\$ (1,027,297)	\$ (1,526,341)	\$ (1,379,522)
Other comprehensive (loss) income				
Items that may be subsequently reclassified to profit or loss				
Cumulative translation adjustment	(2,099,366)	521,762	1,454,661	3,458,383
Items that will not be subsequently reclassified to profit or loss				
Gain on investments	47,565	3,043	56,253	5,543
Comprehensive (loss) income	\$ (3,067,993)	\$ (502,492)	\$ (15,427)	\$ 2,084,404

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 (\$)	Accumulated Deficit (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2017	85,566,840	59,651,422	973,378	5,523,617	(6,790,133)	(11,725,785)	47,632,499
Net loss for the period	-	-	-	-	-	(1,379,522)	(1,379,522)
Share-based compensation expense	-	-	-	295,084	-	-	295,084
Cumulative translation adjustments	-	-	-	-	3,458,383	-	3,458,383
Gain on investments	-	-	-	-	5,543	-	5,543
Balance at June 30, 2017	85,566,840	59,651,422	973,378	5,818,701	(3,326,207)	(13,105,307)	50,011,987
Balance at January 1, 2018	85,566,840	59,651,422	973,378	6,259,079	(7,538,763)	(16,361,482)	42,983,634
Net loss for the period	-	-	-	-	-	(1,526,341)	(1,526,341)
Share-based compensation recovery	-	-	-	(18,459)	-	-	(18,459)
Cumulative translation adjustments	-	-	-	-	1,454,661	-	1,454,661
Gain on investments	-	-	-	-	56,253	-	56,253
Balance at June 30, 2018	85,566,840	59,651,422	973,378	6,240,620	(6,027,849)	(17,887,823)	42,949,748

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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	
	2018	2017	2018	2017
Operating activities				
Net loss	\$ (1,016,192)	\$ (1,027,297)	\$ (1,526,341)	\$ (1,379,522)
Items not affecting cash				
Amortization and depletion	409,830	603,850	805,574	1,131,651
Share-based payments (recovery) expense	-	124,668	(18,459)	295,084
Deferred income tax recovery	(357,090)	(292,760)	(399,745)	(156,559)
Gain on disposal of assets	-	(328,424)	-	(328,424)
Accretion expense	7,443	9,194	14,987	17,481
Write-down of inventory	121,437	69,378	121,437	69,378
Unrealized gain on foreign exchange	(10,317)	(112,774)	(10,773)	(36,223)
Changes in non-cash working capital				
Trade and other receivables	252,838	630,305	607,403	1,102,408
Income taxes receivable	(32,769)	212,775	(27,921)	402,108
Inventories	(158,668)	(160,413)	(210,445)	(49,136)
Trade payables	695,788	374,971	13,337	(215,728)
Income taxes payable	9,971	14,624	37,464	(23,592)
	(77,729)	118,097	(593,482)	828,926
Investing activities				
Proceeds on sale of investments	96,494	-	401,957	-
Acquisition of property, plant and equipment	(496,520)	(603,269)	(755,040)	(916,124)
Exploration and evaluation asset expenditures	(341,107)	(369,782)	(835,047)	(1,245,128)
	(741,133)	(973,051)	(1,188,130)	(2,161,252)
Net change in cash	(818,862)	(854,954)	(1,781,612)	(1,332,326)
Cash - Beginning of period	3,750,830	7,647,191	4,713,580	8,124,563
Cash - End of period	\$ 2,931,968	\$ 6,792,237	\$ 2,931,968	\$ 6,792,237

-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, 2018

(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 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.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future.

2. Basis of preparation

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 condensed financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2017. 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, 2017.

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, 2018.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

3. Significant accounting policies

Change in accounting policies

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of January 1, 2018. IFRS 15 covers principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Company elected to apply IFRS 15 using a modified retrospective approach by recognizing the cumulative effect of initially adopting IFRS 15 as an adjustment to the opening balance sheet at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 Revenue.

The Company performed an assessment of its existing concentrate sales agreements and determined that there is no change in the timing of revenue recognition under IFRS 15.

4. Trade and other receivables

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

	June 30, 2018	December 31, 2017
Value added and other taxes receivable – current portion	\$ 455,455	\$ 464,084
Trade and other receivables	691,677	1,184,696
Prepays	174,580	139,133
Total trade and other receivables	\$ 1,321,712	\$ 1,787,913

5. Inventories

The following table details the composition of inventories at:

	June 30, 2018	December 31, 2017
Materials and supplies	\$ 476,044	\$ 481,490
Stockpile inventory	-	7,985
Concentrate inventory	668,593	518,895
Total inventories	\$ 1,144,637	\$ 1,008,370

The amount of inventories recognized as an expense during the period ended June 30, 2018 was \$7.3 million (June 30, 2017 – \$7.4 million).

The amount of write-down of inventories to net realizable value during the period ended June 30, 2018 was \$0.1 million (June 30, 2017 - \$0.1 million) relating to concentrate inventory.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

6. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment (\$)	Vehicles (\$)	Office furniture and equipment (\$)	Surface rights (\$)	Mining Assets (\$)	Total (\$)
Cost						
Balance at January 1, 2017	9,365,671	449,882	206,456	1,069,548	24,841,332	35,932,889
Additions	70,903	11,714	10,505	-	1,498,526	1,591,648
Transfers	-	-	-	-	914,467	914,467
Disposals	(171,737)	-	-	-	-	(171,737)
Change in reclamation estimate	-	-	-	-	(79,464)	(79,464)
Foreign exchange movement	(185,687)	(8,985)	(2,111)	(21,358)	(439,117)	(657,258)
Balance at December 31, 2017	9,079,150	452,611	214,850	1,048,190	26,735,744	37,530,545
Additions	8,963	-	4,486	-	738,997	752,446
Foreign exchange movement	409,634	20,573	4,892	47,645	1,080,679	1,563,423
Balance at June 30, 2018	9,497,747	473,184	224,228	1,095,835	28,555,420	39,846,414
Accumulated amortization						
Balance at January 1, 2017	4,671,065	344,727	163,326	-	9,533,345	14,712,463
Amortization for the period	792,004	20,501	13,227	-	1,470,405	2,296,137
Disposals	(2,524)	-	-	-	-	(2,524)
Foreign exchange movement	(149,827)	(8,716)	(2,169)	-	(265,920)	(426,632)
Balance at December 31, 2017	5,310,718	356,512	174,384	-	10,737,830	16,579,444
Amortization for the period	338,187	10,390	5,825	-	453,001	807,403
Foreign exchange movement	237,912	16,168	3,848	-	402,641	660,569
Balance at June 30, 2018	5,886,817	383,070	184,057	-	11,593,472	18,047,416
Net book value						
At December 31, 2017	3,768,432	96,099	40,466	1,048,190	15,997,914	20,951,101
At June 30, 2018	3,610,930	90,114	40,171	1,095,835	16,961,948	21,798,998

b) Sale of Zacatecas assets

On June 5, 2017, the Company completed the sale of its non-active Zacatecas assets to Endeavour Silver Corp. for 154,321 common shares valued at \$0.6 million. The Zacatecas assets consist of 10 mineral concessions covering 152 hectares, 14 hectares of surface rights, the old inactive Santa Gabriela 200 tonne per day processing plant and tailings facilities. The Company recorded a gain on sale of assets of \$0.3 million.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

7. Exploration and evaluation assets

Balance at January 1, 2017	\$	20,149,111
Additions		1,933,306
Transfers		(914,467)
Disposals		(130,634)
Foreign exchange		(315,119)
Balance at December 31, 2017	\$	20,722,197
Additions		830,764
Foreign exchange		724,309
Balance at June 30, 2018	\$	22,227,720

8. Key management personnel compensation

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

	2018		2017	
Salaries and fees	\$	181,375	\$	194,825
Share based compensation		(10,917)		174,512
	\$	170,458	\$	369,337

9. 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	
	2018	2017	2018	2017
Production costs	\$ 2,069,668	\$ 2,094,830	\$ 3,944,025	\$ 4,084,892
Administration	171,180	184,574	327,648	398,667
Transportation	156,429	170,698	302,499	300,147
Wages and salaries	1,389,239	1,406,480	2,772,857	2,609,884
	\$ 3,786,516	\$ 3,856,582	\$ 7,347,029	\$ 7,393,590

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

10. Equity

a) 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.

On September 21, 2017, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 1,770,000 shares of the Company. The options are exercisable on or before September 20, 2022 at a price of \$0.35 per share. Options vested 100% on the date granted.

On July 28, 2016, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,860,000 shares of the Company. The options are exercisable on or before July 27, 2021 at a price of \$0.98 per share.

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:

Date Granted	September 21, 2017	July 28, 2016
Number of options granted	1,770,000	1,860,000
Risk-free interest rate	1.58%	0.57%
Expected dividend yield	Nil	Nil
Expected share price volatility	104.16%	106.62%
Expected option life in years	2.5	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.

The total fair value of share-based payment recovery on stock options granted to employees and consultants of the Company for the six months ended June 30, 2018 is \$18,459 million (June 30, 2017 – expense of \$295,084).

A summary of the Company's stock options as at June 30, 2018 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2017	5,045,000	0.96
Granted	1,770,000	0.35
Forfeited	(70,000)	1.11
At December 31, 2017	6,745,000	0.80
Expired	(1,935,000)	1.20
Forfeited	(100,000)	0.67
At June 30, 2018	4,710,000	0.64

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

10. Equity – continued

a) Stock options – continued

The following table summarizes information about the stock options outstanding at June 30, 2018:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$0.55	1,210,000	0.52	1,210,000	January 6, 2019
\$0.98	1,780,000	3.08	1,780,000	July 27, 2021
\$0.35	1,720,000	4.23	1,720,000	September 20, 2022
	4,710,000	2.84	4,710,000	

b) Warrants

A summary of the Company's warrants as at June 30, 2018 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2017, December 31, 2017 and June 30, 2018	4,385,965	0.90

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
Expiry Date	May 26, 2019	June 2, 2019	June 9, 2019	June 16, 2019
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.

c) 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	
	2018	2017	2018	2017
Net loss attributable to shareholders	\$ (1,016,192)	\$ (1,027,297)	\$ (1,526,341)	\$ (1,379,522)
Weighted average number of shares outstanding - Basic and diluted	85,566,840	85,566,840	85,566,840	85,566,840
Loss per share – Basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018

(Canadian dollars)

Unaudited

11. Segmented information

The Company has one operating segment and two reportable segments based on geographic area: Mexico 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	
	2018	2017	2018	2017
Revenues by geographic area				
Mexico	\$ 3,108,724	\$ 3,592,290	\$ 6,984,840	\$ 8,191,274
Net loss by geographic area				
Mexico	\$ (713,561)	\$ (509,127)	\$ (986,038)	\$ (405,492)
Canada	(302,631)	(518,170)	(540,303)	(974,030)
	\$ (1,016,192)	\$ (1,027,297)	\$ (1,526,341)	\$ (1,379,522)
Assets by geographical area				
Mexico			\$ 47,248,968	\$ 45,234,475
Canada			2,866,777	4,960,856
			\$ 50,115,745	\$ 50,195,331
Property, plant and equipment by geographical area				
Mexico			\$ 21,783,495	\$ 20,933,183
Canada			15,503	17,918
			\$ 21,798,998	\$ 20,951,101