
IMPACT SILVER CORP
ANNUAL REPORT 2012

IMPACT Silver's goal is to build a multimillion ounce silver producer with multiple mines feeding multiple processing centers.

Flotation circuit at the Capire Production Center

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WHAT TRULY MAKES IMPACT UNIQUE IS THAT WE HAVE BEEN ABLE TO GROW PRIMARILY THROUGH EARNINGS, NOT THROUGH FREQUENT CAPITAL RAISES OR SHARE DILUTION.

Frederick W. Davidson President | Chief Executive Officer

MESSAGE FROM THE PRESIDENT

Since IMPACT Silver began operations seven years ago, our strategy has been to develop a silver mining company that focused on generating profits and long-term value. While our financial results in 2012 were not as robust as the previous year, we remain concentrated on profitable growth through well-targeted exploration programs, new mine developments and expansions to operations. In 2012, our dedicated focus was on moving the new Capire Production Centre into production on-budget, as well as accelerating the development of the new Cuchara-Oscar Mine to replace the Chivo Mine.

After the announcement of the commencement of initial production at both the Capire and Cuchara-Oscar in early 2013, we are confident that these new mines will contribute substantial growth in IMPACT's future silver production. Throughout 2012, investors and markets alike were tested with volatile swings in precious metal prices, depressed stock market activity and a steady stream of inauspicious news from national capitals and financial centers around the globe. While there are a number of uncontrollable external factors which may greatly affect IMPACT's overall profitability, we can and do focus our efforts on controlling mining costs and the most effective means of developing IMPACT's resources. Exploring and investing in our two contiguous mineral districts was fueled with the exceptional results of 2012's exploration efforts, particularly with respect to drilling activities at the Condesa area, the Mirasol prospect and the Valle de Oro gold-copper zone. In 2012, we carried out a surface and underground drill program in excess of 30,000 meters, and our aggressive exploration plans for 2013 will continue to drive the development of both early stage exploration targets and further define potential prospects that may be advanced into producing mines.

A cornerstone of IMPACT's success is the commitment to the long-term development of the Company's resource properties while remaining cash flow positive. As what was coined a transformative year for IMPACT, 2012 was unlike any year in the Company's history. The shift of production from one mine to another while simultaneously constructing an entirely new mining district is an accomplishment, but what truly makes IMPACT unique is that we have been able to grow primarily through earnings, not through frequent capital raises or share dilution. We will continue to use internally generated cash to fund the future development of our exploration properties, and where we are now is just a stepping stone to greater operations in the future. Our statement of financial position remains strong, our annual silver production is poised to increase and throughput will soon be reaching new levels with the addition of the 200 tonne per day Capire pilot plant operation. Our dedicated focus is to grow into a mid-tier, low cost, multimillion ounce silver producer, and we remain steadfast in our effort to attaining new and accretive methods to continually increase shareholder value.

On behalf of the Board of Directors, we would like to thank our valued shareholders, as we remain grateful for your loyalty, dedication and continued support. We also want to thank each one of our employees, whose commendable performance over the years has prepared us for substantial growth in the many years to come. To our valued IMPACT Silver shareholders and the IMPACT Silver family, here's to a prosperous 2013!

Frederick W. Davidson
President & CEO

IMPACT Silver's 623 km² land package spans two states in south-central Mexico and is located along the Mexican epithermal silver vein belt.

Capire Mine site

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three months and year ended December 31, 2012 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 26, 2013 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2012 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings, and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

This document contains forward-looking statements. Please refer to "NOTE REGARDING FORWARD-LOOKING STATEMENTS."

CORPORATE OVERVIEW

IMPACT has grown from an exploration company into a significant silver producer with control of nearly two entire mineral districts in central Mexico—the 423 km² Royal Mines of Zacualpan Silver District and the 200 km² Mamatla Mineral District adjacent to and southwest of Zacualpan. In addition to its 500 tonnes per day ("tpd") Guadalupe Mill, IMPACT also owns a 200 tpd mill which it has recently installed as a pilot plant at its Capire Mine in the Mamatla Mineral District.

2012 was a year of transition for the Company. For the past several years, the Company has carried out a three-part program of exploration, development and mine production at both the Royal Mines of Zacualpan Silver District and Mamatla Mineral District. As part of this process, management established three key objectives for the districts for 2012:

1. Complete the construction of the new Capire Mine and the 200 tpd pilot plant.
2. Shift production to the high grade Cuchara-Oscar ("Oscar") Mine from Chivo Mine while maintaining silver production at the San Ramon and Noche Buena Mines.
3. Develop sufficient mill feed to fill the 500 tpd Guadalupe Mill and continue aggressive exploration and prepare new sources of mineral feed for mine development to justify expansion of the current facilities or construction of new mills, including Valle de Oro.

With the close of the 2012 year, the Company is pleased to provide the following update on the three key objectives from above.

1. By year-end, construction of the new Capire Mine and the 200 tpd pilot plant were very near completion. As of the current date, the Capire Mine has produced mineral with the newly built pilot plant now operating.
2. At year-end, the Oscar Mine was waiting on permitting to move forward with production. As of the current date, the permitting has been issued and mining of the high grade Oscar Mine has commenced.
3. There was continued exploration drilling throughout 2012 with significant silver discoveries at the Mirasol and Condesa silver zones within the Royal Mines of Zacualpan District. Additionally, early stage exploration fieldwork in the form of detailed geological mapping and rock sampling was completed for the Tepejuate, Santa Efigenia, Santa Teresa, Cuetzillos Sud and El Gigante mapping areas of which all, except Tepejuate, are located in the Valle de Oro area adjacent to IMPACT's currently producing Noche Buena Mine. As well, three new geological mapping areas were initiated in 2012 including the San Pablo Norte, El Orito and La Escondida areas.

IMPACT is a reporting issuer in British Columbia and Alberta. The Company's shares trade on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL.

OVERVIEW FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2012

FINANCIAL OVERVIEW

- Losses before taxes for the year ended December 31, 2012 were $0.04 million compared to earnings before taxes of $11.7 million in the year ended December 31, 2011.
- Revenues for the fourth quarter of 2012 were $4.7 million, an increase from $3.2 million in the third quarter of 2012.
- Under International Financial Reporting standards (IFRS), if there is a significant or prolonged decline in the market value of the Company's available for sale investments that a write-down is required. The decline in the value of the Defiance shares was considered and as such a non-cash write-down of $750,000 has been recorded. The Company's holding of Defiance shares was received in relation to the option agreement for the Zacatecas properties. As the Company retains legal ownership of all assets optioned, if Defiance is unable to pay the final cash option payment, the assets will return back to the Company and the Company will retain the shares.

Statue commemorating the miners of the Royal Mines of Zacualpan, located in the town square of Zacualpan, Mexico

2012 FINANCIAL HIGHLIGHTS

REVENUE

16.0 M

MINE OPERATING EARNINGS

4.0 M

NET EARNINGS (LOSS)

(1.1 M)

CASH

16.0 M

WORKING CAPITAL

21.4 M

OPERATING CASH FLOW BEFORE CHANGES IN NON-CASH WORKING CAPITAL

3.3 M

2012 AVERAGE SILVER PRICE – USD LONDON FIX PRICE

$31.15

2012 PRODUCTION HIGHLIGHTS

620,515 oz

SILVER PRODUCTION

629 oz

GOLD PRODUCTION

710 t

ZINC PRODUCTION

463 t

LEAD PRODUCTION

- Mine operating earnings for the 2012 year were $4.0 million, a decrease from $12.9 million in the year ended December 31, 2011.

- Cash flows from operations[1] before changes in non-cash working capital for the fourth quarter of 2012 were $0.9 million, an increase from $0.5 million in the third quarter.

- Net working capital remained strong at $21.4 million on December 31, 2012, compared to $31.9 million on December 31, 2011 after spending $12.8 million on exploration and development of the Company's properties.

PRODUCTION OVERVIEW

- Total tonnes milled during the year ended December 31, 2012 increased 9% to 168,826 from 154,289 in the year ended December 31, 2011 due in part to improvements made within the Guadalupe Mill.

- Silver sales increased slightly in the fourth quarter to 130,857 ounces from 129,373 ounces in the third quarter of 2012.

- Direct costs per tonne milled decreased 7% to $64.55 during the year ended December 31, 2012 from $69.71 in the same period of 2011.

- Average mill throughput in the year ended December 31, 2012 at the Guadalupe Mill increased 9% to 463 tpd compared to 424 tpd during the year ended December 31, 2011.

- The decreasing silver grades at depth within the Chivo Mine contributed to lower overall silver production for the 2012 year. As mentioned, the Company has fast-tracked the new higher grade Oscar Mine which is now currently in production initially providing lower grade development muck to the Guadalupe Mill.

MINES UNDER CONSTRUCTION

In 2012, IMPACT was simultaneously constructing two new mines; the Oscar Mine in the Royal Mines of Zacualpan District and the Capire Mine in the Mamatla Mineral District. As of the current date, both mines are now providing initial development muck to the Guadalupe and Capire Mills.

EXPLORATION HIGHLIGHTS

In addition to further exploration and development of Capire and Oscar Mines, the Company also carried out significant exploration drilling programs at:

CONDESA SILVER ZONE

The Condesa vein system is located 200 meters west of and has historic underground access from the Oscar Mine. In 2012 IMPACT carried out two phases of exploration drilling at Condesa. Results included 3.66 meters grading 249.6 g/t silver and 0.98 meters grading 1,655 g/t silver. To date only 500 meters of the mapped 2,300 meter strike length of the vein has been drilled and the zone remains open for expansion to the southeast and down dip. Condesa is now being incorporated into the Oscar Mine plan.

MIRASOL SILVER ZONE

The Mirasol silver zone is a series of newly discovered veins located 5.5 kilometres southeast of the Company's Guadalupe Mill. In 2012, first and second phase drill results included 8.94 meters grading 183 g/t silver and 7.15 meters grading 216 g/t silver. Drilling is continuing to expand the zone.

CARLOS PACHECO GOLD-COPPER ZONE

The Carlos Pacheco zone was the first gold and copper discovery in the Valle de Oro Gold District. On July 11, 2012, the Company announced further drill results from Carlos Pacheco including 8.47 g/t gold and 1.12% copper across 2.74 meters. The Carlos Pacheco drilling also cut nearby silver veins (the "Intermediate Veins") including 337 g/t silver across 2.00 meters. The work of the Company's exploration team for this portion of the Carlos Pacheco is now complete and the data has been passed to the mine planning group for engineering studies and potential production.

[1] Cash flows from operations before changes in non-cash working capital is a non-IFRS measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. See "NON-IFRS MEASURES."

A cornerstone of IMPACT Silver's success has been rapid mine development to increase mill throughput and generate near-term cash flow.

Flotation circuit at the Capire Production Center

PRODUCTION AND SALES

	For the three months ended December 31			For the year ended December 31		
	2012	2011	% Change	**2012**	2011	% Change
Total tonnes (t) milled	**42,870**	39,376	+9%	**168,826**	154,289	+9%
Tonnes milled per day	**466**	428	+9%	**463**	424	+9%
Silver production (oz)	**148,333**	169,755	-13%	**620,515**	833,607	-26%
Lead production (t)	**78**	142	-45%	**463**	731	-37%
Zinc production (t)	**99**	248	-60%	**710**	1,248	-43%
Gold production (oz)	**164**	163	+1%	**629**	676	-7%
Silver sales (oz)	**130,857**	201,037	-35%	**563,258**	826,191	-32%
Lead sales (t)	**70**	177	-61%	**430**	703	-39%
Zinc sales (t)	**105**	246	-57%	**721**	1,250	-42%
Gold sales (oz)	**143**	207	-31%	**570**	657	-13%
Average mill head grade - silver g/t	**131**	158	-17%	**138**	196	-30%
Revenue per tonne sold	**$86.41**	$123.12	-30%	**$94.32**	$171.00	-45%
Direct costs per tonne milled	**$70.03**	$63.67	+10%	**$64.55**	$69.71	-7%

PRODUCTION AND SALES HIGHLIGHTS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31

As the Company disclosed in its first, second and third quarter MD&A, mine production in 2012 has been impacted by lower silver grades particularly in the Chivo Mine where decreasing silver grades with depth led to lower overall silver production. Chivo had the highest grades of lead and zinc and provided about 17% and 39% of the Company's mill feed in 2012 and 2011, respectively. Therefore, the phasing down of Chivo reduced overall lead and zinc production. To offset these production losses, the Company fast tracked the new high grade Oscar Mine which is now operating. In addition, the Company is working to find additional new sources of lead and zinc feed to balance its concentrate production mix.

Silver production in the fourth quarter was 148,333 ounces, down 13% from 169,755 ounces in the fourth quarter of 2011. Year to date, silver production in 2012 was 620,515 ounces, down 26% from 833,607 ounces in the comparable period of 2011. However, the mill has improved throughput to mitigate decreased average mill head grade with 168,826 tonnes milled in the year ended December 31, 2012, an increase of 9% over 154,289 tonnes in the same period of 2011.

Average silver metal prices based upon the LME PM fix have slightly increased by 4% in the fourth quarter of 2012 over the same period in 2011. Zinc and lead sale prices have also slightly increased in comparison with 2011 prices. The average LME cash price for lead in US dollars per lbs has increased by approximately 3% in the fourth quarter of 2012 compared to the fourth quarter of 2011. LME zinc reference prices have also increased by approximately 10% in the fourth quarter of 2012 compared to 2011. However, on an annual basis, the average silver price has decreased by 13% in the year ended December 31, 2012 over the same period in 2011. This annual trend from 2011 to 2012 is consistent with lead and zinc as average lead prices have decreased 11% and average zinc prices have decreased 8% within the same period.

The Company's lower revenues per tonne sold in 2012 of $94.32 per tonne, a decrease from $171.00 per tonne in 2011, is a result of the combination of lower payable metal content per milled tonne, lower realized metal prices and slightly higher smelting and refining charges. As indicated, production and revenues in the first half of 2011 benefited from higher metal

prices and higher grade material from the Company's mines. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. For the next few quarters, the Company expects its mill feed to be at the lower end of its expected average grade as Chivo Mine production has been phased out and Oscar Mine production from development is brought on stream.

Despite lower revenues per tonne sold, the Company is pleased to report that it has been able to maintain and lower direct costs per tonne milled by 7% year to date to $64.55 per tonne in 2012 from $69.71 per tonne in 2011.

MINE PRODUCTION

MINE OPERATIONS

The Company is expanding operations with the addition of a second silver production centre in central Mexico. The Company has been operating the Royal Mines of Zacualpan production centre since 2006 and subsequent to the 2012 year-end, the Company began operations at the new Capire Production Centre located 16 kilometres to the south in the Mamatla Mineral District.

ROYAL MINES OF ZACUALPAN PRODUCTION CENTRE

The Company owns concessions covering most of the Royal Mines of Zacualpan silver district in central Mexico. Assets include 423 km^2 of mineral concessions, operating mines and the Guadalupe mill rated at 500 tpd. The project is located 100 kilometres southwest of Mexico City and 25 kilometres northwest of the well-known Taxco Silver mine. Access is by paved highway through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

BACKGROUND AND OVERVIEW

The Royal Mines of Zacualpan silver project was purchased by the Company on January 16, 2006 and since then an extensive program of upgrading the operations and expanding production has been carried out. Since acquiring the project the Company has expanded and upgraded most of the mining equipment including rebuilding and purchase of a number of scoop-trams and underground trucks. Upgrade expenditures also include new equipment in the Guadalupe Mill and expansion of the tailings dam (continuing). The Company has also purchased additional surface lands near the mill to address the need for additional tailings capacity in the future.

In earlier years, the Company had seen fluctuations in grades due to the limited number of working faces available for mining. As a result of successful exploration and development over the last seven years, the Company now has a greater ability to balance mill feed grade by drawing from a larger number of mine stopes. This flexibility provides a more blended overall grade for optimum metal recovery.

While plant and facilities limit processing capacity to 500 tpd at Guadalupe, sourcing superior grade mill feed from the Company's mines remains the critical factor for increasing silver production. Operating results for 2012 were materially impacted in comparison with 2011 by significantly lower realized metal prices and lower grades from the Chivo Mine. As mentioned, the Company has moved to address the issue of mine grade by shifting production from the Chivo Mine to the new higher grade Oscar Mine.

SAN RAMON MINE

During the fourth quarter of 2012, San Ramon provided 51% (Q4 2011 – 24%) of mill feed to the Guadalupe Mill. The Company recommenced mining at San Ramon in early 2008 on a selective basis with an emphasis on higher grade mineral. Mining continued to expand as underground access to a parallel structure, the Chaparrita Vein, was developed. During the fourth quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on level 5.5. This zone was a major contributor to production at San Ramon in 2012. During 2012, a second access adit was constructed from the valley floor to access the lower San Ramon workings at about Level 15 and is now the main production adit for the mine. This second access has reduced mining and hauling costs at San Ramon.

NOCHE BUENA MINE

During the fourth quarter of 2012, the Noche Buena mine provided 33% (Q4 2011 – 40%) of mill feed to the Guadalupe Mill. The mine is located four kilometres southwest of the Guadalupe Mill and opened in the first quarter of 2010. The mine is contributing a silver-gold feed with low lead and zinc contents to the Guadalupe Mill.

The Noche Buena Mine is located in the Valle de Oro area where the Company has also discovered and drilled several gold and copper rich veins including the Carlos Pacheco Vein which is located only 200 meters east of the Noche Buena Mine workings. With surface exploration drilling on Carlos Pacheco completed during 2012, the Company mine engineers have begun to drive a cross cut from the Noche Buena Mine workings across to the Carlos Pacheco gold zone for additional underground drilling and test mining.

CHIVO MINE

During the fourth quarter of 2012 the Chivo Mine provided 4% (Q4 2011 – 27%) of mill feed to the Guadalupe Mill. In 2012, silver grades declined as the mine transitioned from higher grade silver to higher grade lead and zinc at depth. The Chivo Mine continued to supply a significant amount of material to the mill in the first half of 2012; however, with lower silver grades it impacted the average mill head grade. The Company has now suspended large scale production from Chivo.

GALLEGA AND GUADALUPE MINES

The Gallega Mine was restarted in late 2011 and during the fourth quarter of 2012 provided 12% (Q4 2011– 9%) of mill feed to the Guadalupe Mill. Subsequent to year end, in February 2013, mining was suspended at Gallega and equipment and manpower transferred to the new Oscar Mine. There was no mining in 2012 at the nearby Guadalupe Mine. The Guadalupe Mine remains dewatered and access is maintained for possible future mining. The remaining mineral at Guadalupe is mainly zinc-rich with modest silver values.

GUADALUPE MILL

The program of upgrades designed to enhance recoveries and improve processing economics is largely complete at the 500 tpd Guadalupe Mill. In June 2012, the main gear on one of the ball mills broke which reduced tonnage throughput. The shaft was repaired by mid-July and the plant is again operating normally. Expansion of the tailing dam continues in order to provide additional capacity in future years. During the quarter the Company completed purchase of land for a new tailings dam to be built in the future when the current dam is full.

DEVELOPMENT

CUCHARA – OSCAR ("OSCAR") MINE

Subsequent to year-end on February 20, 2013, the Company announced initial production at the new Oscar Mine. The Oscar Mine is another of the Company's exploration success stories taken from initial field exploration through drilling to mine construction and production. Within eight months of the production decision, the Oscar Mine was moved into production utilizing the historic infrastructure in the area.

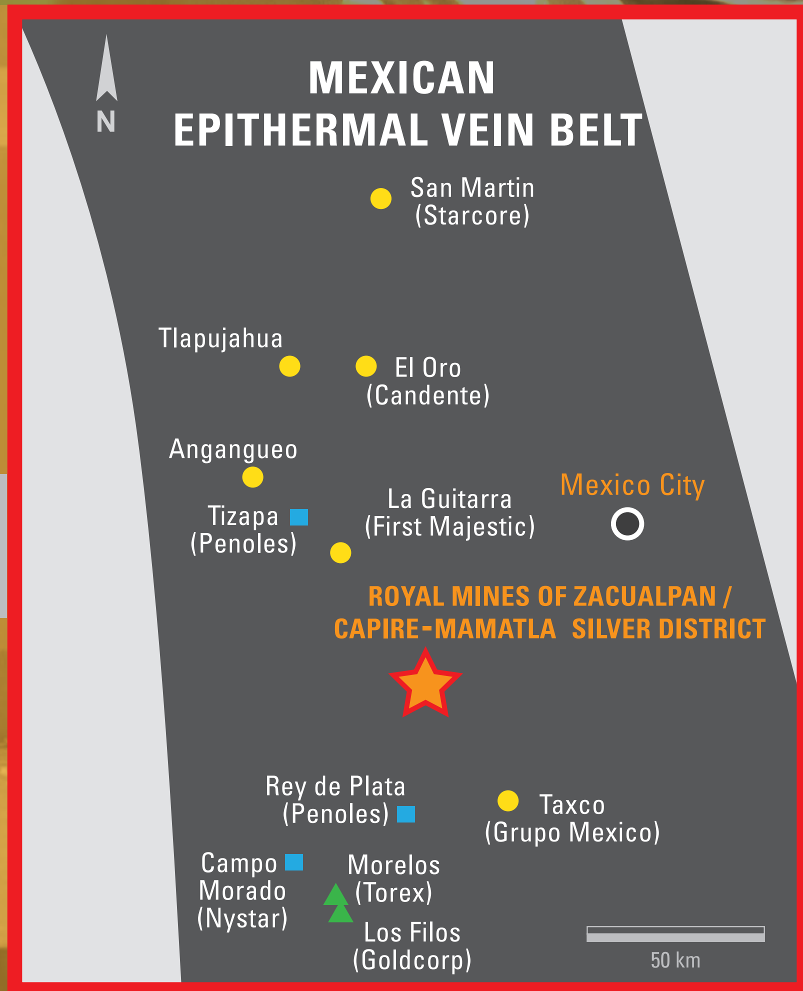
Oscar encompasses a corridor of high-grade silver veins located 2.5 kilometres east of the Company's Guadalupe Mill. One of the main vein systems is the Oscar Vein Corridor, which links a series of high grade silver veins from the Oscar Mine area to the Santa Lucia silver zone for a drill defined strike length of 1,200 meters. Mapping in the Cuchara North silver area indicates an additional 510 meters of strike length to Oscar Vein Corridor at the north end that will be drilled in the future.

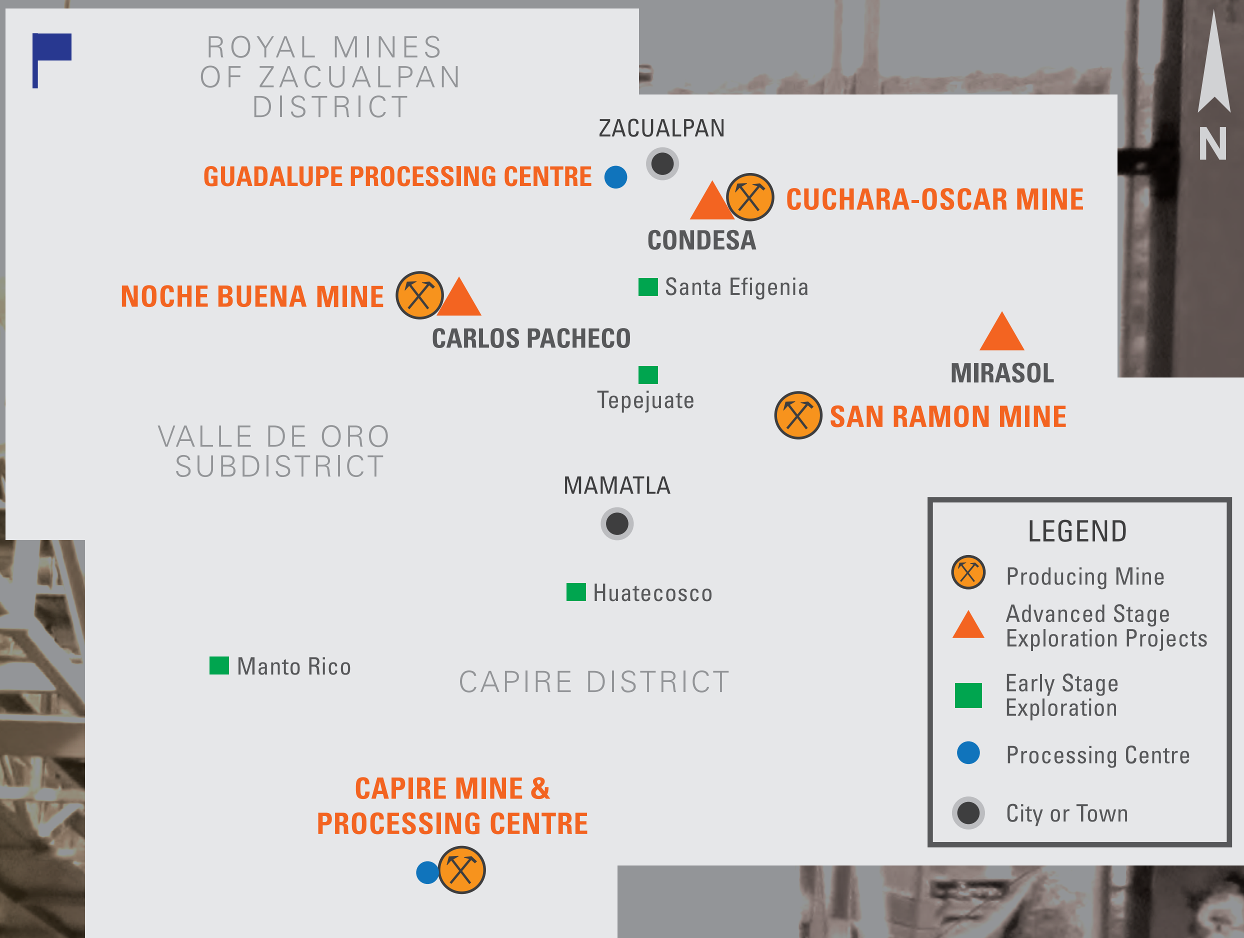
Initial production at Oscar will come from development muck accessing the Marqueza Vein, with plans to expand production to the nearby Oscar, Resguardo and Maria de Jesus Veins later in 2013. The Oscar Mine is projected to provide approximately 20% of the mineral feed by late 2013 to the Guadalupe Mill with the balance of the feed mainly provided by the currently producing San Ramon and Noche Buena Mines. The feed from the Oscar Mine will replace lower grade silver production from the Chivo Mine. The average silver mining grade at the Oscar in 2013 is anticipated to be in excess of 200 g/t which will allow for an increase in overall silver production at the Guadalupe Mill commencing in the second half of 2013.

OUR PROJECT IS LOCATED 100 KILOMETERS SOUTHWEST OF MEXICO CITY AND 25 KILOMETERS NORTHWEST OF THE WELL-KNOWN TAXCO SILVER MINE.

Established Epithermal Vein Belt with Well-Developed Infrastructure and Highly-Trained Local Personnel

- Epithermal Ag-Au vein desposits
- Skarn Au-Cu deposits
- Volcanogenic base metal deposits





The map above is an illustration of IMPACT's 623 km² land package in south-central Mexico, indicating the The Royal Mines of Zacualpan, the Valle de Oro subdistrict and the Capire-Mamatla District, including the Company's current operating mines, advanced and early stage exploration projects and two production centres, the Guadalupe and the Capire.

2012 OSCAR DRILL RESULTS

In 2012 the Company announced final Phase 2 drill results from Oscar vein corridor which included 1,875 g/t silver over 1.00 meter and 115 g/t silver over 23.39 meters (see IMPACT news release dated April 23, 2012).

CAPIRE MINE AND MILL

Subsequent to year end, on March 14, 2013, the Company announced that commissioning of the new Capire Mine and pilot plant had begun. Production at Capire is beginning with a 200 tpd pilot plant to optimize mining and processing parameters toward planning for a larger operation in the future. Capire represents a new silver production centre and the next significant phase of growth for the Company that, upon successful completion of the exploration and development program, could propel the Company to become a multimillion ounce silver producer.

Capire is located 16 kilometres southwest of the Company's active mining and processing operations at the Royal Mines of Zacualpan. Unlike the Zacualpan mines, Capire is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire VMS Subdistrict is predominantly silver-rich with zinc, lead, copper and gold credits. The subdistrict covers the same stratigraphy as the Campo Morado VMS belt, where Nyrstar NV (formerly Farallon Resources) is in commercial production on the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8 g/t gold). The G-9 VMS deposit is located along trend, 45 kilometres southwest of Capire.

The NI 43-101 compliant measured and indicated mineral resource estimates for the Capire Mine based on information available through 2011 include 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope contained in 4.9 million tonnes grading 45.74 g/t silver, 0.88% zinc and 0.34% lead with higher grade internal zones (see IMPACT News Release dated February 1, 2011 for details).

2012 CAPIRE DRILL RESULTS

The 2012 exploration drill program at Capire was planned to determine the limits of the Capire deposit and to test for other mineralized zones in the immediate mine area. Fill-in drilling around known mineralized intersections and 200 meter step-out holes from previous drilling were undertaken in a 78 hole, 11,870 meter drill program. Highlights of 2012 drill results include 435 g/t silver across 4.6 meters and 507 g/t silver across 2.05 meters (see IMPACT news release dated October 25, 2012). The 2012 program holes were drilled vertically and intersections are estimated to be close to true width. These drill results combined with a series of holes reported earlier, have expanded and defined the extent of the Capire mineralization to the north and south while the zone remains open to the east.

EXPLORATION

The Company's exploration continues to be a success story. The Company's team has discovered and placed five new mines (San Ramon/Chaparrita, Chivo, Noche Buena, Oscar and Capire) into production over the past seven years.

DRILLING

Drill programs in 2012 were conducted on the Oscar, Condesa, Carlos Pacheco and Mirasol areas of the Zacualpan district, as well as expansion drilling on the Capire Mine area. Total drilling increased by 20% in 2012 to 35,274 meters, up 5,793 meters from 2011. Past metrics which were used to ascertain the drilling success rate for new areas (drill intersections of 120 g/t silver over 2.0 meters was considered to be a minimum threshold) are now obsolete, as 2012 attained a success rate of 100%. Using a new form of metrics that counts the number of kilogram-plus grade intersections for silver (1,000+ g/t silver) from the drill holes, 17 were intersected in 2012 versus ten in 2011. This 70% increase is a reflection of the higher grade targets that are now being selected for drilling to which the ArcGIS database is an integral part. A significant portion of this increase in high grade silver intercepts was the result of identifying and drilling at the newly discovered Mirasol Silver Area.

The increased success in 2012 was driven by five GIS (Geographic Information System) specialists who added a considerable amount of information to the ArcGIS database, advancing it from a simple viewing platform into the field of data analysis. Numerous new protocols for analyzing data in this database have now been developed by the Company, allowing the exploration department to prioritize areas of highest mineral potential.

Summarized below are the results of the drilling for 2012 by project area (drill results for Oscar and Capire are summarized above under 'DEVELOPMENT'.)

CONDESA SILVER ZONE

The Condesa vein system is located 200 meters west of and has historic underground access from the Oscar Mine. The intention of this Condesa drill program was to outline mineralization to augment the planned production from the Oscar Vein Corridor which would also use the existing Oscar Mine workings but utilize a different mining area. In 2012 IMPACT carried out two phases of exploration drilling at Condesa. Results included 3.66 meters grading 249.6 g/t silver and 0.98 meters grading 1,655 g/t silver (see IMPACT news release dated November 19, 2012 for further results).

The mineralization at Condesa consists of two main northeasterly dipping structures (María de Jesús and Resguardo), plus a number of smaller northwesterly dipping transverse veins. To date, the veins have been mapped and sampled on surface, and in underground workings for a strike length of 2,300 meters of which only 500 meters have been drilled to date. Further drilling is planned in 2013 as the mineralization within the drilled portion of the Condesa Silver Area remains open for extension at depth and to the southeast. Condesa is now being incorporated into the Oscar Mine plan.

MIRASOL SILVER ZONE

In late 2012, the Company announced results from the first drill holes in the newly discovered Mirasol silver prospect, located 5.5 kilometres southeast of the Company's Guadalupe Mill. In 2012, first phase drill results included 8.94 meters grading 183 g/t silver and 7.15 meters grading 216 g/t silver (see IMPACT news releases dated November 26, 2012 and January 28, 2013 for further results). The principal veins of the Mirasol area represent a shear zone in which the veins strike northwesterly and dip to the southwest. The Mirasol Central and Mirasol NW Zones remain open in all directions. Drilling is continuing to expand the zone.

CARLOS PACHECO GOLD-COPPER ZONE

The Carlos Pacheco Gold-Copper Vein is located 4.5 kilometres southwest of the Company's Guadalupe Mill and 180 meters due east of the Company's currently producing Noche Buena Mine. It is a west dipping structure running parallel to the Noche Buena veins. Stratigraphic studies indicate that the Carlos Pacheco mineralization was emplaced 560 meters deeper than the Noche Buena mineralization; however, subsequent faulting juxtaposed these two zones. Consequently it is one of many zones within the central part of the Zacualpan project area that represent a deeper part of the mineralizing system enriched in gold and copper. Fieldwork in the Carlos Pacheco area began in 2007 with a systematic mapping and rock sampling program followed by an initial drill program that cut high grade gold intersections of up to 19.6 g/t gold across 2.9 meters including 49.7 g/t gold across 1.0 meter (see IMPACT News Releases dated January 18, 2007 and December 4, 2008).

In 2012, additional drilling at depth on Carlos Pacheco returned more significant assays including 8.47 g/t gold and 1.12% copper across 2.74 meters (see IMPACT news release dated July 11, 2012 for further results).

Located between the Noche Buena and Carlos Pacheco veins are ten intermediate veins intersected during drilling that targeted the Carlos Pacheco vein. Results included 337 g/t silver across 2.00 meters (see IMPACT news release dated July 11, 2012 for further results). These intermediate veins represent a vein cluster that include numerous wide, lower grade intersections of silver, gold, lead and zinc.

The current plan is to further define and potentially mine these intermediate veins via a proposed cross cut from the Noche Buena Mine that also would access the Carlos Pacheco vein. For this reason, a lower economic cut-off is contemplated for the mining of these Intermediate Veins. The work of the Company's exploration team for this portion of the Carlos Pacheco and Intermediate Veins is now complete and the data has been passed to the mine planning group for engineering studies and potential production.

EARLY STAGE EXPLORATION

IMPACT employs field crews dedicated to early stage exploration throughout the districts. These crews have been sampling some of the 3,000+ old mine workings and prospects in the project area. They are also trenching areas of mineralization and carrying out extensive soil sampling on 100 meter x 25 meter grids. During 2012, fieldwork in the form of detailed geological mapping and rock sampling was completed for the Tepejuate, Santa Efigenia, Santa Teresa, Cuetzillos Sud and El Gigante mapping areas of which all, except Tepejuate, are located in the Valle de Oro area west of IMPACT's currently producing Noche Buena Mine. New areas where geological mapping was initiated in 2012 included San Pablo Norte – a new area to the southeast of previous IMPACT work – as well as the El Orito and La Escondida areas, which are located in the Valle de Oro area. Favourable results have been obtained from each of these areas.

The number of rock samples collected in the field by the Company's prospecting and geological mapping teams were substantially greater in 2012 (3,607) than in 2011 (2,711), an increase of 33%. In terms of the average grades for these samples, a significant increase was evident for gold and copper contents overall, reflecting more focused fieldwork in the Valle de Oro area where these metals predominate, in preparation for a number of planned drill programs on a variety of different targets to be initiated in 2013. In terms of individual assay values, many high grade samples in silver, gold and copper were collected.

VETA GRANDE (ZACATECAS) SILVER PROJECT, MEXICO

The Company completed the purchase of a 200 tpd plant in the Zacatecas Silver District and 13 mineral concessions with no underlying royalties prior to 2012. The project is located 500 kilometres northwest of Mexico City. Access is by paved highways which run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force. Over the past five years intermittent exploration has focused on several of the 13 mineral concessions located within the district, three of which are in a joint venture.

In 2011, the Company optioned its Zacatecas assets to Defiance Silver Corp. ("Defiance", DEF: TSX.V) in return for a major share position (paid) and a final payment of $1,955,200 in cash which is not yet due. On February 29, 2012, the Company received the 2,680,500 shares from Defiance valued at $1.4 million as a first payment under an option agreement for the acquisition of the Company's Zacatecas assets as described in Note 8b of our 2012 annual audited financial statements. During 2012, the Company participated in two small private placements in Defiance totalling an investment of $182,650 for 636,500 shares. With this additional participation, the Company now has a 15.2% interest in Defiance.

As at December 31, 2012, it was determined there was a significant and prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company has recorded a non-cash write-down of $750,000. The majority of these Defiance shares came as partial payment for the agreement to option the Zacatecas Veta Grande Project assets. The Company still has legal ownership to these assets as the final payment on the option agreement is not yet due. If Defiance is unable to pay the final payment owing, then the assets will return back to the Company.

DOMINICAN REPUBLIC

The Dominican Republic is attracting much interest from the industry with significant recent drill discoveries by Goldquest Mining, exploration work by other junior companies and the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc. The Company's exploration concessions and applications in the Dominican Republic constitute a block covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous structures which the Company believes offer the opportunity for mineralization. The Company's block of concessions is located some 100 kilometres east of Barrick's large Pueblo Viejo Gold deposit which contains reported proven and probable gold reserves of over 23.7 million ounces. Pueblo Viejo is hosted in the same rock formation as the Company's concessions. During the fourth quarter of 2012 a small field program of trenching and sampling was carried out on the Company's concessions with no significant results.

FUTURE PLANS

MINING PLANS

Subsequent to year end 2012, IMPACT announced that the new Oscar Mine and the Capire Mine had both achieved initial operations. Plans are to increase up production at both sites with the eventual goal of growing the Company into a multimillion ounce silver producer.

EXPLORATION PLANS

The Company's exploration work in the Zacualpan and Capire Districts has resulted in the opening of five new mines—San Ramon/Chaparrita, Chivo, Noche Buena, Oscar and Capire—over the past seven years. Plans are to continue aggressive exploration with a goal of putting some of the other 3,000+ compiled old mine workings in the Zacualpan and Capire Districts on a faster track to potential production and build mineral inventories for mining. Aggressive field work and drilling on targets in the Valle de Oro area and in the Capire Mine area will be continued. Additional drilling is also required for both the Condesa silver area where the mineralization remains open to expansion at depth and to the southeast, and the Mirasol Central and Northwest areas where the mineralization is currently open in all directions. Additional fieldwork in the form of geological mapping and detailed rock sampling will continue in the Valle de Oro and the San Pablo Norte areas.

With a track record of successful exploration, rapid mine development and more than 3,000 old mine workings identified to date, the Company's long term vision sees potential for establishment of multiple mills throughout the two districts each fed by multiple mines. Construction of the Capire Mine and pilot plant is the first step in achieving this vision. With organic growth plans now in motion on the back of Capire and new mining at Oscar underway, and backed by a healthy treasury, the Company is also continuing to investigate accretive acquisition opportunities.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District and the Veta Grande (Zacatecas) Silver Project. The Capire mineral resource estimates in this MD&A were taken from a technical report (posted on www.sedar.com) by Claus G. Wiese. P.Eng. of I-Cubed LLC, a Qualified Person under the meaning of Canadian National Instrument 43-101 and an independent professional engineer. Other information on the Company's projects can be found on the Company website at www.IMPACTSilver.com .

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian NI 43-101, is responsible for the technical information described in this MD&A for the Dominican Republic Projects.

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

Exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and where possible effects reclamation on both current and historical activities.

Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised. The Company has social, environmental and other policies related to its operations.

We work as part of a community, whose members are kept informed of our activities and their concerns addressed. The Company retains a Community Relations Officer to ensure open communications. The use of personnel and other workers from the local communities fosters understanding, direct involvement in the Company's operations and financial benefits to the local communities.

The Company has formulated specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities surrounding us. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program and a paramedic in case of emergencies. Despite this, during the fourth quarter, the Company experienced a fatality in the San Ramon Mine due to a rock fall. The affected area of the mine was shut down and the accident investigated by the Company and the appropriate authorities. The Company's management team expresses their sincere condolences to the family of the deceased and those affected by the incident. The mining operation has a fully qualified safety team and was cleared of any responsibility by regulatory authorities.

INVESTOR RELATIONS

During 2012, the Company continued to generate investor awareness and build shareholder value by conducting presentations and attending related conferences in a number of European and North American financial centres. Plans for 2013 are to continue participating in investor conferences, conduct institutional presentations, and lead mine tours for select invitees with the intent to increase the Company's visibility. Beyond these traditional marketing channels, the Company also grew its online presence via social media, video interviews and print magazine articles.

FINANCIAL DISCUSSION

SUMMARY OF ANNUAL RESULTS

All figures are in thousands of Canadian dollars except earnings per share.

	For the year ended December 31		
In thousands	**2012**	2011	2010
Revenue	**$ 15,934**	$ 24,267	$ 16,678
Net earnings (loss)	**$ (1,145)**	$ 7,576	$ 3,434
Earnings (loss) per share - basic ($)	**$ (0.02)**	$ 0.12	$ 0.07
Earnings (loss) per share - diluted ($)	**$ (0.02)**	$ 0.11	$ 0.07
Cash	**$ 16,013**	$ 30,775	$ 18,690
Total assets	**$ 66,074**	$ 64,600	$ 46,939

Note: The company has no non-current financial liabilities

For the period ended December 31, 2012, the Company's mine operating earnings were $4.0 million compared to $12.9 million in 2011 on net smelter return revenues of $15.9 million compared to $24.3 million in 2011. The decrease in both operating earnings and net smelter return revenue is due to lower realized silver prices and a decrease in average mill head grade during this transitional period between Chivo Mine and Oscar Mine in addition to slightly higher smelting and refining charges. Operating expenses, excluding amortization and depletion, were well controlled at $10.3 million compared to $10.1 million in 2011. Amortization and depletion expenses increased to $1.6 million in 2012 from $1.2 million in 2011.

Net loss was $1.1 million in 2012 compared to net income of $7.6 million in 2011. As mentioned, as of December 31, 2012, it was determined that there was a significant and prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company has recorded a non-cash partial write-down of $750,000. The Company still has legal ownership to these assets as the final payment on the option agreement is not yet due. If Defiance is unable to pay the final payment owing, then

IMPACT Silver is headquartered in Vancouver, BC, with mining operations in south-central Mexico.

Guadalupe Production Center

the assets will return back to the Company and the Company will retain the original payment. General and administrative expenses were $3.2 million in 2012 compared to $2.4 million in 2011. The increase in general and administrative expenses in 2012 over 2011 was primarily due to an increase of $0.3 million for share based payments expense, an increase of $0.3 million in office salaries and services costs and an increase of $0.09 million in management fees and consulting.

There was a 26% reduction in silver production during the year ended December 31, 2012 from the same period in 2011 as a result of mining lower grade feed materials from the Company's mines in 2012. Silver production was decreased from 833,607 ounces to 620,515 ounces. Lead production was reduced by 37% from 731 tonnes to 463 tonnes and zinc production was decreased by 43% from 1,248 tonnes to 710 tonnes.

Silver sales in 2012 were reduced by 32% compared to 2011 from 826,191 ounces to 563,258 ounces due to the decrease in average mill head grade. However, mill throughput increased from 2011 to 2012 from 424 tpd to 463 tpd with total tonnes milled increasing from 154,289 to 168,826 respectively.

Silver, lead and zinc metal prices have also declined from 8% to 13% in 2012 in comparison to the same period in 2011. In 2012, the average LME PM price fix for silver was $31 U.S. per ounce compared to $35 U.S. per ounce in 2011. Year to date, average LME lead reference prices have decreased about 11%. Average zinc reference prices were 8% lower.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters. All figures are in thousands of Canadian dollars except earnings per share.

	For the three months ended							
	Dec 31 2012	Sept 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sept 30 2011	Jun 30 2011	Mar 31 2011
Revenues	4,654	3,194	3,619	4,467	4,848	4,163	7,997	7,258
Net earnings (loss)	(839)	(436)	278	(147)	637	1,994	2,471	2,474
Earnings (loss) per share - Basic*	(0.01)	(0.01)	0.00	0.00	0.01	0.03	0.04	0.04
Earnings (loss) per share - Diluted*	(0.01)	(0.01)	0.00	0.00	0.01	0.03	0.04	0.04
Cash	16,013	19,566	23,057	28,065	30,775	33,746	32,633	19,968
Total assets	66,074	65,453	65,476	67,842	64,600	65,702	65,238	51,083
Total liabilities	7,131	6,705	6,896	8,191	6,823	8,302	7,747	6,768

*Earnings per share numbers have been rounded to two decimal places.

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

WORKING CAPITAL AND CASH FLOW

After considerable exploration and capital expenditures in developing two new mines, the Company's financial position at December 31, 2012 remained strong with $16.0 million in cash (2011 - $30.8 million) and net working capital of $21.4 million (2011 - $31.9 million). The Company had positive cash flows from operations before changes in non-cash working capital[2] of $3.3 million year to date. This compares to positive cash flow generated from operations before changes in non-cash working capital of $10.2 million in the same period of 2011.

The Company's financial position as at December 31, 2012 continues to be strong with working capital of $21.4 million compared to working capital of $31.9 million at December 31, 2011. This year to year change represents an $10.5 million decrease in net working capital from 2011 to 2012. This decrease in working capital can partially be explained by the increase in investment activities for the Company in 2012. Total investment activities for the year ended December 31, 2012 were $13.0 million in comparison to $8.7 million in the same period of 2011 which is an increase of approximately $4.3 million. The majority of this increase was due to capital development of the Capire Mine and mill in addition to continued exploration in the Royal Mines of Zacualpan Silver District, and investment in plant property and equipment.

[2] Cash flows from operations before changes in non-cash working capital is a non-IFRS measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. See "NON-IFRS MEASURES."

The Company's working capital position is expected to remain sufficiently strong to fund all planned resource property costs, exploration expenditures and acquisition of property, plant and equipment over the coming year.

There was no capital market financing carried out year to date in 2012. In contrast, in the second quarter of 2011, the Company raised $10.4 million through the issuance of 6,088,500 common shares of the Company and through the exercise of share purchase warrants which were exercisable at $1.75 per share.

RESOURCE PROPERTY EXPENDITURES AND CAPIRE MINE DEVELOPMENT

Exploration expenditures related to Zacualpan year to date 2012 were $5.8 million with a further $1.6 million reclassified during the year ended December 31, 2012, compared to $3.1 million in the same period of 2011. Expenditures related to the development of the Capire Mine are $6.1 million year to date 2012 of which $4.5 million was invested in capital development of the mine and mill with the remaining $1.6 million invested in exploration for additional mineral deposits at the Capire Mine. For the year ended December 31, 2011, $0.3 million was invested in capital development of the Capire mine and mill with the remaining $1.2 million invested in exploration of additional mineral deposits.

The Capire Mine capital project is budgeted to cost approximately $7.0 million. At year-end, $4.8 million had been invested in capital development at Capire and the project is on budget.

OUTSTANDING SHARE DATA

The following common shares and convertible securities were outstanding at March 26, 2013:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common	68,128,244		
Stock options	1,310,000	$0.55	January 6, 2014
Stock options	900,000	$1.10	Dec. 6, 2015
Stock options	2,000,000	$1.85	September 26, 2016
Stock options	2,500,000	$1.20	January 23, 2018
Fully diluted at March 26, 2013	74,838,244		

Of the 6,710,000 options outstanding, 4,835,000 have vested at March 26, 2013.

RELATED PARTY TRANSACTIONS

Energold Drilling Corp. ("Energold") owns 6,980,001 shares of the Company and due to management and directors in common, it is considered a related party. Under a management services agreement, Energold recovers direct labour costs for administrative support and public relations. Investor relations' activities are assisted by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases.

During the year ended December 31, 2012, fees in the amount of $3.9 million (December 31, 2011 - $3.1 million) were paid to Energold, a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan mines and concessions. At December 31, 2012, the balance owed to Energold was $0.6 million (December 31, 2011 - $0.4 million).

TAX REASSESSMENT

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 was transferred to SAT pending the outcome of the Company's appeal. As management believed that the Company had a strong case to win this appeal, payments made in respect to this were presented on the balance sheet as a tax reassessment deposit and no expense was recognized in that year.

In December 2011, the appeal went forward to the Superior Court where a favourable judgment was attained for MPZ. No further appeal was launched by SAT against this judgment and as of the final court decision on March 1, 2012, MPZ has successfully won its appeal of the reassessment. In 2012, the Company received the balance owing for the tax reassessment deposit from SAT.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

FINANCIAL ASSETS AND LIABILITIES

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2012 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - 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, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. The principal contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Consorcio Minero de Mexico Cormin Mex, S.A de C.V. ("Cormin Mex"). The Company has a significant concentration of credit risk exposure to Penoles and Cormin Mex at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($16.0 million), trade and other receivables ($4.8 million) and investments ($0.87 million).

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 a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2012, the Company did not have any significant future debt obligations.

INTEREST RATE RISK

The Company is exposed to interest rate risk on its cash. 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 December 31, 2012, the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2012, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $520,000 decrease or increase in the Company's net earnings (loss) for the year ended December 31, 2012.

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, which 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 its exposure to metal prices at this time.

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance in the year ended December 31 as follows:

		2012		2011
Silver price	**$**	**215,000**	$	148,000

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control such as refining and smelting charges and still other factors such as commodity prices and foreign exchange rates which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity, and conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been the capital markets and project financing. The Company has been and will continue to be dependent upon adequate financing and investor support tomeet its long term growth objectives.

POLITICAL, REGULATORY AND SECURITY ISSUES

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining regulations. Permission must also sometimes be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, the Company in carrying out its mining and exploration activities may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. In addition, social and political unrest may exist within a region covered by the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the operating activities of the Company.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Management believes that the Company has designed, established and is operating reasonable overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the period ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

NON-IFRS MEASURES

The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors. Following are the non-IFRS measures the Company uses in assessing performance:

Cash flows from operations before changes in non-cash working capital: Calculated as Cash flows from operations less the changes in non-cash working capital (trade and other receivables, inventories, trade payables, income taxes payable, and due to related party).

The Company's method of calculating these non-IFRS measures may differ from other entities, and accordingly, may not be comparable to measures used by other entities. Investors are cautioned, however, that these measures should not be construed as an alternative to measures determined in accordance with IFRS as an indicator of the Company's performance.

NOTE REGARDING FORWARD–LOOKING STATEMENTS

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

Additional information relating to IMPACT is on SEDAR at www.sedar.com.

On behalf of the Board of Directors,

"Frederick W. Davidson"
President and Chief Executive Officer
March 26, 2013

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of IMPACT Silver Corp. ("the Company") have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and within the framework of the summary of significant accounting policies in these consolidated financial statements, and reflect management's best estimate and judgment based on currently available information.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors meets periodically with management and with the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters priors to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

"F. W. Davidson"
President & Chief Executive Officer

"R. S. Younker"
Chief Financial Officer

March 26, 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF IMPACT SILVER CORP.

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. and itssubsidiaries (the "Company"), which comprise the consolidated statement of financial positions as at December 31, 2012, and 2011 and the consolidated statements of income and retained earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IMPACT Silver Corp. and its subsidiaries as at December 31, 2012 and 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, BC
March 26, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (Canadian Dollars)

ASSETS	**2012**	2011
Current		
Cash	**$ 16,013,245**	$ 30,775,250
Trade and other receivables (Note 4)	**4,821,395**	3,226,929
Inventories (Note 5)	**1,461,994**	1,370,487
Investments	**870,815**	55,000
	$ 23,167,449	$ 35,427,666
Value added taxes receivable (Note 4)	**2,025,563**	–
Tax reassessment deposit (Note 6)	**–**	575,772
Property, plant and equipment (Note 7)	**18,400,875**	13,617,664
Mineral properties (Note 8)	**22,479,702**	14,979,046
	$ 66,073,589	$ 64,600,148

LIABILITES		
Current		
Trade payables and accrued liabilities	**$ 1,191,805**	$ 1,966,074
Income taxes payable	**–**	1,149,854
Due to related party (Note 9)	**590,829**	412,619
	1,782,634	3,528,547
Reclamation provision (Note 10)	**771,416**	–
Deferred income tax liabilities (Note 16)	**4,577,196**	3,294,548
	7,131,246	6,823,095

SHAREHOLDERS' EQUITY		
Share capital	**53,495,947**	53,304,772
Contributed Surplus	**3,156,199**	2,256,643
Accumulated other comprehensive (loss)	**(1,356,896)**	(2,576,301)
Retained earnings	**3,647,093**	4,791,939
	58,942,343	57,777,053
	$ 66,073,589	$ 64,600,148

Subsequent event (Note 21)

ON BEHALF OF THE BOARD:

"F.W. Davidson" Director "P. Tredger" Director

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

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For years ended December 31 (Canadian Dollars)

STATEMENT 2

	2012	2011
Revenues	**$ 15,934,060**	$ 24,266,740
Expenses		
Operating expenses (Note 11)	**10,314,273**	10,125,634
Amortization and depletion	**1,583,806**	1,243,762
	11,898,079	11,369,396
Mine operating earnings	**4,035,981**	12,897,344
General and administrative expenses		
Accounting audit and legal	**228,470**	225,566
Amortization	**52,133**	30,611
Investor relations, promotion and travel	**250,050**	275,013
Management fees and consulting	**284,723**	196,679
Office, rent, insurance and sundry	**513,930**	417,553
Office salaries and services	**890,379**	586,160
Share-based payments	**951,408**	694,141
	3,171,093	2,425,723
Operating income	**864,888**	10,471,621
Other income (expenses)		
Foreign exchange (loss) gain	**(381,623)**	1,042,168
Interest income	**223,159**	211,575
Other income	**2,739**	126
Write-down of available for sale investment (Note 20)	**(750,000)**	–
	(905,725)	1,253,869
Earnings (loss) before taxes	**(40,837)**	11,725,490
Current income tax expense	–	(3,531,865)
Deferred income tax expense	**(1,104,009)**	(617,335)
Net earnings	**(1,144,846)**	7,576,290
Retained Earnings (Deficit) - Beginning of year	**4,791,939**	(2,784,351)
Retained earnings - End of year	**$ 3,647,093**	4,791,939
Earnings per share - Basic (Note 15)	**$ (0.02)**	$ 0.12
- Diluted (Note 15)	**$ (0.02)**	$ 0.11
Weighted average number of shares outstanding - Basic	**68,061,035**	65,159,606
Weighted average number of shares outstanding - Diluted	**69,072,630**	66,761,006

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For years ended December 31 (Canadian Dollars)

STATEMENT 3

	2012	2011
Net earnings (loss)	**$ (1,144,846)**	$ 7,576,290
Other comprehensive income		
Unrealized gain (loss) on investments held as available-for-sale	**(32,500)**	(95,000)
Cumulative translation adjustment	**1,251,905**	(2,590,553)
Comprehensive income	**$ 74,559**	$ 4,890,737

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For years ended December 31 (Canadian Dollars)

STATEMENT 4

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Retained Earnings ($)	Total Shareholders' Equity ($)
Balance at January 1, 2011	**61,245,085**	**39,569,550**	**2,541,663**	**1,860,196**	**109,252**	**(2,784,351)**	**41,296,310**
Earnings for the year	–	–	–	–	–	7,576,290	7,576,290
Stock options exercised	693,625	518,494	–	–	–	–	518,494
Fair value of stock options exercised	–	213,539	–	(213,539)	–	–	–
Warrants exercised	5,533,500	9,683,620	–	–	–	–	9,683,620
Fair value of warrants exercised	–	2,344,079	(2,344,079)	–	–	–	–
Agents options exercised	555,000	693,750	–	–	–	–	693,750
Fair value of agents options issued	–	(117,552)	117,552	–	–	–	–
Fair value of agents options exercised	–	399,292	–	(399,292)	–	–	–
Share based payments expense	–	–	–	694,142	–	–	694,142
Reallocation of fair value of expired agents warrants	–	–	(315,136)	315,136	–	–	–
Cumulative translation adjustments	–	–	–	–	(2,590,553)	–	(2,590,553)
Unrealized gains (losses) on investments	–	–	–	–	(95,000)	–	(95,000)
Balance at December 31, 2011	**68,027,210**	**53,304,772**	**–**	**2,256,643**	**(2,576,301)**	**4,791,939**	**57,777,053**
Earnings for the year	–	–	–	–	–	(1,144,846)	(1,144,846)
Stock options exercised	101,034	139,323	–	–	–	–	139,323
Fair value of stock options exercised	–	51,852	–	(51,852)	–	–	–
Share based payments expense	–	–	–	951,408	–	–	951,408
Cumulative translation adjustments	–	–	–	–	1,251,905	–	1,251,905
Unrealized gains (losses) on investments	–	–	–	–	(32,500)	–	(32,500)
Balance at December 31, 2012	**68,128,244**	**53,495,947**	**–**	**3,156,199**	**(1,356,896)**	**3,647,093**	**58,942,343**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For years ended December 31 (Canadian Dollars)

STATEMENT 5

Cash resources provided by (used in)	**2012**	2011
Operating activities		
Net earnings (loss)	**$ (1,144,846)**	$ 7,576,290
Items not affecting cash		
Amortization and depletion	**1,635,939**	1,274,372
Stock-based compensation expense	**951,408**	694,141
Deferred income taxes	**1,104,009**	617,335
Write-down of available for sale investment	**750,000**	–
Changes in non-cash working capital		
Trade and other receivables	**(1,416,747)**	(295,741)
Inventories	**25,388**	(626,963)
Value added taxes receivable	**(2,025,563)**	–
Trade payables	**(732,977)**	806,298
Income taxes payable	**(1,198,228)**	420,582
Due to related party	**64,900**	182,806
	(1,986,717)	10,649,120
Investing activities		
Purchase of available for sale investment	**(182,650)**	–
Acquisition of property, plant and equipment	**(7,317,215)**	(1,568,703)
Mineral property expenditure	**(5,455,639)**	(7,092,717)
	(12,955,504)	(8,661,420)
Financing activities		
Share capital issued, net	**140,698**	10,895,874
Effect of exchange rate changes on cash	**39,518**	(798,347)
Net change in cash	**(14,762,005)**	12,085,227
Cash - Beginning of year	**30,775,250**	18,690,023
Cash - End of year	**$ 16,013,245**	$ 30,775,250

Supplementary cash flow information (Note 12)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 (Canadian Dollars)

1. NATURE OF OPERATIONS

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and the Dominican Republic. The Company operates a series of underground mines near Zacualpan in the State of Mexico along with developing the Capire Mine in Guerrero State and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The Company is actively exploring for silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic. The registered address of the Company is 1100 – 543 Granville Street, Vancouver, British Columbia.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. The recovery of the Company's investment in these mineral properties and the attainment of profitable operations are dependent upon the discovery and development of economic ore on these properties and the ability to arrange sufficient financing to bring the ore estimates into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these financial statements.

The consolidated financial statements were authorised for issue by the Board of Directors on March 26, 2013.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates.

Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring the use of management estimates include, but are not limited to the following:

- grade and tonnage estimates;
- asset carrying values and impairment analysis;
- reclamation provisions;
- share based payments expense; and
- valuation of inventory

GRADE AND TONNAGE ESTIMATES

Grade and tonnage balances are estimates of the amount of ore that can be mined by the Company. The estimate of grade and tonnages is prepared and reviewed by professional geologists, engineers and members of the Company's management. Changes in the grade and tonnage estimates may impact upon impairment of property, plant and equipment analysis and amortization of assets.

ASSET CARRYING VALUES AND IMPAIRMENT ANALYSIS

In accordance with the Company's accounting policy (Note 3 (g)), each asset or CGU is evaluated every reporting date to determine whether there are any indications of impairment. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, and life-of-mine estimates. The determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, taxes, reclamation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the consolidated statements of income.

RECLAMATION PROVISIONS

Reclamation provisions are a consequence of mining, and the majority of reclamation provisions are incurred near the end of the life of the mine. The Company's accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current restoration standards and techniques.

The initial reclamation provisions together with changes, other than those arising from the discount applied in establishing the net present value of the provision, are capitalized within property plant and equipment and depreciated over the lives of the assets to which they relate. The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites, local inflation rates and exchange rates when liabilities are anticipated to be settled in a currency other than the Canadian dollar. The expected timing of expenditure can also change, for example, in response to changes in mineral grade and tonnage estimates or production rates or economic conditions. As a result there could be significant adjustments to the reclamation provision which would affect future financial results.

SHARE BASED PAYMENTS EXPENSE

The fair value of share options and other forms of share based compensation granted is computed to determine the relevant charge to the consolidated statement of income. In order to compute this fair value, the Company uses option pricing models that require management to make various estimates and assumptions in relation to the expected life of the awards, volatility, risk-free interest rates, and forfeiture rates.

VALUATION OF INVENTORY

Stockpiled ore and finished goods are valued at the lower of cost and NRV. NRV is calculated as the estimated price at the time of sale based on prevailing and future metal prices less estimated future production costs to convert the inventory into saleable form and associated selling costs. The determination of future sales price, production and selling costs requires significant assumptions that may impact the stated value of the Company's inventory.

d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-company transactions and balances are eliminated on consolidation. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as of the Company. These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, including:

- Jade Oil Corporation ("Jade"), Chalco Services Inc. ("Chalco") both located in Canada;
- Minera Impact Silver de Mexico S.A. de C.V. ("MISM"), Minera Aguila Plateada S.A. de C.V. ("MAP"), Minera El Porvenir de Zacualpan S.A. de C.V. ("MPZ") and its wholly owned subsidiary Minera Laureles, S.A. de C.V. all located in Mexico; and
- Proyectos Mineros, S.R.L. ("PMSA") and Minera Monte Plata, S.R.L. ("MMP"), both located in the Dominican Republic.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition
Revenue from the sale of metals contained in concentrates is recognized when significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. These differences create an embedded derivative in trade and other receivables. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales. Refining charges are netted against revenue for sales of metal concentrates.

b) Cash
Cash includes cash on hand where the majority is deposited in a Canadian Tier 1 bank.

c) Inventories
Materials and supplies are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at the lower of average production cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization of mining interests.

d) Investments
Investments in equity securities are classified as available-for-sale because the Company does not hold these securities for the purpose of trading. Equity securities are valued at market value, using quoted market prices, and unrealized holding gains and losses are excluded from net income and are included in other comprehensive income until such gains or losses are realized or where there is objective evidence of a significant or prolonged decline in fair value.

e) Mineral and evaluation expenditures
Mineral and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Mineral and evaluation activity includes:

- acquiring the rights to explore;
- researching and analyzing historical exploration data;
- gathering exploration data through topographical, geological, geochemical and geophysical activities;
- exploratory drilling, trenching and sampling;
- determining and interpreting the tonnage and grade of the resource;
- surveying transportation and infrastructure requirements; and,
- compiling pre-feasibility and feasibility studies.

Capitalization of mineral and evaluation expenditures commence on acquisition of a beneficial interest or option in mineral rights. These assets can be tangible or intangible in nature. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

Mineral and evaluation expenditures are transferred to plant, property and equipment when the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made and all necessary mine development permits issued.

MINERAL PROPERTY TITLES
Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral concessions as well as the potential for problems arising from the frequently ambiguous conveyancing history, characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, except for certain exploration concessions in the Dominican Republic where exploration concessions have been reapplied for in the normal course of business.

PROPERTY OPTION PAYMENTS
From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its resource property costs in good standing.

f) Property, plant and equipment

Plant and equipment is recorded at cost less accumulated depreciation and applicable impairment losses and is amortized using a straight-line method over the assets' expected useful life. All vehicles, including mine mobile equipment as well as office furniture, equipment and leasehold and building improvements are amortized on a declining balance at rates varying from 10% to 30% annually.

Cost includes the purchase price and directly attributable costs to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. When an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Subsequent costs are recognized in the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognized in the statement of comprehensive income as an expense is incurred.

An item of property, plant and equipment and any significant parts initially recognized is derecognized upon disposal or when no future economic benefits are expected from its continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

Depreciation methods, useful lives and residual values are reassessed each reporting date, and any changes arising from the assessment are applied prospectively.

COMPONENTS

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspections and overhaul expenditures, are capitalized. The costs of day-to-day servicing, commonly referred to as "repairs and maintenance", are recognized in the statement of comprehensive income as an expense, as incurred.

COMMERCIALLY VIABLE MINERAL RESOURCE MINERAL AND EVALUATION EXPENDITURES

Exploration, development and field support costs directly related to mineral resources are deferred until the property to which they relate is developed for production, determined to be commercially viable, sold, abandoned or subject to a condition of impairment. The deferred mineral and evaluation expenditures are amortized over the useful life of the ore body following achievement of commercial production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed, as incurred.

The acquisition, development and deferred mineral and evaluation expenditures are depleted on a units-ofproduction basis over the estimated economic life of the ore body following commencement of production. The commencement of commercial production is deemed to occur on a determination made by management with reference to factors such as the asset's ability to operate at its designed capacity over a reasonable period of time.

g) Asset impairment

Management reviews the carrying value of its mineral properties and mining assets at each reporting date or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of asset that generates cash inflows from other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Recoverable amount is the higher of an asset or CGU's fair value less costs to sell ("FVLCS") and its value in use ("VIU"). In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which future cash flows have not been adjusted. FVLCS is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis between knowledgeable, willing parties, less costs of disposal. FVLCS is primarily derived using discounted cash flow techniques, which incorporates market participant assumptions and are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset of CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss recognized in prior years for long-lived assets shall be reversed only if there has been a significant change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is recognized in the statement of comprehensive income and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. After such a reversal, any depreciation charge is adjusted prospectively.

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated.

This re-evaluation determines if future exploration is warranted and if their carrying values are appropriate. These costs would be allocated to the related operating mines. If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

h) Earnings per share

Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

i) Stock options

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. 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. The directors, subject to the policies of the TSX Venture Exchange, may determine and impose terms upon how each grant of options shall become vested.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. The fair value is recognized as expense with a corresponding increase in equity. At each reporting date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

j) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for tax payable with regards to previous periods.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the asset can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

As an exception, deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend to either settle its current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously in each future period, in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

k) Foreign currency translation

The functional currency for each of the Company's subsidiaries and associates is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of IMPACT Silver Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency for all subsidiaries of IMPACT are as follows:

- Canadian dollars for Jade Oil Corporation and Chalco Services Inc.
- Mexican pesos for Minera Impact Silver de Mexico S.A. de C.V., Minera Aguila Plateada S.A. de C.V., Minera El Porvenir de Zacualpan S.A. de C.V. and its wholly owned subsidiary, Minera Laureles, S.A. de C.V.
- Dominican pesos for Proyectos Mineros, S.R.L. and Minera Monte Plata, S.R.L.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation as follows:

(i) Assets and liabilities (other than the reclamation provision) for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
(ii) The reclamation provision is translated at the historical rate of the date of the transaction;
(iii) Income and expenses for each statement of comprehensive income are translated at an average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iv) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in this separate component of equity through other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in the statement of income.

l) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale (AFS) and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost.

Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization

The carrying amount of all financial assets, excluding trade and other receivables, is directly reduced by the impairment loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

A financial asset is derecognized when the contractual right to the asset's cash flows expires or if the Company transfers the financial asset and all risks and rewards of ownership to another entity.

m) Reclamation provisions

The Company recognizes provisions for constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of assets. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The associated reclamation costs are capitalized as part of the carrying amount of the related long-lived asset and amortized using units of production basis.

n) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended December 31, 2012:

IFRS 7 – FINANCIAL INSTRUMENTS – DISCLOSURES

IFRS 7 was amended in 2011 by the IASB. The amendments relate to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

IFRS 9 – FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 will be effective for annual period beginning on or after January 1, 2015.

IFRS 10 – CONSOLIDATION
IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 will be effective for annual period beginning on or after January 1, 2013.

IFRS 11 – JOINT ARRANGEMENTS
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. IFRS 11 will be effective for annual period beginning on or after January 1, 2013.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES
IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of and risks associated with an entity's interests in other entities. IFRS 12 will be effective for annual period beginning on or after January 1, 2013.

IFRS 13 – FAIR VALUE MEASUREMENT
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 will be effective for annual period beginning on or after January 1, 2013.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS: PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME
IAS 1 was amended by the IASB in June 2011. Amendments are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

IAS 32 – FINANCIAL INSTRUMENTS: PRESENTATION
IAS 32 was amended in 2011 by the IASB. The amendments clarify the meaning of "currently has a legal enforceable right to set-off" and the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are required to be adopted for periods beginning January 1, 2014.

IFRIC 20 – STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE
IFRIC 20 was issued by the IASB in October 2011. This interpretation provides guidance on the accounting for the costs of stripping activity in the production phase when two benefits accrue to the entity: usable ore that can be used to produce inventory a nd improved access to further quantities of material that will be mined in future periods. IFRIC 20 will be effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

The Company is currently assessing the impact of these standards.

4. TRADE AND OTHER RECEIVABLES

The following table details the composition of trade and other receivables at December 31:

	2012	2011
Value added taxes receivable – current portion	**$ 2,591,911**	$ 1,441,723
Trade and other receivables	**2,079,740**	1,635,384
Prepaids	**149,744**	149,822
Total trade and other receivables	**$ 4,821,395**	$ 3,226,929

As at December 31, 2012, the long term portion of value added taxes receivable was $2,025,563 (December 31, 2011 - nil).

5. INVENTORIES

The following table details the composition of inventories at December 31:

		2012		2011
Materials and supplies	**$**	**719,717**	$	696,772
Stockpile inventory		**14,809**		165,546
Concentrate inventories		**727,468**		508,169
Total inventories	**$**	**1,461,994**	$	1,370,487

The amount of inventories recognized as an expense during the year ended December 31, 2012 was $10,222,766 (December 31, 2011 - $9,543,489).

6. 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 was transferred to SAT pending the outcome of the Company's appeal. As management believed that the Company had a strong case to win this appeal, payments made in respect to this were presented on the balance sheet as a tax reassessment deposit and no expense was recognized in that year.

In December 2011, the appeal went forward to the Superior Court where a favourable judgment was attained for MPZ. No further appeal was launched by SAT against this judgment and as of the final court decision on March 1, 2012, MPZ has successfully won its appeal of the reassessment. In 2012, the Company received the balance owing for the tax reassessment deposit from SAT.

7. PROPERTY, PLANT AND EQUIPMENT

	Mine equipment ($)	Mobile equipment ($)	Office furniture and equipment ($)	Plant equipment ($)	Surface rights ($)	Vehicles ($)	Mining Assets ($)	Building Improvement ($)	**Total ($)**
Cost									
Balance at December 31, 2010	1,719,036	419,291	90,699	2,548,948	1,039,134	297,362	9,774,137	–	**15,888,607**
Additions	608,023	29,248	6,359	269,019	–	36,760	3,380,102	453,139	**4,782,650**
Foreign exchange movement	(164,266)	(40,066)	(2,978)	(243,570)	(99,297)	(28,415)	(752,004)	–	**(1,330,596)**
Balance at December 31, 2011	2,162,793	408,473	94,080	2,574,397	939,837	305,707	12,402,235	453,139	**19,340,661**
Additions	567,580	4,695	84,100	207,646	245,568	71,367	5,377,986	22,084	**6,581,026**
Disposal on option payment*	–	–	–	(803,378)	–	–	–	–	**(803,378)**
Foreign exchange movement	114,551	21,634	1,545	136,349	49,777	36,772	535,421	20,306	**916,355**
Balance at December 31, 2012	2,844,924	434,802	179,725	2,115,014	1,235,182	413,846	18,315,642	495,529	**26,034,664**
Accumulated amortization									
Balance at December 31, 2010	421,905	390,964	67,055	282,397	–	161,685	3,610,344	–	**4,934,350**
Amortization for the period	215,586	11,168	6,939	75,572	–	11,180	848,886	16,661	**1,185,992**
Foreign exchange movement	(40,316)	(37,359)	(1,938)	(26,985)	–	(15,450)	(275,297)	–	**(397,345)**
Balance at December 31, 2011	597,175	364,773	72,056	330,984	–	157,415	4,183,933	16,661	**5,722,997**
Amortization for the period	329,130	9,672	15,557	93,984	–	59,684	1,061,316	90,879	**1,660,222**
Foreign exchange movement	31,629	19,320	1,118	17,371	–	11,767	168,566	799	**250,570**
Balance at December 31, 2012	957,934	393,765	88,731	442,339	–	228,866	5,413,815	108,339	**7,633,789**
Net book value									
At December 31, 2011	1,565,618	43,700	22,024	2,243,413	939,837	148,292	8,218,302	436,478	**13,617,664**
December 31, 2012	1,886,990	41,037	90,994	1,672,675	1,235,182	184,980	12,901,827	387,190	**18,400,875**

*See Note 8 (b)

8. MINERAL PROPERTIES

a) Details are as follows:

	2012	2011
Zacualpan mines and concessions - Mexico		
Acquisition costs	**$ 2,109,888**	$ 2,010,196
Exploration	**18,996,522**	11,190,229
Recoveries	**(49,881)**	(47,372)
	21,056,529	13,153,053
Zacatecas properties – Mexico		
Acquisition costs	**237,803**	225,841
Exploration	**943,591**	872,229
Disposal on option payment	**(596,865)**	–
Recoveries	**(421,804)**	(406,438)
	162,725	691,632
PMSA and MMP concessions – Dominican Republic		
Acquisition	**582,000**	582,000
Exploration and development	**678,448**	552,361
	1,260,448	1,134,361
Total mineral properties	**$ 22,479,702**	$ 14,979,046

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 to the Company in February 28, 2012 resulted in 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.

During 2012, the Company participated in two small private placements in Defiance totalling an investment of $182,650 for 636,500 shares. With this additional participation, the Company now has a 15.2% interest in Defiance.

The Company still retains a 28% carried interest in three other Zacatecas concessions through a formal joint venture agreement.

9.DUE TO RELATED PARTY

At December 31, 2012, an amount of $590,829 (December 31, 2011 - $412,619) 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.

10. RECLAMATION PROVISION

The Company's reclamation provision is an initial estimate of the net present value of the reclamation costs arising from the Company's increased development of the open pit Capire Mine and mill in 2012. The total undiscounted amount of the estimated costs required to settle the provision are approximately $941,105 (2011 – $nil). The estimated net present value of the reclamation provision was calculated using an inflation factor of 4.3% (2011 – nil%) and discounted using a risk-free rate of 5.0% (2011 – $nil). Settlement of the liability may extend up to 30 years in the future.

Additions to the reclamation provision were as follows:

		2012		2011
Reclamation provision, beginning of the year	**$**	**–**	$	–
New liability recognized		**771,416**		–
Total reclamation provision	**$**	**771,416**	$	–

11. EXPENSES BY NATURE

The following table details the nature of expenses within cost of goods sold at December 31:

		2012		2011
Production costs	**$**	**5,114,217**	$	5,595,242
Administration		**1,786,501**		1,691,804
Transportation		**313,862**		404,147
Wages and salaries		**3,099,693**		2,434,441
Total operating expenses	**$**	**10,314,273**	$	10,125,634

12. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details additional supplementary cash flow information at:

		2012		2011
Income taxes paid	**$**	**–**	$	2,484,634
Interest income received	**$**	**221,576**	$	208,221

13. RELATED PARTY TRANSACTIONS

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

During the year ended December 31, 2012, fees in the amount of $3,929,500 (2011 – $3,057,539) 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.

14. KEY MANAGEMENT PERSONNEL COMPENSATION

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

		2012		2011
Salaries and fees	**$**	**512,256**	$	392,966
Share based compensation		**206,039**		134,519
Total compensation	**$**	**718,295**	$	527,485

15. 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 4,210,000 have been granted as at December 31, 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 December 31, 2012 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)	Weighted Average Share Price ($)
At December 31, 2011	**5,155,000**	**1.31**	–
Exercised	(101,034)	1.38	1.44
Expired	(843,966)	1.42	1.45
At December 31, 2012	**4,210,000**	**1.31**	–

The following table summarizes information about the stock options outstanding December 31, 2012:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
$0.55	1,310,000	1.02	1,310,000
$1.10	900,000	2.43	900,000
$1.85	2,000,000	3.74	1,750,000
	4,210,000	**2.61**	**3,960,000**

On September 27, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 2,000,000 shares of the Company, with an estimated value of $1,812,219 on the grant date. The options are exercisable on or before September 26, 2016 at a price of $1.85 per share.

The Black Scholes Option Pricing Model was used to estimate the fair value of stock options for calculating stockbased compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the 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 remaininterm equal to the stock options' expected life.

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

	2012	2011
Net income attributable to shareholders	**$ (1,144,846)**	$ 7,576,290
Weighted average number of shares - basic	**68,061,035**	65,159,606
Adjustment for share options	**1,011,595**	1,601,400
Weighted average number of shares outstanding - Diluted	**69,072,630**	66,761,006

16. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	2012	2011
Earnings before income taxes	**$ (40,837)**	$ 11,725,490
Canadian federal and provincial income tax rates	**25.00%**	26.50%
Income tax expense based on the above rates	**$ (10,209)**	$ 3,107,255
Increase (decrease) due to:		
Non-deductible expenses	**616,062**	417,053
Losses and temporary differences for which an income tax asset has not been recognized	**459,077**	259,764
Difference between foreign and Canadian tax rates	**155,989**	469,175
Change in long term Mexican tax rates	**(80,621)**	(69,758)
Foreign exchange and other	**(36,289)**	(34,289)
Income tax expense	**$ 1,104,009**	$ 4,149,200

Total income tax expense consists of:	**2012**	2011
Current income tax expense	**$ –**	$ 3,531,865
Deferred income tax expense	**1,104,009**	617,335
	$ 1,104,009	$ 4,149,200

The composition of deferred income tax assets and liabilities are as follows:

	2012	2011
Deferred income tax assets		
Non-capital losses	$ 1,793,931	$ 422,900
Current assets and liabilities	440,714	586,208
Total Deferred tax assets	$ 2,234,645	$ 1,009,108
Deferred income tax liabilities		
Property, plant and equipment	$ 2,774,232	$ 1,653,920
Mineral properties	4,037,609	2,649,736
Total deferred income tax liabilities	$ 6,811,841	$ 4,303,656
Deferred income tax liabilities, net	$ 4,577,196	$ 3,294,548

The composition of deferred tax expense is as follows:

	2012	2011
Deferred income tax assets		
Non-capital losses	$ (1,348,101)	$ (397,382)
Other	177,280	(380,061)
Deferred income tax liabilities		
Property, plant and equipment	$ 1,030,633	$ 1,511,630
Mineral properties	1,244,197	(116,852)
Deferred income tax expense	$ 1,104,009	$ 617,335

Continuity of changes in the Company's net deferred tax positions is as follows:

	2012	2011
Net deferred tax liability, January 1	$ 3,294,548	$ 3,010,461
Deferred income tax expense during the year	1,104,009	617,335
Changes due to foreign current translation	178,639	(333,248)
Net deferred tax liability, December 31	$ 4,577,196	$ 3,294,548

The unrecognized deferred tax asset is as follows:

	2012	2011
Non-capital losses	**$ 1,590,044**	$ 1,238,800
Capital losses	**30,899**	30,899
Property, plant and equipment	**12,546**	11,172
Mineral properties	**697,693**	698,188
Other	**174,282**	304,787
Unrecognized deferred tax asset	**$ 2,505,464**	$ 2,283,846

The non-capital losses have expiry dates while the remainder of the unrecognized deferred tax assets have no expiry dates.

As at December 31, 2012, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

The future expiration of taxes and the potential tax benefit of the losses are as follows:

Operating losses for tax purposes

Expiry Year	
2014	$ 169,820
2015	235,727
2026	828,544
2027	541,044
2028	141,907
2029	415,894
2030	1,266,681
2031	1,137,299
2032	1,623,261
	$ 6,360,177
Capital losses - No expiry date	$ 247,189

17. 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.

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 is sufficient cash to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

18. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2012 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - 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, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. The principle contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Consorcio Minero de Mexico Cormin Mex, S.A de C.V. ("Cormin Mex"). The Company has a significant concentration of credit risk exposure to Penoles and Cormin Mex at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($16.0 million), trade and other receivables ($4.8 million) and investments ($0.87 million).

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 a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2012, the Company did not have any significant future debt obligations.

INTEREST RATE RISK

The Company is exposed to interest rate risk on its cash. 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 December 31, 2012, the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2012, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $520,000 decrease or increase in the Company's net earnings for the year ended December 31, 2012.

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 its exposure to metal prices at this time.

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance in the year ended December 31 as follows:

	2012	2011
Silver price	**$ 215,000**	$ 148,000

19. 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 December 31 are as follows:

	2012	2011
Revenues by geographic area		
Mexico	**$ 15,934,060**	$ 24,266,740
Net earnings (loss) by geographic area		
Mexico	**$ 2,017,868**	$ 9,244,066
Canada	**(3,162,714)**	(1,667,776)
	$ (1,144,846)	$ 7,576,290
Assets by geographical area		
Mexico	**$ 49,207,166**	$ 38,068,938
Canada	**15,520,975**	25,396,850
Caribbean	**1,345,448**	1,134,360
	$ 66,073,589	$ 64,600,148
Property, plant and equipment by geographical area		
Mexico	**$ 18,368,904**	$ 13,603,700
Canada	**31,971**	13,964
	$ 18,400,875	$ 13,617,664

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

20. WRITE-DOWN OF AVAILABLE FOR SALE INVESTMENTS

It was determined that as at December 31, 2012, there was a prolonged decline in the value of the shares of Defiance Silver Corp. ("Defiance") held by the Company. To provide for this decline in value, the Company has recorded a noncash write-down of $750,000. The majority of these Defiance shares came as partial payment for the agreement to option the Zacatecas Veta Grande Project assets mentioned in Note 8 (b). The Company still has legal ownership to these assets as the final payment on the option agreement is not yet due.

21. SUBSEQUENT EVENT

Subsequent to year end, the Company announced that it granted incentive stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,500,000 shares of the Company. The options are exercisable on or before January 23, 2018 at a price of $1.20 per share.

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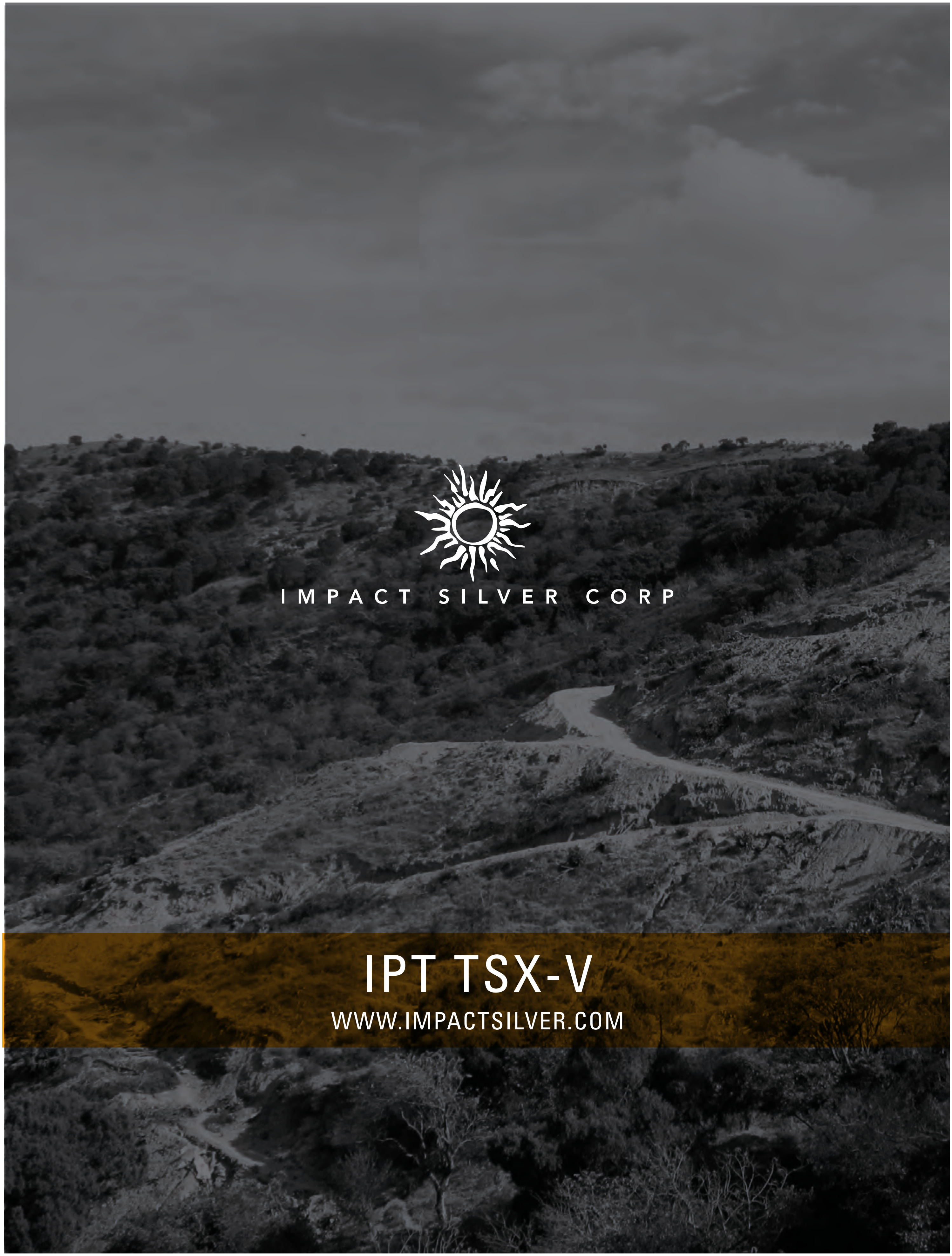
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