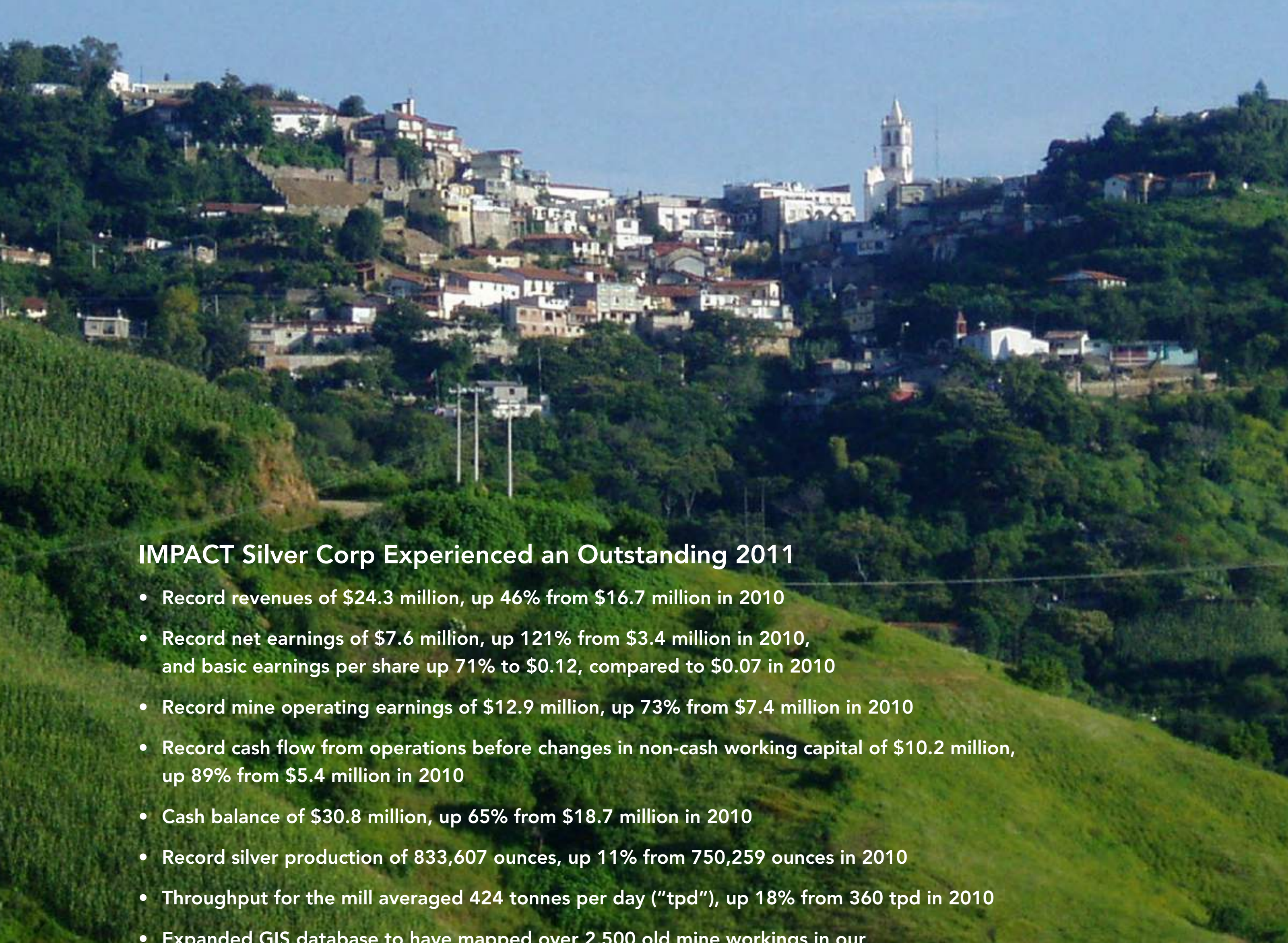
ANNUAL REPORT 2011

IMPACT SILVER CORP

IMPACT Silver Corp is a profitable silver mining company with three 100%-owned producing mines in Mexico. Our focus is to grow into a mid-tier, low-cost, pure and profitable silver producer, and we have reached many milestones this year on our path to fulfill this goal.

IMPACT Silver Corp achieved its most successful and profitable year to date in 2011, attaining record levels of production, revenues and earnings. With increasing silver prices, a robust cash position of over $30 million and a strong upside for future discoveries, IMPACT is well-positioned for the exciting developments that are on our horizon.



IMPACT Silver Corp Experienced an Outstanding 2011

- Record revenues of $24.3 million, up 46% from $16.7 million in 2010
- Record net earnings of $7.6 million, up 121% from $3.4 million in 2010, and basic earnings per share up 71% to $0.12, compared to $0.07 in 2010
- Record mine operating earnings of $12.9 million, up 73% from $7.4 million in 2010
- Record cash flow from operations before changes in non-cash working capital of $10.2 million, up 89% from $5.4 million in 2010
- Cash balance of $30.8 million, up 65% from $18.7 million in 2010
- Record silver production of 833,607 ounces, up 11% from 750,259 ounces in 2010
- Throughput for the mill averaged 424 tonnes per day ("tpd"), up 18% from 360 tpd in 2010
- Expanded GIS database to have mapped over 2,500 old mine workings in our 623 square kilometer land package

Message from the President

IMPACT enjoyed its most profitable year in 2011. Our dedicated focus is to grow into a mid-tier, low cost, pure and profitable silver producer, and we have reached many milestones this year on our path to fulfill this goal. This year we are extremely pleased to have reached new levels of revenues, earnings and production, positioning IMPACT to advance with initiative into 2012 and beyond with an abundance of exploration opportunities and a strong financial position.

We have focused a great deal on developing our new and exciting exploration targets into near-term potential mine developments all while doing what we do best – generating recurring and profitable long-term growth. Our statement of financial position is strong and clean, and we maintain this now with the intention of moving swiftly to the next level in our Company's vision and strategy.

Exceeding Our Targets

IMPACT has grown substantially in the last six years and has developed into a cash generating silver producer. We achieved record revenues for 2011 of $24.3 million, up 46% from $16.7 million in 2010, and record net earnings in 2011 of $7.6 million, a 121% jump from $3.4 million in 2010.

We increased our annual silver production 11% over 2010 to a record 833,607 ounces, at an average cash cost in 2011 of $7 per ounce after credits, maintaining our vision to be a low-cost silver producer. Our throughput at the Guadalupe Processing Plant in the year increased to 424 tonnes per day ("tpd"), up 18% from 360 tpd in 2010.

In the fourth quarter of 2010, management took the opportunity to raise $15 million through a private placement financing. These funds were used in 2011 to substantially increase exploration and initiate the development of the Capire Project, representing our second production center. Exploration increased significantly in 2011, as the Company drilled a total of 29,481 meters, up 68% from 17,520 meters drilled in 2010. The Capire Mine, a new open-pit mine development project with a 200 tpd pilot plant in the Mamatla District, is currently being constructed and scheduled for production in late 2012. Throughout 2011, we announced significant drilling highlights from our Huatecosco Gold Project, which has us now, in 2012, aggressively increasing our drill program to 35,000 meters to quickly discover if what we have underneath our silver district is, in fact, an emerging gold district.

Looking forward, we have the path firmly in place to look beyond organic growth and consider acquiring and developing new streams of earnings and accretive ways to increase shareholder value. We are anticipating 2012 to prove to be another watershed year with the Capire Project coming on stream and the near-term production, high-grade Oscar Project which, combined, will propel IMPACT to reach important milestones in our development to build a profitable multimillion ounce silver producer.

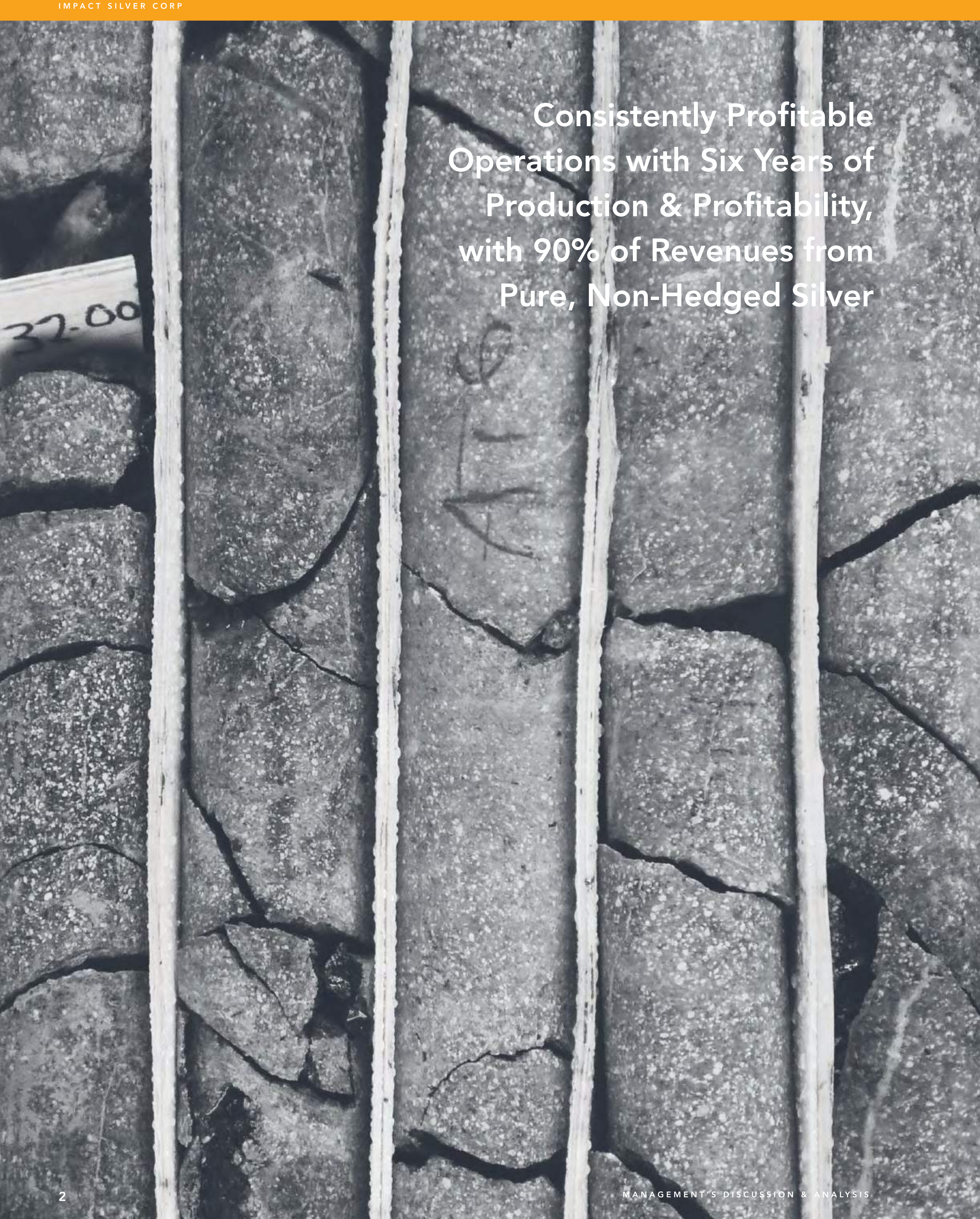
The Best Is Yet To Come

Until now, we have been working extremely diligently and persistently preparing the foundation of IMPACT. We are now poised for the exciting developments that are on IMPACT's horizon, with strong upside potential for future discoveries. We will continue to bring new life to old mine workings in the prolific Royal Mines of Zacualpan Silver District; we will reach new heights with the impressive open-pit Capire Project; and we will pursue, as we have for the last six memorable years, to build a profitable silver producer that our shareholders can be proud to be a part of.

Sincerely, I Thank You

On behalf of the Board of Directors, we want to thank each and every one of our over 235 employees, as with continued steadfast dedication, each has had a hand in growing IMPACT into the profitable silver producer that we are extremely proud of. It is with the upmost respect that we also thank you, our valued Shareholders, as we are most grateful for your loyalty and your continued support. We are looking forward to an outstanding 2012, as the best is yet to come.

Frederick W. Davidson
President & CEO



Consistently Profitable Operations with Six Years of Production & Profitability, with 90% of Revenues from Pure, Non-Hedged Silver

Management's Discussion & Analysis

For the Three Months and Year Ended December 31, 2011

Introduction

This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected IMPACT Silver Corp. and its subsidiaries' ("IMPACT" or the "Company") performance and such factors that may affect future performance. For a comprehensive understanding of IMPACT's financial condition and results of operations, this MD&A should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts referred to herein are in Canadian dollars unless otherwise specified. The Company's accounting policies have changed and the presentation, financial statement captions and the terminology used in this MD&A and the accompanying consolidated financial statements differ from those used in all previously issued financial statements and annual reports. 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."

Highlights For The Fourth Quarter And Year Ended December 31, 2011

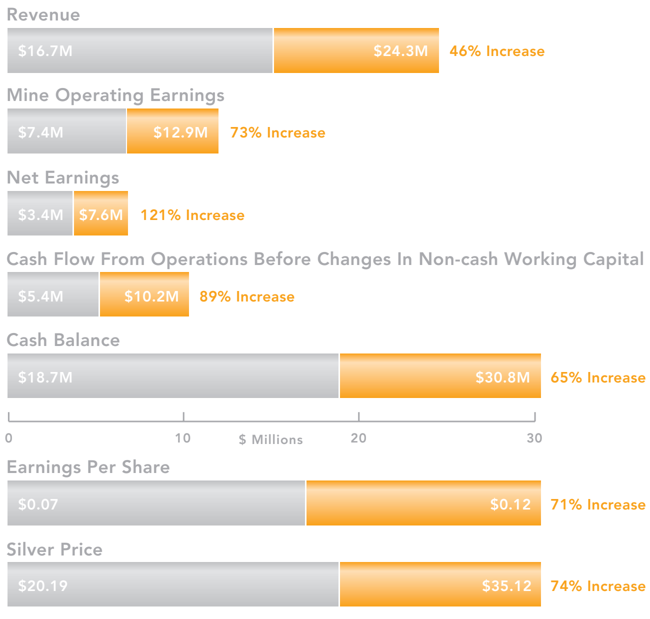
Financial Highlights

Due to dramatically increasing prices for silver and record mill throughput over the last year, the Company had record sales and earnings. With the completion of a $15.0 million financing late last year and the subsequent exercise of the related warrants for a further $10.4 million in the second quarter this year, IMPACT is now able to rapidly accelerate its exploration and development programs to respond to the improved market conditions for silver.

Key events for the Quarter and Year to Date

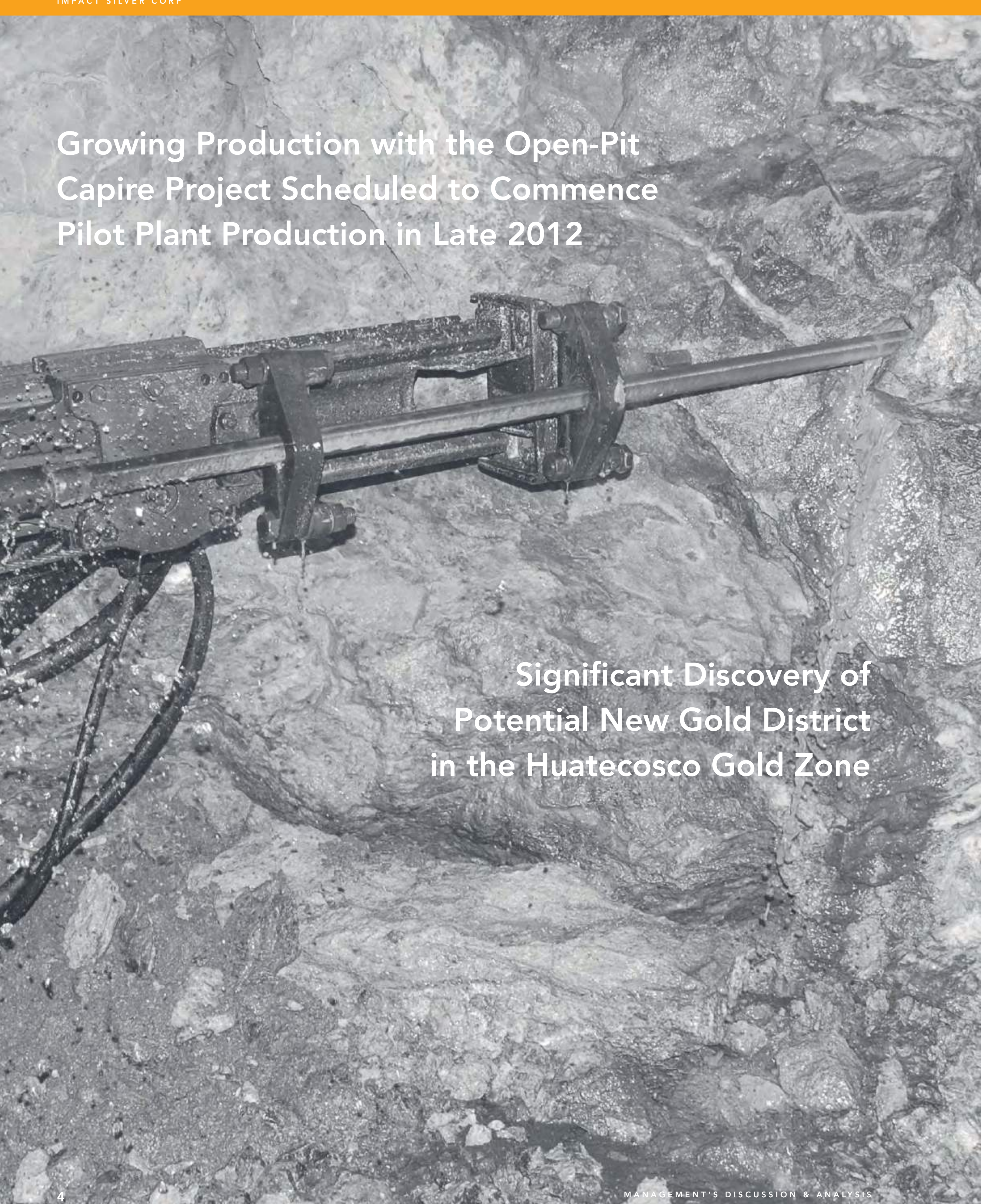
- Revenues for the year were a record $24.3 million up from $16.7 million for the year 2010 in spite of marginally lower silver grades. Fourth quarter revenues in 2011 were $4.8 million, down from $6.8 million in the comparable period of 2010.

Financial Highlights 2011-2012



- For the year ended December 31, 2011 mine operating earnings were $12.9 million up 73% from $7.4 million in the same period in 2010. Mine operating earnings for the quarter ended December 31, 2011 were $1.3 million, down from $3.5 million in the comparable period in 2010.
- Net earnings for the year ended December 31, 2011 were $7.6 million, including a $1.0 million foreign exchange gain, up 121% from $3.4 million in the comparable period of 2010. For the year to date basic earnings per share were $0.12 compared to $0.07 in 2010.
- Cash flows from operations before changes in non-cash working capital[1] for the year ended December 31, 2011 were $10.2 million, up from $5.4 million in the comparable period of 2010. At the end of the quarter the Company had cash and cash equivalents of $30.8 million.
- During the third quarter IMPACT announced the signing of an option agreement with Defiance Silver Corp. ("Defiance") under which Defiance may acquire IMPACT's Zacatecas assets for payment of 1,787,000 Defiance shares and $1,955,200 in cash over two years. Subsequent to the end of the year, Defiance delivered 2,680,500 shares (there was a 3 for 2 Defiance share split). The Zacatecas assets consist of a 200 tonne per day processing plant and 10 mineral concessions.

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."



Growing Production with the Open-Pit Capire Project Scheduled to Commence Pilot Plant Production in Late 2012

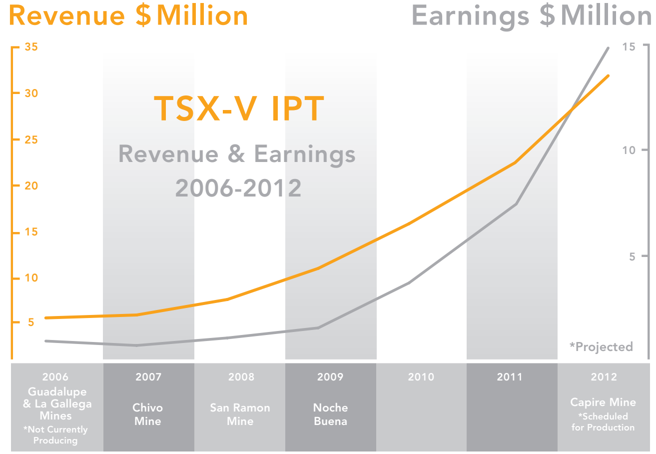
Significant Discovery of Potential New Gold District in the Huatecosco Gold Zone

- On September 27, the Company announced the granting of stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,000,000 shares of the Company. The options are exercisable on or before September 26, 2016 at a price of $1.85 per share.

Private placement financing

- On December 15, 2010 the Company closed a $15.0 million private placement consisting of 12 million units at a price of $1.25 per unit, of which 8.75 million units were sold pursuant to a brokered portion of the private placement and 3.25 million units were sold pursuant to a non-brokered portion of the private placement. Each unit consisted of one common share of the Company and one-half of a non-transferable common share purchase warrant, each whole warrant is exercisable at $1.75 to purchase one common share of the Company until December 14, 2012.
- Under the private placement the Company was entitled to accelerate the expiry date of the warrants to a date which is at least 30 days from the date notice of such acceleration is provided to the holders of warrants in the event that the common shares of the Company trade on the TSX Venture Exchange at a volume-weighted average price of $2.50 or more for a period of at least 10 consecutive trading days. During the first quarter the Company gave such notice and the period to exercise expired June 10, 2011. A total of 6,088,500 common shares of the Company have been issued pursuant to the exercise of warrants, for total proceeds to the Company of $10,377,375.

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



Production Highlights 2011-2012

Total Tonnes Produced Increase of 17%

2011 – 154,289 t

2010 – 131,348 t

Silver Production Increase of 11%

2011 – 833,607 oz

2010 – 750,259 oz

Lead Production

2011 – 731 t

2010 – 734 t

Zinc Production Increase of 3%

2011 – 1,248 t

2010 – 1,212 t

Gold Production Increase of 13%

2011 – 676 oz

2010 – 600 oz

Revenue Per Production Tonne Sold Increase of 39%

2011 – $171.00

2010 – $123.25

Direct Cost Per Production Tonne Sold Increase of 10%

2011 – $69.71

2010 – $63.29

Average Throughput For The Mill Increase of 18%

2011 – 424 tpd

2010 – 360 tpd

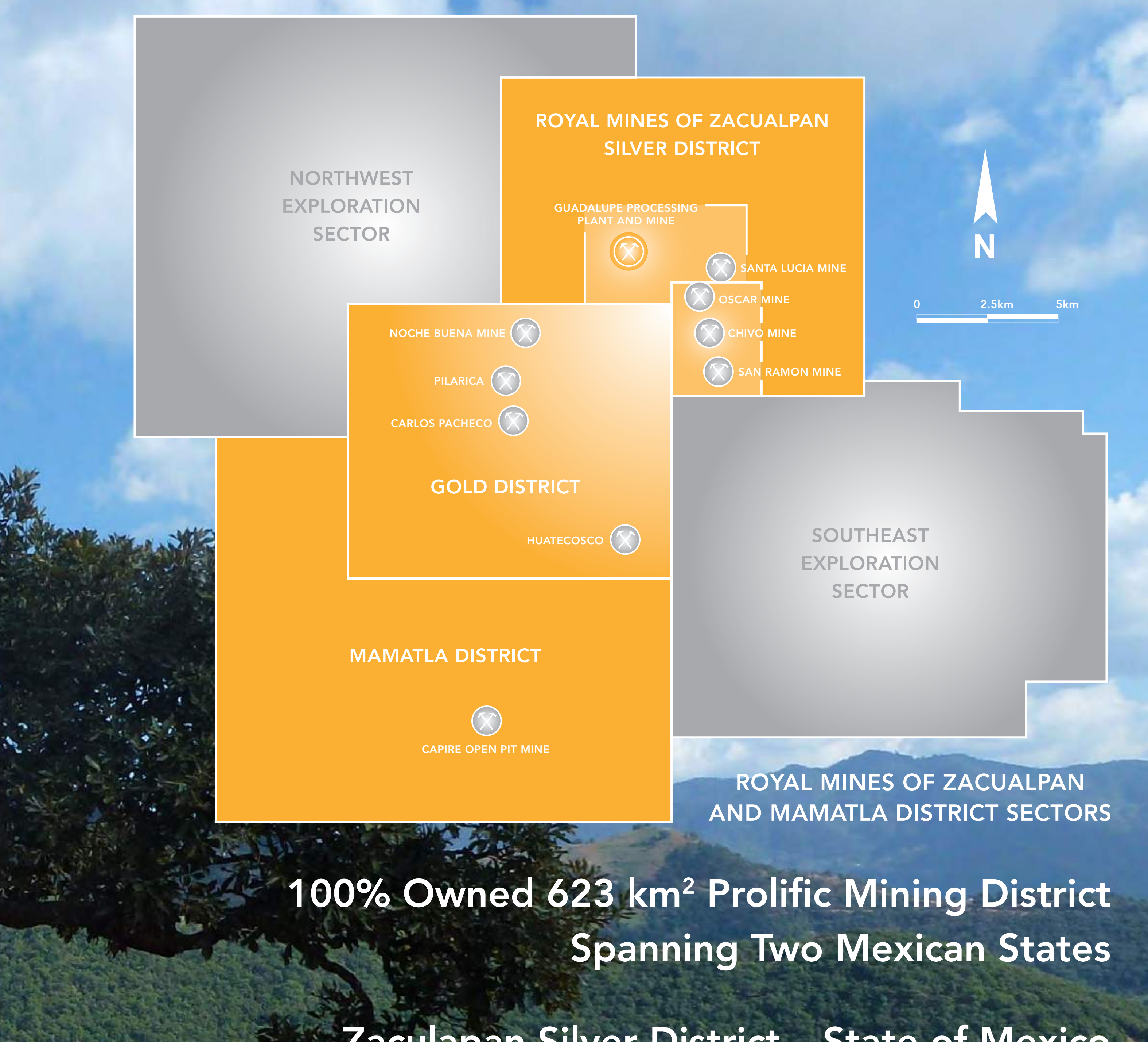
Production Highlights

- With significantly higher metal prices in 2010 the Company revised cut off grades and thereby marginally lowered the average grade of ore mined. Doing so increased the total tonnes of economic ore available to the Company. As the years 2010 and 2011 progressed greater amounts of ore from the new Noche Buena Mine were delivered to the processing plant, bringing total annual throughput to 154,289 tonnes.
- During the third quarter the smelter receiving the lead silver concentrate advised the Company that due to lack of capacity they could not accept shipments for upwards of 30 days. The Company continued producing lead silver concentrates and stockpiled them. In mid-October the Company recommenced concentrate shipments. As a result revenues for the quarter and year-to-date were lower than anticipated. The net realizable value of the unshipped inventories at December 31, 2011 was $1.0 million.

The 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 Deposits
- Volcanogenic Base Metal Deposits



ROYAL MINES OF ZACUALPAN
AND MAMATLA DISTRICT SECTORS

100% Owned 623 km² Prolific Mining District Spanning Two Mexican States

Zaculapan Silver District – State of Mexico

423 km² with Three Producing Mines and 500 tpd Processing Plant

Mamatla Silver District – State of Guerrero

200 km² with Open-Pit Mine Scheduled for Pilot Production Late 2012

Strong Exploration Upside with Over 2,500 Old Mine Workings Mapped to Date in Our 100%-Owned 623 km^2 Land Package

- Silver production in the quarter was 169,755 oz., bringing the total year's production to 833,607 oz. up 11% from 750,259 oz. for 2010.
- Lead production in 2011 was 731 tonnes, compared to 734 tonnes in the same period of 2010.
- Zinc production in the fourth quarter of 2011 was 248 tonnes, down from 314 tonnes in the third quarter of 2011. However production for the full year was 1,248 tonnes which is 3% higher than 1,212 tonnes in the comparative period in 2010.
- Average mill throughput in the fourth quarter was 428 tonnes per day ("tpd"), marginally higher than the third quarter and up 17% from 365 tpd in the fourth quarter of 2010. At December 31, 2011 the Company held finished goods concentrate inventories with an estimated net realizable value of $1.0 million. These inventories are valued on the balance sheet at cost which was $0.7 million - $0.5 million in concentrate inventories and $0.2 million in stockpile inventories.

Exploration Highlights

IMPACT's exploration increased significantly in 2011 as a result of a large drilling program that was both surface and underground focused. Total drilling for 2011 surpassed the planned 25,000 meters to 29,481 meters, up 68% from 17,520 meters drilled in 2010. Underground drilling totalled 3,010 meters, a 37% jump from 2,197 meters in 2010, and surface drilling grew to 26,471 meters, up 73% from 15,323 meters in 2010.

Capire Deposit, Mamatla District

Subsequent to year end on January 11, 2012, IMPACT announced that construction of the new Capire Open-Pit Silver Mine ("Capire") had commenced, with the first concentrate shipments scheduled for late 2012. Capire will be the fourth mine the IMPACT team has taken from exploration through to commercial production. Capire represents a new production center in a new mining district and an opportunity that, upon successful completion of the proposed exploration and development programs, would propel IMPACT to become a multimillion ounce silver producer.

On February 1, 2011, IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit. The estimated measured and indicated mineral resource at Capire included 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.

On May 24, 2011, IMPACT announced that it completed 6,698 meters of drilling to expand the Capire zone to the north, east and south beyond the limits of the February 2011 mineral resource area. Highlights from this expansion drilling include 304 g/t silver, 4.51 g/t gold, 1.52% lead, 3.05% zinc and 0.49% copper over 5.00 meters and highlights from drill results announced on August 17, 2011, include 1,160 g/t silver, 3.74 g/t gold, 3.86% lead, 8.83% zinc and 0.65% copper over 0.50 meters.

The Capire zone remains open for expansion and exploration is continuing in 2012 with approximately 5,000 meters of drilling in the north, east and southern zones on numerous old mine workings and VMS (volcanogenic massive sulfides) targets. Results from the 5,000 meter exploration drill program will contribute toward planning the size and capacity of the permanent processing plant, which is scheduled in approximately two to three years.

Oscar Silver Project

In 2011, IMPACT carried out extensive drilling on the Oscar Silver Project ("Oscar") located 2.5 kilometers east of the Guadalupe Processing Plant. Oscar is a corridor of high-grade silver veins linking the past producing Cuchara Silver mine and the Santa Lucia Silver Zone. Highlights from the 2011 Oscar drill program include 291 g/t silver over 30.65 meters and 4,580 g/t silver over 1.05 meters. Upon receiving and interpreting the final drill results, the IMPACT mine development team will study the feasibility of mine production in the combined Oscar-Santa Lucia area utilizing the existing mining infrastructure at the adjacent historic Cuchara Mine.

Huatecosco Gold-Silver Project

In 2011, IMPACT drilled two targets on the Huatecosco Gold-Silver Project located 9.5 kilometers south of the Guadalupe Processing Plant. Highlights from the Huatecosco Central Zone included 3.44 g/t gold and 118 g/t silver over 4.74 meters. Highlights from the Huatecosco Pedro Zone included 5.22 g/t gold and 30 g/t silver over 4.74 meters. Aggressive exploration is continuing in 2012 along the 16 kilometer Huatecosco structure and its surrounding veins. The Huatecosco Gold-Silver Project is part of a potential new gold district that may lie beneath the silver district.

Veta Grande Silver Project, Zacatecas

In September 2011, IMPACT optioned its Veta Grande Silver Project assets in Zacatecas (Mexico) to Defiance Silver Corp. in return for cash and an approximately 16% share position. Defiance Silver plans to refurbish IMPACT's 200 tpd Santa Gabriella Processing Plant and commence commercial production with mineral feed from the IMPACT concessions and the past producing San Acacio mine, which is under option from a third party.

A Robust Cash Position with Over $30 Million and Zero Debt

Production and Sales

	Three months ended			Three months ended		
	Dec. 31 2011	Dec. 31 2010	% Change	Dec. 31 2011	Sept. 30 2011	% Change
Total tonnes (t) produced	39,376	33,603	+17%	39,376	39,262	+0.3%
Tonnes produced per day	428	365	+17%	428	427	+0.3%
Silver production (oz)	169,755	203,259	-16%	169,755	178,522	-5%
Lead production (t)	142	174	-18%	142	194	-27%
Zinc production (t)	248	363	-32%	248	314	-21%
Gold production (oz)	163	146	+12%	163	170	-4%
Silver sales (oz)	201,037	249,632	-19%	201,037	118,867	+69%
Lead sales (t)	177	218	-19%	177	123	+44%
Zinc sales (t)	246	367	-33%	246	333	-26%
Gold sales (oz)	207	173	+20%	207	106	+95%
Revenue per production tonne sold	123.12	168.39	-27%	123.12	144.17	-15%
Direct costs per production tonne	63.67	78.26	-19%	63.67	62.93	+1%

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 square kilometers Royal Mines of Zacualpan Silver District and the 200 square kilometers Mamatla Mineral District adjacent to and southwest of Zacualpan. In addition to its 500 tpd plant, IMPACT also owns a semi-portable, 200 tpd processing plant for use as a pilot plant at its Capire Mine Development Project in Mamatla. In the first quarter of 2011, the Company purchased a third processing plant, the Santa Gabriela Processing Plant, with a 200 tpd capacity and then optioned it to Defiance Silver for cash and a major share position.

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.

The Company is carrying out a three-part program of exploration, development and mine production at both the Zacualpan and Mamatla Districts. As part of this process, management has established three key objectives for the districts in 2012:

- Complete the construction of the new Capire Open-Pit Silver Mine and the 200 tpd Pilot Plant with first concentrate shipments by year end 2012.
- Complete in-house feasibility studies on the Oscar Mine for start of potential production in 2013.
- Continue aggressive exploration and prepare new sources of ore for mine development to justify expansion of the current facilities or construction of new processing plants.

Fast-Tracking Aspect of Growth Strategy

The Capire Mine is the fourth operation being taken from discovery to production by the IMPACT team since 2006, scheduled to be put into production in just 12 months from start of construction that was announced in January 2012. IMPACT's ability to fast track new mines into production represents a cornerstone of the Company's strategy for rapid growth in the Zacualpan and Mamatla Districts.

NI 43-101 Resource at Capire

On February 1, 2011, IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit located in the Mamatla Mineral District, 16 kilometers southwest of IMPACT's active mining and processing operations at Zacualpan. Measured and indicated mineral resource estimates for the Capire Deposit included 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. Capire remains open for expansion, and a 5,000 meter expansion drilling announced for 2012 is in progress.

Production Diversity Provides Flexibility

IMPACT's operations in Zacualpan have the diversity and flexibility to manage fluctuating prices for silver, lead and zinc. With lower commodity prices, production can shift quickly to mine higher grade ore, while higher prices allow for mining of lower grade ore. Current strong metal markets have allowed IMPACT to lower its economic cut-off grades, generating slightly lower grades on a per-ton basis but expanding the available tonnage for mining.

Veta Grande Silver Project, Zacatecas Optioned

The Veta Grande Silver Project, in the Zacatecas Silver District, includes a 200 tpd processing plant and interests in 10 mineral concessions. Under an option agreement, Defiance has agreed to acquire IMPACT's processing plant and mineral property interests in the Zacatecas area for an initial payment of 2,680,500 shares (paid subsequent to year end) and a second payment of $1,955,200 in cash upon the earlier of achieving commercial production at the mill or two years from signing of the agreement. The agreement remains subject to Defiance completing a financing for a minimum of $1.5 million prior to the final closing.

Cash Position

At December 31, 2011, the Company had cash and cash equivalents of $30.8 million held primarily with a Canadian Tier 1 Bank.

Overview of the year ended December 31, 2011

IMPACT completed an extremely successful year. As detailed in the table below, production levels for 2011 continued to increase primarily as a result of the addition of ore from the Noche Buena Mine. The dramatically higher prices for silver have allowed the Company to revise cut-off grades, which reduced slightly the average ounces per tonne, although with the additional ore from Noche Buena mine, grades at the Guadalupe mill for the year have been only marginally lower for silver than in the comparable period in 2010. Reducing the grade increased the cost per ounce, but with high metal prices in 2011 the Company produced a record profit for the year of $7.6 million or $0.12 per share. The mill throughput increased to 424 tpd from 360 tpd in 2010. During the period the Company completed the installation of new and more efficient flotation cells for the lead-zinc circuit and new filters in the lead-zinc circuit which should improve throughput and recoveries in the future.

In Mamatla, the Company focused its efforts on developing the Capire deposit. This included condemnation drilling at the proposed plant site, tailings pond and waste dumps, as well as drill testing possible extensions to the Capire deposit itself. Surface rights have been secured and the initial permitting efforts have commenced. Subsequent to the year end the Company received its development permits and began mine construction.

Production and sales for the year ended

	Year ended		
	Dec. 31 2011	Dec. 31 2010	% Change
Total tonnes (t) produced	154,289	131,348	+17%
Tonnes produced per day	424	360	+18%
Silver production (oz)	833,607	750,259	+11%
Lead production (t)	731	734	-0.4%
Zinc production (t)	1,248	1,212	+3%
Gold production (oz)	676	600	+13%
Silver sales (oz)	826,191	788,630	+5%
Lead sales (t)	703	828	-15%
Zinc sales (t)	1,250	1,221	+2%
Gold sales (oz)	657	643	+2%
Revenue per production tonne sold	171.00	123.25	+39%
Direct costs per production tonne	69.71	63.29	+10%

Mining And Exploration Overview – Mexico

Royal Mines of Zacualpan Silver District

IMPACT owns concessions covering most of the Royal Mines of Zacualpan Silver District in central Mexico. Assets include 423 square kilometers of mineral concessions, operating mines, a processing plant rated at 500 tpd and a semi-portable processing plant rated at 200 tpd. The project is located 100 kilometers southwest of Mexico City and 25 kilometers 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.

2011 Production

Background and Overview

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006 and since then has carried out an extensive program of upgrading the operations and expanding production and profitability. Since acquiring the project, IMPACT has upgraded nearly all of the mining equipment including purchasing and rebuilding of scoop-trams and underground trucks. Upgrade expenditures included new equipment in the processing plant and the continuing expansion of the tailings dams. While plant and facilities may at times limit capacity, sourcing mill feed from the Company's mines remains the critical factor for increasing production further.

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 six years, IMPACT now has a greater ability to balance mill feed grade by drawing from a larger number of mine stopes. This flexibility provides a better blended overall grade for optimum metal recovery.

Chivo Mine

The Chivo Mine, located in the La Virgen Valley Mining Camp in the central part of the Zacualpan District, is the second mine put into production in the district by the IMPACT team. The mine was discovered in 2005, first drilled in late 2006, and rapidly put into initial production in November 2007.

During the fourth quarter of 2011 the Chivo Mine provided 27% (Q4 2010 – 55 %) of mill feed.

San Ramon Mine

Located in the La Virgen Valley Mining Camp and 1.3 kilometers south of the Chivo Mine, San Ramon provided 24% (Q4 2010 – 27%) of mill feed from the mining of high grade mineral in the fourth quarter of 2011.

Mining at San Ramon continues to expand as the Company has developed underground access to a parallel structure, the Chaparrita Vein. During the fourth quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on Level 5.5. This target is now the main contributor to production at San Ramon. Subsequent to year end 2011, construction on a second access adit was started from the valley floor and is anticipated to reach the San Ramon workings at about Level 13 later in 2012. This second access will reduce mining and hauling costs at San Ramon.

Noche Buena Silver Mine

During the fourth quarter of 2011 the Noche Buena Mine provided 40% (Q4 2010 – 18%) of mill feed. The mine is contributing a silver-gold feed with low lead and zinc contents to the Guadalupe Plant. This feed is being mixed and balanced with the higher grade lead from other mines to optimize the concentrate value.

The Noche Buena Mine, which opened in early 2010, is located four kilometers southwest of the Guadalupe Processing Plant in the Huatecosco area, where IMPACT discovered and drilled several gold rich veins including the Carlos Pacheco vein. The Carlos Pacheco vein is located only 200 meters east of the Noche Buena Mine workings. Additional drilling on Carlos Pacheco is in progress, and once complete, IMPACT mine engineers will study the feasibility of driving a cross cut from the Noche Buena Silver Mine workings across to the Carlos Pacheco Gold Zone.

Gallega and Guadalupe Mines

The Gallega Mine restarted in late 2011 and provided 9% (Q4 2010 – 0%) of mill feed. Gallega will continue to supplement modest feed to the mill in 2012.

There was no mining during 2011 at the nearby Guadalupe Mine, which remains dewatered and accessible for possible future mining. The remaining mineral at Guadalupe is mainly zinc-rich with modest silver values, and was originally the lowest cost producer for the mines supplying the Guadalupe Processing Plant.

Guadalupe Processing Plant

The program of upgrades designed to enhance recoveries and improve processing economics is largely complete at the Guadalupe Processing Plant. The flotation circuit capacity has been expanded and other modifications are underway. Expansion of the tailing dam continues in order to provide additional capacity in future years.

2011 Exploration

Drilling

Total exploration drilling for 2011 surpassed the proposed 25,000 meters to 29,481 meters, up 68% from 17,520 meters drilled in 2010. IMPACT explored multiple targets in 2011 including the Oscar, Huatecosco, Capire, Chontalpan, Golondrinas, Cerro Cuates, San Pablo Norte and Condesa areas. Field work included extensive geological mapping, trenching, soil sampling, prospecting, the re-opening of many old mine workings and their systematic sampling.

Oscar Vein Corridor

The Oscar Vein Corridor ("Oscar"), located 2.5 kilometers east of the Guadalupe Processing Plant, is a series of high-grade silver veins linking the past producing Cuchara Silver mine and the Santa Lucia Silver Zone. Earlier drill results for Santa Lucia included 466 g/t silver across 3.2 meters. Previous drilling at the Oscar returned values of 2,820 g/t silver, 7.83 g/t gold, 3.48% lead and 7.83% zinc over 0.30 meters.

The drill results from the 2011 Oscar program include many high-grade silver intersections, as indicated in the table below:

Summary of 2011 Oscar Vein Corridor Drill Intersections

Drill Hole	Drill Section	From (m)	To (m)	Intersection (m)	Silver (g/t)	Gold (g/t)	Lead (%)	Zinc (%)
Z11-35	18+50N	145.90	146.25	0.35	2,860	0.35	1.6	4.6
Z11-37	18+50N	183.95	189.20	5.25	108	0.19	0.2	0.4
Z11-38	18+50N	97.72	103.70	5.98	197	0.02	0.2	0.5
Including		100.47	100.92	0.45	1,310	0.11	1.3	4.0
Z11-39	19+00N	62.15	63.70	1.55	285	0.01	0.2	0.3
Z11-40	19+00N	120.25	124.75	4.50	136	0.08	0.3	0.9
Including		120.25	120.80	0.55	414	0.16	0.4	1.8
Z11-44	19+50N	51.80	82.45	30.65	291	0.01	0.1	0.4
Including		51.80	59.25	7.45	780	0.02	0.4	1.1
Including		51.80	52.10	0.30	6,730	0.20	1.5	8.0
Including		55.50	55.95	0.45	4,240	0.06	2.1	6.8
Including		64.60	70.40	5.80	398	0.03	0.2	0.4
Including		68.25	68.95	0.70	1,290	0.06	0.2	1.3
And		139.45	146.80	7.35	244	0.07	0.5	0.9
Including		140.45	144.45	4.00	380	0.08	0.7	1.3
Z11-45	18+00N	118.30	118.60	0.30	530	0.02	0.2	0.2
Z11-46	17+50N	92.10	97.75	5.65	1,007	0.07	0.5	1.1
Including		96.70	97.75	1.05	4,580	0.26	1.7	4.0
And		108.95	111.70	2.75	1,128	0.51	0.9	1.4
Including		109.70	110.80	1.10	2,630	0.40	0.8	2.2
Including		135.65	135.95	0.30	537	0.05	0.5	3.1
Z11-47	17+50N	116.60	122.40	5.80	122	0.01	0.1	0.2

The final phase of the drill program at Oscar was completed subsequent to year end and assays are pending. Interpretation of the results is continuing and will determine the orientation and continuity of silver grades in the veins. Upon receiving and interpreting the final drill results, the IMPACT mine development team will determine the feasibility of mine production in the combined Oscar-Santa Lucia area utilizing the existing mining infrastructure at the adjacent historic Cuchara Mine.

Huatecosco Gold-Silver Project

In 2011, IMPACT commenced drilling on the Huatecosco Gold-Silver Project ("Huatecosco") located 9.5 kilometers south of the Guadalupe Processing Plant. Huatecosco is one of the dominant veins in the Zacualpan Silver-Gold District. It is a large northwest trending structure with an inferred strike length of 16 kilometers. This structure, along with a number of others located in the southern and western portions of the Zacualpan District, contain zones of elevated gold values in addition to the silver mineralization that is characteristic of the District. The Huatecosco drill program was designed to test a series of gold-silver-lead-zinc-copper soil anomalies located in the extreme southeast portion of this structure.

The first anomaly drilled was the Huatecosco Central Zone, which contained a collection of old mine workings and returned significant drill results, as indicated in the table below:

Summary of 2011 Huatecosco Central Zone Drill Intersections

Drill Hole	Drill Section	From (m)	To (m)	Intersection (m)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)
Z11-15	26+50 SE	92.55	98.00	5.45	1.19	59	1.42	1.95
including		92.55	94.05	1.50	3.82	149	4.10	3.80
Z11-17	27+00 SE	54.51	59.25	4.74	3.44	118	0.59	0.81
including		55.08	57.40	2.32	2.29	217	0.97	1.19
Z11-19	26+00 SE	110.55	117.40	6.85	1.60	159	0.22	0.30
including		114.65	117.40	2.75	3.53	321	0.43	0.57
Z11-20	26+00 SE	167.90	178.20	10.30	3.97	49	1.69	2.62
including		167.90	172.50	4.60	6.96	84	2.89	5.11
Z11-23	26+50 SE	344.90	347.23	3.15	0.96	26	0.28	1.52

The Huatecosco Pedro Zone, located 300 meters northwest of the Huatecosco Central Zone, is marked by a second gold-silver-lead-zinc-copper soil anomaly, and is also host to an abundance of old mine workings. Recently completed soil sampling two kilometers further northwest on the Huatecosco structure indicated the presence of two stronger soil anomalies, which are scheduled for drilling in 2012.

Initial drill results from the Huatecosco Pedro Zone returned a number of significant assays, as listed in the table below:

Summary of 2011 Huatecosco Pedro Zone Drill Intersections

Drill Hole	From (m)	To (m)	Interval (m)	Gold (g/t)	Silver (g/t)	Lead (%)	Zinc (%)
Z11-33	183.55	192.6	9.05	0.48	62.96	0.62	2.02
Including	186.35	187.8	1.45	1.4	61.69	1.4	4.75
Z11-34	228.25	233.05	4.8	0.15	50.66	1.55	6.39
Including	231.95	232.4	0.45	0.16	123	4.01	23.6
Z11-48	351.7	355.8	4.1	5.22	30.1	0.69	1.78
Including	353.75	354.5	0.75	25	50.1	0.49	1.59
Z11-50	197.8	201.3	3.5	0.45	108.13	1.85	2.7
Including	200.45	201.3	0.85	1.25	220	3.58	6.45

Additional drill results are pending from Huatecosco and exploration is continuing along the Huatecosco structure. When final drill results have been received and interpreted, IMPACT's mine planning team will study the feasibility of mine production at the Huatecosco Gold-Silver Project at these two initial zones.

Chontalpan Silver Project

The IMPACT exploration team drilled an additional ten holes as they embarked on the second phase of the Chontalpan drill program in 2011. This second phase was designed to further delineate two zones of silver mineralization on trend with the historic Chontalpan Mine, located five kilometers southeast of the Guadalupe Processing Plant. Significant drill results included 4.38 meters grading 116.5 g/t silver. Previous drill results include 2.14 meters of 402.6 g/t silver. Drilling is now complete and IMPACT's mine planning team is currently studying the feasibility of developing these zones into small producing mines that may augment production from IMPACT's principal mining operations in the Zacualpan District.

Golondrinas Silver Project

In 2011, IMPACT added four exploration holes at the Golondrinas Project, located three kilometers southeast of the Guadalupe Processing Plant. Drill results included 2.84 meters grading 132 g/t silver. Previous drill results from 2010 included 1.03 meters of 1,045g/t silver. Additional drilling is planned for the northern portion of the Golondrinas area where a number of high-grade silver intersections were discovered in 2010.

Zacualpan – Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the District. These crews have been sampling some of the 2,500+ 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 2011 this work included mapping and sampling of soils and rocks mainly in the Noche Buena West and Huatecosco areas with the objective of defining additional near-term drill targets.

Mamatla Mineral District

The Mamatla Mineral District hosts epithermal silver and base metal veins as well as volcanogenic massive sulphide ("VMS") base and precious metal mineralization. The development of the open-pit Capire Mine is now under construction.

Capire Subdistrict VMS Prospects

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 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 kilometers southwest of Capire.

Capire Mine Development Project

The open-pit Capire Silver Project, which commenced construction in January 2012, represents a new production center in a new mining district and an opportunity that, upon successful completion of the proposed exploration and development program, would propel IMPACT to become a multimillion ounce silver producer.

In February 2011, the updated NI 43-101 compliant Measured and Indicated Mineral Resources was announced and totalled 7.2 million ounces silver, 30,446 ounces gold, 95.6 million lbs zinc and 37.2 million lbs lead. The following is a summary of the Capire Deposit by zone of the total classified Measured and Indicated Mineral Resources inventory and separately, Inferred Mineral Resources, based on a 3D geological model:

Summary of Classified Mineral Resources – Measured + Indicated and Separate Inferred, Capire

Zone	Classification	Tonnes	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)
Capire	Measured + Indicated	3,104,944	46.46	0.19	0.06	0.33	0.93
Aurora 1	Measured + Indicated	1,807,302	44.50	0.199	0.07	0.36	0.80
Grand Total	Total Measured + Indicated	4,912,246	45.74	0.193	0.06	0.34	0.88
Capire	Inferred	69,144	41.14	0.169	0.05	0.26	0.72
Aurora 1	Inferred	301,922	35.49	0.159	0.06	0.28	0.71
Grand Total	Total Inferred	371,066	36.54	0.161	0.06	0.28	0.71

No adjustments have been made for mining or metallurgical recoveries, and no economic cut off values were incorporated. Combined Measured and Indicated, and separately Inferred, In Ground Metal Contents are as follows:

Total Measured + Indicated In Ground Metal Content, Capire

		Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Capire +Aurora 1	Measured	3,529,969	14,146	3,389,275	18,234,678	46,140,820
Capire +Aurora 1	Indicated	3,694,066	16,300	3,693,733	19,029,800	49,522,173
Capire +Aurora 1	Measured+Indicated	7,224,035	30,446	7,083,007	37,264,478	95,662,993

Total Inferred In Ground Metal Content, Capire

Capire +Aurora 1	Inferred	435,959	1,919	475,594	2,260,089	5,823,490

See IMPACT news release dated February 1, 2011 and posted on www.sedar.com for full details.

Subsequent to the mineral resource announcement, IMPACT completed 6,698 meters of drilling to expand the Capire zone to the north, east and southeast. Highlights from this expansion drilling are included in the table below:

Summary of 2011 Capire Project Drill Intersections

Drill Hole	From (m)	To (m)	Interval (m)	Silver (g/t)	Gold (g/t)	Lead (%)	Zinc (%)	Copper (%)
C11-24	58.50	63.50	5.00	304	4.51	1.52	3.05	0.49
Including	59.50	61.50	2.00	661	10.83	3.06	6.05	1.06
C11-26	96.05	102.65	6.60	212	0.37	1.24	2.79	0.22
Including	100.65	102.65	2.00	496	0.77	2.34	4.99	0.48
Including	82.00	83.50	1.50	298	0.54	1.61	3.48	0.32
C11-39	54.50	56.00	1.50	206	0.77	1.14	2.14	0.17
C11-42	111.80	112.30	0.50	1,160	3.74	3.86	8.83	0.65
C11-50	21.35	24.40	3.05	139	2.95	0.52	1.02	0.26
Including	22.85	24.40	1.55	256	5.62	0.97	1.82	0.49

The Capire Zone remains open for further expansion. Additional drilling is planned. A map of the drill grids and other information for Capire can be found on the Company website at www.IMPACTSilver.com.

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007, IMPACT field crews have also discovered many epithermal vein prospects and old mines primarily northeast of Capire. This work is continuing with the objective of defining future drill targets.

Zacatecas Silver Project, México – Veta Grande Project

In 2011, IMPACT optioned its Zacatecas assets, a 200 tpd processing plant and 10 mineral concessions with no underlying royalties, to Defiance Silver Corp. in return for cash and a shareholding in Defiance. Defiance Silver plans to refurbish the plant and commence commercial production with mineral feed from all its 10 mineral concessions and the past producing San Acacio mine, which is presently under option from a third party.

The Veta Grande Silver Project is located 500 kilometers 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.

2012 Outlook

Exploration plans for 2012 include a $7 million, 35,000 meter drill program that will be focused on expanding the Capire zone to determine the size and capacity of the permanent processing plant, on aggressively continuing drilling in the Huatecosco area to explore the potential new gold-copper district, and the balance of the drilling meters will be results-driven. The IMPACT team will continue aggressive exploration with a goal of putting some of the other 2,500 compiled prospects in the Zacualpan and Mamatla Districts on a faster track to potential production and build mineral inventories for mining.

Production plans for 2012 include organic growth from the Chivo, the San Ramon and the Noche Buena, with the Capire Mine scheduled to come into production in late 2012.

With a track record of successful exploration, rapid mine development and more than 2,500 old mine workings identified to date, IMPACT's exploration work in the Zacualpan and Mamatla Districts has resulted in the opening of three mines – Chivo, San Ramon and Noche Buena – over the past four years. The open-pit Capire Mine is now under construction and will represent IMPACT's second production center.

IMPACT's long term vision sees potential for establishment of multiple processing plants throughout the two districts each fed by multiple mines. Construction at the new Capire facility is the first step in achieving this vision.

George Gorzynski, P. Eng., Vice President Exploration 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 Mamatla 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, an independent professional engineer. Details on sampling methods and other information on the projects can be found in the Company's news releases and website at www.IMPACTSilver.com.

Exploration Overview – Dominican Republic

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc, as well as several juniors. IMPACT's exploration concessions 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 faults and cross-faults which the Company believes offer the opportunity for mineralization. The Company's block of concessions is located some 100 kilometers 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 IMPACT's concessions located to the east. Limited work was carried out by the Company on its concessions during the last year.

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.

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 must be kept informed of our activities and their concerns addressed.

The Company retains a Community Relations Officer to ensure open communications. Wherever possible, the local community should participate in the benefits that may flow from the Company's activities. The use of local personnel and other workers fosters direct involvement in the operations conducted by the Company.

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.

During the year the Company experienced a fatality at the Guadalupe mill. The Guadalupe mill was shut down for approximately four days while the cause of the accident was investigated by the Company and the appropriate authorities. IMPACT's management team expresses their sincere condolences to the family of the deceased and those affected by the incident. Even though the mining operation has a fully qualified safety team and was cleared of any responsibility by regulatory authorities, the Company engaged two third party consulting firms to perform an independent audit of all safety procedures on site. Their recommendations are being addressed at this time.

Investor Relations

During the year, IMPACT attended a number of investor conferences in Canada, U.S.A. and Europe. In September 2011 the Company appointed a new full time investor relations staff member to facilitate communication with the investment community and Company shareholders. In addition, the Company conducted numerous presentations to institutional and retail investors in various cities across Canada and in Europe. The Company plans to continue these activities on an ongoing basis. Energold Drilling Corp. (a significant shareholder) assists IMPACT with its day-to-day investor relations.

Financial Discussion

Summary of Annual Results

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

Year ended December 31	2011	2010	2009
Revenue	24,267	16,678	12,176
Net earnings	7,576	3,434	1,160
Earnings per share – basic ($)	0.12	0.07	0.02
Earnings per share – diluted ($)	0.11	0.07	0.02
Cash and cash equivalents	30,775	18,690	5,295
Total assets	64,600	46,939	31,690

* Financial data for 2011 and 2010 was prepared in accordance with IFRS. Financial data for 2009 was prepared using Canadian GAAP.

* The Company has no non-current financial liabilities for 2011, 2010 and 2009.

Mine Operating Earnings for the year ended December 31, 2011 compared to the year ended December 31, 2010

Revenues (net smelter returns) for the year ended December 31, 2011 were $24.3 million, up from $16.7 million in 2010. Revenues were up due to increased mill throughput and metal prices.

In spite of reducing cut off grades, revenues per production tonne sold increased to $171.00 for the year, up 39% from $123.25 in 2010. Additional feed from Noche Buena and improved grades at San Ramon resulted in slightly higher grade mill feed. With the addition of the Noche Buena mine feed average mill throughput during the year was 424 tpd, up 18% from 360 tpd during 2010.

Mine operating expenses for the year were $10.1 million, up from $8.2 million in 2010. Amortization and depletion in the year was $1.2 million, comparable to $1.0 million in 2010. Direct mine operating costs per tonne for the year were $69.71, up 10% from $63.29 from 2010

Mine operating earnings in the year were $12.9 million, up from $7.4 million in 2010. Net earnings for the year were $7.6 million, up 121% from $3.4 million in 2010.

General, Administrative and Other Expenses for the year ended December 31, 2011 compared to the year ended December 31, 2010

General and administrative expenses during 2011 were $2.4 million, up from $1.8 million in 2010. Investor relations, promotion and travel during the year rose to $0.3 million compared to $0.1 million in 2010 due to the broader dissemination of information by the Company. Office salaries and services expense increased marginally to $0.6 million for the year ended 2011, up from $0.5 million in 2010. Office rent and sundry was $0.42 million compared to $0.3 million for the same period in 2010. Non-cash stock based compensation was $0.7 million in 2011 compared to $0.4 million for the year ended 2010. All other categories of general and administrative expenses remained largely the same between years.

The Company realized a foreign exchange gain of $1.0 million in 2011 compared to a foreign exchange loss of $0.2 million in 2010. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

Mine Operating Earnings for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

Revenues (net smelter returns) in the fourth quarter ended December 31, 2011 were $4.8 million, down from $6.8 million in the fourth quarter of 2010. Correspondingly revenue per production tonne sold decreased to $123.12 in the fourth quarter of 2011, down 27% from $168.39 in the fourth quarter of 2010. Revenues in the fourth quarter of 2011 were lower in part because of an adjustment to smelter rates retroactive to June 30, 2011, lower grades as well as slightly lower prices for silver.

With the addition of the Noche Buena mine feed average mill throughput during the fourth quarter of 2011 was 428 tpd, up 17% from 365 tpd during the fourth quarter of 2010.

Mine operating expenses during the quarter were $3.1 million, up from $3.0 million in the fourth quarter of 2010, as silver lead concentrates mined and processed during September were inventoried at the plant site. Amortization and depletion in the quarter was $0.5 million, comparable to $0.3 million in the fourth quarter of 2010. Direct mine operating costs per tonne in the fourth quarter of 2011 were $63.67, down 19% from $78.26 in the fourth quarter of 2010. Efficiencies gained by the increased mill throughput more than offset increases in salaries and wages at the mine when comparing the fourth quarter of 2011 to the fourth quarter of 2010.

Mine operating earnings in the quarter were $1.3 million, a decrease from $3.5 million in the fourth quarter of 2010. Amortization and depletion was $0.5 million in the fourth quarter as a result of a review and adjustment of depletion rates in the fourth quarter. Net earnings in the fourth quarter of 2011 were $0.6 million, down from $2.1 million in the fourth quarter of 2010.

General, Administrative and Other Expenses for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

General and administrative expenses in the fourth quarter of 2011 were $0.6 million and $0.4 million in the fourth quarter of 2010. Investor relations, promotion and travel in the quarter rose to $0.06 million compared to $0.04 million in the fourth quarter 2010 due to the broader dissemination of information by the Company. Office salaries and services expense increased to $0.12 million in the fourth quarter of 2011, up from $0.11 million in the fourth quarter of 2010. Non-cash stock based compensation was $0.2 million in the fourth quarter of 2011 compared to $0.06 million for the fourth quarter of 2010. All other categories of general and administrative expenses remained largely the same between quarters.

The Company incurred a foreign exchange gain of $0.08 million in the fourth quarter of 2011 compared to a foreign exchange loss of $0.07 million in the same period of 2010. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

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 (loss) per share.

For the three months ended

	Dec 31 2011	Sept 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	Jun 30 2010	Mar 31 2010
Revenues	4,848	4,163	7,997	7,258	6,820	3,209	2,948	3,702
Net earnings (loss)	637	1,994	2,471	2,474	2,087	414	302	631
Earnings (loss) per share – Basic*	0.01	0.03	0.04	0.04	0.04	0.01	0.01	0.01
Earnings (loss) per share – Diluted*	0.01	0.03	0.04	0.04	0.04	0.01	0.01	0.01
Cash and cash equivalents	30,775	33,746	32,633	19,968	18,690	2,939	3,973	4,157
Total assets	64,600	65,702	65,238	51,083	46,939	29,789	29,129	28,574
Total liabilities	6,823	8,302	7,747	6,768	5,643	4,879	4,462	4,552

* Per share numbers have been rounded to two decimal places. * The financial results from January 1, 2010 have been restated in accordance with IFRS.

Liquidity and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at December 31, 2011 remained strong with $30.8 million in cash and cash equivalents (2010 – $18.7 million) and net working capital of $31.9 million (2010 - $20.2 million). The significant increase in cash and cash equivalents balances are primarily due to the exercise of warrants from the $15.0 million private placement in December 2010 consisting of 12 million units at a price of $1.25 per unit. During the second quarter pursuant to the exercise of the warrants under the unit offering, 6,088,500 shares were issued for total proceeds to the Company of $10,377,375. IMPACT generated positive cash flows from operations of $10.6 million for 2011 (2010 – $4.2 million) and positive cash flows from operations before changes in non-cash working capital were $2.2 million during the fourth quarter of 2011. During the fourth quarter of 2011 these positive cash flows were invested in resource properties ($0.9 million) and property, plant and equipment ($0.3 million).

The Company's working capital position is expected to remain strong as planned resource property costs, exploration expenditures and acquisition of property, plant and equipment will be supported by positive cash flow from mining operations.

Resource Property Expenditures

Exploration expenditures related to Zacualpan in the fourth quarter of 2011 were $1.1 million, up from $0.6 million in 2010, before the reclassification to property, plant and equipment. Expenditures on drilling and other exploration costs are budgeted to continue to be between $1.5 and $2.0 million per quarter as the Company continues to develop the Zacualpan and Mamatla Districts.

IMPACT has committed additional resources and has hired geological support staff to lead two separate teams to accelerate the exploration and mapping of its properties and prospective drill targets. The Company expects that its 2012 exploration expenditures in the Zacualpan and Mamatla Districts will continue at levels in excess of 2011 as it proceeds to explore some of the more promising exploration targets. The Capire capital program is anticipated as costing approximately $7.0 million which will occur for the most part over the year. However, the Company will continue to closely monitor its cash and cash equivalents balance and may adjust exploration expenditures as required.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 30, 2012:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common	68,027,210		
Stock options	867,500	$ 1.40	September 5, 2012
Stock options	75,000	$ 1.67	October 22, 2012
Stock options	1,312,500	$0.55	January 6, 2014
Stock options	900,000	$1.10	Dec. 6, 2015
Stock options	2,000,000	$1.85	September 26, 2016
Fully diluted at March 30, 2012	**73,182,210**		

Of the 5,155,000 options outstanding, 3,905,000 have vested at March 30, 2012.

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, 2011, fees in the amount of $3.1 million (December 31, 2010 - $1.9 million) 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. At December 31, 2011, the balance owed to Energold was $0.4 million (December 31, 2010 – $0.4 million).

Contingencies

The Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities SAT Servicio de Administracion Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT. The total reassessment was for $0.6 million.

On November 30, 2010 MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount has been transferred to SAT pending the outcome of the Company's appeal. As management believes that the Company has a strong case to win this appeal, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense has been recognized in the current year.

In December 2011, the appeal went forward to the Superior Court where a favourable judgement was attained for MPZ. If no further appeal is launched by SAT against this judgement, MPZ will be successful in its appeal of the reassessment.

Financial Instruments and Management of Financial Risk

Financial assets and liabilities

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties, carrying value is considered to be fair value due to the short-term nature of these instruments. The fair value of investments is determined by quoted prices in active markets for identical assets at the balance sheet date. At December 31, 2011 all equity investments held were classified as Level 1 and cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were classified as Level 2 on the fair value hierarchy.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, accounts receivable and investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. As is customary in the mining industry, the Company has entered into two 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 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") with both accounting for 100% of the sales of the Company for the fiscal year. 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 and cash equivalents ($30.8 million), accounts receivable ($3.2 million) and investments ($0.06 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 in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2011 the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2011 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2011, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $716,000 decrease or increase in the Company's net earnings for the three months ended December 31, 2011.

Commodity price risk

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

Transition to International Financial Reporting Standards

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 First-time Adoption of International Financial Reporting Standards, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following IFRS 1 optional exemptions:

Exemptions applied

a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date to IFRS. The Company has applied this election and has applied IFRS 3 to business combinations that take place on or after

January 1, 2010. As such, Canadian GAAP balances relating to the business combination entered before that date have been carried forward without adjustment.

b) Cumulative foreign currency translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative foreign currency translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative foreign currency translation difference and adjusted retained earnings by the same amount.

c) Share-based payment expense

In accordance with IFRS 1, the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

Adjustment to retained earnings

The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS. Please see notes for additional information.

	December 31, 2010	January 1, 2010
Retained earnings (deficit) as reported under Canadian GAAP	$ 712,438	$ (2,725,237)
IFRS adjustments increase (decrease)		
Amortization of employee stock options (Note 1)	$ (67,047)	$ (103,759)
Deferred income tax (Note 2)	(100,117)	(31,655)
Cumulative translation adjustment (Note 3)	(3,329,625)	(3,357,869)
	(3,496,789)	(3,493,283)
Retained earnings (deficit) as reported under IFRS	$ (2,784,351)	$ (6,218,520)

Explanatory notes

1. Share based payments

Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the Company policy under Canadian GAAP. This adjustment for December 31, 2010 and January 1, 2010 is $67,047 and $103,759 respectively.

2. Deferred tax asset / liability

Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or liabilities must be classified as current.

Under IFRS, additions to mineral property that do not result in an equivalent increase in current or future tax deductible amounts are treated as a permanent difference. Under Canadian GAAP an increase in mineral property and deferred income tax liability was recorded to reflect the inherent tax cost to the Company from the acquisition of an asset that was not deductible for tax purposes.

Under IFRS, a tax expense is recorded against the Other Comprehensive Income if the amount recorded results in a current or deferred tax liability. When the Company does not expect the amount recorded as Other Comprehensive income to result in a tax liability, it does not record a tax expense in Other Comprehensive Income. Under Canadian GAAP, a tax expense was recorded on any income in Other Comprehensive Income even if the income would not result in a current or deferred tax liability being recorded due to previously unrecognized deferred income tax assets. This caused the Company to record an offsetting income tax recovery.

Under IFRS, when calculating deferred income taxes the tax basis includes the increase or decrease due to inflationary adjustments to the tax basis. Under Canadian GAAP, the inflationary adjustments were only recognized when they were realized as an adjustment to current income tax. The cumulative effect of these adjustments to retained earnings for December 31, 2010 and January 1, 2010 is $100,117 and $31,655 respectively.

3. Cumulative Translation Adjustment

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated using the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either

"self-sustaining" or "integrated". Self-sustaining subsidiaries are translated using the current rate method. Integrated subsidiaries are translated using the temporal method.

As a result of the method used to translate non-monetary assets, the balances in the subsidiaries have been adjusted. Assets which are monetary in nature remain unchanged. The cumulative effect of these adjustments to retained earnings for December 31, 2010 and January 1, 2010 is $3,329,625 and $3,357,869 respectively.

To transition from Canadian GAAP to IFRS the main adjustments include:

Translation of non-monetary assets

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated using the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either "self-sustaining" or "integrated". Self-sustaining subsidiaries are translated using the current rate method. Integrated subsidiaries are translated using the temporal method.

As a result of the method used to translate non-monetary assets, the balances in the subsidiaries have been adjusted. Assets which are monetary in nature remain unchanged.

Foreign currency translation adjustment

In accordance with IFRS 1, First Time Adoption of IFRS, the Company has applied a one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as at January 1, 2010. The cumulative translation adjustment balance as of January 1, 2010 was recognized as an adjustment to retained earnings. The application of this exemption had no impact on net equity as at transition to IFRS.

Mineral interest and property, plant and equipment reclassification

Under IFRS, exploration and evaluation assets should be reclassified to property, plant and equipment when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Under Canadian GAAP, the Company presented its exploration assets and mineral assets in one schedule.

Share based payments

Under IFRS, the company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the Company policy under Canadian GAAP.

Deferred tax asset / liability

Under IFRS, additions to mineral property that do not result in an equivalent increase in current or future tax deductible amounts are treated as a permanent difference. Under Canadian GAAP an increase in mineral property and deferred income tax liability was recorded to reflect the inherent tax cost to the company from the acquisition of an asset that was not deductible for tax purposes.

Management's Report on Internal Control 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, 2011 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 (accounts receivable and prepaid expenses, inventories, accounts payable and accrued liabilities, 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 30, 2012

Independent Auditor's Report

To the Shareholders of IMPACT Silver Corp.

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of income and retained earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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, 2011 and 2010 and as at January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP Chartered Accountants

March 30, 2012

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 judgement 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 and Chief Executive Officer

R. S. Younker
Chief Financial Officer

March 28, 2012

Consolidated Statements of Financial Position

As at December 31 (Canadian dollars)

ASSETS	2011	2010	January 1, 2010
Current			
Cash	$ 30,775,250	$ 18,690,023	$ 5,294,881
Trade and other receivables (Note 16)	3,226,929	3,190,820	1,289,672
Inventories (Note 5)	1,370,487	788,342	919,808
Investments	55,000	150,000	82,500
	35,427,666	22,819,185	7,586,861
Tax reassessment deposit (Note 17)	575,772	636,604	-
Property, plant and equipment (Note 6)	13,617,664	10,954,257	5,299,302
Exploration properties (Schedule 1, Note 7)	14,979,046	12,528,970	13,750,976
	$ 64,600,148	$ 46,939,016	$ 26,637,139
LIABILITIES			
Current			
Trade payables	$ 1,966,074	$ 1,234,740	$ 843,942
Income taxes payable	1,149,854	981,840	236,063
Due to related party (Note 8)	412,619	415,665	274,560
	3,528,547	2,632,245	1,354,565
Deferred income tax liabilities (Note 12)	3,294,548	3,010,461	2,529,442
	6,823,095	5,642,706	3,884,007
SHAREHOLDERS' EQUITY			
Share capital	53,304,772	39,569,550	27,648,195
Contributed surplus	2,256,643	4,401,859	1,290,957
Accumulated other comprehensive income (loss)	(2,576,301)	109,252	32,500
Retained earnings (deficit)	4,791,939	(2,784,351)	(6,218,520)
	57,777,053	41,296,310	22,753,132
	$ 64,600,148	$ 46,939,016	$ 26,637,139

Contingencies (Note 17)
Subsequent event (Note 18)

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**

	2011	2010
Revenues	$ 24,266,740	$ 16,677,710
Expenses		
Operating expenses (Note 20)	10,125,634	8,210,040
Amortization and depletion	1,243,762	1,032,186
	11,369,396	9,242,226
Mine operating earnings	12,897,344	7,435,484
General and administrative expenses		
Accounting, audit and legal	225,566	189,560
Amortization	30,611	23,846
Business development investigations	–	82,582
Investor relations, promotion and travel	275,013	118,548
Management fees and consulting	196,679	204,801
Office, rent, insurance and sundry	417,553	297,358
Office salaries and services	586,160	481,369
Share-based payments	694,141	411,462
	2,425,723	1,809,526
Operating Income	10,471,621	5,625,958
Other income (expenses)		
Foreign exchange (loss) gain	1,042,168	(167,509)
Interest income	211,575	10,790
Other income	126	1,540
	1,253,869	(155,179)
Earnings before taxes	11,725,490	5,470,779
Current income tax expense	(3,531,865)	(1,555,409)
Deferred income tax expense	(617,335)	(481,201)
Net earnings	7,576,290	3,434,169
Retained Earnings (Deficit)- Beginning of year	(2,784,351)	(6,218,520)
Retained Earnings (Deficit) – End of year	$ 4,791,939	$ (2,784,351)
Earnings per share – Basic (Note 11)	$ 0.12	$ 0.07
– Diluted (Note 11)	$ 0.11	$ 0.07
Weighted average number of shares outstanding – Basic	65,159,606	49,438,882
Weighted average number of shares outstanding – Diluted	66,761,006	50,434,322

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

	2011	2010
Net earnings	**$ 7,576,290**	$ 3,434,169
Other comprehensive income		
Unrealized gain (loss) on investments held as available-for-sale	**(95,000)**	67,500
Cumulative translation adjustment	**(2,590,553)**	9,252
Comprehensive income	**$ 4,890,737**	$ 3,510,921

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, 2010	**48,389,585**	**27,648,195**	**–**	**1,290,957**	**32,500**	**(6,218,520)**	**22,753,132**
Earnings for the period	–	–	–	–	–	3,434,169	3,434,169
Common shares issued for exploration properties	100,000	106,000	–	–	–	–	106,000
Stock options exercised	755,500	358,645	–	–	–	–	358,645
Fair value of stock options exercised	–	241,515	–	(241,515)	–	–	–
Share based payments expense	–	–	–	411,462	–	–	411,462
Fair value of warrants issued	–	–	2,541,663	–	–	–	2,541,663
Fair value of agent compensation options	–	–	–	399,292	–	–	399,292
Shares issued in relation to a private placement	12,000,000	12,458,337	–	–	–	–	12,458,337
Share issue costs	–	(1,243,142)	–	–	–	–	(1,243,142)
Cumulative translation adjustments	–	–	–	–	9,252	–	9,252
Unrealized gains on investments	–	–	–	–	67,500	–	67,500
Balance at December 31, 2010	**61,245,085**	**39,569,550**	**2,541,663**	**1,860,196**	**109,252**	**(2,784,351)**	**41,296,310**
Earnings for the period	–	–	–	–	–	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
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)	–	–	–
Fair value of warrants exercised	–	2,344,079	(2,344,079)	–	–	–	–
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**

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)	2011	2010
Operating activities		
Net earnings	$ 7,576,290	$ 3,434,169
Items not affecting cash		
Amortization and depletion	1,274,372	1,056,032
Stock-based compensation expense	694,141	411,462
Deferred income taxes	617,335	481,201
Changes in non-cash working capital		
Trade and other receivables	(295,741)	(1,913,822)
Inventories	(626,963)	75,796
Trade payables	806,298	390,094
Income taxes payable	420,582	110,708
Due to related party	182,806	139,682
	10,649,120	4,185,322
Investing activities		
Acquisition of property, plant and equipment	(1,568,703)	(1,174,569)
Exploration property expenditure	(7,092,717)	(4,106,691)
	(8,661,420)	(5,281,260)
Financing activities		
Share capital to be issued	–	37,500
Share capital issued, net	10,895,874	14,477,298
	10,895,874	14,514,798
Effect of exchange rate changes on cash	(798,347)	(23,718)
Net increase in cash	12,085,227	13,395,142
Cash – Beginning of year	18,690,023	5,294,881
Cash – End of year	$ 30,775,250	$ 18,690,023

Supplementary cash flow information (Note 19)

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

Consolidated Schedules of Exploration Properties

For Years Ended December 31 (Canadian dollars) **Schedule 1**

	2011	2010	January 1, 2010
Zacualpan mine and concessions, Mexico (Note 7b)			
Acquisition costs	$ 7,926	$ –	$ 12,720
Deferred exploration costs			
Assaying	622,192	320,619	220,128
Drilling	2,154,623	1,946,460	1,230,145
Field administration, travel and other	984,232	531,975	540,869
Wages and consulting	1,413,328	1,133,754	1,069,397
	5,174,375	3,932,808	3,060,539
Amount allocated to property, plant and equipment	(1,826,176)	(4,210,307)	(2,647,720)
Foreign exchange movement	(950,260)	38,703	(4,007,342)
	2,405,865	(238,796)	(3,581,803)
Zacatecas properties, Mexico (Note 7c)			
Acquisition costs	–	9,322	260,968
Deferred exploration costs			
Field administration, travel and other	34,626	56,934	33,936
Wages and consulting	59,133	63,030	11,748
	93,759	119,964	45,684
Amount allocated to property, plant and equipment	–	(1,156,347)	–
Foreign exchange movement	(57,067)	34,854	(399,855)
	36,692	(992,207)	(93,203)
Other properties, Dominican Republic (Notes 7d)			
Deferred exploration costs			
Field administration, travel and other	5,756	7,328	9,581
Wages and consulting	1,763	1,669	2,484
	7,519	8,997	12,065
Costs for the Year	2,450,076	(1,222,006)	(3,662,941)
Balance – Beginning of Year	12,528,970	13,750,976	17,413,917
Balance – End of Year	$ 14,979,046	$ 12,528,970	$ 13,750,976

Notes to the Consolidated Financial Statements

December 31, 2011 (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 the Royal Mines of Zacualpan in the State of Mexico and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The Company is also active in the exploration of silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic. The 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 reserves on these properties and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. Basis of preparation

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.

These are the Company's first IFRS consolidated annual financial statements. Previously, the Company prepared its annual consolidated and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian "GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 4.

Significant accounting judgments and estimates

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, assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values used to establish the purchase price allocation, fair values for purposes of impairment analysis, reclamation obligation, non-cash share based payments expense, estimated net realizable value of inventories, and the recoverability of trade and other receivables.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the notes to the financial statements where applicable.

3. Significant accounting policies

a) 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 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., and Minera Impact Silver de Mexico S.A. de C.V. each located in Mexico; and
- Proyectos Mineros, S.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP"), both located in the Dominican Republic.

b) 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.

c) Cash

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

d) 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.

e) 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 objective evidence of impairment is determined to have occurred.

f) Exploration and evaluation expenditures

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration 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 exploration and evaluation expenditures commence on acquisition of a beneficial interest or option in mineral rights. These assets capitalized are can be tangible and intangible in nature. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

Exploration 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.

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.

g) 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 recognised is derecognised 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 exploration 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 exploration 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 exploration and evaluation expenditures are depleted on a units-of-production 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.

h) 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's or CGU fair value less costs to sell (FVLCS) and its value in use (VIU). In assessing value in use, 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. The 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 subsidiaries 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 recognised. This reversal is recognised 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 recognised 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 reserves, 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 reserves. 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 Exploration properties represent costs incurred to date and do not necessarily reflect present or future values.

i) 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.

j) 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.

k) 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.

l) 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.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP")

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

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

(ii) 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

(iii) 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.

m) 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 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 FVTPL, 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 receivables (see above section "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.

n) Restoration provisions

The Company recognizes liabilities 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 restoration costs are capitalized as part of the carrying amount of the related long-lived asset and amortized over the expected useful life of the asset.

o) 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, 2011:

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 9 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.

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 and 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.

Amendments issued but not yet implemented are as follows:

(i) IAS 1, Presentation of Financial Statements (Amendment) – Presentation of other comprehensive income effective for annual periods beginning on or after July 1, 2012

(ii) IAS 28, (Amendment) New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures effective for annual periods beginning on or after January 1, 2013

The Company has not yet assessed the impact of the standards.

4. First-time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 First-time Adoption of International Financial Reporting Standards, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following IFRS 1 optional exemptions:

Exemptions applied

a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the transition date to IFRS. The Company has applied this election and has applied IFRS 3 to business combinations that take place on or after January 1, 2010. As such, Canadian GAAP balances relating to the business combination entered before that date have been carried forward without adjustment.

b) Cumulative foreign currency translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative foreign currency translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative foreign currency translation difference and adjusted retained earnings by the same amount.

c) Share-based payment expense

In accordance with IFRS 1, the Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening balance sheet dated January 1, 2010.

Reconciliation of assets, liabilities and equity as well as comprehensive income (loss) reported in accordance with Canadian GAAP to assets, liabilities and equity as well as total comprehensive income prepared in accordance with IFRS.

IFRS employs a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP balance sheet, income statement, statement of comprehensive income and statement of cash flows for the year ended December 31, 2010 have been reconciled to IFRS, with the resulting differences explained.

The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS statement of financial position on January 1, 2010, the transition date.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's statement of financial position and statement of comprehensive income is set out in the following statements.

Reconciliation of the Statement in Financial Position as at January 1, 2010

ASSETS	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets			
Cash	$ 5,294,881	$ –	$ 5,294,881
Trade and other receivables	1,289,672	–	1,289,672
Inventories	919,808	–	919,808
Investments	82,500	–	82,500
Deferred income tax assets (Note 4e)	44,648	(44,648)	–
	7,631,509	(44,648)	7,586,861
Property, plant and equipment (Notes 4a,c,e)	3,252,154	2,047,148	5,299,302
Exploration properties (Notes 4a,c,e)	20,805,894	(7,054,918)	13,750,976
	$ 31,689,557	**$ (5,052,418)**	**$ 26,637,139**

LIABILITIES			
Current liabilities			
Trade payables	$ 843,942	$ –	$ 843,942
Income taxes payable	236,063	–	236,063
Due to related party	274,560	–	274,560
	1,354,565	–	1,354,565
Deferred income tax liabilities (Note 4e)	4,196,399	(1,666,957)	2,529,442
	5,550,964	(1,666,957)	3,884,007

SHAREHOLERS' EQUITY			
Share capital	27,648,195	-	27,648,195
Contributed surplus (Note 4d)	1,187,198	103,759	1,290,957
Accumulated other comprehensive income (Note 4e)	28,437	4,063	32,500
Retained earnings (Deficit) (Notes 4b,f)	(2,725,237)	(3,493,283)	(6,218,520)
	26,138,593	(3,385,461)	22,753,132
	$ 31,689,557	**$ (5,052,418)**	**$ 26,637,139**

Reconciliation of the Statement in Financial Position as at December 31, 2010

ASSETS	Canadian GAAP	Effect of transition to IFRS	IFRS
Current assets			
Cash	$ 18,690,023	$ -	$ 18,690,023
Trade and other receivables	3,190,820	-	3,190,820
Inventories	788,342	-	788,342
Investments	150,000	-	150,000
Deferred income tax assets (Note 4e)	231,807	(231,807)	-
	23,050,992	(231,807)	22,819,185
Tax reassessment deposit	636,604	-	636,604
Property, plant and equipment (Notes 4a,c,e)	5,613,723	5,340,534	10,954,257
Exploration properties (Notes 4a,c,e)	23,249,513	(10,720,543)	12,528,970
	$ 52,550,832	**$ (5,611,816)**	**$ 46,939,016**
LIABILITIES			
Current liabilities			
Trade payables	$ 1,234,740	$ -	$ 1,234,740
Income taxes payable	981,840	-	981,840
Due to related party	415,665	-	415,665
	2,632,245	-	2,632,245
Deferred income tax liabilities (Note 4e)	5,214,287	(2,203,826)	3,010,461
	7,846,532	(2,203,826)	5,642,706
SHAREHOLDERS' EQUITY			
Share capital	39,569,550	-	39,569,550
Warrants	2,541,663	-	2,541,663
Contributed Surplus (Note 4d)	1,793,149	67,047	1,860,196
Accumulated other comprehensive income (Note 4e)	87,500	21,752	109,252
Retained earnings (Deficit) (Note 4f)	712,438	(3,496,789)	(2,784,351)
	44,704,300	(3,407,990)	41,296,310
	$ 52,550,832	**$ (5,611,816)**	**$ 46,939,016**

Consolidated reconciliation of total comprehensive income for the year ended December 31, 2010

	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue	$ 16,677,710	$ –	$ 16,677,710
Expenses			
Operating Expenses	8,210,040	–	8,210,040
Amortization and depletion	1,032,186	–	1,032,186
	9,242,226	–	9,242,226
Mine operating earnings	7,435,484	–	7,435,484
General and administrative expenses			
Accounting, audit and legal	189,560	–	189,560
Amortization	23,846	–	23,846
Business development investigations	82,582	–	82,582
Investor relations, promotion and travel	118,548	–	118,548
Management fees and consulting	204,801	–	204,801
Office, rent, insurance and sundry	297,358	–	297,358
Office salaries and services	481,369	–	481,369
Share-based payments (Note 4d)	448,174	(36,712)	411,462
	1,846,238	(36,712)	1,809,526
Earnings before the following	5,589,246	36,712	5,625,958
Other income (expense)			
Foreign exchange loss (Note 4a)	(195,753)	28,244	(167,509)
Interest income	10,790	–	10,790
Other income (expense)	1,540	–	1,540
	(183,423)	28,244	(155,179)
Earnings before taxes	5,405,823	64,956	5,470,779
Current and other income taxes	(1,555,409)	–	(1,555,409)
Deferred income taxes (Note 4e)	(412,739)	(68,462)	(481,201)
Net earnings	3,437,675	(3,506)	3,434,169
Deficit – Beginning of year	(2,725,237)	(3,493,283)	(6,218,520)
Retained earnings – End of year	**$ 712,438**	**$ (3,496,789)**	**$ (2,784,351)**
Net earnings	$ 3,437,675	$ (3,506)	$ 3,434,169
Earnings per share – Basic	**$ 0.07**		$ 0.07
– Diluted	**$ 0.07**		$ 0.07
Weighted average number of shares outstanding – Basic	49,438,882		49,438,882
Weighted average number of shares outstanding – Diluted	50,434,322		50,434,322
Net earnings	$ 3,437,675	$ (3,506)	$ 3,434,169
Other comprehensive income (loss)			
Unrealized gain (loss) on investments held as available-for-sale (Note 4e)	59,063	8,437	67,500
Cumulative translation adjustment (Note 4a)	–	9,252	9,252
Total comprehensive income	**$ 3,496,738**	**$ 14,183**	**$ 3,510,921**

Explanatory notes

a) Translation of non-monetary assets

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated using the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either "self-sustaining" or "integrated". Self-sustaining subsidiaries are translated using the current rate method. Integrated subsidiaries are translated using the temporal method. The Company used the integrated method of translation when reporting under Canadian GAAP.

As a result of the method used to translate non-monetary assets, the balances in the subsidiaries have been adjusted. Assets which are monetary in nature remain unchanged. The value adjusted for IFRS for property, plant and equipment on December 31, 2010 is a decrease of $823,260 with the adjustment for January 1, 2010 a decrease of $600,572. The value adjusted for IFRS for exploration properties for December 31, 2010 is a decrease of $2,497,114 with the IFRS adjustment for January 1, 2010 a decrease of $2,757,297.

b) Foreign currency translation adjustment

As noted in section entitled "Exemptions applied", the Company has applied a one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as at January 1, 2010. The cumulative adjustment balance as of January 1, 2010 was recognized as an adjustment to deficit. The application of this exemption had no impact on net equity as at transition to IFRS.

c) Mineral interest and property, plant and equipment reclassification

Under IFRS, exploration and evaluation assets should be reclassified to property, plant and equipment when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Under Canadian GAAP, the Company presented its exploration assets and mineral assets in one schedule.

The IFRS reclassification adjustment for December 31, 2010 and January 1, 2010 is an increase to property, plant, and equipment and a decrease to mineral properties of $6,867,900 and $3,058,248 respectively. The deferred tax asset/liability adjustment for this reclassification is an increase to mineral properties and decrease to property, plant and equipment for December 31, 2010 and January 1, 2010 of $704,106 and $410,528 respectively. This adjustment to remove the gross up for deferred income tax for December 31, 2010 and January 1, 2010 is a decrease $2,059,635 and $1,649,901 respectively.

d) Share based payments

Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the Company policy under Canadian GAAP. This adjustment for December 31, 2010 and January 1, 2010 is $67,047 and $103,759 respectively.

e) Deferred tax asset / liability

Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or liabilities must be classified as current. The reclassification for IFRS for December 31, 2010 is $231,807 with the reclassification of short to long-term for January 1, 2010 being $44,648.

Under IFRS, additions to mineral property that do not result in an equivalent increase in current or future tax deductible amounts are treated as a permanent difference. Under Canadian GAAP an increase in mineral property and deferred income tax liability was recorded to reflect the inherent tax cost to the Company from the acquisition of an asset that was not deductible for tax purposes. This adjustment for December 31, 2010 and January 1, 2010 is $1,972,018 and $1,622,309 respectively.

The IFRS adjustment to remove the deferred income tax balances in accumulated other comprehensive income from December 31, 2010 and January 1, 2010 is $21,752 and $4,083 respectively.

Under IFRS, when calculating deferred income taxes the tax basis includes the increase or decrease due to inflationary adjustments to the tax basis. Under Canadian GAAP, the inflationary adjustments were only recognized when they were realized as an adjustment to current income tax.

f) Adjustment to retained earnings

The following is a summary of transition adjustments to the Company's retained earnings from Canadian GAAP to IFRS.

	December 31, 2010	January 1, 2010
Retained earnings (deficit) as reported under Canadian GAAP	$ 712,438	$ (2,725,237
IFRS adjustments increase (decrease)		
Amortization of employee stock options	$ (67,047)	$ (103,759)
Deferred income tax	(100,117)	(31,655)
Cumulative translation adjustment	(3,329,625)	(3,357,869)
	(3,496,789)	(3,493,283)
Retained earnings (deficit) as reported under IFRS	**$ (2,784,351)**	**$ (6,218,520)**

g) Adjustments to the statements of cash flows

The adoption of IFRS had no significant impact on the net cash flows of the Company except that under IFRS cash flows relating to interest are classified in a consistent manner as operating, investing or financing under each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating. This has resulted in reclassifications of various amounts on the statements of cash flows. However, as there have been no changes in the net cash flows, no reconciliations have been presented.

5. Inventories

The following table details the composition of inventories at:

	December 31, 2011	December 31, 2010	January 1, 2010
Materials and supplies	**$ 696,772**	$ 591,528	$ 410,720
Stockpile inventory	**165,546**	–	–
Concentrate inventory	**508,169**	196,814	509,088
Total inventories	**$ 1,370,487**	$ 788,342	$ 919,808

The amount of inventories recognized as an expense during the year ended December 31, 2011 was $9,543,489 (December 31, 2010 – $9,918,190).

6. Property, plant and equipment

	Mine equipment ($)	Mobile equipment ($)	Office furniture and equipment ($)	Plant equipment ($)	Surface rights ($)	Vehicles ($)	Mining Assets ($)	Building Improve-ment ($)	Total ($)
Cost									
Balance at January 1, 2010	1,319,415	416,897	86,684	959,135	574,307	295,664	5,580,600	–	**9,232,702**
Additions	392,046	–	3,844	1,584,306	461,530	–	4,168,618	–	**6,610,344**
Foreign exchange movement	7,575	2,394	171	5,507	3,297	1,698	24,919	–	**45,561**
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**
Accumulated depreciation									
Balance at January 1, 2010	274,440	374,291	59,002	185,224	–	107,563	2,932,880	–	**3,933,400**
Depreciation for the period	145,889	14,524	7,958	96,110	–	53,504	663,818	–	**981,803**
Foreign exchange movement	1,576	2,149	95	1,063	–	618	13,646	–	**19,147**
Balance at December 31, 2010	421,905	390,964	67,055	282,397	–	161,685	3,610,344	–	**4,934,350**
Depreciation 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**
Net book value									
At January 1, 2010	1,044,975	42,606	27,682	773,911	574,307	188,101	2,647,720	–	**5,299,302**
At December 31, 2010	1,297,131	28,327	23,644	2,266,551	1,039,134	135,677	6,163,793	–	**10,954,257**
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**

7. Exploration properties

a) Details are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Zacualpan mines and concessions – Mexico			
Acquisition costs	$ 2,010,196	$ 2,209,063	$ 2,197,183
Exploration	11,190,229	8,590,501	8,840,879
Recoveries	(47,372)	(52,377)	(52,078)
	13,153,053	10,747,187	10,985,984
Zacatecas properties – Mexico			
Acquisition costs	225,841	249,702	248,277
Exploration	872,229	842,328	1,834,128
Recoveries	(406,438)	(437,090)	(435,258)
	691,632	654,940	1,647,147
PMSA and MMP concessions – Dominican Republic			
Acquisition	582,000	582,000	582,000
Exploration and development	552,361	544,843	535,845
	1,134,361	1,126,843	1,117,845
	$ 14,979,046	$ 12,528,970	$ 13,750,976

b) Zacualpan agreements

On June 14, 2004, the Company signed two option agreements with third parties in the Royal Mines of Zacualpan Silver District in Central Mexico. These agreements were later amended and in January 2006 the Company, through its 100% Mexican subsidiary MAP, exercised its purchase options and as a result acquired a 100% interest to mineral concessions, surface rights and equipment with no underlying royalties.

In February 2007, the Company acquired the right to purchase a concession known as the Mamatla Mining District adjacent to the Company's Royal Mines of Zacualpan Silver Project in Central Mexico. The purchase price for the Mamatla Mining District was approximately $215,700, of which $91,690 was paid in 2007 and the balance of $124,010 was paid in February 2008. The Mamatla concession is subject to a 1% NSR.

In February 2008, the Company was granted six concessions directly from the Mexican government through normal procedures. These concessions, named the Zacualpan Northwest concessions, cover 140 square kilometers. In June 2009, the Company acquired the Cadena concession and the Zapote concession from private Mexican vendors. In addition between 2007 and 2011 the Company was granted six other concessions covering 177 square kilometers directly from the Mexican government through normal procedures.

c) Zacatecas and Defiance agreements

During 2006 and 2007 the Company, through its wholly owned subsidiary MAP, acquired thirteen mineral concessions in the Zacatecas area. In 2010, the Company exercised an option to purchase the 200-tonne-per-day Santa Gabriela processing plant and associated surface rights in the Zacatecas Mining District of Mexico for total consideration of US$1,080,000 and 500,000 shares.

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 per the addendums to the property option agreement dated December 5th, 2011 and January 30, 2012 occurred subsequent to year-end providing the Company a 16.6% interest in Defiance. The second and final payment of $1,955,200 in cash is to occur on the final closing defined as on or before the earlier of two years from signing of the option agreement or on achieving commercial production at the Santa Gabriela processing plant. Under the option agreement, Defiance is required to complete a financing for a minimum of $1,500,000 prior to exercising the option and the Company will have the right to have a representative appointed to the board of Defiance during the term of the option agreement.

The Company still retains a carried interest in the remaining 3 concessions through a formal joint venture agreement. Since the signing of the agreement the joint venture partner has incurred expenditures and thereby diluted the Company's interest in these three concessions to 28% at December 31, 2011.

d) Dominican Republic agreements

By various agreements dated October 22, 1996 to July 15, 1999 and effective August 20, 1999, the Company acquired 100% of the shares of the Dominican Republic registered company PMSA. PMSA has exploration concessions located in various parts of the Cordillera Oriental in the Dominican Republic, including the El Brujo concession. The concessions are subject to a 1% NSR to a maximum of US$1,000,000.

By agreement dated July 15, 1999, the Company acquired 100% of the shares of the Canadian company, "Jade", which owns 100% of the shares of the Dominican Republic registered company, Minera Monte Plata, S.A. ("MMP"). MMP holds the Baritina exploration concession located in the Cordillera Oriental in the Dominican Republic. The concessions are subject to a 1% NSR to a maximum of US$1,000,000.

8. Due to related party

At December 31, 2011, an amount of $412,619 (December 31, 2010 - $415,665) 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.

9. Related party transactions

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

During the year ended December 31, 2011, fees in the amount of $3,057,539 (2010 – $1,937,798) 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.

10. Key management personnel compensation

	2011	2010
Salaries and fees	$ 392,966	$ 317,207
Share based payments	134,519	99,731
Compensation	$ 527,485	$ 416,938

11. 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 5,155,000 have been granted as at December 31, 2011. 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, 2011 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At December 31, 2009	3,752,875	0.80
Granted	1,012,500	1.10
Exercised	(755,500)	0.47
Forfeited	(76,250)	1.00
Expired	(35,000)	1.44
At December 31, 2010	**3,898,625**	**0.93**
Granted	2,000,000	1.85
Exercised	(693,625)	0.67
Forfeited	(30,000)	1.10
Cancelled	(20,000)	0.55
At December 31, 2011	**5,155,000**	**1.31**

The following table summarizes information about the stock options outstanding December 31, 2011:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable
$1.40	867,500	0.68	867,500
$1.67	75,000	0.81	75,000
$0.55	1,312,500	2.02	1,312,500
$1.10	900,000	3.44	900,000
$1.85	2,000,000	4.75	750,000
	5,155,000	**3.08**	**3,905,000**

On June 6, 2010, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,012,500 shares of the Company, with an estimated value of $436,826 on the grant date. The options are exercisable on or before January 6, 2015 at a price of $1.10 per share.

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the assumptions as follows:

Date Granted	June 6, 2010
Number of options granted	1,012,500
Risk-free interest rate	1.45%
Expected dividend yield	NIL
Expected stock price volatility	63%
Expected option life in years	3
Forfeiture rate	2%

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 is used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a 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 remaining term equal to the stock options' expected life.

c) Earnings per share

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

	2011	2010
Net income attributable to shareholders	**$ 7,576,290**	$ 3,434,169
Weighted average number of shares – basic	**65,159,606**	49,438,822
Adjustment for:		
Share options	**1,601,400**	995,500
Weighted average number of shares outstanding – Diluted	**66,761,006**	50,434,322

12. 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:

	2011	2010
Earnings before income taxes	$ 11,725,490	$ 5,470,779
Canadian federal and provincial income tax rates	26.50%	28.50%
Income tax expense based on the above rates	$ 3,107,255	$ 1,559,172
Increase (decrease) due to:		
Non-deductible expenses	417,053	205,126
Losses and temporary differences for which an income tax asset has not been recognized	259,764	272,235
Difference between foreign and Canadian tax rates	469,175	102,238
Change in long term Mexican tax rates	(69,758)	(74,775)
Foreign exchange and other	(34,289)	(27,386)
Income tax expense	$ 4,149,200	$ 2,036,610

Total income tax expense consists of:

	2011	2010
Current income tax expense	$ 3,531,865	$ 1,555,409
Deferred income tax expense	617,335	481,201
	$ 4,149,200	$ 2,036,610

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

	2011	2010
Deferred income tax assets		
Non-capital losses	$ 422,900	$ 28,695
Current assets and liabilities	586,208	231,807
Total Deferred tax assets	$ 1,009,108	$ 260,502
Deferred income tax liabilities		
Property, plant and equipment	$ 1,653,920	$ 160,001
Mineral properties	2,649,736	3,110,962
Total deferred income tax liabilities	$ 4,303,656	$ 3,270,963
Deferred income tax liabilities, net	$ 3,294,548	$ 3,010,461

The composition of deferred tax expense is as follows:

	2011	2010
Deferred income tax assets		
Non-capital losses	$ (397,382)	$ 1,248
Other	(380,061)	(176,397)
Deferred income tax liabilities		
Property, plant and equipment	$ 1,511,630	$ 2,974
Mineral properties	(116,852)	664,137
Other	–	(10,761)
Deferred income tax expense	$ 617,335	$ 481,201

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

	2011	2010
Net deferred tax liability, January 1	$ 3,010,461	$ 2,529,442
Deferred income tax expense during the year	617,335	481,201
Changes due to foreign current translation	(333,248)	(182)
Net deferred tax liability, December 31	$ 3,294,548	$ 3,010,461

The unrecognized deferred tax asset is as follows:

	2011	2010
Non-capital losses	$ 1,238,800	$ 954,445
Capital losses	30,899	2,432
Property, plant and equipment	11,172	10,130
Mineral properties	698,188	676,443
Other	304,787	419,765
Unrecognized deferred tax asset	$ 2,283,846	$ 2,063,215

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

As at December 31, 2011 the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit, if any, of these losses 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 is 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		1,226,681
2031		1,355,583
	$	4,955,200
Capital losses		
No expiry date	$	247,189

13. 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.

14. 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, 2011 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 two 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 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") with both accounting for 100% of the sales of the Company for the fiscal year. 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 ($30.8 million), trade and other recievable ($3.2 million) and investments ($0.055 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 in place a planning and budgeting process to help determine

the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2011 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, 2011 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, 2011, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $716,000 decrease or increase in the Company's net earnings for the year ended December 31, 2011.

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.

Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's net earnings in the year ended December 31 as follows:

	2011	2010
Silver price	$ 1,805,000	$ 1,107,000
Lead price	$ 90,000	$ 105,000
Zinc price	$ 133,000	$ 136,000
Gold price	$ 55,000	$ 44,000

15. 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:

	2011	2010
Revenues by geographic area		
Mexico	$ 24,266,740	$ 16,677,710
Net earnings (loss) by geographic area		
Mexico	$ 9,244,066	$ 4,836,393
Canada	(1,667,776)	(1,402,224)
	$ 7,576,290	$ 3,434,169

	December 31, 2011	December 31, 2010	January 1, 2010
Assets by geographical area			
Mexico	$ 38,068,938	$ 28,258,467	$ 20,349,199
Canada	25,396,850	17,553,707	5,170,095
Caribbean	1,134,360	1,126,842	1,117,845
	$ 64,600,148	$ 46,939,016	$ 26,637,139
Property, plant and equipment by geographical area			
Mexico	$ 13,603,700	$ 10,941,489	$ 5,284,890
Canada	13,964	12,768	14,412
	$ 13,617,664	$ 10,954,257	$ 5,299,302

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

16. Trade and other receivables

	2011	2010	January 1, 2010
Trade receivables	$ 1,635,384	$ 2,898,984	$ 829,507
Taxes receivable	1,441,723	43,278	377,675
Prepaids	149,822	248,558	82,490
	$ 3,226,929	$ 3,190,820	$ 1,289,672

17. Contingencies

In 2010, the Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities Servicio de Administracion Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT. The total reassessment was for $0.6 million.

On November 30, 2010 MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount has been transferred to SAT pending the outcome of the Company's appeal. As management believes that the Company has a strong case to win this appeal, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense has been recognized in the current year.

In December 2011, the appeal went forward to the Superior Court where a favourable judgement was attained for MPZ. If no further appeal is launched by SAT against this judgement, MPZ will be successful in its appeal of the reassessment.

18. Subsequent event

In 2011, the Company signed an agreement with Defiance Silver Corp. ('Defiance") to option its Veta Grande Project assets in Zacatecas, Mexico in exchange for a shareholding in Defiance. The option agreement consists of two staged payments to the Company. The initial payment is 2,680,500 common shares of Defiance with the final payment being $1,955,200 in cash to be paid 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 mill. Subsequent to year end, the company received the initial payment on this option agreement of 2,680,500 shares of Defiance.

19. Supplementary cash flow information

	2011	2010
Income taxes paid	$ 2,484,634	$ 813,440
Interest income received	$ 208,221	$ 10,790

20. Expenses by nature

	2011	2010
Production costs	$ 5,595,242	$ 4,863,960
Administration	1,691,804	1,299,121
Transportation	404,147	283,745
Wages and salaries	2,434,441	1,763,214
	$ 10,125,634	$ 8,210,040

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