IMPACT SILVER CORP

A new decade – continued growth

2016 ANNUAL REPORT

A new decade of IMPACT

Last year, IMPACT Silver Corp. marked ten years of continuous silver production in the rich Royal Mines of Zacualpan Silver District of Mexico. In 2016 we produced silver (sold in the form of lead and zinc concentrates), gold, zinc and lead. Our intention is to grow through continued exploration and expansion of our operations.

While 2016 was a year of exceptional metal price volatility, our financia position remains strong due to a critical financing improving efficienc at our mines and targeting higher-grade silver production. We continue to manage our operations by keeping our costs low and improving our productivity. Our production over the past two years has been steadily increasing, approaching close to one million ounces.

For 2017, we plan to explore our 357-square-kilometre land package more aggressively, focusing on discovery and definitio of additional high grade mineral similar to the San Ramon Deeps. We also plan to expand production in the San Ramon Deeps focusing on the higher-grade zones. In the longer term, our target is to produce two million ounces, either through development of our current properties or through acquisition or merger.

As we grow, we will maintain our commitment to community support and responsible social and environmental policies. We prefer to hire locally for nearly all management, staff and contracted positions. Our health and safety policies are strong and effective. In our mining and exploration activities, we leave a minimal environmental footprint and practise progressive reclamation—replanting and restoring land as mining and exploration proceeds.

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The IMPACT timeline

2006	• First production from the Guadalupe Production Centre, Royal Mines of Zacualpan Project
2007	• Production begins at the high-grade Chivo Silver Mine • 100% interest acquired in the 200km² Capire-Mamatla Mineral District, located 16 kilometres southwest of the Guadalupe Production Centre
2010	• Production begins at the Noche Buena Mine • IMPACT Silver reports revenues ($16.7M) and earnings ($3.4M) while raising $15M by private placement
2011	• IMPACT Silver reports record revenues ($24.3M) and earnings ($7.6M)
2013	• The Capire Production Centre and Cuchara Mine open • Test mining and processing of gold and copper begins on the Carlos Pacheco Vein in the Noche Buena Mine
2014	• High-grade San Ramon Deeps and Mirasol Mines open, raising average grades processed at the Guadalupe plant • Test mining ceases at the Capire Production Centre
2015	• With the highest silver grades in company history, IMPACT Silver achieves silver production of 950,000 ounces and revenues of $14.6M
2016	• Record silver production of 953,000 ounces and revenues of $16.7M
2017	• IMPACT Silver is named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture Exchange over the last year

Committed to excellence

2016 MILESTONES

- Increased revenues to $16.7 million, a 14% increase over 2015
- Increased revenue per tonne by 8% to $91.73
- Improved mine operating earnings $1.4 million from a $0.1 million loss in 2015
- Completed financings of $7.6 million
- Enlarged the new high-grade zone at depth beneath the San Ramon mine, reinforcing our confidence that the property contains more major undiscovered deposits
- Named to the 2017 TSX Venture 50

HEALTH AND SAFETY AWARDS

In 2016, the Secretary of Labour and Social Welfare in Mexico recognized IMPACT Silver's health and safety standards with the Award of Excellence. This recognition acknowledges our effective working environment, strong employee relationships, and reduction in workplace accidents, illnesses and absenteeism.

LOOKING AHEAD

In 2017, we will continue our program of exploration, development and expanding mine production, as guided by markets and economics. We have a long track record of successful exploration and rapid mine development, and our long-term vision is to establish mills throughout the two districts, each fed by multiple mines producing silver, lead and zinc as well as gold and copper.

We expect to:

- Continue to expand, upgrade and optimize production with a focus on higher-grade zones to optimize cash flows
- Optimize cost and operational controls.
- Continue to explore our 357-square-kilometre land package, focusing on discovery and definition of additional high-grade mineral for future mining.
- In the longer term, to produce gold and copper from Carlos Pacheco South and San Juan and to re-evaluate the Capire open pit silver mine as markets evolve.

Production highlights

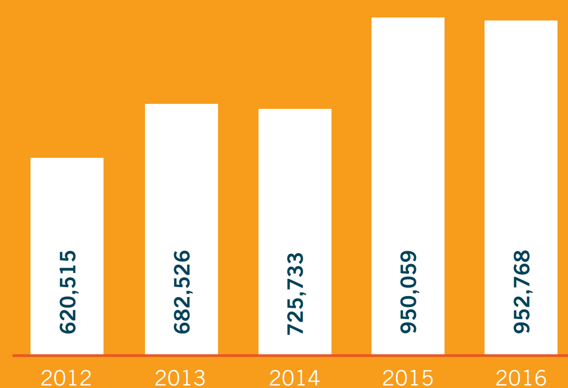
In 2016, our production broke company records, and we continued to demonstrate our viability, despite volatile markets, and our continuing success as a producer and explorer. We remain debt-free, funded primarily through operational cash flo .

A relentless focus on profitability and targeting mining higher grade zones of silver, especially at San Ramon Deeps, resulted in revenue per tonne of $91.73 in 2016 compared to $84.96 in 2015. The ore came from the San Ramon, Cuchara and Mirasol mines, and was processed in the Guadalupe Production Centre in the Royal Mines of Zacualpan District.

We have a long track record of successful exploration and rapid mine development, and our long-term vision is to establish mills throughout the two districts.

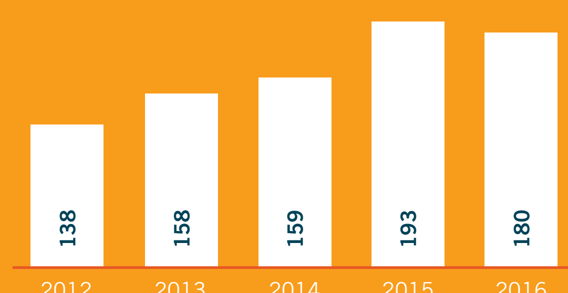
Zacualpan Silver Production History

SILVER PRODUCTION in ounces



Silver Head Grades

in tonnes



A new decade of sustainable silver

For IMPACT Silver, 2016 was a remarkable year. In a period when commodity prices fluctuated and the industry struggled, we entered our second decade producing record quantities of silver from three mines in the Royal Mines of Zacualpan project in Mexico. At 953,000 ounces, we very nearly reached the million-ounce milestone. Our performance earned us a place in the *2017 TSX Venture 50* list.

In 2016, we upgraded our mining operations and improved efficienc . We ended the year with a clean balance sheet and no debt. At IMPACT, we base our value on the expectation of earnings as an essential aspect of our management discipline. We do not grow production volume for the sake of growth; we only grow volume when the increase is likely to drive up our earnings.

In and around Zacualpan, the IMPACT Silver mines are central to the local economy. Ten years ago we started with 36 employees and today our head count exceeds 280. As conscientious stewards of the environment, we practice progressive reclamation, in which we re-vegetate areas after mining or exploration activities have ceased. In 2016 alone we planted nearly 10,000 trees.

Our health and safety policies are aggressive and effective. Over the last two years, lost-time injuries have dropped to near zero—the lowest in company history—and this year our health and safety standards were recognized with the Award of Excellence from Mexico's Secretary of Labour and Social Welfare.

Our land holdings in the Royal Mines project are massive, spanning over 357-square-kilometers of land on which mining goes back as far as 500 years. The property's undiscovered potential is significant; swarms of veins pass through the property, and we have located over 4800 historical mine workings. To date, we have only intensively explored about 10% of the land. In addition to silver, we have found a gold and copper district which remains to be exploited.

Exploration on the site is ongoing with an exploration budget that is constantly adjusted to the markets. In 2016, we discovered an entirely new high-grade zone at depth beneath the existing San Ramon mine, which further reinforces our confidence in the existence of major undiscovered deposits within the property.

In 2017, we plan to expand production from higher-grade zones in the San Ramon Deeps while increasing our exploration program. In the first two months of 2017, we have already drilled more holes than in the previous two years.

The long-term objective is to produce two million ounces a year within the next few years either through exploration, merger or acquisition.

As I look back on 2016, and ahead to our second decade, I must extend my gratitude to the employees and the Board of Directors of IMPACT Silver who have been instrumental in keeping us stable and productive through years that have seen the markets rise and fall.

Today, I am more confident than ever that, with our shareholders' continued support, the foundation we have built will deliver growth and prosperity for years to come.

Frederick W. Davidson
President & CEO

The long-term objective is to produce two million ounces a year... either through exploration, merger or acquisition.

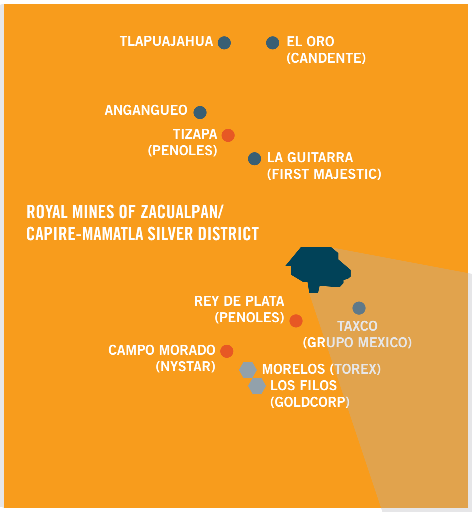
Continued growth

We control two large mineral districts in central Mexico: the Royal Mines of Zacualpan Silver District and the adjacent Capire-Mamatla Mineral District. In total, our properties encompass 357-square-kilometres that are located a 3.5-hour drive southwest of Mexico City on paved roads.

Since we acquired the Royal Mines of Zacualpan project in 2006, we have discovered, drilled and placed into production six new mines. Today we operate three underground mines, which feed ore to the Guadalupe Production Centre, with a production capacity of 500 tonnes per day (tpd). Three of our mines, Capire, Chivo and Carlos Pacheco/San Juan, are currently inactive. The 200 tpd Capire Pilot Plant, which was used to bulk test the processing of gold and copper feed from the Carlos Pacheco Zone, is on care and maintenance until markets recover but is a turnkey plant and mine that can be placed back into production on short notice.

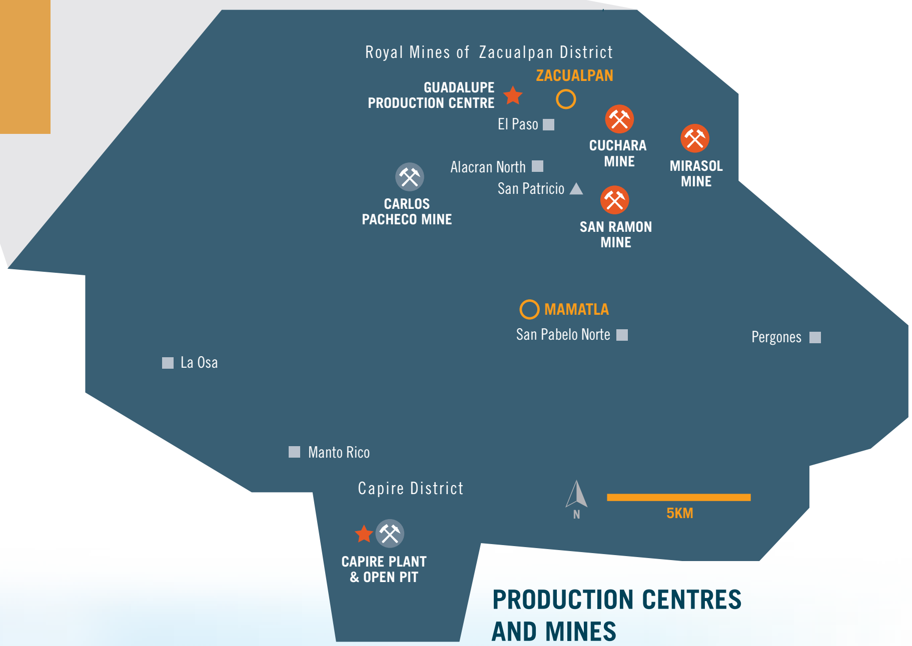
In our ten years of exploration work, we have catalogued over 4,800 historical mine workings and 42 historic processing plants, forming an invaluable database and guide for further exploration and discovery.

MEXICAN EPITHERMAL VEIN BELT



LEGEND

- Producing Mine
- Dormant Mine
- Intermediate Stage Exploration Project
- Advanced Stage Exploration Project
- Skarn Ag-Cu deposits
- Epithermal Ag-Au vein deposit
- Volcanogenic base metal deposits
- City or Town
- Processing Plant



PRODUCTION CENTRES AND MINES

The second decade of IMPACT

Our first decade of growth centred on a relatively small portion of an enormous prospective property. To date, we have only intensively explored a small portion of the Royal Mines of Zacualpan district. In our second decade, we plan to expand our reach throughout both districts.

SAN RAMON *SILVER MINE*

San Ramon is an epithermal underground silver mine located five kilometres south of the Guadalupe Production Centre. One of the principal producing mines in the district, San Ramon has been a significant contributor to production since 2008.

In 2014, underground drilling from the mine's bottom levels discovered new high-grade silver zones in the nearby San Ramon Deeps area. Mining of this area began in the third quarter of 2014. In 2016, the San Ramon Deeps Mine provided 38% of the ore feed to the Guadalupe mill.

To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20, 21 and 22 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the year ranged from 194 to 231 g/t silver. Underground drilling to date has outlined the vein over a vertical distance of 10 to 60 metres below the current mine workings.

In the fourth quarter of 2016, underground drill results from the San Ramon Deeps Zone included 354 g/t silver over 4.93 metres and 343 g/t silver over 3.10 metres. After year-end, on January 23, 2017, further drill results were announced, including 1,613 g/t silver over 4.12 metres and 248 g/t silver over 11.08 metres.

Drilling will continue when construction is complete on a new underground drill station. To increase efficiencies, we have also expanded the main mine ramp to accommodate surface truck access down to Level 22.

CUCHARA *SILVER MINE*

Located 2.5 kilometres east of the Guadalupe mill, the Cuchara mine encompasses a corridor of high grade, epithermal silver, lead and zinc veins. It is the fourth underground mine that the IMPACT Silver team has taken from discovery to production. In 2016, Cuchara provided 42% of the ore feed to the Guadalupe mill.

Current production is from the Marqueza, Santa Lucia, Oscar and Resguardo veins. Diluted mining grades at Cuchara during the year ranged from 159 to 176 g/t silver.

MIRASOL *SILVER MINE*

The Mirasol Silver mine is located 5.5 kilometres southeast of the Guadalupe Mill. It opened in late 2014, after exploration drilling produced a number of high-grade intersections including 216 g/t silver over 7.1 metres, 985 g/t silver over 1.8 metres and 288 g/t silver over 3.2 metres.

In 2016, the mine contributed 17% of the Guadalupe mill's feed. Diluted mining grades at Mirasol ranged from 170 to 192 g/t during the year. Production from Mirasol will probably cease in the second quarter of 2017, to be replaced by a new silver mine at San Patricio (currently under development).

CAPIRE *PRODUCTION CENTRE*

Located 16 kilometres southwest of the Guadalupe Production Centre, the 200 tpd Capire plant is currently on care and maintenance. The facility opened in 2013 to test mine material from the Capire open pit for a potentially larger operation in the future. Due to lower silver prices, Mexican mining tax changes, hauling costs and low overall silver grade, the open pit test operation was not economical. Production from the Capire open pit may restart in the future, depending on market prices and/or lower unit production costs associated with a potentially larger operation.

Resilience through market cycles

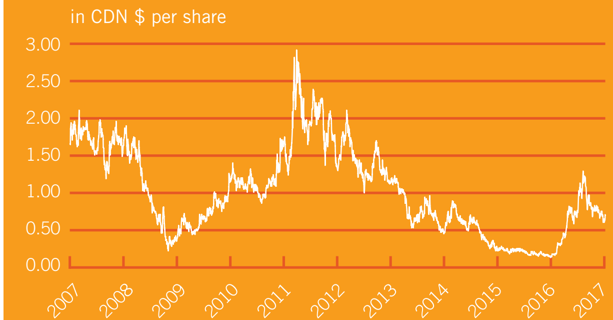
These charts demonstrate the effect of the spot price of silver on our share price. In the firs quarter of 2016, silver prices averaged $14.85 per ounce, rising to a high of $20.71 in August, only to drop back to an average of $17.19 in the last quarter. At the time of this report, prices appear to be on the rise, but volatility persists: the price per ounce had rallied to over $18 in February 2017 before falling to the $17 range in March 2017.

While we cannot control the price of silver, we strive to maximize efficiencie and control costs though disciplined management and strategic planning.

The cyclical nature of commodity markets gives us the confidenc in silver's ability to rise far above today's levels. Despite fluctuatin prices, we are committed to managing our operations in a lean and efficien manner so that we can remain a strong and viable producer and position ourselves to profi from the inevitable upswing.

10-Year Silver Price[1]

Impact Silver Share Price[2]



1 Historical London Fix Prices as reported by kitco.com
2 Finance.yahoo.com

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2016 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 13, 2017 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

CORPORATE OVERVIEW

IMPACT is proud to have been named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture exchange over the last year. IMPACT's share price closed the year at $0.65, a 442% increase over 2015's closing price of $0.12. In August 2016, the share price reached its highest level in three years at $1.24.

The company controls the majority of two large mineral districts totalling 357 km^2 in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire Mineral District** adjacent to and southwest of Zacualpan. IMPACT celebrated 10 years of continuous production at the Royal Mines of Zacualpan Silver District in January 2016. Over the last decade, the Company has provided new investment, talent and leadership to build up the operations and find efficiencies with upgraded equipment and expanded mill facilities. IMPACT has carried out programs of exploration, development and mine production at both districts, bringing seven sites from exploration drilling to development and profitable mining, including all mines currently in production.

In 2016, the Company raised $7.3 million through private placements, with the proceeds being utilized to increase its exploration activities and expand the capacity of its Guadalupe processing plant. In the fourth quarter of 2016, production reached 526 tonnes per day, the highest levels in the plant's history. The goal for 2017 is to process 550 tonnes per day of mill feed containing silver, gold and lead.

IMPACT continues to ensure production is economical and remains adaptable to price uncertainties. As a result, the Company recognized significant increases in both revenues and mine operating earnings in 2016. Revenues for the year totalled $16.7 million, up from $14.6 million in 2015. Mine operating earnings for 2016 increased to $1.4 million from a $0.1 million loss in the previous year.

IMPACT's key objectives for development of the Company are as follows:

1. Continue to expand, upgrade and optimize production with a focus on higher grade zones to optimize cash flows.
2. More aggressive exploration including drilling key targets across the large 357 km^2 land package, focusing on discovery and definition of additional high grade mineral similar to San Ramon Deeps for future mining.
3. Management plans to continue exploration and eventual development of gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.
4. In the longer term, management intends to increase production to 2 million ounces of silver per year either through development of its current properties or by acquisition or merger.

While IMPACT has no long term debt, the Company may consider additional opportunities to improve its balance sheet and fund future developments.

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

OVERVIEW FOR THE YEAR ENDED DECEMBER 31, 2016

Financial Overview

- Mine operating earnings for 2016 increased to $1.4 million from a $0.1 million loss in the previous year. Without amortization and depletion mine operating earnings[1] improved 84% to $3.7 million in 2016 up from $2.0 million in 2015.
- Revenues increased 14% in 2016 to $16.7 million from $14.6 million in 2015, due mainly to higher silver prices throughout the year.
- Net loss for the year was $1.9 million which included $3.1 million of non-cash items in amortization, depletion and share based compensation. This compared to a $1.4 million net loss last year, which included $2.1 million of non-cash items in amortization and depletion. Excluding non-cash items, adjusted net earnings in 2016 were $1.2 million compared to $0.7 million in 2015.
- Earnings before interest, taxes, depreciation and amortization[2] (EBITDA) improved 85% to $0.7 million for 2016 from $0.4 million in 2015.
- As a result of private placements in Q2 2016 and cash controls throughout the year, the Company's cash position at December 31, 2016 improved substantially to $8.1 million compared to $0.7 million at December 31, 2015. Net working capital correspondingly improved to $10.5 million at December 31, 2016 from $2.9 million at December 31, 2015.
- Cash flows generated from operations were $3.3 million for 2016, compared to cash flows generated from operations of $2.4 million in the same period of 2015.
- Capital expenditures during the year included exploration & evaluation asset expenditures of $2.3 million (2015 - $2.2 million) and $0.8 million in property, plant & equipment expenditures (2015 - $0.1 million).

Production Overview

- Production at the Guadalupe mill during 2016 came primarily from the Cuchara Mine (42% of the mill feed), the San Ramon Deeps Mine (38% of the mill feed) and the Mirasol Mine (17% of the total mill feed). The grade at San Ramon is highly variable and Mirasol is experiencing declining grade as it is reaching the end of its mine life. Both of these factors contributed to a lower grade mill feed in 2016 compared to 2015.
- Average mill feed grade for silver was 180 grams per tonne (g/t) in 2016, down from 193 g/t in the previous year.
- Silver production increased slightly to 952,768 ounces in 2016 from 950,059 ounces in 2015 due to higher tonnage throughput.

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1 Mine operating earnings before amortization and depletion is a non-IFRS measure which the Company believes provides additional information regarding how the Company's operations are performing.

2 Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance.

See "NON-IFRS MEASURES".

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Twelve Months Ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total tonnes (t) milled	48,366	42,328	+14%	183,032	170,509	+7%
Tonnes produced per day	526	460	+14%	500	467	+7%
Silver production (oz)	247,410	233,740	+6%	952,768	950,059	0%
Lead production (t)	108	116	-7%	434	450	-4%
Zinc production (t)	–	78	-100%	42	266	-84%
Gold production (oz)	138	111	+25%	511	495	+3%
Silver sales (oz)	233,970	241,386	-3%	955,275	964,516	-1%
Lead sales (t)	106	116	-9%	444	457	-3%
Zinc sales (t)	–	104	-100%	65	277	-77%
Gold sales (oz)	128	109	+17%	525	522	+1%
Average mill head grade –silver g/t	178	190	-6%	180	193	-7%
Revenue per tonne sold[3]	$ 82.53	$ 91.68	-10%	$ 91.73	$ 84.96	+8%
Direct costs per production tonne[3]	$ 70.17	$ 75.25	-7%	$ 70.14	$ 71.84	-2%

Production and Sales Highlights for the Three and Twelve Months Ended December 31

The Company expanded the capacity at its Guadalupe processing plant and milled a record high 48,366 tonnes in the fourth quarter of 2016. This is an increase of 14% over the 42,328 tonnes milled in the same period last year. Year over year, production increased 7% to 183,032 tonnes milled in 2016 from 170,509 tonnes milled in 2015. Production tonnes are being drawn from several mines with different feed grades; therefore mine production can vary from quarter to quarter. The average mill head silver grade decreased to 178 g/t in the fourth quarter of 2016 compared to 190 g/t in the fourth quarter of 2015. The silver grades for the year were 180 g/t and 193 g/t in 2016 and 2015 respectively.

Silver sales decreased 3% in the fourth quarter of 2016 to 233,970 ounces from the 241,386 ounces sold in the same period in 2015, mainly due to decreased mill feed grade. While the Company's revenue per tonne decreased to $82.53 in the fourth quarter of 2016 from $91.68 in the same period of 2015, the annual revenue per tonne increased by 8% to $91.73 from $84.96 in 2016 and 2015 respectively. Revenues in 2016 were positively impacted by a stronger U.S. dollar, as well as stronger silver prices, which averaged 9% higher than the previous year.

MINE PRODUCTION

Royal Mines of Zacualpan District

Since acquiring the Royal Mines of Zacualpan, there has been extensive work done to upgrade operations and expand production. Expanding the tailings capacity is an ongoing process and the costs are expensed as incurred and not capitalized. Additional surface lands near the Guadalupe mill were also purchased to address the need for additional tailings capacity in the future which is in the process of design and permitting.

3 Revenue per tonne sold and direct costs per production tonne are measures which the Company believes provides useful information on the revenues and direct costs. See "SUPPLEMENTARY INFORMATION".

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. During 2014, underground drilling from the bottom levels of the mine discovered new high grade silver zones in the nearby San Ramon Deeps area, and mining of this area began in Q3-2014. During 2016 the San Ramon Deeps Mine provided 38% (2015 – 40%) of feed to the Guadalupe mill. To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20, 21 and 22 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the year ranged from 194 to 231 g/t silver. Underground drilling to date has outlined the vein over a vertical distance of 10 to 60 metres below the current mine workings. During the fourth quarter and subsequent to year end, additional high grade drill intersections were announced (see EXPLORATION below for details). Additional drilling is planned once a new underground drill station has been completed. IMPACT has also expanded the main mine ramp to accommodate surface truck access down to Level 22 to increase efficiencies of extracting mineral from the mine.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the first quarter of 2013. During 2016 the Cuchara Mine provided 42% (2015 – 46%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza, Santa Lucia, Oscar and Resguardo veins. Diluted mining grades at Cuchara during the year ranged from 159 to 176 g/t silver.

Mirasol Silver Mine

The Mirasol Mine is located 5.5 kilometres southeast of the Guadalupe mill and mining began in Q3 2014. During 2016 Mirasol contributed 17% (2015 – 13%) of silver-rich feed to the Guadalupe mill. Diluted mining grades at Mirasol ranged from 170 to 192 g/t during the year. Production from Mirasol will probably finish in the second quarter of 2017 and will be replaced by a new silver mine at San Patricio currently under development.

Capire Processing Plant and Mine

Capire is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire district is predominantly silver-rich with zinc and lead credits. The district covers the same stratigraphy as the Campo Morado VMS belt where Nyrstar NV (formerly Farallon Resources) mined 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 kilometres southwest of Capire. The Capire plant is currently on care and maintenance.

In Q1 2013, IMPACT announced the commissioning of the new Capire open pit mine and completion of construction of the 200-tpd pilot plant. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potentially larger operation in the future. The work performed has increased the Company's knowledge about the metallurgy of minerals in both districts and has helped define the operating costs at Capire. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes, hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not presently economical. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended. Production from the Capire open pit may restart in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

After the shut-down, the Capire plant was reconfigured as a bulk test processing facility for gold and copper mineralization from the Carlos Pacheco South Zone in the Noche Buena Mine. The results of this test work at Capire and later at the Guadalupe mill, demonstrated good gold recoveries from Carlos Pacheco South mineral when mixed with Zacualpan silver mineral.

Capire Mineral Resource

On January 18, 2016, IMPACT announced new NI43-101 compliant mineral resources for the Capire Zone as follows and then filed a supporting technical report on www.sedar.com on March 3, 2016.

Total Resource at US Dollar per Tonne Cutoffs – Inferred and Unoxidized

Cutoff	Inferred Mineral Resources							
US$/t	Tonnes	US$/t	g Ag/t	%Zn	%Pb	Oz Ag	lbs Zn	lbs Pb
10	4,465,000	36.20	44.21	0.72	0.31	6,346,000	71,183,000	30,212,000
15	3,450,000	43.24	53.03	0.85	0.37	5,881,000	64,914,000	28,072,000
20	2,707,000	50.37	62.22	0.98	0.43	5,414,000	58,444,000	25,755,000
25	2,177,000	57.19	71.06	1.10	0.49	4,974,000	52,766,000	23,522,000
30	**1,786,000**	**63.74**	**79.49**	**1.22**	**0.54**	**4,563,000**	**47,975,000**	**21,423,000**
35	1,490,000	69.96	87.65	1.33	0.59	4,199,000	43,692,000	19,504,000
40	1,242,000	76.47	96.20	1.45	0.65	3,842,000	39,596,000	17,666,000
45	1,035,000	83.30	105.37	1.56	0.70	3,507,000	35,693,000	15,905,000
50	859,000	90.69	115.49	1.69	0.75	3,189,000	31,983,000	14,203,000
60	636,000	103.31	133.60	1.88	0.84	2,732,000	26,339,000	11,793,000
70	489,000	114.89	150.72	2.04	0.92	2,370,000	22,034,000	9,909,000
80	381,000	126.33	167.97	2.20	0.99	2,057,000	18,455,000	8,338,000
90	294,000	138.53	187.15	2.34	1.07	1,772,000	15,194,000	6,966,000

The reported resource ("Base Case") cutoff grade is US$30/tonne in the table. The Mineral Resources in this disclosure were estimated by Mine Development Associates ("MDA") of Reno, Nevada. The resources were estimated using current Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards, definitions and guidelines. The resources were estimated by inverse distance cubed ("ID^3") and checked the estimate with inverse distance to the 4th power, kriging, and nearest neighbour. The Capire database was audited in its entirety and has 20,273 assays of silver ("Ag"), gold ("Au") and lead ("Pb") and zinc ("Zn") collected from 376 exploration drill holes. There are also 889 samples with density measurements in the Capire database. MDA worked with the data on sections spaced 20 metres apart. During that work, MDA found the geology and analytical data to support each other and to present a qualitatively reasonable set of drill data.

The table presents the Inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3m by 3m by 3m. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US$30/t lying within a pit optimized using $31/oz Ag, $1.51/lb Zn, and $1.69/lb Pb. MDA considers a US$30/t cutoff to be appropriate for production using IMPACT's 200t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed "reasonable prospects for eventual economic extraction" which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43-101.

There is additional mineralization too deep to fulfill the criteria of "reasonable prospects for eventual economic extraction" within an open pit, but that may be available for potential underground development. Quality Assurance/Quality Control ("QA/QC") protocols were carried out to assess the quality of the drilling assay results and the confidence that can be placed in the assay data. The QA/QC data available at Capire demonstrate the analytical data are sufficient to be used in estimating Inferred resources. The drill spacing is tighter in the central area. Overall the average distance to the nearest composite sample is 20m (less in the central area), and the average distance to all composites used in the estimation is 40m (less in the central area). Three separate drill-hole database and composite files were built, one for each of silver, zinc and lead. Each drill-hole database was composited to three-metre lengths respecting each metal's domain and the alluvium contacts. Samples from the open pit mining blast-holes and samples logged as alluvium were excluded from compositing. There was no minimum width for compositing because the composites are length-weighted during grade estimation.

This new mineral resource is based on improved geological and structural modeling over the previous 2011 mineral resource. MDA used this new geologic interpretation as the foundation for building mineral domains for silver, zinc and lead. Those domains followed the sedimentary/ volcanic package contacts and respected the structural deformation defined within the sedimentary package. The interpretations were made as polygons digitized on the same 20m-spaced sections. The polygons were extruded halfway to adjacent sections to obtain a volume for model coding and controlling the estimate. The extrusion of these polygons, rather than snapped-in-3D polygons and constructing solids or solid equivalents, was done at the request of IMPACT to reduce work and reduce the time to completion. That was a principal reason for the Inferred classification, which could otherwise have been higher with minor additional work. Statistics by each domain for each metal and by domain were evaluated and in part used to determine capping levels. Capping levels were determined for each metal in each domain, using quantile plots and considering coefficients of variation.

The differences between the previous 2011 publicly reported tonnes and grade at Capire and those reported as the current resources here are substantial. The Base Case resources reported in this new estimate are much smaller than those previously reported, in part because the current resources were estimated with tighter constraints, both geostatistical and geological, and in part because they lie within an optimized pit shell and exclude additional mineralization lying at deeper levels. Much of this deeper mineralization was included in the 2011 estimate. That deep mineralization may be available for potential underground development, but that option remains to be studied and is not included in the current resource tabulation.

EXPLORATION

Mines on epithermal veins that were discovered and built by the IMPACT team include the Cuchara Silver Mine (currently in operation), San Ramon Deeps Silver Mine (currently in operation), Mirasol Silver Mine (currently in operation), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), and the Noche Buena Silver Mine (operated 2010-2014) as well as the Capire VMS open pit mine (on care and maintenance). Exploration is continuing with the goal of finding and developing new mines for the Company. Recent exploration highlights were as follows:

San Ramon Deeps Drilling Results

During the fourth quarter, IMPACT announced underground drill results from the San Ramon Deeps Zone which included 354 g/t silver over 4.93 metres and 343 g/t silver over 3.10 metres. Subsequent to year end on January 23, 2017, IMPACT announced further drill results from San Ramon Deeps which included 1,613 g/t silver over 4.12 metres and 248 g/t silver over 11.08 metres. Drilling will continue when construction of a new underground drill station is completed.

Exploration Field Work

The IMPACT crews have been sampling some of the 4,500+ old mine workings and prospects in the districts. They have also trenched areas of mineralization and carried out extensive soil sampling on 100-metre x 25-metre grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling in old mine workings was mainly focused on larger and higher grade target areas at Guadalupe South, San Ramon extensions and San Felipe. In addition, compilation of historical maps and other mining data from the districts into a large computer database continues and is being used to plan future exploration programs.

Veta Grande (Zacatecas) Silver Project, Mexico

The Zacatecas project consists of a 200-tpd mill and 10 mineral concessions in the Zacatecas Silver District located 500 kilometres northwest of Mexico City. There is good infrastructure throughout the district which consists of road networks, electric power and a trained work force. Since 2007 intermittent exploration was carried out on several of the mineral concessions. The Zacatecas project is currently on care and maintenance.

FUTURE PLANS

Mining Plans

Mining at Mirasol will probably cease in the second quarter of 2017 and will be replaced by the San Patricio Silver which is currently under development. In the longer term, management also intends to continue exploration and development of gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 4,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Utilizing new funds received in Q2 2016, the Company has initiated surface and underground drilling programs to expand resources. Currently, exploration work is focused on larger and higher grade targets at Guadalupe South, San Ramon Extensions and San Felipe. Surface drilling in 2017 will test the San Patricio extensions, Cuchara Mine extensions and the San Felipe prospect, located near the Guadalupe plant access road.

IMPACT has a track record of successful exploration and rapid mine development. The Company's long term vision sees potential for establishing mills throughout the two districts, each fed by multiple mines producing silver-lead-zinc as well as gold and copper.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District (except the mineral resources) and the Veta Grande (Zacatecas) Silver Project. Steven Ristorcelli, C.P.G. (U.S.A.), Principal Geologist for Mine Development Associates and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the Capire mineral resource estimate and directly related information in this MD&A. Details of the technical information in this MD&A are available in Company news releases posted on the Company website at www.IMPACTSilver.com and on www.sedar.com.

Cautionary Statement: The Company's decision to place a mine into production, expand a mine, make other production related decisions or otherwise carry out mining and processing operations, is largely based on internal non-public Company data and reports based on exploration, development and mining work by the Company's geologists and engineers. The results of this work are evident in the discovery and building of multiple mines for the Company, and in the track record of mineral production and financial returns of the Company since 2006. Under NI43-101 the Company is required to disclose that it has not based its production decisions on NI43-101-compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

Exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and effects reclamation on sites disturbed by its activities.

The Company has educated its employees and contract personnel to maintain high standards related to environmental and safety issues and they are continually reminded to uphold this standard. In 2016 IMPACT received recognition for its compliance to the health and safety standards at the San Ramon Mine, the La Cuchara Mine and the Guadalupe mill by the Secretary of Labour and Social Welfare in Mexico. This recognition acknowledges that the Company:

- Ensured a working environment that allows effectiveness and competence.
- Emphasized a strong relationship between employees and employer.
- Reduced workplace accidents and illnesses.
- Reduced absenteeism.
- Had no fines or work stoppages.

The Company keeps community members informed of its activities and works with the community to address concerns. The employment of workers from the local communities fosters understanding, direct involvement in the Company's operations and financial benefits to the local communities including the development of recreational areas and parks.

The Company has social, environmental and other policies related to its operations and promotes a culture for working safely. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and communities. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise the safety program. In the event of an emergency, the Company keeps a paramedic and onsite ambulance on standby.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attends investment and mining related conferences in Canada and internationally. To date this year, the Company participated in investor and mining related conferences and conducted institutional presentations. Beyond this, the Company continues to strengthen its presence via social media and online advertisements.

FINANCIAL DISCUSSION

Summary of Year to Date Results

$ in thousands except for loss per share	Year ended December 31					
		2016		2015		2014
Revenues	$	16,685	$	14,638	$	12,009
Net loss	$	(1,939)	$	(1,428)	$	(3,487)
Loss per share – basic and diluted	$	(0.02)	$	(0.02)	$	(0.05)

Net loss for 2016 was impacted by the following factors:

- IMPACT's mine operating earnings were $1.4 million, a significant increase compared to a loss of $0.1 million in 2015, with revenues of $16.7 million in 2016 compared to $14.6 million in 2015.
- Silver production was 952,768 ounces in 2016, a slight increase from 950,059 ounces produced in 2015.
- Revenue per tonne sold increased 8% from $84.96 last year to $91.73 in 2016, as a result of higher silver prices and a stronger U.S. dollar.
- Direct costs per tonne at the Guadalupe mill for the current year were $70.14, compared to $71.84 in 2015. Operating expenses for Guadalupe were $12.8 million for 2016 compared to $12.3 million in the previous year. The Company invested in upgrades and improvements during the year in order to increase the long-term production capabilities. Amortization and depletion expenses increased to $2.3 million during 2016 from $2.1 million in 2015.
- General and administrative costs increased to $2.5 million in 2016 from $1.6 million in 2015, mainly due to $0.7 million in share based compensation expense related to the July 2016 issuance of share options. Office salaries and services also increased in 2016.
- The Company had a $0.5 million foreign exchange loss in the current year compared to a $0.1 million gain last year.
- Other income of $0.1 million was earned in 2016 for payroll administrative services provided. In 2015, $0.4 million of other income was earned from inflation adjustments on the collection and application of the value added taxes receivable in Mexico, in accordance with Mexican tax regulations.
- The Company received $0.1 million in interest income in the first quarter of 2015 as a result of an outstanding settlement with the government.
- IMPACT wrote down its exploration and evaluation assets by $0.04 million in 2016, and by $0.6 million in 2015. The 2015 write down related mainly to concessions that were abandoned.
- Deferred and current income tax expenses in 2016 were $0.3 million compared to recoveries of $0.2 million in the comparable period of 2015.

Summary of Quarterly Results

$ in thousands except for loss per share	Three months ended December 31					
		2016		2015		2014
Revenues	$	3,801	$	3,883	$	3,132
Net (loss) income	$	(803)	$	168	$	(598)
Loss per share – basic and diluted	$	(0.01)	$	0.00	$	(0.01)

Net loss for the fourth quarter of 2016 was impacted by the following factors:

- For the three months ended December 31, 2016, the Company's mine operating loss was $0.2 million compared to earnings of $0.2 million in the same period of 2015, with revenues of $3.8 million in 2016 compared to $3.9 million in 2015.
- Silver production was 247,410 ounces during the fourth quarter of 2016, representing a 6% increase from 233,740 ounces produced within the same period in 2015.

- Revenue per tonne sold for the three months ended December 31, 2016 was $82.53 compared to $91.68 in 2015, mainly as a result of lower silver grade and sales ounces between the two periods. As silver sales account for the great majority of the Company's revenues, the changes in lead and gold prices and production did not significantly affect mine operating income.
- Direct costs per tonne at the Guadalupe mill decreased to $70.17 in the fourth quarter of 2016 from $75.25 in the fourth quarter of 2015. Operating expenses for Guadalupe remained consistent at $3.2 million between the two periods, while production tonnage increased 14% in 2016 over the prior year. Amortization and depletion expenses increased to $0.7 million in the fourth quarter of 2016 compared to $0.5 million in the last quarter of 2015.
- General and administrative costs increased to $0.6 million in the quarter ending December 31, 2016, compared to $0.3 million in the same quarter of 2015. The Company issued stock options in July 2016 which resulted in share based compensation expense of $0.2 million for the period. There was no corresponding expense in 2015. Management fees and consulting increased by $0.1 million in the quarter compared to the same period last year relating to work done on regulatory compliance.
- The Company had a $0.2 million foreign exchange gain in the fourth quarter of 2016 compared to a $0.6 million gain in the fourth quarter of 2015.
- IMPACT wrote down its exploration and evaluation assets by $0.04 million in the fourth quarter of 2016, and by $0.6 million in 2015. The 2015 write-down related mainly to concessions that were abandoned.
- Deferred and current income tax recoveries in the fourth quarter of 2016 were $0.01 million compared to recoveries of $0.3 million in the fourth quarter of 2015.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters.

	For the Three Months Ended ($ in thousands except for loss per share)							
	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
Revenues	3,801	4,728	4,393	3,762	3,883	4,108	2,735	3,912
Net (loss) earnings	(803)	(678)	(147)	(311)	168	(270)	(1,046)	(281)
Loss per share – Basic and Diluted*	(0.01)	(0.01)	0.00	0.00	0.00	0.00	(0.02)	0.00
Total assets	54,661	56,828	58,450	54,597	58,038	57,834	57,571	61,365
Total liabilities	7,029	7,250	7,301	8,231	8,792	8,837	8,441	9,226

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

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

Working Capital and Cash Flow

IMPACT continued to be in a strong financial position during the quarter, with $8.1 million in cash and net working capital of $10.5 million at December 31, 2016.

In the fourth quarter of 2016, the Company generated cash flows from operating activities of $1.0 million (2015 – $1.0 million). The Company invested $0.7 million during the quarter (2015 - $0.4 million) in exploration and evaluation assets, and $0.4 million (2015 - $0.1 million) in property, plant and equipment. In the year ended December 31, 2016, the Company generated positive cash flows from operating activities of $3.3 million (2015 - $2.4 million). During 2016, the Company invested $2.3 million (2015 - $2.2 million) in exploration and evaluation assets, and $0.8 million (2015 - $0.1) million in property, plant and equipment.

The Company's working capital is expected to remain strong as IMPACT continues to be strategic with its investing and exploration activities. The Company is continuing to recover its value added tax from the Mexican government.

Financing

During the second quarter, IMPACT completed three private placements for aggregate net proceeds of $7.3 million.

- 6,666,666 shares were issued to an accredited investor at a price of $0.30 per share for aggregate gross proceeds of $2.0 million.
- 2,000,000 shares were issued to accredited investors at a price of $0.31 per share for aggregate gross proceeds of $0.62 million.
- 8,771,930 units were issued to accredited investors at a price of $0.57 per unit for gross proceeds of $5.0 million. Each unit consists of one common share and one-half of one warrant. Each whole warrant entitles the holder to purchase one common share at a price of $0.90 per common share for a period of 36 months from date of issuance.

All securities issued under these offerings were subject to a hold period of four months from date of issuance. The net proceeds are being used to fund the Company's continued exploration and development of its silver assets in Mexico, increase production capacity of its Guadalupe mill, and for general working capital purposes.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 13, 2017:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	85,566,840		
Stock options	1,975,000	$1.20	January 22, 2018
Stock options	1,210,000	$0.55	January 6, 2019
Warrants	2,220,000	$0.90	May 26, 2019
Warrants	697,600	$0.90	June 2, 2019
Warrants	1,250,150	$0.90	June 9, 2019
Warrants	218,215	$0.90	June 16, 2019
Stock options	1,860,000	$0.98	July 27, 2021
Fully diluted	94,997,805		

3,882,500 of the 5,045,000 options outstanding have vested at March 13, 2017.

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

Related Party Transactions

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions which is the amount of consideration paid or received as agreed by the parties.

For the first five months of 2016, Energold Drilling Corp. ("Energold") was considered a related party due to mutual management at the executive level and its shareholding and directorships in IMPACT. Fees in the amount of $125,458 (2015 - $132,510) were incurred for administrative services. On April 19, 2016, Energold acquired 1,000,000 of the Company's shares at a price of $0.31 per share in a private placement. Subsequent to May 27, 2016, IMPACT completed a $5.0 million private placement which diluted Energold's ownership position such that it was no longer considered to have significant influence over IMPACT. As a result, Energold is no longer considered a related party.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2016 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - Financial Instruments - Disclosures.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Trafigura Mexico, S.A. de C.V. ("Trafigura"). As a result, the Company has a significant concentration of credit risk exposure to these companies 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 of December 31, 2016 is the carrying value of its cash and trade and other receivables, which includes value added and other taxes receivable subject to government review and regulatory changes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2016, the Company did not have any 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, 2016, 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, 2016, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.2 million decrease or increase in the Company's net loss for the year ended December 31, 2016.

Commodity price risk

Due to the recent volatility in silver prices the Company is assessing the impact and direction in silver prices over the short and long term. Should the prices decline, the Company's operating results could be adversely impacted and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets. To date the Company has been addressing these issues with the objective of lowering production costs and mining higher grade mineralization.

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2016 by $89,000 (2015 - $nil).

OPERATIONAL RISK

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

POLITICAL, REGULATORY AND SECURITY ISSUES

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

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.

SUPPLEMENTARY INFORMATION

Revenue per tonne sold and direct costs per tonne produced are measures which the Company believes are key indicators of performance and allow for more direct comparison of revenues and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2016	2015	2016	2015
Operating expenses	$ 3,314,446	$ 3,252,909	$ 12,984,236	$ 12,630,791
(Deduct): operating expenses for Capire	(72,745)	(83,295)	(206,444)	(291,580)
Add (deduct): inventory	152,100	15,388	59,521	(89,277)
Direct costs	$ 3,393,801	$ 3,185,002	$ 12,837,313	$ 12,249,934
Tonnes milled	48,366	42,328	183,032	170,509
Direct costs per tonne	$ 70.17	$ 75.25	$ 70.14	$ 71.84
Revenues	$ 3,800,943	$ 3,882,844	$ 16,684,658	$ 14,637,592
(Deduct): revenues for Capire	-	-	-	-
Revenues for Guadalupe	$ 3,800,943	$ 3,882,844	$ 16,684,658	$ 14,637,592
Tonnes sold	46,053	42,351	181,883	172,296
Revenue per tonne sold	$ 82.53	$ 91.68	$ 91.73	$ 84.96

NON-IFRS MEASURES

The non-IFRS measures presented do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other issuers. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-IFRS measures the Company uses in assessing performance:

Mine operating earnings (loss) before amortization and depletion is a measure which the Company believes provides additional information regarding how the Company's operations are performing. This measure is calculated as revenues less operating expenses, excluding amortization and depletion.

	For the Twelve Months Ended December 31					
	2016			2015		
In thousands	Guadalupe	Capire	Total	Guadalupe	Capire	Total
Revenues	$ 16,685	$ -	$ 16,685	$ 14,638	$ -	$ 14,638
Operating expenses	(12,778)	(206)	(12,984)	(12,339)	(292)	(12,631)
Mine operating earnings (loss) before amortization and depletion	$ 3,907	$ (206)	$ 3,701	$ 2,299	$ (292)	$ 2,007

EBITDA is defined as net income before interest, taxes, depreciation, depletion and amortization. The Company considers this measure to be a meaningful supplement to net income as a performance measurement. This measure is calculated as follows:

	For the Twelve Months Ended December 31	
	2016	2015
Net loss	$ (1,939,278)	$ (1,427,838)
Add:		
Finance cost	60,144	55,522
Current income tax expense	134,485	122,257
Deferred income tax expense (recovery)	160,598	(353,664)
Depreciation and amortization	2,360,842	2,139,600
Less:		
Finance income	(31,843)	(133,261)
Earnings before interest, taxes, depreciation and amortization	$ 744,948	$ 402,616

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 the Company website at www.IMPACTSilver.com and on SEDAR at www.sedar.com.

On behalf of the Board of Directors,

"Frederick W. Davidson"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

March 13, 2017

IMPACT Silver Corp.

Management's Responsibility for Financial Reporting

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

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

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

"T. Dang"
CHIEF FINANCIAL OFFICER

March 13, 2017

IMPACT Silver Corp.

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, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IMPACT Silver Corp. and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

March 13, 2017

PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

IMPACT Silver Corp.

Consolidated Statements of Financial Position

(As at December 31, Canadian dollars)

	2016	2015
ASSETS		
Current		
Cash	$ 8,124,563	$ 717,369
Trade and other receivables *(Note 4)*	3,787,648	3,972,634
Inventories *(Note 5)*	1,016,291	1,103,970
Available-for-sale investments	3,750	5,000
	12,932,252	5,798,973
Value added and other taxes receivable	206,087	2,628,652
Property, plant and equipment *(Note 6)*	21,220,426	26,572,115
Exploration and evaluation assets *(Note 7)*	20,149,111	22,622,890
Deferred income tax assets *(Note 13)*	153,615	414,940
	$ 54,661,491	$ 58,037,570
LIABILITIES		
Current		
Trade payables and accrued liabilities	$ 2,413,017	$ 1,453,148
Due to related party	-	1,452,876
	2,413,017	2,906,024
Reclamation provision *(Note 9)*	424,900	656,515
Deferred income tax liabilities *(Note 13)*	4,191,075	5,229,494
	7,028,992	8,792,033
SHAREHOLDERS' EQUITY		
Share capital	59,651,422	53,495,947
Warrants *(Note 12(c))*	973,378	-
Contributed surplus	5,523,617	4,776,173
Accumulated other comprehensive (loss) income	(6,790,133)	759,924
Accumulated deficit	(11,725,785)	(9,786,507)
	47,632,499	49,245,537
	$ 54,661,491	$ 58,037,570

ON BEHALF OF THE BOARD:

"F.W. Davidson"
DIRECTOR

"P. Tredger"
DIRECTOR

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

IMPACT Silver Corp.

Consolidated Statements of Loss

(As at December 31, Canadian dollars)

	2016	2015
Revenues	$ 16,684,658	$ 14,637,592
Expenses		
Operating expenses *(Note 10)*	12,984,236	12,630,791
Amortization and depletion	2,331,822	2,107,807
	15,316,058	14,738,598
Mine operating earnings (loss)	1,368,600	(101,006)
General and administrative expenses		
Accounting, audit and legal	187,853	221,497
Amortization	29,020	31,793
Investor relations, promotion and travel	69,494	35,962
Management fees and consulting	351,740	341,788
Office, rent, insurance and sundry	277,390	306,981
Office salaries and services	836,469	627,273
Share-based payments *(Note 12(b))*	747,444	-
	2,499,410	1,565,294
Operating loss	(1,130,810)	(1,666,300)
Other income (expenses)		
Finance cost	(60,144)	(55,522)
Finance income	31,843	133,261
Foreign exchange (loss) gain	(498,511)	62,856
Other income	69,697	410,704
(Loss) gain on disposal of assets	(15,448)	11,645
Write-down of exploration and evaluation assets (Note 7)	(40,822)	(555,889)
	(513,385)	7,055
Loss before taxes	(1,644,195)	(1,659,245)
Current income tax expense *(Note 13)*	134,485	122,257
Deferred income tax expense (recovery) *(Note 13)*	160,598	(353,664)
Net loss	$ (1,939,278)	$ (1,427,838)
Loss per share – Basic and Diluted *(Note 12(d))*	$ (0.02)	$ (0.02)
Weighted average number of shares outstanding – Basic and Diluted	79,442,771	68,128,244

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Loss

(As at December 31, Canadian dollars)

		2016		2015
Net loss	$	(1,939,278)	$	(1,427,838)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Unrealized gain (loss) on investments held as available-for-sale		(1,250)		(12,500)
Cumulative translation adjustment		(7,548,807)		941,222
Comprehensive loss	$	(9,489,335)	$	(499,116)

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Loss

(As at December 31, Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Accumulated Deficit ($)	Total Shareholders' Equity ($)
Balance at December 31, 2014	68,128,244	53,495,947	-	4,776,173	(168,798)	(8,358,669)	49,744,653
Net loss for the year	-	-	-	-	-	(1,427,838)	(1,427,838)
Cumulative translation adjustments	-	-	-	-	941,222	-	941,222
Unrealized loss on investments	-	-	-	-	(12,500)	-	(12,500)
Balance at December 31, 2015	68,128,244	53,495,947	-	4,776,173	759,924	(9,786,507)	49,245,537
Net loss for the year	-	-	-	-	-	(1,939,278)	(1,939,278)
Shares issued in relation to private placements	17,438,596	7,620,000	-	-	-	-	7,620,000
Share issue costs	-	(491,147)	-	-	-	-	(491,147)
Warrants issued in relation to private placements	-	(973,378)	973,378	-	-	-	-
Shared based compensation expense	-	-	-	747,444	-	-	747,444
Cumulative translation adjustments	-	-	-	-	(7,548,807)	-	(7,548,807)
Unrealized loss on investments	-	-	-	-	(1,250)	-	(1,250)
Balance at December 31, 2016	85,566,840	59,651,422	973,378	5,523,617	(6,790,133)	(11,725,785)	47,632,499

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

IMPACT Silver Corp.

Consolidated Statements of Cash Flows

(As at December 31, Canadian dollars)

Cash resources provided by (used in)	2016	2015
Operating activities		
Net loss	$ (1,939,278)	$ (1,427,838)
Items not affecting cash		
Amortization and depletion	2,360,842	2,139,600
Share-based payments	747,444	-
Deferred income taxes	160,598	(353,664)
Loss (gain) on disposal of assets	15,448	(11,645)
Accretion expense	38,623	28,935
Write-down of exploration and evaluation assets	40,822	555,889
Write-down of inventory	33,441	52,569
Unrealized loss (gain) on foreign exchange	583,660	(62,856)
Changes in non-cash working capital		
Trade and other receivables	294,341	1,310,008
Income taxes receivable	1,372,014	76,788
Inventories	(101,213)	(176,843)
Trade payables	1,230,491	(46,710)
Income taxes payable	(177,874)	230,618
Due to related party	(1,352,640)	67,471
	3,306,719	2,382,322
Investing activities		
Acquisition of long-lived assets	(3,104,872)	(2,298,562)
Proceeds on sale of assets	9,755	79,368
	(3,095,117)	(2,219,194)
Financing activities		
Proceeds from private placements, net	7,128,853	-
Effect of exchange rate changes on cash	66,739	(21,103)
Net change in cash	7,407,194	142,025
Cash – Beginning of year	717,369	575,344
Cash – End of year	$ 8,124,563	$ 717,369

Supplementary cash flow information *(Note 11)*

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

1. NATURE OF OPERATIONS

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 13, 2017.

b) Basis of measurement

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

c) Use of estimates and judgments

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

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

- grade and tonnage estimates;
- asset carrying values and impairment analysis;
- reclamation provisions; and
- valuation of inventory.

Grade and tonnage estimates

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

Asset carrying values and impairment analysis

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

Reclamation provisions

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

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

Valuation of inventory

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

d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. All intercompany transactions and balances are eliminated on consolidation. These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, comprising:

Subsidiary	Incorporation Location	Nature of operations
Jade Oil Corporation ("Jade")	Canada	Exploration
Chalco Services Inc. ("Chalco")	Canada	Exploration
Minera Impact Silver de Mexico, S.A. de C.V. ("MISM")	Mexico	Mining Service Company
Minera Aguila Plateada, S.A. de C.V. ("MAP")	Mexico	Mining/Exploration
Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ")	Mexico	Mining/Exploration
Minera Laureles, S.A. de C.V. ("ML")	Mexico	Mining/Exploration
Arrendadora y Servicios Chalco, S.A. de C.V. ("AS Chalco")	Mexico	Mining Service Company
Proyectos Mineros, S.R.L. ("PMSA")	Dominican Republic	Exploration
Minera Monte Plata, S.R.L. ("MMP")	Dominican Republic	Exploration

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

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

b) Cash

Cash includes cash at banks and on hand. Cash subject to restrictions is excluded.

c) Inventories

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

d) Investments

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

e) 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. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

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. Exploration and evaluation expenditures are transferred to mining assets when the technical feasibility and commercial viability of a mineral resource has been demonstrated and a development decision has been made and all necessary mine development permits issued.

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.

f) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and applicable impairment losses. Plant and mine equipment is amortized on a declining balance at rates varying from 10% to 20% annually. Vehicles and office furniture and equipment are amortized on a declining balance at rates varying from 20% 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 consolidated statement of loss as an expense is incurred.

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

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 and the component replaced is recorded as a disposal. The costs of day-to-day servicing, commonly referred to as "repairs and maintenance", are recognized in the consolidated statement of loss as an expense, as incurred.

Commercially viable mineral resource exploration and evaluation expenditures

Exploration and evaluation expenditures are transferred to mining assets when they are determined to be technically feasible and commercially viable, a development decision has been made, and all necessary mine development permits have been issued. 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.

g) Asset impairment

Management reviews the carrying value of its exploration and evaluation assets 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 CGU to which the asset belongs. A CGU is the smallest identifiable group of asset that generates cash inflows from other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Recoverable amount is the higher of an asset or CGU's fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which future cash flows have not been adjusted. FVLCD 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. FVLCD is primarily derived using discounted cash flow techniques, which incorporates market participant assumptions.

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 consolidated statement of income and loss. 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.

For exploration and evaluation assets, indications include but are not limited to expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, and if the entity has decided to discontinue exploration activity in the specific area.

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining exploration and evaluation assets and the general likelihood that the Company will continue exploration. The Company does not set a

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

g) Asset impairment *– continued*

predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated. This re-evaluation determines if future exploration is warranted and if their carrying values are appropriate. These costs would be allocated to the related operating mines. If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as exploration and evaluation assets represent costs incurred to date and do not necessarily reflect present or future values.

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

h) Loss per share

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

i) Share based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. The directors, subject to the policies of the TSX Venture Exchange, may determine and impose terms upon how each grant of options shall become vested.

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

j) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statement of loss. 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 regard to previous periods.

Deferred taxes are recorded using the statement of financial position liability method, whereby, 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.

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

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

k) Foreign currency translation

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

The functional currency of IMPACT Silver Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currencies for the 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., Arrendadora y Servicios Chalco S.A. de C.V., Minera Aguila Plateada S.A. de C.V., Minera El Porvenir de Zacualpan S.A. de C.V. and its wholly owned subsidiary, Minera Laureles, S.A. de C.V.
- Dominican pesos for Proyectos Mineros, S.R.L. and Minera Monte Plata, S.R.L.

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

(i) Assets and liabilities 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 consolidated statement of loss.

l) Financial instruments

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

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

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

Impairment of financial assets

Financial assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

l) Financial instruments *– continued*

Objective evidence of impairment could include the following:

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

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

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

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

m) Reclamation provisions

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

n) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2016:

IFRS 9 – Financial Instruments – classification and measurement

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess the full impact of this standard.

IFRS 15 – Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2017), i.e. without restating the comparative period. The Company will only need to apply the new rules to contracts that are not completed as of the date of initial application. The Company plans to review its contracts to assess the impact of adoption of the standard.

IFRS 16 – Leases

In January 2016, the IASB issued a new standard which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has begun preliminary discussions however the extent of the impact of adoption of the standard has not yet been determined.

4. TRADE AND OTHER RECEIVABLES

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

		2016		2015
Value added and other taxes receivable – current portion	$	1,619,702	$	2,170,045
Trade and other receivables		2,022,956		1,642,606
Prepaids		144,990		159,983
Total trade and other receivables	$	3,787,648	$	3,972,634

5. INVENTORIES

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

		2016		2015
Materials and supplies	$	636,170	$	782,345
Stockpile inventory		7,907		8,932
Concentrate inventory		372,214		312,693
Total inventories	$	1,016,291	$	1,103,970

The amount of inventories recognized as an expense during the year ended December 31, 2016 was $12,984,236 (December 31, 2015 - $12,630,791).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2016 was $33,441 (December 31, 2015 - $52,569) relating to concentrate inventory.

6. PROPERTY, PLANT AND EQUIPMENT

Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	Total ($)
Cost						
Balance at January 1, 2015	10,625,863	480,030	226,954	1,314,416	26,773,027	39,420,290
Additions	119,656	-	4,183	-	1,130,201	1,254,040
Disposals	(106,862)	-	(1,710)	-	-	(108,572)
Change in reclamation estimate	-	-	-	-	186,057	186,057
Foreign exchange movement	245,676	11,169	2,888	30,583	557,427	847,743
Balance at December 31, 2015	10,884,333	491,199	232,315	1,344,999	28,646,712	41,599,558
Additions	548,533	59,927	7,051	-	1,269,040	1,884,551
Disposals	-	(7,374)	(8,639)	(18,417)	-	(34,430)
Change in reclamation estimate	-	-	-	-	(141,521)	(141,521)
Foreign exchange movement	(2,067,195)	(93,870)	(24,271)	(257,034)	(4,932,899)	(7,375,269)
Balance at December 31, 2016	9,365,671	449,882	206,456	1,069,548	24,841,332	35,932,889
Accumulated amortization						
Balance at January 1, 2015	3,675,735	326,276	145,761	-	8,484,402	12,632,174
Amortization for the period	1,058,740	49,568	21,688	-	1,055,042	2,185,038
Disposals	(39,439)	-	(706)	-	-	(40,145)
Foreign exchange movement	83,091	7,497	1,619	-	158,169	250,376
Balance at December 31, 2015	4,778,127	383,341	168,362	-	9,697,613	15,027,443
Amortization for the period	875,649	42,124	17,797	-	1,474,990	2,410,560
Disposals	-	(4,916)	(5,388)	-	-	(10,304)
Foreign exchange movement	(982,711)	(75,822)	(17,445)	-	(1,639,258)	(2,715,236)
Balance at December 31, 2016	4,671,065	344,727	163,326	-	9,533,345	14,712,463
Net book value						
At December 31, 2015	6,106,206	107,858	63,953	1,344,999	18,949,099	26,572,115
At December 31, 2016	4,694,606	105,155	43,130	1,069,548	15,307,987	21,220,426

7. EXPLORATION AND EVALUATION ASSETS

Details are as follows:

	Mexico ($)	Dominican Republic ($)	Total ($)
Balance at January 1, 2015	21,523,503	215,203	21,738,706
Additions	1,043,915	-	1,043,915
Write-down	(340,686)	(215,203)	(555,889)
Foreign exchange	396,158	-	396,158
Balance at December 31, 2015	22,622,890	-	22,622,890
Additions	1,067,683	-	1,067,683
Write down	(40,822)	-	(40,822)
Foreign exchange	(3,500,640)	-	(3,500,640)
Balance at December 31, 2016	20,149,111	-	20,149,111

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2016 was $40,822 (December 31, 2015 - $555,889), the majority of which relates to the Zacatecas property.

8. RELATED PARTY TRANSACTIONS

a) Key management personnel compensation

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

	2016	2015
Salaries and fees	$ 565,225	$ 348,800
Share based compensation	442,037	-
Total compensation	$ 1,007,262	$ 348,800

b) Transactions with other related parties

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

For the first five months of 2016, Energold Drilling Corp. ("Energold") was considered a related party due to mutual management at the executive level and its shareholding and directorships in IMPACT. Fees in the amount of $125,458 (2015 - $132,510) were incurred for administrative services. On April 19, 2016, Energold acquired 1,000,000 of the Company's shares at a price of $0.31 per share in a private placement.

Subsequent to May 27, 2016, IMPACT completed a $5.0 million private placement which diluted Energold's ownership position such that it was no longer considered to have significant influence over IMPACT. As a result, Energold is no longer considered a related party.

9. RECLAMATION PROVISION

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's development of the open pit Capire mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are approximately $1,271,889 (2015 – $1,311,011). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.2% (2015 – 3.7%) and discounted using a Mexican risk-free rate of 7.8% (2015 – 6.7%). Settlement of the liability may extend up to 14 years in the future.

Additions to the reclamation provision were as follows:

	2016	2015
Reclamation provision, beginning of the year	$ 656,515	$ 431,538
Foreign exchange movement	(128,718)	9,985
Accretion of reclamation provision	38,624	28,935
Revisions to estimated cash flows	(141,521)	186,057
Total reclamation provision	$ 424,900	$ 656,515

10. EXPENSES BY NATURE

The following table details the nature of operating expenses at December 31:

	2016	2015
Production costs	$ 6,739,478	$ 6,447,150
Administration	713,726	790,719
Transportation	554,413	502,743
Wages and salaries	4,976,619	4,890,179
Total operating expenses	$ 12,984,236	$ 12,630,791

11. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details additional supplementary cash flow information at December 31:

	2016	2015
Cash received for interest income	$ 31,843	$ 133,261
Cash paid for income taxes	$ 80,349	$ -

12. EQUITY

a) Share capital

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

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

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

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

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

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

b) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Under the terms of the Company's stock option plan, the maximum number of shares reserved for issuance is 10% of the issued shares of the Company on a rolling basis. Options granted must be exercised no later than five years from date of grant or extension or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange on the last trading day preceding the grant. Options vest 25% on the date granted and 25% every six months thereafter.

A summary of the Company's stock options as at December 31, 2016 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2015	5,951,250	1.24
Forfeited	(297,500)	1.32
Expired	(788,750)	1.10
At December 31, 2015	4,865,000	1.26
Granted	1,860,000	0.98
Forfeited	(20,000)	1.20
Expired	(1,660,000)	1.85
At December 31, 2016	5,045,000	0.96

12. EQUITY *– continued*

b) Stock options *– continued*

The following table summarizes information about the stock options outstanding at December 31, 2016:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$1.20	1,975,000	1.06	1,975,000	January 22, 2018
$0.55	1,210,000	2.02	1,210,000	January 6, 2019
$0.98	1,860,000	4.57	465,000	July 27, 2021
	5,045,000	2.58	3,650,000	

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

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

Date Granted	July 28, 2016
Number of options granted	1,860,000
Risk-free interest rate	0.57%
Expected dividend yield	Nil
Expected share price volatility	106.62%
Expected option life in years	3

The expected volatility is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Bank of Canada marketable bonds with a remaining term equal to the stock options' expected life.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the year ended December 31, 2016 is $747,444 (December 31, 2015 - $nil).

c) Warrants

A summary of the Company's warrants as at December 31, 2016 and the changes for the periods ended on these dates is as follows:

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

The fair value of each warrant granted is estimated at the time of grant using the Black-Scholes option pricing model with assumptions as follows:

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

Pricing models require the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

d) Loss per share

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

	2016	2015
Net loss attributable to shareholders	$ (1,939,278)	$ (1,427,838)
Weighted average number of shares outstanding – basic and diluted	79,442,771	68,128,244
Loss per share – basic and diluted	(0.02)	(0.02)

13. 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:

	2016	2015
Loss before income taxes	$ (1,644,195)	$ (1,659,245)
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on the above rates	$ (427,491)	$ (431,404)
Increase (decrease) due to:		
Non-deductible expenses	260,298	144,363
Losses and temporary differences for which a deferred tax asset has not been recognized	464,143	179,920
Withholding tax	67,675	83,211
Difference between foreign and Canadian tax rates	13,705	(43,667)
Deferred taxes in respect of Mexican royalty	54,641	81,946
Foreign exchange and other	(137,888)	(245,776)
Income tax expense (recovery)	$ 295,083	$ (231,407)

13. INCOME TAXES – *continued*

Total income tax expense consists of:

		2016		2015
Current income tax expense	$	134,485	$	122,257
Deferred income tax expense (recovery)		160,598		(353,664)
	$	295,083	$	(231,407)

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

		2016		2015
Deferred income tax assets				
Non-capital losses	$	4,653,503	$	6,210,807
Property, plant and equipment		-		134,948
Current assets and liabilities		415,168		39,368
Total deferred tax assets	$	5,068,671	$	6,385,123
Deferred income tax liabilities				
Property, plant and equipment	$	4,706,034	$	5,704,557
Exploration and evaluation assets		4,080,523		5,109,516
Other		319,574		385,604
Total deferred income tax liabilities	$	9,106,131	$	11,199,677
Deferred income tax liabilities, net	$	4,037,460	$	4,814,554

The deferred income tax assets and liabilities are represented on the balance sheet as follows:

		2016		2015
Deferred tax assets	$	(153,615)	$	(414,940)
Deferred tax liabilities		4,191,075		5,229,494
	$	4,037,460	$	4,814,554

The composition of deferred tax expense (recovery) is as follows:

		2016		2015
Deferred income tax assets				
Non-capital losses	$	347,675	$	(548,415)
Other		(383,467)		80,954
Deferred income tax liabilities				
Property, plant and equipment	$	221,173	$	10,781
Exploration and evaluation assets		(33,854)		90,508
Other		9,071		12,508
Deferred income tax expense (recovery)	$	160,598	$	(353,664)

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

		2016		2015
Net deferred tax liability, January 1	$	4,814,554	$	5,055,202
Deferred income tax expense (recovery) during the year		160,598		(353,664)
Changes due to foreign currency translation		(937,692)		113,016
Net deferred tax liability, December 31	$	4,037,460	$	4,814,554

The unrecognized deferred tax asset is as follows:

		2016		2015
Non-capital losses	$	3,044,285	$	2,716,692
Capital losses		278,762		203,193
Property, plant and equipment		164,827		(67,948)
Exploration and evaluation assets		1,015,647		1,015,647
Unrecognized deferred tax asset	$	4,503,521	$	3,867,584

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

As at December 31, 2016, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

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

Expiry Year		
2026	$	828,544
2027		541,044
2028		141,907
2029		415,894
2030		1,266,681
2031		1,137,299
2032		1,598,366
2033		2,021,252
2034		1,485,486
2035		984,102
2036		1,112,355
	$	11,532,930
Capital losses		
No expiry date	$	2,144,322

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to continue to explore financing opportunities, to provide an adequate return to shareholders and to support any growth plans.

To effectively manage the entity's capital requirements, the Company has in place a 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.

15. 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 and other 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, 2016 investments were classified as Level 1 on the fair value hierarchy of IFRS 13 – Fair Value Measurement. At December 31, 2016 and 2015, the carrying value of the Company's cash, trade and other receivables, investments, and trade payables approximate fair values.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Trafigura Mexico S.A. de C.V. ("Trafigura"). As a result, the Company has a significant concentration of credit risk exposure to these companies 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 ($8.1 million), trade and other receivables ($3.8 million).

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, 2016, 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, 2016, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $211,000 decrease or increase in the Company's net loss for the year ended December 31, 2016.

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. A 10% change in commodity prices would have increased or decreased the Company's trade accounts receivable balance as at December 31 as follows:

	2016	2015
Silver price	$ 89,000	$ -

16. SEGMENTED INFORMATION

The Company has one operating segment and two reportable segments based on geographic area:

(i) Mexico – This part of the business includes the Company's mining operations and exploration properties

(ii) Canada – This part of the business includes head office and group services

In 2015 the Company wrote-off its assets in the Caribbean and no longer has assets or income to report in this geographic segment.

The segments are determined based on the reports reviewed by the Chief Executive Officer (who is considered the Chief Operating Decision Maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

16. SEGMENTED INFORMATION *– continued*

Details at December 31 are as follows:

	2016	2015
Revenues by geographic area		
Mexico	$ 16,684,658	$ 14,637,592
Net loss by geographic area		
Mexico	$ 48,840	$ (948,432)
Canada	(1,988,118)	(264,203)
Caribbean	-	(215,203)
	$ (1,939,278)	$ (1,427,838)

	2016	2015
Assets by geographical area		
Mexico	$ 47,917,304	$ 57,794,840
Canada	6,744,187	242,730
	$ 54,661,491	$ 58,037,570
Property, plant and equipment by geographical area		
Mexico	$ 21,203,676	$ 26,548,031
Canada	16,750	24,084
	$ 21,220,426	$ 26,572,115

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

HEAD OFFICE

1100 – 543 Granville Street
Vancouver, BC, Canada V6C 1X8

Telephone: 604.681.0172
Fax: 604.681.6813
Email: inquiries@impactsilver.com
www.impactsilver.com

MANAGEMENT

Frederick W. Davidson, President, CEO, Director
George A. Gorzynski, VP Exploration, Director
Tiffany Dang, CFO
Armando Alexandri, COO
Victor A. Tanaka, Director
Richard J. Mazur, Director
Peter N. Tredger, Director
Jean–Pierre Bourtin, Director
Robert W. Lishman, Director

SOLICITORS

Norton Rose Fulbright Canada LLP
1800 – 510 West Georgia Street
Vancouver, BC, Canada V6B 0M3

AUDITORS

PricewaterhouseCoopers LLP
250 Howe Street, Suite 700
Vancouver, BC, Canada V6C 3S7

TRANSFER AGENT

Computershare Investor Services
100 University Avenue, 8th Floor
Toronto, ON, Canada M5J 2Y1
www.investorcentre.com
Shares Traded
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