IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve Months Ended December 31, 2014

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the year ended December 31, 2014 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at April 7, 2015 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2014 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 controls the majority of two large mineral districts in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire-Mamatla Mineral District** adjacent to and southwest of Zacualpan. The Company currently produces silver and gold in lead and zinc concentrates at its 500 tonne per day ("tpd") Guadalupe processing plant in the Royal Mines of Zacualpan District.

The story of the Company is that of discovery. From nominal production in 2006, it now produces 445 tonnes per day at the Guadalupe plant. During that period, IMPACT has identified a number of new veins with high grade mineralization that continue to sustain the plant. Over the last six years, the Company has carried out a three-part program of exploration, development and mine production at both the Royal Mines of Zacualpan Silver District and Capire-Mamatla Mineral District. This work has resulted in a huge increase in knowledge about the nature of both mineral districts. In light of the extraordinary fall in the price of silver over the last two years, IMPACT revised its development programs with the results becoming apparent in the latter part of 2014. The following were the Company's primary initiatives in 2014:

1. Upgrade silver production by transitioning some production to new higher grade mines developed in the last two years in the Zacualpan District: the Cuchara-Oscar Mine, the San Ramon Deeps Zone and the Mirasol Mine. This transition has provided the highest average mill grades in over two years.

2. Continue to focus a substantially reduced exploration program solely on identification and definition of additional high grade mineral near the producing mines.

3. Improve cash flows through improved grade control, cost cutting and optimized operating controls.

These initiatives will continue in 2015.

The Company remains focused on efficient operations. However, if the price of silver remains at current levels the Company will consider opportunities to improve its balance sheet and fund future development through possible financing and/or acquisition or merger.

Refocusing in Times of Lower Metal Prices

On January 2, 2013, the first day of trading last year, the London Fix silver price was US$30.87. On December 31, 2014, the silver price was US$15.97, representing a 48% decrease. In response, IMPACT spent much of its efforts during the year addressing these challenges with a concerted program of cost reductions, increasing operational efficiencies and transitioning to mining of higher grades. Today, operations at the Royal Mines of Zacualpan produce from markedly higher silver grades with lower costs, greater efficiency and higher tonnage throughput than just a year ago. This is a notable achievement by the entire IMPACT team. These transitions are continuing into 2015, putting the Company on a more solid footing.

IMPACT began its transition in 2013 by bringing the Cuchara-Oscar Mine into production. In 2014, mining and drilling from the bottom of the San Ramon Mine discovered new high grade silver zones at San Ramon Deeps. This discovery began to contribute production during the third quarter, and at year end represented 32% of total production tonnes. The new higher grade Mirasol Silver Mine began to contribute production tonnes during the third quarter of 2014 as well. The overall result has been to increase average mill throughput for silver for the year to some of the highest mill grades in the last three years. IMPACT is fortunate to have these higher grade zones to partially offset the decrease in metal prices and declining grades at older mines. Over the last year, non-essential work has been curtailed and related personnel have been laid off. In addition, exploration work has been substantially curtailed to reduce expenditures. Work in 2015 will focus primarily on larger and higher grade targets in the vicinity of the current producing mines. The Capire operations were put on care and maintenance to further reduce expenditures during the year. In 2015, mining will continue to transition to increased high grade production to improve revenues.

In October 2014 the Company reduced the size of its mineral concession holdings at Zacualpan from 623 km^2 to 355 km^2 to reduce tax payments which have been increasing year-on-year. The areas abandoned were peripheral areas where exploration work determined low economic mineral potential mainly due to deep overburden and lack of indications of significant mineralization. As such these areas are not considered to be material to Company operations.

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

OVERVIEW FOR THE THREE MONTHS AND THE YEAR ENDED DECEMBER 31, 2014

Financial Overview

- Revenues for the fourth quarter were $3.1 million (2013 - $3.0 million), and year to date were $12.0 million (2013 - $14.1 million).
- Net loss was $0.6 million for the quarter, compared to a $4.7 million net loss in the same quarter last year, of which non-cash items included $0.5 million in depreciation and amortization.
- Mine operating earnings before amortization and depletion[1] were $0.74 million for the Guadalupe mill for the current year.
- Mine operating loss, before amortization and depletion[1], was $0.76 million for the Capire mill. This reduces the earnings from our main production centre at Guadalupe, resulting in a small overall mine operating loss, before amortization and depletion, of $0.02 million for the year ended December 31, 2014, compared to earnings of $2.4 million for the same period in 2013.

[1] Mine operating earnings before amortization and depletion is a non-IFRS measures which the Company believes provides a better indicator of how the Company's operations are performing. See "NON-IFRS MEASURES".

- Capital expenditures during the year included mineral property expenditures of $2.8 million. At December 31, 2014, cash was $0.6 million and net working capital was $3.8 million. The Company continues to be free of long term debt

Production Overview

- Silver production increased to 213,928 ounces for the fourth quarter of 2014, up 39% from 153,512 ounces in the same period of 2013, with total ounces for the year of 725,733 up from 682,526 ounces in 2013.

- Average mill feed grade for silver in the fourth quarter of 2014 increased to 180 grams per tonne (g/t) compared to 151 g/t in the fourth quarter of 2013. Total tonnes milled during the fourth quarter of 2014 increased 14% to 41,803 from 36,655 in the comparable quarter of 2013.

- The Cuchara-Oscar Mine was put into production in February 2013. During 2013, the mine contributed 23% of the total mill feed; for the year 2014 it provided 50%.

- The higher grade Mirasol Mine was put into production in July 2014 with development muck and by year end supplied 3,487 tonnes of mill feed. This new mine, together with the recently discovered and newly opened San Ramon Deeps Mine, will contribute significantly to higher grade production at our Guadalupe mill in 2015 thus resulting in anticipated higher overall production and reduced operating costs per ounce of silver produced.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Total tonnes (t) milled	**41,803**	36,655	+14%	**162,266**	159,270	+2%
Tonnes milled per day	**454**	398	+14%	**445**	436	+2%
Silver production (oz)	**213,928**	153,512	+39%	**725,733**	682,526	+6%
Lead production (t)	**137**	154	-11%	**606**	514	+18%
Zinc production (t)	**76**	107	-29%	**509**	482	+6%
Gold production (oz)	**187**	337	-45%	**989**	1,269	-22%
Silver sales (oz)	**221,684**	165,139	+34%	**701,878**	717,334	-2%
Lead sales (t)	**139**	165	-16%	**596**	556	+7%
Zinc sales (t)	**71**	95	-25%	**454**	416	+9%
Gold sales (oz)	**168**	380	-56%	**971**	1,298	-25%
Average mill head grade –silver g/t	**180**	151	+19%	**159**	158	+1%
Revenue per tonne sold[2]	**$68.75**	$74.43	-8%	**$74.17**	$84.27	-12%
Direct costs per production tonne[1]	**$67.64**	$80.57	-16%	**$69.26**	$70.20	-1%

*Table excludes Capire Mine production

[2] Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See "NON-IFRS MEASURES". The comparative 2013 figures have been adjusted to reflect the policy adopted in 2014 to report inventory adjustments as part of Operating Expenses.

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

The Company increased tonnes mined in the fourth quarter of 2014 to 41,523, compared to 36,464 in the same quarter last year. This increase has been a result of additional feed from the Company's principal producer, the Cuchara-Oscar Mine, as well as strong contributions from the La Gallega and San Ramon Mines. During the third quarter the Mirasol Mine was also brought into production. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. In the last half of 2014 mill silver grades increased due to higher grade mineralization from San Ramon, averaging 179 g/t compared to 139 g/t for the first half of 2014.

Silver sales were 221,684 in the fourth quarter of 2014, an increase from the 165,139 ounces sold in the same period in 2013, and a significant increase from the previous quarters in 2014. However, with the price of silver $4.00 less per ounce for the fourth quarter of 2014 compared to 2013, the Company experienced a decrease in revenue per tonne from $74.43 to $68.75 per tonne in the fourth quarter of 2013 and 2014 respectively.

In light of lower silver prices, recent Mexican mining tax changes, increased hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation at Capire was not economic at its present small scale. As a result, open pit operations were suspended in February 2014. The Capire plant was reconfigured to process other materials including the gold-copper mineralization at Carlos Pacheco. However, the plant will not be reactivated at current metal prices and further work has been deferred. Prior to the shutdown, there was a small contribution from this mill with 840 tonnes milled resulting in a loss of approximately $0.75 million prior to depreciation and amortization.

MINE PRODUCTION

Mine Operations

The Company has operated the 500-tpd Guadalupe Production Center in the Royal Mines of Zacualpan Silver District since 2006. Between mid-2013 and early 2014, the Company operated the 200-tpd Capire Pilot Plant, located 16 kilometers to the southwest, as a test processing plant.

Royal Mines of Zacualpan District

The Royal Mines of Zacualpan Silver District was acquired by the Company in January 2006. Since acquisition, an extensive program of upgrading operations and expanding production has been carried out. Expansion of tailings capacity is continuing and is written off as an operating cost and not capitalized. The Company also purchased additional surface lands near the Guadalupe mill to address the need for additional tailings capacity in the future which is in the process of design and permitting.

While mill and facilities limit processing capacity to 500-tpd at Guadalupe, sourcing superior grade feed from the Company's mines remains the critical factor for economic production. This is especially true in the current environment of lower silver prices. To address this issue, the Company is shifting the focus of mining operations to the higher grade silver zones in the San Ramon Deeps and Mirasol Mines, and accessing medium grade mineral from lower cost stopes in the Cuchara-Oscar Mine.

Cuchara-Oscar Silver Mine

During the fourth quarter of 2014, the Cuchara-Oscar Mine provided 53% (Q4 2013 – 32%) of feed to the Guadalupe mill. The mine is located 2.5 kilometers east of the Guadalupe mill and commenced production in the first quarter of 2013. During the first quarter of 2014, a decision was made to expand production and make Cuchara-Oscar the principal producing mine by increasing the number of working faces; this expansion was achieved in the second quarter. The mine is contributing a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza, Santa Lucia and Oscar veins with plans to mine other nearby veins as the mine develops.

San Ramon Silver Mine

During the fourth quarter of 2014, the San Ramon Mine provided 29% (Q4 2013 – 35%) of feed to the Guadalupe mill, located 5 kilometers to the north. San Ramon has been a significant contributor to production since 2008, but in early 2014 grades were dropping with depth and production was decreasing. During the second quarter, underground drilling from the bottom levels of the mine discovered new high grade silver zones in the San Ramon Deeps area (see EXPLORATION below for details). Mining of the high grade San Ramon Deeps zones began in the third quarter and is the main contributor to the increase in average overall mined silver grade since then.

Mirasol Silver Mine

Mining at the new Mirasol Silver Mine began in the third quarter of 2014 and during the fourth quarter Mirasol contributed 4% (Q4 2013 – 0%) of feed to the Guadalupe mill located 5.5 kilometers to the northwest.

The Mirasol Zone was drilled in 2012-2013. Highlights from that drilling included 216 g/t silver over 7.1 meters, 985 g/t silver over 1.8 meters and 288 g/t silver over 3.2 meters. At year end mining grade at Mirasol was 188 g/t silver.

Gallega Mine

The Gallega Mine is located less than one kilometer from the Guadalupe mill and is mined intermittently to provide modest tonnages of supplementary silver feed to the plant. During the fourth quarter of 2014, the Gallega mine provided 14% (Q4 2013 – 1%) of mill feed to the Guadalupe mill.

Noche Buena-Carlos Pacheco Mine

In August 2014, the Noche Buena-Carlos Pacheco Mine was put on standby as equipment and labour were transferred to expand mining of higher grade zones at the San Ramon, Mirasol and Cuchara-Oscar Mines. The mine workings are being maintained and dewatered so production can be readily restarted when needed. Noche Buena is located four kilometers southwest of the Guadalupe mill and commenced production in the first quarter of 2010. The mine produced from three different sets of veins – silver veins in the Noche Buena portion of the mine to the west, gold (+copper) veins in the Carlos Pacheco portion of the mine 170 meters to the east and lead-zinc-silver veins from the Upper San Juan Zone to the north.

A crosscut was excavated from the Noche Buena workings to the nearby Carlos Pacheco South gold (+copper) vein, where mining began in August 2013. Production from the Carlos Pacheco South zone added more gold to IMPACT's production profile during the first half of 2014.

Capire Processing Plant

Capire is located 16 kilometers southwest of the Guadalupe Production Center. Since the fourth quarter of 2013, the Capire processing plant and mine have seen significant changes.

On March 14, 2013, IMPACT announced that commissioning of the new Capire open pit mine and 200-tpd pilot plant had begun. 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 potential larger operation in the future. Most of this test work was completed. However, in light of lower silver prices, recent 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 economic at its present small scale. Thus open pit operations were suspended in February 2014 after processing a total of approximately 33,000 tonnes of material from the open pit test mining. During the test mining and processing, processing methods were optimized, and production costs and cut-off grades at 200-tpd in the open pit were determined. Additional studies with respect to open pit optimal strip ratios, grade control, metallurgy and projections toward scaling up the operation have yet to be completed. Together, these measures will provide the foundation for planning of a potentially larger, lower grade open pit operation in the future. Production from the Capire open pit may be restarted in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

After open pit operations were 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. During the second quarter of 2014, test operations at the Capire plant ended. 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 resulting in higher gold production at Guadalupe during the first half of 2014. Metallurgical studies on stand-alone processing of Carlos Pacheco mineral continue. The Capire plant is currently on care and maintenance.

Unlike the Zacualpan area vein deposits, Capire is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire-Mamatla 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 kilometers southwest of Capire.

EXPLORATION

Since acquiring the Royal Mines of Zacualpan project in 2006, IMPACT technical teams have discovered, drilled and placed into production a number of new mines. Mines on epithermal veins that were discovered and built by IMPACT staff since 2006 include the Cuchara-Oscar 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 in the adjacent Mamatla District). Exploration is continuing with the goal of finding and developing new mines for the Company. In 2014 exploration drilling highlights were as follows:

San Ramon Deep Drilling Results

During the second quarter, underground drilling from the bottom levels of the San Ramon Mine discovered two new high grade veins. Drill results from these new zones include 1,163 g/t silver over 1.81 meters within 393 g/t silver over 6.67 meters, 545 g/t silver over 1.65 meters and 457 g/t silver over 2.39 meters. The new veins are open for expansion to depth and along strike and a third larger new vein was discovered in the course of mining. In the third quarter of 2014, mining began on these new San Ramon Deeps zones and additional drilling is in progress.

Carlos Pacheco / San Juan Drill Results

During the fourth quarter of 2013 and first quarter of 2014, drilling continued on the San Juan portion of the Carlos Pacheco project which covers the northern extensions of the veins recently mined in the Noche Buena and Carlos Pacheco South zones. Highlights from the San Juan drilling include intersections of 1,409.8 g/t silver over 2.07 meters from the Noche Buena vein and 17.1 g/t gold over 1.89 meters from the Carlos Pacheco vein, 1,587.8 g/t silver over 1.72 meters from the Noche Buena vein and 3.44 g/t gold over 7.17 meters from the Carlos Pacheco vein, 1,218.1 g/t silver over 1.17 meters from the Noche Buena vein and 10.34 g/t gold over 3.19 meters from the Carlos Pacheco vein and 994.2 g/t silver over 5.67 meters from the Noche Buena vein and 5.0 g/t gold over 1.81 meters from the Carlos Pacheco vein. Many other significant intersections on these and other veins in this system were also reported in Company news releases. Additional drilling, in the future, is planned to target further expansion of the zones.

Exploration Field Work

IMPACT employs field crews dedicated to finding and bringing new mineral prospects to the drilling stage. These crews have been sampling some of the 4,000+ old mine workings and prospects in the districts. They have also trenched areas of mineralization and carried out extensive soil sampling on 100 meter x 25 meter grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling was mainly focussed on larger and higher grade target areas close to current mines and infrastructure at Alacran North and Guadalupe South.

Veta Grande (Zacatecas) Silver Project, Mexico

The Zacatecas Project consists of a 200-tpd plant and 13 mineral concessions in the Zacatecas Silver District located 500 kilometers northwest of Mexico City. Access is by paved highways which run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force. Since 2007 intermittent exploration was carried out on several of the 13 mineral concessions located within the district.

In 2011, the Company optioned most of its Zacatecas assets to Defiance Silver Corp. ("Defiance", DEF: TSX.V) in return for a major share position (paid) and a final payment of $1,955,200 (not paid). Defiance advanced the project to the final stages of re-permitting the plant. In January 2014 Defiance returned the Zacatecas project to IMPACT to focus on its exploration project. IMPACT is currently maintaining the Zacatecas project on care and maintenance.

After 2011, the Company participated in several small private placement financings in Defiance. During 2014 the Company sold all 4,067,000 Defiance shares which resulted in proceeds of $359,481 and a gain of $237,471. The Company no longer holds any shares in Defiance.

Dominican Republic

For several years the Company has been trying to renew its mineral concessions in the Dominican Republic, a process it has successfully done several times in the past. The status of these concessions is pending.

FUTURE PLANS

In response to the current lower metal price environment, near term plans for mining and exploration in the Zacualpan District are focused mainly on larger and higher grade zones of silver and gold close to the active mining operations.

Mining Plans

Recently IMPACT implemented some significant changes to its mining activities. Silver production continues to transition to new mines to take advantage of their higher grades in response to lower metal prices. The new San Ramon Deeps and Mirasol Mines have been recently developed to provide higher grade silver feed to the Guadalupe mill. This transition resulted in the increase in overall silver production grades. Plans are to further increase production from these higher grade zones in 2015. In the longer term, management also intends to produce gold and copper at Carlos Pacheco and San Juan.

Exploration Plans

Plans are to continue exploration with a goal of putting some of the other 4,000+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Current exploration work is focused mainly on larger and higher grade targets close to current production areas at Alacran North and Guadalupe South.

With a track record of successful exploration, rapid mine development and more than 4,000 old mine workings identified to date as exploration targets, the Company's long term vision sees potential for establishment of multiple mills throughout the two districts, each fed by multiple mines producing silver 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 and the Veta Grande (Zacatecas) Silver Project. 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.

Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised. We work as part of a community, whose members are kept informed of our activities and their concerns addressed. The Company retains a Community Relations Officer to ensure open communications. The use of personnel and other workers from the local communities fosters understanding, direct involvement in the Company's operations and financial benefits to the local communities 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 being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities in the vicinity of our work. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program. A paramedic and onsite ambulance are on standby in case of emergencies.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attending investment and mining related conferences in Canada and internationally. Plans for 2015 include continued participation in investor and mining related conferences and conducting institutional presentations with the intent to increase the Company's visibility. Beyond this, the Company continues to strengthen its presence via social media, print magazine articles and online advertisements.

FINANCIAL DISCUSSION

Summary of Quarterly Results

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

In thousands except for earnings per share	Three months ended December 31		
	2014	2013	2012
Revenue	$ **3,132**	$ 3,035	$ 4,654
Net loss	$ **(598)**	$ (4,699)	$ (839)
Loss per share – basic	$ **(0.01)**	$ (0.07)	$ (0.01)
Loss per share – diluted	$ **(0.01)**	$ (0.07)	$ (0.01)

For the three months ended December 31, 2014, the Company's mine operating losses were $0.6 million compared to losses of $0.7 million in the same period of 2013, with revenues of $3.1 million in 2014 compared to $3.0 million in 2013. Revenue per tonne sold decreased 8% from $74.43 in the fourth quarter of 2013 to $68.75 in the same period of 2014. The decrease in revenue per tonne is a result of the 21% decrease in silver prices and a 3% decrease in exchange rates in the fourth quarter of 2014 compared to the fourth quarter of 2013. Direct costs per tonne at the Guadalupe mill for the three months ended December 31, 2014 were $67.64, compared to $80.57 in 2013. While operating expenses for Guadalupe decreased, overall operating expenses including Capire costs remained steady at $3.2 million in both the fourth quarter of 2014 and 2013. Amortization and depletion expenses decreased to $0.5 million during the quarter ended December 31, 2014 from the previous quarters due to decreased depletion based on the make-up of mine feed.

The net loss was $0.6 million for the fourth quarter in 2014 compared to a net loss of $4.7 million in 2013. The reduced loss was a result of slightly increased revenues and decreased other expenses and taxes. In the fourth quarter of 2013 there was a $2.6 million write-off of mineral properties (2014 - $nil). The Company had a $0.3 million foreign exchange loss in the fourth quarter of 2014 compared to a $0.05 million loss in the same period of 2013. Income taxes in the quarter ended December 31, 2014 were a recovery of $0.7 million compared to an expense of $1.2 million in the comparable quarter of 2013.

Silver production was 213,928 ounces during the three months ended December 31, 2014, representing a 39% increase compared with 153,512 ounces produced within the same period in 2013. Lead production decreased in the fourth quarter of 2014 over the same time period in 2013, from 154 tonnes to 137 tonnes. Zinc production decreased in the fourth quarter of 2014 to 76 tonnes from 107 tonnes in the same period in 2013. Gold production decreased from 337 ounces to 187 ounces during the fourth quarter of 2013 and 2014 respectively.

Average silver prices declined 21% from the fourth quarter of 2013 to the fourth quarter of 2014. During this same period, lead prices decreased by 5% and zinc prices increased by 17%. As silver sales account for the majority of the Company's revenues, the changes in lead and zinc prices did not significantly affect mine operating earnings.

Summary of Year to Date Results

In thousands except for earnings per share	Year ended December 31		
	2014	2013	2012
Revenue	$ **12,008**	$ 14,106	$ 15,934
Net earnings (loss)	$ **(3,487)**	$ (8,519)	$ (1,145)
Earnings (loss) per share – basic	$ **(0.05)**	$ (0.13)	$ (0.02)
Earnings (loss) per share – diluted	$ **(0.05)**	$ (0.13)	$ (0.02)
Total assets	$ **58,061**	$ 63,119	$ 66,074

Note: The Company has no non-current financial liabilities

For the year ended December 31, 2014, the Company's mine operating losses were $2.6 million compared to earnings of $0.2 million in 2013. Net smelter return revenues in 2014 were $12.0 million compared to $14.1 million in 2013. Operating expenses, excluding amortization and depletion, were $12.0 million compared to $11.7 million in 2013. Amortization and depletion expenses increased to $2.5 million in 2014 from $2.2 million in 2013.

The net loss decreased to $3.5 million in 2014 compared to $8.5 million in 2013, mainly as a result of lower administrative and other expenses. General and administrative expenses decreased by $1.9 million from $3.7 million in 2013 to $1.8 million in 2014, of which $1.5 million was in share-based payments in 2013. New stock options issued in the first quarter of 2013, and the expense associated with the revaluation of stock options as a result of extending the exercise period by five years during the second quarter of 2013, resulted in higher costs in that year. No new stock options were issued in 2014. There was also an overall reduction in other general and administrative costs in 2014, as the Company made efforts to control expenses. In particular, investor relations and travel costs were down $0.1 million, office salaries and services were down $0.25 million, and property investigations were down $0.2 million in 2014 over 2013.

Other expenses also decreased significantly by $3.1 million from $3.3 million in 2013 to $0.2 million in the current year. This was largely due to the $2.6 million write-off of mineral properties in 2013 (2014 - $nil). The foreign exchange loss increased to $0.4 million in 2014 compared to a loss of $0.1 million in 2013. During 2014 the Company sold the 4,067,000 shares it held in Defiance Silver Corp., resulting in a $0.2 million gain. In the corresponding period of 2013 the Company recorded a non-cash partial write-down of $0.8 million on shares available for sale to provide for a significant and prolonged decline in the value of the Defiance shares.

The Company's net smelter revenues declined for the year 2014 in comparison to 2013 as a result of significantly lower silver prices and decreased silver ounces sold. From the Guadalupe mill, the Company sold 701,878 ounces of silver to December 31, 2014 compared to 717,334 ounces during the same period in 2013. Over the twelve months ended December 31, 2014, silver prices decreased by 21%.

There was a 6% increase in silver production between 2014 and 2013 through the mining of higher grade feed materials in the latter part of 2014. Silver production increased from 682,526 ounces in 2013 to 725,733 ounces in 2014. During this same period, gold production decreased from 1,269 ounces in 2013 to 989 ounces in 2014.

The company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2014. Adverse changes to the key assumptions of price and grade in the analysis may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and recovery price assumptions as at December 31, 2014. If average forecast silver prices or silver grade mined and milled were to fall below US$15.70 or 139 grams per tonne respectively, an impairment charge would result.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

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

	For the Three Months Ended ($ in thousands except for earnings per share)							
	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013
Revenues	3,132	3,363	2,552	2,962	3,035	3,119	3,779	4,173
Net (loss) earnings	(598)	(600)	(1,024)	(1,264)	(4,699)	(1,223)	(1,942)	(655)
Loss per share - Basic*	(0.01)	(0.01)	(0.02)	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)
Loss per share - Diluted*	(0.01)	(0.01)	(0.02)	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)
Cash	575	969	1,680	2,538	3,485	6,741	9,973	13,340
Total assets	58,061	61,758	61,634	64,536	63,119	65,860	68,648	69,803
Total liabilities	8,316	8,998	9,045	9,200	8,997	8,191	8,481	8,167

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

The Company had $0.6 million in cash and net working capital of $3.8 million at December 31, 2014. The Company generated cash flows from operations before changes in non-cash working capital[3] of $0.5 million during the fourth quarter of 2014. For the same period of 2013, the company generated cash flows from operations before changes in non-cash working capital of $0.02 million. For the year ended December 31, 2014, the company used cash flows from operations before changes in non-cash working capital of $0.7 million. This compares to cash flows generated from operations before changes in non-cash working capital of $0.6 million in the same period of 2013.

The Company's working capital at December 31, 2014 of $3.8 million decreased from $6.9 million at December 31, 2013. The Company has significantly reduced its investing and exploration activities as it aims to be cash flow positive, with only $3.1 million invested in 2014 in development and exploration and capital additions compared to $12.8 million in 2013.

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

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 7, 2015:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares as of April 7, 2015	68,128,244		
Stock options	788,750	$1.10	June 6, 2015
Stock options	1,760,000	$1.85	September 26, 2016
Stock options	2,120,000	$1.20	January 22, 2018
Stock options	1,260,000	$0.55	January 6, 2019
Fully diluted at April 7, 2015	74,056,994		

All of the 5,951,250 options outstanding have vested at April 7, 2015.

Related Party Transactions

Energold Drilling Corp. ("Energold") owns 6,980,001 shares of the Company. Due to management and directors in common, it is considered a related party.

Under a management services agreement, Energold recovers direct labour costs for administrative support and public relations. Investor relations activities are assisted by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases.

During the year ended December 31, 2o14, fees in the amount of $0.2 million (2013 – $4.2 million) were earned by Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. At December 31, 2014, the balance owed to Energold was $1.4 million (December 31, 2013 - $0.9 million).

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Going Concern

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.

During the year ended December 31, 2014, the Company incurred a net loss of $3.5 million and cash outflows from operating activities of $0.7 million. At December 31, 2014, the Company had unrestricted cash and cash equivalents of $0.6 million, current assets of $6.6 million and working capital of $3.8 million. The Company is confident that it will be able to fund its committed capital investment program and working capital requirements throughout 2015. However, internally generated cash flows will not be sufficient to cover the Company's working capital and capital investment needs.

The Company's anticipated growth and development will require the Company to seek additional funds. The Company's management is currently considering and pursuing various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. However, there can be no assurance that management will be successful in its efforts to finance the operating activities of the Company, as volatility in debt and equity capital markets and other factors may adversely affect the Company's ability to implement a comprehensive financing plan. Failure to obtain sufficient additional financing would likely have a materially adverse impact on the Company's ability to maintain the current working capital needs, and could jeopardize the Company's ability to meet its contractual commitments to third parties.

As the Company does not presently have a secure source of funding, the resulting shortfall in cash flows indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Such adjustments could be material.

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, 2014 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"), Trafigura Mexico, S.A. De C.V. ("Trafigura"), MRI Trading AG ("MRI") and Metagri, S.A. De C.V. ("Glencore"). 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, 2014 is the carrying value of its cash ($0.6 million), trade and other receivables ($5.1 million), which includes value added taxes receivable in the amount of $3.6 million and is 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. Please refer to the going concern discussion above. 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, 2014, the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2014, 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, 2014, 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, 2014.

Commodity price risk

The Company is continuing to assess whether the recent decline in silver prices is short or long term in nature. Should the prices continue to decline, the Company's operating results will be adversely impacted and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets.

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, 2014 as follows:

		2014		2013
Silver price	$	**69,000**	$	77,000

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and still other factors such as commodity prices and foreign exchange rates which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. 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, the Company in carrying out its mining and exploration activities may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. 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.

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 before amortization and depletion is a measure which the Company believes provides a better indicator of how the Company's operations are performing. This measure is calculated as Revenue less Operating expenses, excluding amortization and depletion.

	Guadalupe	Capire	YTD 2014	YTD 2013
Revenue	$ 11,812,851	$ 195,606	$ 12,008,457	$ 14,106,056
Operating expenses	(11,074,306)	(959,917)	(12,034,223)	(11,717,504)
Mine operating earnings (loss) before amortization and depletion	$ 738,545	$ (764,311)	$ (25,766)	$ 2,388,552

Cash flows from operations before changes in non-cash working capital is a measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. A reconciliation of cash flows from operating activities to cash flows from operations before changes in non-cash working capital is presented below:

	For the Three Months Ended December 31		For the Year Ended December 31	
	2014	2013	**2014**	2013
Cash flows from operating activities	**$ 1,299,879**	$ (1,291,793)	**$ 688,654**	$ (623,290)
Add (deduct) changes in non-cash working capital:				
Trade and other receivables	**706,734**	(390,955)	**95,207**	(661,578)
Income taxes receivable	**(286,786)**	10,350	**(270,743)**	-
Inventories	**(267,464)**	239,489	**(119,139)**	(81,255)
Value added taxes receivable	**(514,710)**	903,967	**(500,193)**	2,376,702
Trade payables	**(355,900)**	137,366	**(175,276)**	(73,167)
Due to related party	**(55,159)**	407,135	**(451,271)**	(340,372)
Cash flows from operations before changes in non-cash working capital	**$ 526,594**	$ 15,559	**$ (732,761)**	$ 597,040

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 revenue and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended December 31			For the Year Ended December 31				
		2014		2013		**2014**		2013
Operating expenses	**$**	**3,178,335**	$	3,183,442	**$**	**12,034,223**	$	11,717,504
(Deduct): operating expenses for Capire		**(100,406)**		(46,644)		**(959,917)**		(46,644)
Add (deduct): inventory		**(250,258)**		(183,687)		**164,598**		(490,096)
Direct costs	**$**	**2,827,261**	$	2,953,111	**$**	**11,238,904**	$	11,180,764
Tonnes milled		**41,803**		36,655		**162,266**		159,270
Direct costs per tonne	**$**	**67.64**	$	80.57	**$**	**69.26**	$	70.20
Revenue	**$**	**3,131,819**	$	3,034,929	**$**	**12,008,457**	$	14,106,056
(Deduct): revenue for Capire		**-**		(57,564)		**(195,606)**		(57,564)
Revenue for Guadalupe	**$**	**3,131,819**	$	2,977,365	**$**	**11,812,851**	$	14,048,492
Tonnes sold		**45,552**		40,002		**159,270**		166,711
Revenue per tonne sold	**$**	**68.75**	$	74.43	**$**	**74.17**	$	84.27

**The comparative 2013 figures have been adjusted to reflect the policy adopted in 2014 to report inventory adjustments as part of Operating Expenses.*

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

NOTE REGARDING FORWARD–LOOKING STATEMENTS

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

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

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

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

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

April 7, 2015

IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

Management's Responsibility for Financial Reporting

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

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

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

"R. S. Younker" Chief Financial Officer

April 7, 2015

April 7, 2015

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, 2014 and December 31, 2013 and the consolidated statements of income/(loss), comprehensive income, 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of IMPACT Silver Corp. to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

IMPACT Silver Corp.

Consolidated Statements of Financial Position
As at December 31
(Canadian dollars)

		2014		2013
ASSETS				
Current				
Cash	$	**575,344**	$	3,485,180
Trade and other receivables *(Note 5)*		**5,118,682**		4,485,903
Inventories *(Note 6)*		**906,844**		1,112,667
Available-for-sale investments		**17,500**		139,510
		6,618,370		9,223,260
Value added taxes receivable		**2,915,870**		4,465,447
Property, plant and equipment *(Note 7)*		**26,788,116**		27,438,447
Mineral properties *(Note 8)*		**21,738,706**		21,991,493
	$	**58,061,062**	$	63,118,647

		2014		2013
LIABILITIES				
Current				
Trade payables and accrued liabilities	$	**1,466,280**	$	1,330,123
Due to related party *(Note 9)*		**1,363,389**		946,828
		2,829,669		2,276,951
Reclamation provision *(Note 11)*		**431,538**		307,427
Deferred income tax liabilities *(Note 17)*		**5,055,202**		6,412,603
		8,316,409		8,996,981
SHAREHOLDERS' EQUITY				
Share capital		**53,495,947**		53,495,947
Contributed surplus		**4,776,173**		4,630,492
Accumulated other comprehensive income		**(168,798)**		867,142
Deficit		**(8,358,669)**		(4,871,915)
		49,744,653		54,121,666
	$	**58,061,062**	$	63,118,647

Nature of operations and going concern *(Note 1)*

ON BEHALF OF THE BOARD:

"F.W. Davidson"________________, Director

"P. Tredger"____________________, Director

IMPACT Silver Corp.

Consolidated Statements of Loss
For Years Ended December 31
(Canadian dollars)

	2014	2013
Revenues	**$ 12,008,457**	$ 14,106,056
Expenses		
Operating expenses *(Note 12)*	**12,034,223**	11,717,504
Amortization and depletion	**2,546,553**	2,232,636
	14,580,776	13,950,140
Mine operating (loss) earnings	**(2,572,319)**	155,916
General and administrative expenses		
Accounting, audit and legal	**293,346**	267,044
Amortization	**41,471**	44,714
Investor relations, promotion and travel	**89,938**	219,326
Management fees and consulting	**246,236**	303,625
Office, rent, insurance and sundry	**360,524**	340,789
Office salaries and services	**635,143**	880,220
Property investigations	**-**	178,508
Share-based payments	**145,681**	1,474,293
Write-down of mineral properties (Note 8(a))	**-**	2,583,765
	1,812,339	6,292,284
Operating loss	**(4,384,658)**	(6,136,368)
Other income (expenses)		
Finance cost	**(24,209)**	(40,196)
Finance income	**-**	179,221
Foreign exchange loss	**(378,725)**	(108,842)
Other (expense) income	**(80,022)**	18,388
Gain (loss) on sale of available-for-sale investments *(Note 8(b))*	**237,471**	(803,305)
	(245,485)	(754,734)
Loss before taxes	**(4,630,143)**	(6,891,102)
Current income tax expense	**74,002**	50,663
Deferred income tax (recovery) expense	**(1,217,391)**	1,577,243
Net loss	**$ (3,486,754)**	$ (8,519,008)
Loss per share – Basic *(Note 16(c))*	**$ (0.05)**	$ (0.13)
– Diluted *(Note 16(c))*	**$ (0.05)**	$ (0.13)
Weighted average number of shares outstanding - Basic	68,128,244	68,128,244
Weighted average number of shares outstanding - Diluted	68,128,244	68,128,244

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

IMPACT Silver Corp.
Consolidated Statements of Comprehensive Loss
For Years Ended December 31
(Canadian dollars)

		2014		2013
Net loss	**$**	**(3,486,754)**	$	(8,519,008)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Unrealized gain (loss) on investments held as available-for-sale (Note 8(b))		**474,030**		(803,305)
Reclassification on write-down of available-for-sale investment		**-**		803,305
Reclassification on sale of available-for-sale investment		**(474,030)**		-
Cumulative translation adjustment		**(1,035,940)**		2,224,038
Comprehensive loss	**$**	**(4,522,694)**	$	(6,294,970)

IMPACT Silver Corp.

Consolidated Statements of Changes in Equity

For Years ended December 31

(Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Retained Earnings ($)	Total Shareholders' Equity ($)
Balance at January 1, 2013	68,128,244	53,495,947	-	3,156,199	(1,356,896)	3,647,093	58,942,343
Loss for the year	-	-	-	-	-	(8,519,008)	(8,519,008)
Share based payments expense	-	-	-	1,474,293	-	-	1,474,293
Cumulative translation adjustments	-	-	-	-	2,224,038	-	2,224,038
Reclassification on write-down of available-for-sale investment	-	-	-	-	803,305	-	803,305
Unrealized gains (losses) on investments	-	-	-	-	(803,305)	-	(803,305)
Balance at December 31, 2013	68,128,244	53,495,947	-	4,630,492	867,142	(4,871,915)	54,121,666
Loss for the year	-	-	-	-	-	(3,486,754)	(3,486,754)
Share based payments expense	-	-	-	145,681	-	-	145,681
Cumulative translation adjustments	-	-	-	-	(1,035,940)	-	(1,035,940)
Balance at December 31, 2014	68,128,244	53,495,947	-	4,776,173	(168,798)	(8,358,669)	49,744,653

IMPACT Silver Corp.

Consolidated Statements of Cash Flows
For Years Ended December 31

(Canadian dollars)

Cash resources provided by (used in)	2014	2013
Operating activities		
Net loss	$ **(3,486,754)**	$ (8,519,008)
Items not affecting cash		
Amortization and depletion	**2,588,024**	2,277,350
Share-based payments	**145,681**	1,474,293
Deferred income taxes	**(1,217,391)**	1,577,243
Accretion expense	**23,739**	40,196
(Gain) write-down of available-for-sale investment	**(237,471)**	803,305
Write-down of mineral properties	**-**	2,583,765
Write-down of inventory	**74,103**	359,896
Changes in non-cash working capital		
Trade and other receivables	**(95,207)**	661,578
Inventories	**119,139**	81,255
Value added taxes receivable	**500,193**	(2,376,702)
Trade payables	**175,276**	73,167
Income taxes receivable	**270,743**	-
Due to related party	**451,271**	340,372
	(688,654)	(623,290)
Investing activities		
Purchase of available-for-sale investment	**-**	(60,000)
Proceeds on sale of available-for sale investment	**359,481**	-
Acquisition of property, plant and equipment	**(207,046)**	(3,599,198)
Proceeds from the sale of concentrate during the commission phase	**120,580**	816,725
Mineral property expenditure	**(2,880,532)**	(9,212,396)
	(2,607,517)	(12,054,869)
Financing activities		
	-	-
Effect of exchange rate changes on cash	**386,335**	150,094
Net change in cash	**(2,909,836)**	(12,528,065)
Cash - Beginning of year	**3,485,180**	16,013,245
Cash - End of year	$ **575,344**	$ 3,485,180

Supplementary cash flow information (Note 13)

1. Nature of operations and going concern

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and the Dominican Republic. The Company operates a series of 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 actively exploring for silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic. The registered address of the Company is 1100 – 543 Granville Street, Vancouver, British Columbia.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. The recovery of the Company's investment in these mineral properties and the attainment of profitable operations are dependent upon 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.

During the year ended December 31, 2014, the Company incurred a net loss of $3.5 million and cash outflows from operating activities of $0.7 million. At December 31, 2014, the Company had unrestricted cash and cash equivalents of $0.6 million, current assets of $6.6 million and working capital of $3.8 million. The Company is confident that it will be able to fund its committed capital investment program and working capital requirements throughout 2015. However, internally generated cash flows will not be sufficient to cover the Company's working capital and capital investment needs.

The Company's anticipated growth and development will require the Company to seek additional funds. The Company's management is currently considering and pursuing various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. However, there can be no assurance that management will be successful in its efforts to finance the operating activities of the Company, as volatility in debt and equity capital markets and other factors may adversely affect the Company's ability to implement a comprehensive financing plan. Failure to obtain sufficient additional financing would likely have a materially adverse impact on the Company's ability to maintain the current working capital needs, and could jeopardize the Company's ability to meet its contractual commitments to third parties.

As the Company does not presently have a secure source of funding, the resulting shortfall in cash flows indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Such adjustments could be material.

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 April 7, 2015.

2. Basis of preparation- *continued*

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 upon impairment of property, plant and equipment analysis and amortization of assets.

Asset carrying values and impairment analysis

In accordance with the Company's accounting policy (note 3 (g)), each asset or 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 the impairment charge reduced with the impact recorded in the consolidated statements of income.

Reclamation provisions

Reclamation provisions are a consequence of mining, and the majority of reclamation provisions are incurred 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.

2. Basis of preparation- *continued*

c) Use of estimates and judgments - *continued*

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. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as of the Company. These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, 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.	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) Mineral and evaluation expenditures

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

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

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

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. Mineral 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.

3. Significant accounting policies - *continued*

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 depreciation 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 statement of income as an expense is incurred.

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

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

Components

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspections and overhaul expenditures, are capitalized 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 statement of comprehensive income as an expense, as incurred.

Commercially viable mineral resource mineral and evaluation expenditures

Mineral 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 mineral and evaluation expenditures are amortized over the useful life of the ore body following achievement of commercial production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed, as incurred.

The acquisition, development and deferred mineral and evaluation expenditures are depleted on a units-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.

3. Significant accounting policies - *continued*

g) Asset impairment

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

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

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 in those expense categories consistent with the function of the impaired asset. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

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

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated. This re-evaluation determines if future exploration is warranted and if their carrying values are appropriate. These costs would be allocated to the related operating mines. If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

h) Earnings per share

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

3. Significant accounting policies - *continued*

i) Stock options

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

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

j) Income taxes

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

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

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

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

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.

3. Significant accounting policies - *continued*

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 statement of income.

l) **Financial instruments**

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

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

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

3. Significant accounting policies - *continued*

l) **Financial instruments** - *continued*

Impairment of financial assets

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

Objective evidence of impairment could include the following:

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

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

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

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

m) **Reclamation provisions**

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

3. Significant accounting policies - *continued*

n) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended December 31, 2014:

IFRS 9 - Financial Instruments - classification and measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

IFRS 15 - Revenue from contracts with customers

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted.

The Company is currently assessing the impact of these standards.

4. Adoption of New and Amended IFRS Pronouncements

IAS 36 - Impairment of assets

Amendments to IAS 36 on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Adoption of IAS 36 does not have an effect on the consolidated financial statements of the current year.

(Canadian dollars)

5. Trade and other receivables

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

		2014		2013
Value added taxes receivable – current portion	$	**3,578,113**	$	2,528,729
Trade and other receivables		**1,398,135**		1,684,235
Prepaids		**142,434**		272,939
Total trade and other receivables	$	**5,118,682**	$	4,485,903

6. Inventories

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

		2014		2013
Materials and supplies	$	**500,637**	$	763,476
Stockpile inventory		**4,237**		1,732
Concentrate inventory		**401,970**		347,459
Total inventories	$	**906,844**	$	1,112,667

The amount of inventories recognized as an expense during the year ended December 31, 2014 was $12,034,223 (December 31, 2013 - $11,357,608).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2014 was $74,103 (December 31, 2013 - $359,896) relating to concentrate inventory.

(Canadian dollars)

7. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	**Total ($)**
Cost						
Balance at January 1, 2013	5,890,269	413,846	179,725	1,235,182	18,315,642	**26,034,664**
Additions	3,380,595	57,689	42,814	50,057	72,161	**3,603,316**
Transfers	-	-	-	-	7,400,473	**7,400,473**
Reclassification	1,252,970	-	-	-	(1,252,970)	**-**
Change in reclamation estimate	-	-	-	-	(536,864)	**(536,864)**
Foreign exchange movement	309,370	23,998	5,249	71,626	965,948	**1,376,191**
Balance at December 31, 2013	10,833,204	495,533	227,788	1,356,865	24,964,390	**37,877,780**
Additions	129,390	-	3,174	-	57,892	**190,456**
Transfers	-	-	-	-	2,339,083	**2,339,083**
Change in reclamation estimate	-	-	-	-	111,244	**111,244**
Foreign exchange movement	(336,731)	(15,503)	(4,008)	(42,449)	(699,582)	**(1,098,273)**
Balance at December 31, 2014	10,625,863	480,030	226,954	1,314,416	26,773,027	**39,420,290**
Accumulated amortization						
Balance at January 1, 2013	1,899,705	221,576	88,732	-	5,423,776	**7,633,789**
Amortization for the period	510,744	46,988	28,336	-	1,710,739	**2,296,807**
Foreign exchange movement	234,858	13,069	1,941	-	258,869	**508,737**
Balance at December 31, 2013	2,645,307	281,633	119,009	-	7,393,384	**10,439,333**
Amortization for the period	1,173,817	56,435	29,505	-	1,344,193	**2,603,950**
Foreign exchange movement	(143,389)	(11,792)	(2,753)	-	(253,175)	**(411,109)**
Balance at December 31, 2014	3,675,735	326,276	145,761	-	8,484,402	**12,632,174**
Net book value						
At December 31, 2013	8,187,897	213,900	108,779	1,356,865	17,571,006	**27,438,447**
At December 31, 2014	6,950,128	153,754	81,193	1,314,416	18,288,625	**26,788,116**

The reclassification is for plant equipment recorded as mining assets in 2012.

During the year ended December 31, 2014, the Company reduced mining assets by $nil (December 31, 2013 - $940,145) relating to concentrate sold during the pre-commercial production period of the Capire mine.

7. Property, plant and equipment - *continued*

b) **Impairment test**

The company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2014. The recoverable amount for the property, plant and equipment impairment testing has been assessed by reference to the fair value less cost of disposal (FVLCD) that was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. FVLCD is based on the cash flows expected to be generated from the mines included within the cash generating units (CGUs); being the Guadalupe mining complex and Capire. The date that mining will cease depends on a number of variables, including estimated recoverable resources and the forecast selling prices for such production. Cash flows have been projected for nine years. For Capire, it is assumed that mining operations will recommence in 2017.

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. Long-term commodity prices are determined by reference to external market forecasts. For the December 31, 2014 impairment assessment, the metal price assumptions in US$ were as follows:

- Gold (per ounce) $1,200 - $1,250
- Silver (per ounce) $17.25 - $20.25
- Copper (per pound) $3.00 - $3.25
- Lead (per pound) $1.00 - $1.10
- Zinc (per pound) $1.10 - $1.25

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2014 impairment assessment, the mineral grade assumptions were as follows:

- Gold (grams per tonne) 0.20 – 3.46
- Silver (grams per tonne) 68 - 200
- Copper (%) 0.31 – 0.39
- Lead (%) 0.53 – 0.87
- Zinc (%) 0.88 – 3.45

Operating Costs and Capital Expenditures

Operating costs and capital expenditures are based on internal management forecasts. Cost assumptions incorporate management experience and expertise, current operating costs, the nature and location of each operation and the risks associated with each operation. Future capital expenditure is based on management's best estimate of required future capital requirements. All committed and anticipated capital expenditures adjusted for future cost estimates have been included in the projected cash flows.

Discount Rates

The rates are based on the weighted average cost of capital specific to each CGU and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU for which cash flows have not already been adjusted. These rates are based on the weighted average cost of capital for similar mining companies and were calculated based on management's estimates. A post-tax discount rate of 9% was used for the impairment test.

(Canadian dollars)

7. Property, plant and equipment - *continued*

b) **Impairment test**- *continued*

Sensitivity Analysis

The impairment test is particularly sensitive to changes in commodity prices and ore grade. Adverse changes to the key assumptions of price or grade may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and recovery price assumptions as at December 31, 2014. If average forecast silver prices or silver grade mined and milled were to fall below US$15.70 or 139 grams per tonne respectively, an impairment charge would result.

8. Mineral properties

a) Details are as follows:

	Zacualpan and Mamatla ($)	Zacatecas ($)	Dominican Republic ($)	**Total ($)**
Balance at January 1, 2013	21,056,155	163,100	1,260,447	**22,479,702**
Additions	8,650,918	350	(75,090)	**8,576,178**
Recoveries	-	(1,234)	-	**(1,234)**
Transfers to mining assets	(7,400,473)	-	-	**(7,400,473)**
Write-off	(1,598,408)	-	(985,357)	**(2,583,765)**
Foreign exchange	911,636	9,449	-	**921,085**
Balance at December 31, 2013	21,619,828	171,665	200,000	**21,991,493**
Additions	2,551,145	61,614	15,203	**2,627,962**
Transfers to mining assets	(2,339,083)	-	-	**(2,339,083)**
Foreign exchange	(536,273)	(5,393)	-	**(541,666)**
Balance at December 31, 2014	21,295,617	227,886	215,203	**21,738,706**

The amount of write-down of mineral properties during the year ended December 31, 2014 was $nil (December 31, 2013 - $2,583,765).

b) **Zacatecas agreement**

As at December 31, 2013, the Company owned 4,067,000 shares of Defiance Silver Corp. ("Defiance"), a Canadian public company, which were obtained in part in an agreement to option its Veta Grande Project assets in Zacatecas, Mexico. As of that date it was determined that there was a prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company recorded a non-cash write-down of $803,305.

In January 2014, Defiance terminated its option agreement with the Company. As a result of this termination the Company retained the Veta Grande Project assets, and the shares of Defiance already granted to the Company under the option agreement.

During the year, the Company sold all 4,067,000 shares of Defiance for proceeds of $359,481. A total gain of $237,471 was realized on the sale of these shares. Any unrealized gains recorded during 2014 were reversed.

(Canadian dollars)

8. Mineral properties – *continued*

c) Mineral property titles

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

9. Due to related party

At December 31, 2014, an amount of $1,363,389 (December 31, 2013 - $946,828) was due to Energold Drilling Corp., a significant shareholder of the Company. Monies owed to Energold Drilling Corp. are unsecured, non-interest bearing and without specific repayment terms.

10. Related party transactions

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

During the year ended December 31, 2o14, fees in the amount of $237,646 (2013 – $4,215,125) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Guadalupe and Capire production centres.

11. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's increased development of the open pit Capire Mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are approximately $1,098,919 (2013 – $1,007,508). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.8% (2013 – 3.6%) and discounted using a Mexican risk-free rate of 6.5% (2013 – 7.6%). Settlement of the liability may extend up to 30 years in the future.

Additions to the reclamation provision were as follows:

	2014	2013
Reclamation provision, beginning of the year	**$ 307,427**	$ 771,416
Foreign exchange movement	**(10,872)**	32,679
Accretion of reclamation provision	**23,739**	40,196
Revisions to estimated cash flows	**111,244**	(536,864)
Total reclamation provision	**$ 431,538**	$ 307,427

Accretion for the reclamation provision recognized for the year ended December 31, 2014 is $23,739 (2013 - $40,196).

(Canadian dollars)

12. Expenses by nature

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

	2014	2013
Production costs	$ 5,641,914	$ 5,790,608
Administration	825,570	909,603
Transportation	521,373	408,761
Wages and salaries	5,045,366	4,608,532
Total operating expenses	$ 12,034,223	$ 11,717,504

13. Supplementary cash flow information

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

	2014	2013
Interest income received	$ -	$ 90,452

14. Commitments

The Company signed a three year lease for office premises in Vancouver, British Columbia from June 1, 2013 to May 31, 2016. Lease obligations, net of operating costs, are $58,520 per year.

15. 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:

	2014	2013
Salaries and fees	$ 424,088	$ 503,734
Share based compensation	80,715	847,520
Total compensation	$ 504,803	$ 1,351,254

(Canadian dollars)

16. Equity

a) Share capital

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

b) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Under the terms of the Company's stock option plan, the maximum number of shares reserved for issuance is 10% of the issued shares of the Company on a rolling basis. Options granted must be exercised no later than five years from date of grant or extension or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. Options vest 25% on the date granted and 12.5% every quarter thereafter.

A summary of the Company's stock options as at December 31, 2014 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2013	**4,210,000**	**1.31**
Granted	**2,285,000**	**1.20**
Expired	**(62,500)**	**1.46**
At December 31, 2013	**6,432,500**	**1.25**
Granted	**-**	
Forfeited	**(481,250)**	**1.39**
At December 31, 2014	**5,951,250**	**1.24**

The following table summarizes information about the stock options outstanding at December 31, 2014:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$1.10	793,750	0.43	793,750	June 6, 2015
$1.85	1,767,500	1.74	1,767,500	September 26, 2016
$1.20	2,130,000	3.06	2,130,000	January 22, 2018
$0.55	1,260,000	4.02	1,260,000	January 6, 2019
	5,951,250	**2.52**	**5,951,250**	

(Canadian dollars)

16. Equity – *continued*

b) Stock options – *continued*

On January 23, 2013, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 2,285,000 shares of the Company, with an estimated value of $1,160,182 on the grant date. The options are exercisable on or before January 22, 2018 at a price of $1.20 per share.

On May 30, 2013, the Company extended the exercise period of the $0.55 options from January 6, 2014 to January 6, 2019 which were originally granted on January 6, 2009 and are exercisable for 1,310,000 shares of the Company to various directors, officers, employees and consultants of the Company. The modification to the term of the exercise period, of these fully vested options, resulted in an additional charge of $196,742 which was expensed in the second quarter of 2013.

The fair value of the services provided cannot be reliably measured; therefore, the fair value of each option grant is estimated at the time of grant using the Black-Scholes option pricing model with assumptions as follows:

Date Granted	January 23, 2013
Number of options granted	2,285,000
Risk-free interest rate	1.13%
Expected dividend yield	Nil
Expected share price volatility	67%
Expected option life in years	3

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

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, 2014 is $0.1 million (December 31, 2013 - $1.5 million).

c) Loss per share

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

	2014	2013
Net loss attributable to shareholders	**$ (3,486,754)**	$ (8,519,008)
Weighted average number of shares outstanding – basic and diluted	**68,128,244**	68,128,244
Loss per share – basic and diluted	**(0.05)**	(0.13)

(Canadian dollars)

17. 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:

	2014	2013
Loss before income taxes	$ **(4,630,143)**	$ (6,891,102)
Canadian federal and provincial income tax rates	**26.00%**	25.75%
Income tax recovery based on the above rates	$ **(1,203,837)**	$ (1,774,459)
Increase (decrease) due to:		
Non-deductible expenses	**198,607**	710,634
Losses and temporary differences for which a deferred tax asset has not been recognized	**364,141**	874,282
Difference between foreign and Canadian tax rates	**(142,482)**	(66,585)
Change in long term Mexican tax rates	**-**	375,508
Deferred taxes in respect of Mexican royalty	**(170,955)**	1,522,279
Foreign exchange and other	**(188,863)**	(13,753)
Income tax expense	$ **(1,143,389)**	$ 1,627,906

Total income tax expense consists of:

	2014	2013
Current income tax expense	$ **74,002**	$ 50,663
Deferred income tax expense	**(1,217,391)**	1,577,243
	$ **(1,143,389)**	$ 1,627,906

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

	2014	2013
Deferred income tax assets		
Non-capital losses	$ **5,538,569**	$ 4,435,223
Property, plant and equipment	**126,561**	-
Current assets and liabilities	**117,691**	519,584
Total Deferred tax assets	$ **5,782,821**	$ 4,954,807
Deferred income tax liabilities		
Property, plant and equipment	$ **5,563,831**	$ 5,409,159
Mineral properties	**4,909,254**	5,324,169
Other	**364,938**	634,082
Total deferred income tax liabilities	$ **10,838,023**	$ 11,367,410
Deferred income tax liabilities, net	$ **5,055,202**	$ 6,412,603

(Canadian dollars)

17. Income taxes - *continued*

The composition of deferred tax expense is as follows:

		2014		2013
Deferred income tax assets				
Non-capital losses	$	(1,200,182)	$	(2,540,111)
Other		390,548		(54,013)
Deferred income tax liabilities				
Property, plant and equipment	$	146,213	$	2,478,454
Mineral properties		(298,668)		1,058,831
Other		(255,302)		634,082
Deferred income tax expense	$	(1,217,391)	$	1,577,243

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

		2014		2013
Net deferred tax liability, January 1	$	6,412,603	$	4,577,196
Deferred income tax expense during the year		(1,217,391)		1,577,243
Changes due to foreign currency translation		(140,010)		258,164
Net deferred tax liability, December 31	$	5,055,202	$	6,412,603

The unrecognized deferred tax asset is as follows:

		2014		2013
Non-capital losses	$	2,511,291	$	2,195,113
Capital losses		1,262		32,135
Property, plant and equipment		12,808		15,396
Mineral properties		1,000,093		979,217
Other		-		241,803
Unrecognized deferred tax asset	$	3,525,454	$	3,463,664

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

As at December 31, 2014, 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.

(Canadian dollars)

17. Income taxes - *continued*

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

Expiry Year		
2015		235,727
2026		828,544
2027		541,044
2028		141,907
2029		415,894
2030		1,266,681
2031		1,137,299
2032		1,598,366
2033		2,098,554
2034		1,238,971
	$	9,502,987
Capital losses		
No expiry date	$	9,708

18. Capital management

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

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

19. 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, 2014 investments were classified as Level 1 on the fair value hierarchy of IFRS 13 – *Fair Value Measurement*. At December 31, 2014 and 2013, 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"), Trafigura Mexico S.A. de C.V. ("Trafigura) and MRI Trading AG ("MRI"). 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 ($0.6 million), trade and other receivables ($5.1 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due (note 1). 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. All trade payables and accrued liabilities are due within ninety days. 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, 2014, the Company did not have any significant future debt obligations.

Interest rate risk

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

19. Financial instruments – *continued*

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, 2014, 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, 2014, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $223,000 decrease or increase in the Company's net earnings for the year ended December 31, 2014.

Commodity price risk

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

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

	2014	2013
Silver price	**$ 69,000**	$ 77,000

(Canadian dollars)

20. Segmented information

The Company has one operating segment and three reportable segments based on geographic area: Mexico, the Caribbean, and Canada (Corporate). The segments are determined based on the reports reviewed by the Chief Executive Officer (who is considered the Chief Operating Decision Maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Details at December 31 are as follows:

		2014		2013
Revenues by geographic area				
Mexico	**$**	**12,008,457**	$	14,106,056
Net earnings (loss) by geographic area				
Mexico	**$**	**(2,406,475)**	$	(3,247,845)
Canada		**(1,080,279)**		(4,290,811)
Caribbean		**-**		(980,352)
	$	**(3,486,754)**	$	(8,519,008)

		2014		2013
Assets by geographical area				
Mexico	**$**	**57,628,336**	$	59,950,148
Canada		**217,523**		2,968,499
Caribbean		**215,203**		200,000
	$	**58,061,062**	$	63,118,647
Property, plant and equipment by geographical area				
Mexico	**$**	**26,760,176**	$	27,405,048
Canada		**27,940**		33,399
	$	**26,788,116**	$	27,438,447

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