Creating Opportunities

2017 ANNUAL REPORT

IMPACT SILVER CORP

Five Centuries of Renowned Silver Production

A Property of Opportunities

Since 2006, IMPACT Silver Corp. has been producing silver, sold in the form of lead and zinc concentrates, as well as gold, zinc and lead in the Royal Mines of Zacualpan Silver District of Mexico. On our 357-square-kilometre land package, mining dates back to the time of the Aztecs. Even today, nearly 90% of the land remains unexplored with modern technology. Our intention for 2018 and beyond is to create our own opportunities for growth, through expansion of our operations and continued exploration of this large and prolific area.

Royal Mines of Zacualpan: 500+ Years of Production

1400 to 1520

Indigenous miners, including the **Aztecs mined gold on the property.** The Aztecs built a temple in the current location of Zacualpan.

1521

Cortés conquered Mexico. The Conquistadores mined gold and silver on the property, leaving many historical mine workings.

1531

Spanish Crown gives 'Royal Mines' title to Zacualpan, the first mining district in the Americas to designated.

5,000+

Historical mine workings on the property (catalogued to date).

50+

Historic mills (haciendas) catalogued to date, some centuries old.

IMPACT: 12 Years and Counting

2006

IMPACT purchases Royal Mines of Zacualpan Project and expands production. **First production** from the Guadalupe Production Centre.

2007

Production begins at the Chivo silver mine. **Acquired 100% interest** in the 200 kilometre² Capire-Mamatla Mineral District, 16 kilometres from the Guadalupe Production Centre.

2010

Production begins at the Noche Buena mine. **$16.7M in revenues** and $3.4M earnings, and $15M raised by private placement.

2011

$24.3M in revenues and $7.6M in earnings.

2013

Cuchara Mine and Capire Production Centre open. Test mining and processing of gold and copper begins on the Carlos Pacheco vein in the Noche Buena Mine.

2014

High-grade San Ramon Deeps and Mirasol Mines open, raising average grades processed at the Guadalupe plant. Test mining ceases at the Capire Production Centre.

2015

Record silver production of 950,059 ounces with the highest silver grades in company history, and revenues of $14.6M.

2016

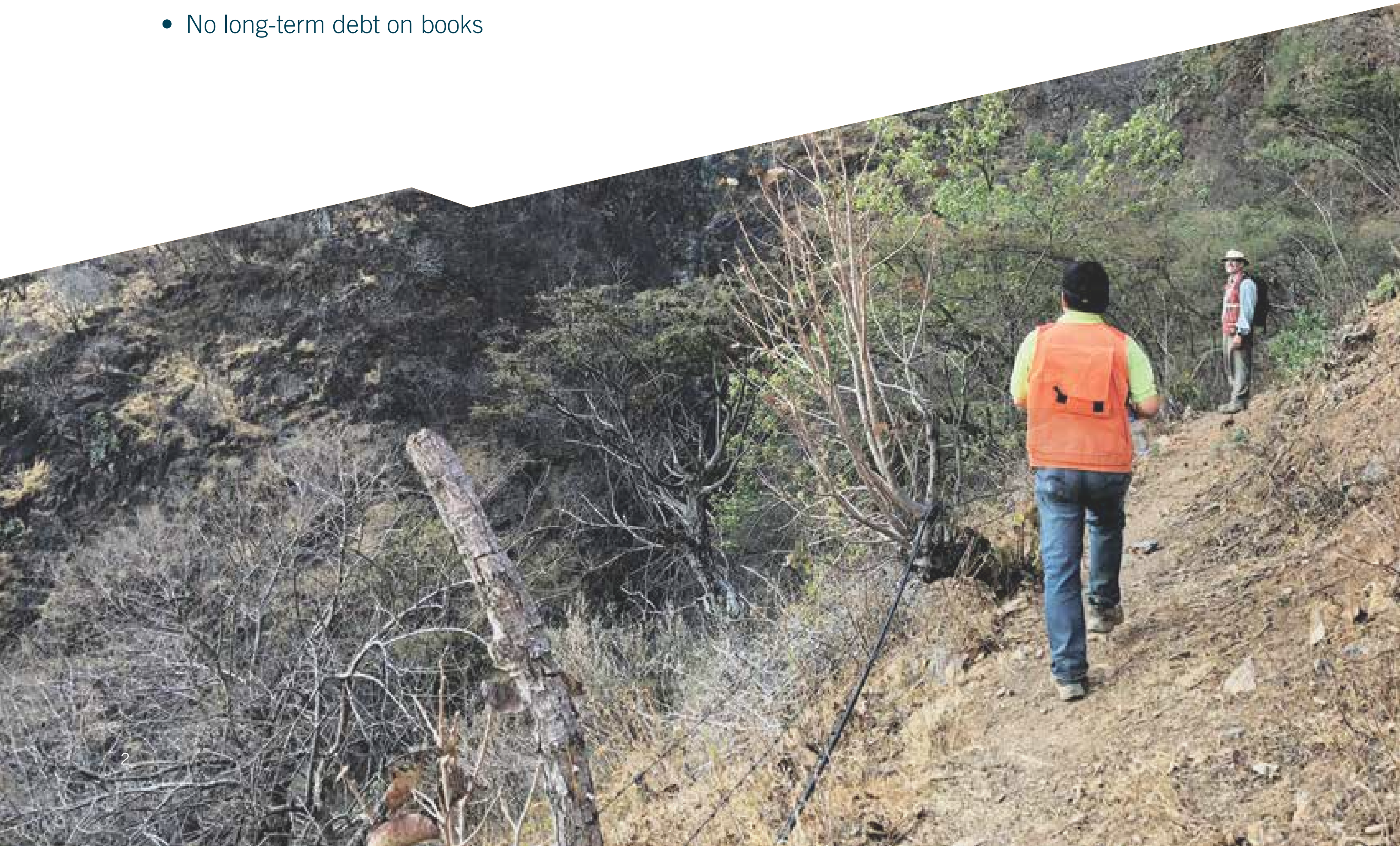
Record silver production of 952,768 ounces and revenues of $16.7M.

2017

Silver production of 907,848 ounces and revenues of $15.4M.

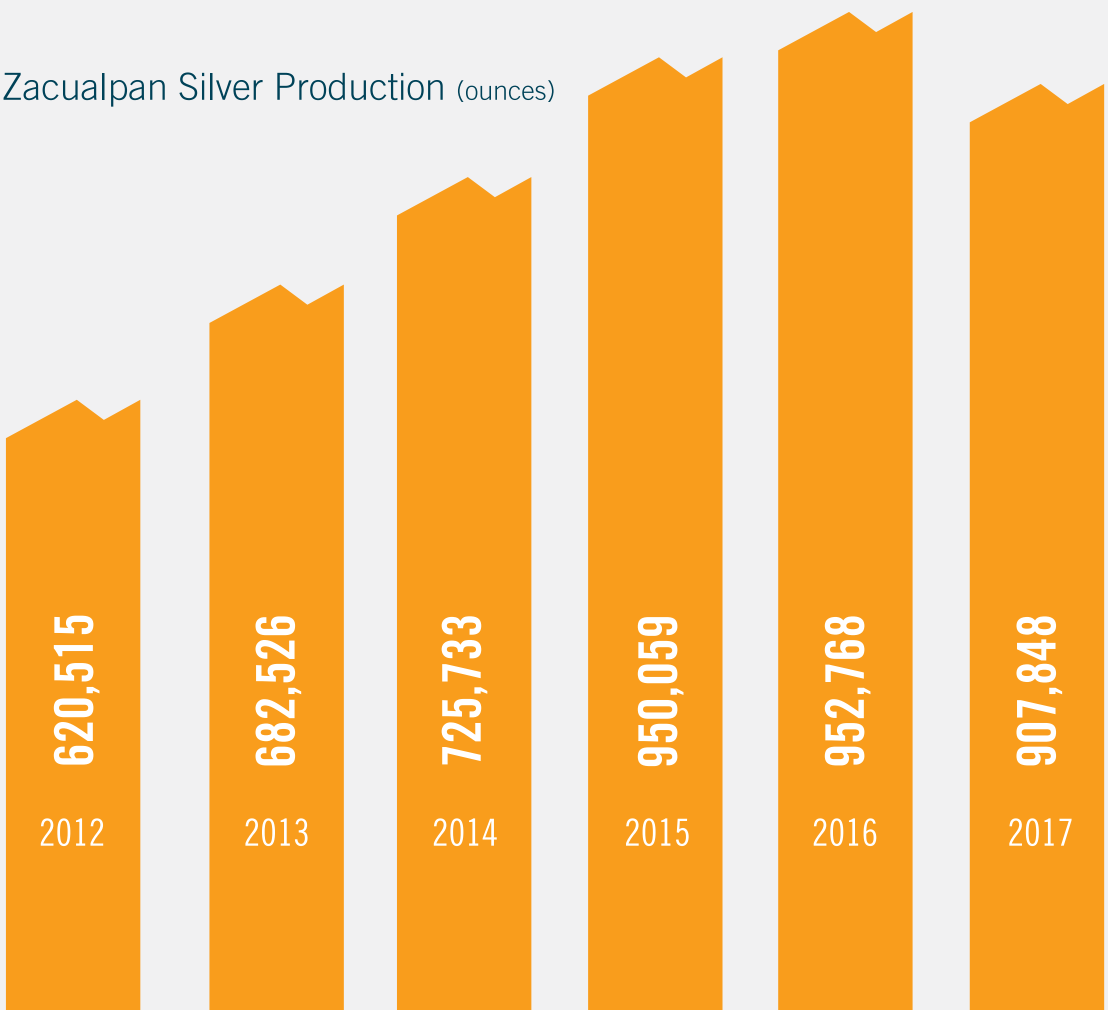
2017 Highlights

- Named to the 2017 TSX Venture 50
- Increased mill throughput to 532 TPD (tonnes per day), a 6% increase over 2016
- Revenue per tonne decreased year over year due to slightly lower grades and weakening silver prices and the US dollar
- Sale of inactive Zacatecas Project and mill for $600,000
- Enlarged the new high-grade zone in the San Ramon Deeps
- Maintained an underground drill programme in and around existing operations to replace mined tonnage
- Re-commenced greenfield exploration program and drilling for the first time in four years
- Discovered gold and copper in the Santa Teresa Area
- Drilled discovery hole of 3.38 metres with 834 g/t (grams per tonne) of silver at San Felipe
- Cash on hand $4.7 million
- No long-term debt on books



Since 2006, we have maintained a strong commitment to community support and responsible social and environmental policies. We prefer to hire locally for nearly all management, staff and contracted positions. Our health and safety policies are strong and effective. In our mining and exploration activities, we leave a minimal environmental footprint and practice progressive reclamation—replanting and restoring land as mining and exploration proceeds.

Zacualpan Silver Production (ounces)



Creating Opportunities

In a time when much of the industry seemed to be treading water and waiting for markets to rebound, we chose to create our own opportunities.

For IMPACT, 2017 was a year of renewed exploration and successful discovery—performance that earned us a place in the 2017 TSX Venture 50 list.

We began the year with a clean balance sheet and no debt. Facing slightly lower grades of silver from our mines, as well as weak silver prices and a fluctuating US dollar, we reacted by processing more tonnes and producing additional gold: 540 ounces of gold and 481 tonnes of lead. But the real story for 2017 was exploration in our large property in Mexico's Royal Mines of Zacualpan District. Remarkably, our drilling success rate was approximately 80%. We succeeded in finding new prospective zones outside our operations, including a very exciting potential gold-copper zone in the Santa Teresa Area.

In 2017, IMPACT produced 907,848 ounces of silver (sold in the form of lead concentrates), as well as gold and lead. Our working capital remains strong at $5.6M. Funding that we had secured in 2016, enabled us to expand our exploration program in 2017. At IMPACT, we do not grow production volume for the sake of growth; we seek to increase production when it is likely to drive up our earnings.

I would like to note the unexpected drop in our share price that occurred mid-year. This was the result of an individual investor who changed their priorities and suddenly divested millions of shares. Fortunately, recovery began immediately and our results improved steadily through the third and fourth quarters.

Our land holdings span over 357-square-kilometres. We have discovered more than 5,000 historical mine workings on the property, including over 50 haciendas—historical mills—some of which date back centuries. The Conquistadores mined here, and before them the Indigenous peoples. Much of the district remains unexplored with modern technology.

With the funds from our private placement in 2016, 2017 was the re-start of exploration on the numerous greenfield targets identified over the last three years.

In 2017, drilling near the San Ramon Mine intersected a vein with 3.26 meters of 627 g/t of silver, and found extended mineralization 250 metres south of the mine. We also determined that the San Ramon Deeps resource may extend toward the surface. Because of the proximity of these potential resources to the mine and the Guadalupe processing plant, the area is a focus for detailed exploration in 2018.

In the historical San Felipe Mine workings—approximately a kilometre from the Guadalupe mill—we discovered the El Paso vein, which returned a high-grade drill intersection of 834 grams per tonne of silver over 3.38 metres. Mineral from El Paso could be processed at the Guadalupe plant.

The El Paso vein is only one of a series of similar structures that transect the district, often running for one to five kilometres of strike length. In 2018, we plan to establish underground drill stations and continue exploration of San Felipe.

Perhaps the year's most interesting discovery was the result of following up a previous discovery of a vein containing gold and copper near Carlos Pacheco. The highest grade found was 115 grams of gold in a grab sample, and over 100 assays showed 1 gram or more. The Santa Teresa Area was sampled extensively on surface over a square kilometre and work continues. While the Royal Mines is known a silver-lead-zinc area, we have long suspected the existence of significant gold deposits at depth.

In and around Zacualpan, our company is a significant force in the local economy. We employ nearly 300 locals and contribute to schools and the community. As conscientious stewards of the environment, we practice progressive reclamation, in which we re-vegetate areas lafter mining or exploration activities have ceased. In 2017 alone, we planted 6,800 trees.

To protect the safety and well-being of our people, we maintain rigorous health and safety policies. Over the last two years, lost-time injuries have remained near zero. In 2016, our mine safety standards were recognized with the Award of Excellence from Mexico's Secretary of Labour and Social Welfare. In 2017, our mine rescue team competed in a regional rescue competition, and I am proud to report that we placed fourth overall. This reflects well on our people and our company-wide dedication to industry-leading health and safety standards.

Looking forward, we plan to create new opportunities for growth and profitability. We will expand production from higher-grade zones in the San Ramon Deeps while fast-tracking our projects in the Zacualpan and Capire districts. We plan to drill in the north extension of the San Ramon Mine and on the El Paso vein. Exploration will focus on larger, higher-grade targets at El Angel, Alacran and Alacran North. We will pursue gold production without losing our primary focus on silver/lead/zinc. Our long-term objective remains unchanged: to become a multi-million ounce a year producer either through exploration, merger, acquisition or joint ventures on our massive property.

I would like to thank all the people of IMPACT who have worked so hard to bring us where we are today, with a special thanks to the Board of Directors. I am more confident than ever that with the continued support of our shareholders, the foundation we have built will create opportunities for growth and prosperity for years to come.

FREDERICK W. DAVIDSON
President & CEO

A Wealth of Opportunities

The Guadalupe Production Center processes mineral from four nearby underground mines:

San Ramon: a Strong Producer with a Promising Future at Depth

CONTRIBUTION TO TOTAL PRODUCTION IN 2017: 43%

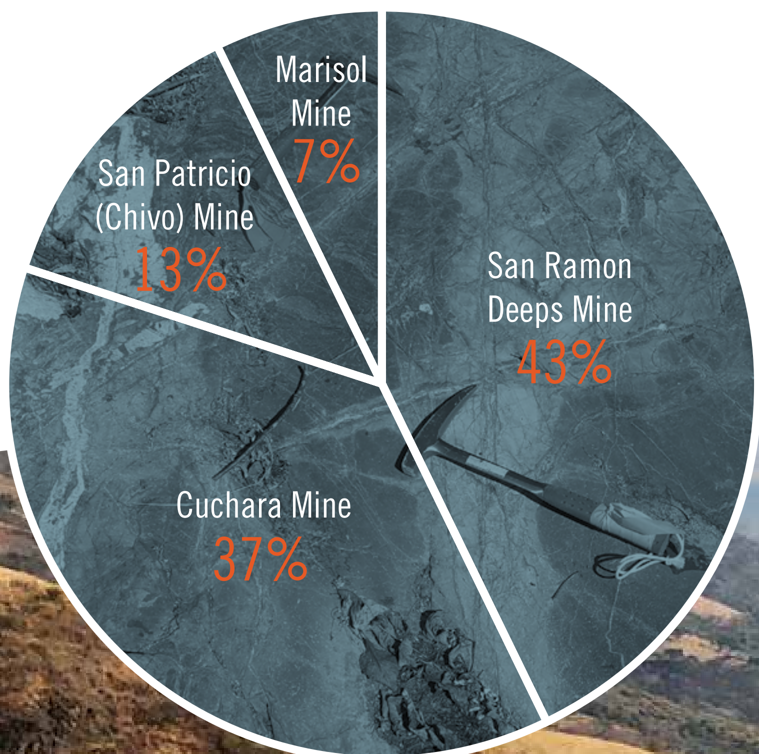
An epithermal underground silver mine located five kilometres south of the Guadalupe Production Centre, San Ramon has been a significant contributor to our production since 2008.

The mine's importance increased tremendously with our 2014 discovery of high-grade silver zones at depth, in the adjacent San Ramon Deeps. We began mining the Deeps on the third quarter of 2014. As we continue working at depth, the silver zone is becoming wider and higher grade. In 2017, grades ranged from 194 to as high as 248 g/t silver over 11.08 metres. In 2018, we will complete construction of a new underground drill station and drilling will continue. Exploration will focus on the area above the Deeps, adjacent to the original San Ramon Mine, where structures appear promising and mineral could be accessed efficiently.

Cuchara: Our Fourth Underground Mine

CONTRIBUTION TO TOTAL PRODUCTION IN 2017: 37%

Located 2.5 kilometres east of the Guadalupe mill, the Cuchara Mine is the fourth underground silver mine we have taken into production. An epithermal underground silver mine encompassing a corridor of high grade silver, lead and zinc veins, the mine has three entrances: two



access the upper levels, and one provides low-cost access to depth, via a historic mine ramp that descends to 240 meters below surface. Diluted mining grades at Cuchara during the year ranged from 159 to 176 g/t silver.

Mining in the Cuchara area dates back to 1597. Some of the veins that we are mining and exploring are historic, and some are new veins discovered by our exploration teams. Current production is from the Marqueza, Santa Lucia, Oscar and Resguardo veins, and we plan to expand production to the Condesa and Maria de Jesus veins.

Mirasol: a Source of High Grade Ore, Closed in Q3

CONTRIBUTION TO TOTAL PRODUCTION IN 2017: 7%

Located 5.5 kilometres southeast of the Guadalupe Mill, the Mirasol Mine was a solid producer of high grade mineral from late 2014 through the third quarter of 2017, when the mine closed. In 2017, diluted mining grades ranged from 170 to 192 g/t.

San Patricio: Our Newest Producer

CONTRIBUTION TO TOTAL PRODUCTION IN 2017: 13%

The new San Patricio (Chivo) Mine is only 3 kilometres southwest of the Guadalupe mill. Discovered in 2007 and brought into production in 2017, becoming the fifth mine that we have taken from discovery through to full production. As a new mine, mineral grades were variable, but the mine produced silver grades as high as 935 g/t.

The Capire Mineral District Capire Open Pit and Pilot Production Centre

The Capire district is a volcanogenic mesosulphide area that contains a number of near-surface silver-zinc-lead targets with relatively easy access.

The Capire open pit mine contains about 4.7 million tonnes of mineral. The mine and its supporting 200 TPD processing centre were in operation as recently as 2014, in a test of mineral and operational economics. At current silver prices, the mine is not economical, and the Capire area is on care and maintenance. When markets recover, the plant and mine can be returned to production on short notice.

Exploration Targets for 2018

Alacran North Exploration Area

- An area between two large historic mines: the Guadalupe Mine (10 million ounces of silver produced between 1972-1991) and the Alacran Mine (extensive underground workings, historic reports of high grade silver and gold mining dating back hundreds of years).
- Drill targets are being developed on veins with high silver and gold assays.

San Pablo Norte Exploration Area

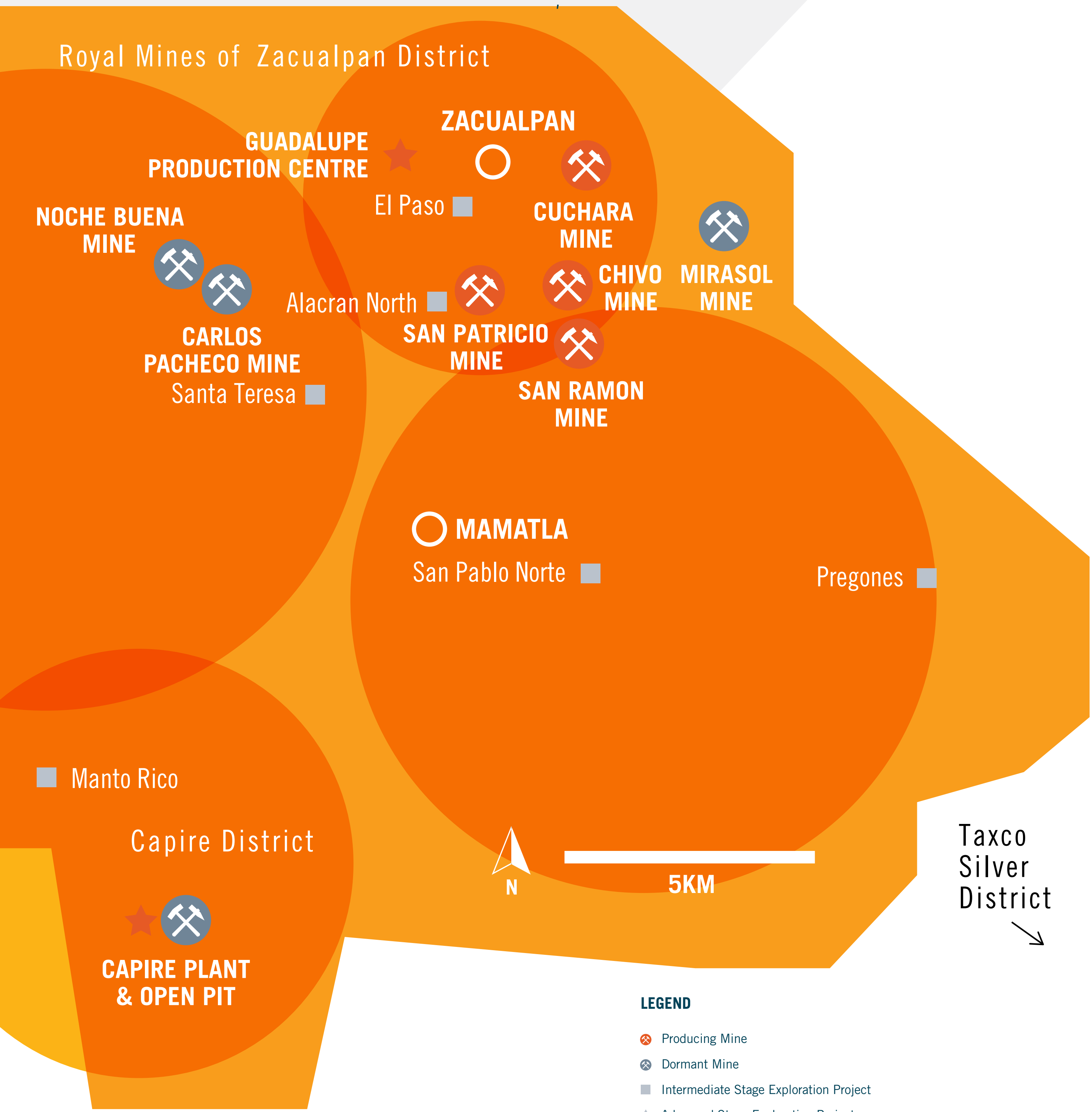
- A high-potential silver zone. Early stage exploration has discovered numerous historical mines and processing plants, which are being opened and sampled as well as many old mills.

San Felipe Mine: El Paso Vein

- The El Paso vein was discovered in the historical San Felipe Mine, approximately one kilometre from the Guadalupe mill.
- A drill hole intersected 834 g/t of silver over 3.38 metres in the vein.
- The vein is only one of a series of similar structures. In 2018, we plan to establish underground drill stations and continue exploration.

Santa Teresa Area: Gold Grades Near Carlos Pacheco

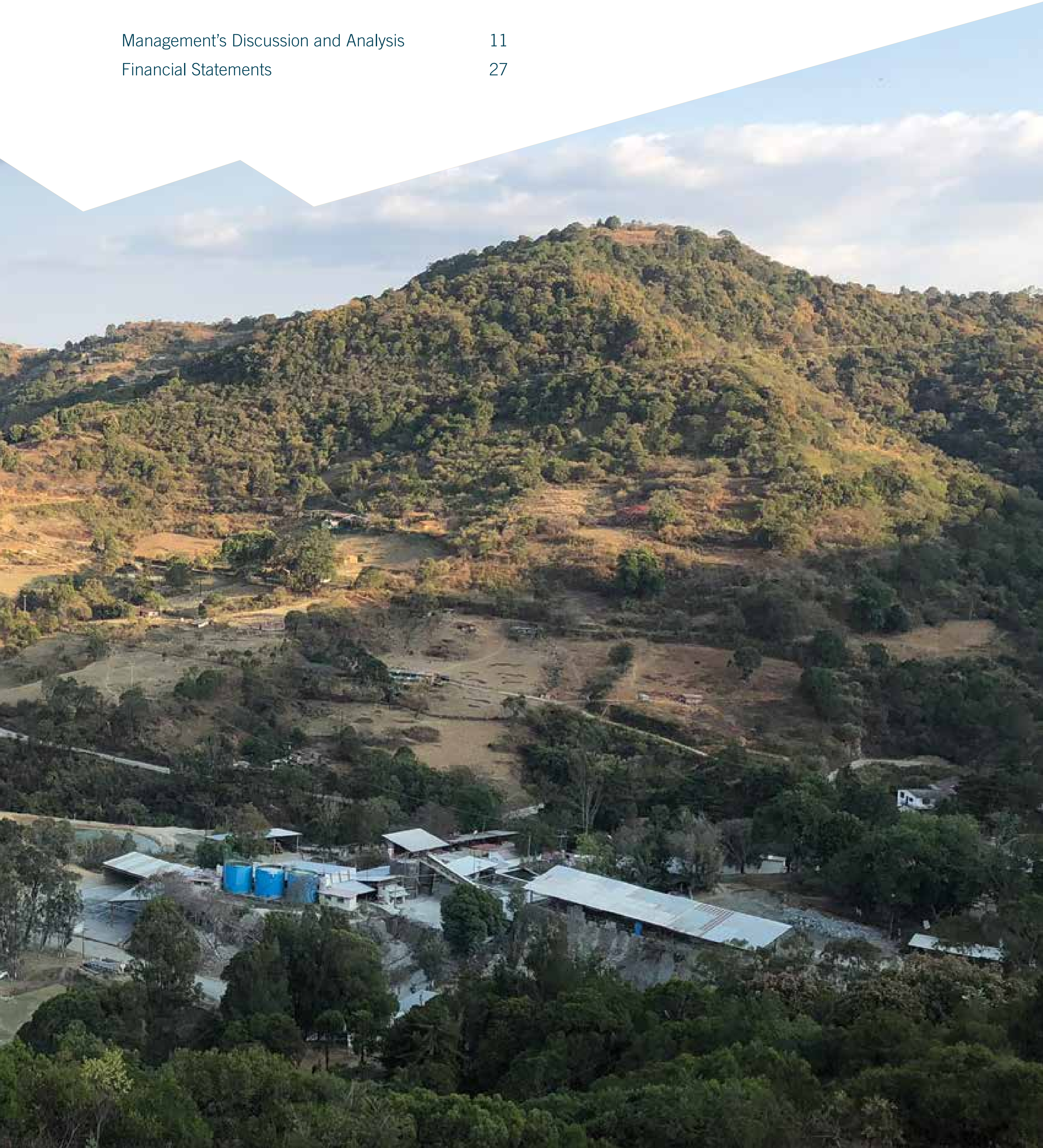
- Only four kilometres southwest of the Guadalupe processing plant, and just south of the former Noche Buena Mine and Carlos Pacheco Mine.
- Contains many north-south striking veins similar to the Noche Buena or Carlos Pacheco veins. Grab and channel samples have produced gold grades of up 115 grams of gold, and over 100 assays showed 1 gram/tonne or more.
- Rock sampling and geological mapping continues with the objective to define drill targets.



LEGEND

- Producing Mine
- Dormant Mine
- Intermediate Stage Exploration Project
- Advanced Stage Exploration Project
- City or Town
- Processing Plant

Financials



INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2017 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 9, 2018 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017 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 totalling 357 km^2 in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire Mineral District** adjacent to and southwest of Zacualpan. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over eleven years.

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing eight sites from exploration drilling to development and mining, including all mines currently in production. Most recently, due to the unpredictability in silver prices and to offset the effects of low prices of silver, the Company has been focused on improving the capacity of its Guadalupe processing plant, increasing its production up to 532 tonnes per day (tpd) from 500 tpd a year ago.

IMPACT is considered one of the purest silver producers in Mexico. IMPACT's primary metal is silver and the majority of its revenues are generated by silver. Weak silver prices, lower silver grades and a weakening US dollar negatively affected revenue in 2017. The Company addressed this by increasing throughput in the mill and by actively controlling costs. Overall in 2017, revenues decreased by 8% to $15.4 million compared to 2016 revenue of $16.7 million. The Company recently negotiated significantly lower refining fees for 2018, which will have a positive effect on revenues going forward. During the first six months of the year, IMPACT invested in upgrading and repairing its capital equipment. This, combined with the costs of developing production at the San Patricio (Chivo) mine and rising inflation in Mexico, impacted operating costs. With funding currently in place, IMPACT is actively expanding its in-mine exploration and development to allow for increases in additional tonnage and higher grade throughput at the mill.

In 2016 IMPACT raised $7.1 million (net) through private placements. These funds have allowed the Company to accelerate exploration and re-start drilling on higher priority targets. The initial results have lead to the San Felipe discovery, the discovery of a new extension at the San Ramon mine and the start of field work on the gold/copper target of Santa Teresa as detailed in respective news releases.

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

1. Continue to expand, upgrade and optimize production with a focus on higher grade zones to optimize cash flows.

2. Exploration including drilling key targets across the large 357 km^2 land package, focusing on discovery and definition of additional high grade mineral for future mining.

3. Continue exploration with plans for eventual development of gold and copper from Carlos Pacheco South and San Juan, and re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.

4. In the longer term, the objective is to become a multi-million ounce per year producer of silver either through development of current properties or by acquisition or merger.

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

IMPACT is proud to have been named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture Exchange. 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.**

Financial Overview

- Revenue for 2017 was $15.4 million, an 8% decrease from 2016. Increased mill throughput helped to offset weak silver prices, lower silver grades and a weaker US dollar.
- Mine operating loss for 2017 was $1.7 million compared to earnings of $1.4 million in 2016. Mine operating earnings before amortization and depletion[1] were $0.5 million for the year ended December 31, 2017 compared to $3.7 million in the previous year.
- Net loss for 2017 was $4.6 million which included $0.6 million of foreign exchange loss and non-cash expenses of $3.5 million for amortization, depletion, share based compensation, and deferred income taxes. This compares to a $1.9 million net loss for the same period in 2016, which included $0.5 million of foreign exchange loss and non-cash expenses of $3.3 million for amortization, depletion, share based compensation and deferred income taxes.
- Loss before interest, taxes, depreciation and amortization[2] (EBITDA) was $1.9 million for 2017 compared to earnings of $0.7 million in the previous year.
- The Company's cash position at December 31, 2017 remains strong at $4.7 million, with net working capital of $5.6 million (2016 – $10.5 million).
- Cash flows generated from operating activities were $0.2 million in 2017, compared to $3.4 million in the same period of 2016.
- In June 2017, the Company completed the sale of its non-active Zacatecas assets (200 tpd mill, 14 hectares surface rights and 10 mineral concessions) to Endeavour Silver Corp. (TSX:EDR, NYSE:EXK) for 154,321 common shares valued at $0.6 million. The Company recorded a gain of $0.3 million on the transaction.

Production Overview

- Production at the Guadalupe mill during the fourth quarter of 2017 came primarily from the San Ramon Deeps Mine (46% of total mill feed), the Cuchara Mine (35% of mill feed), the San Patricio (Chivo) Mine (19% of mill feed). The grade at San Ramon is highly variable and provided lower grades than in the comparable quarter of 2016. The mining grades at the new San Patricio (Chivo) Mine had lower grades than the Mirasol mine that closed towards the beginning of Q3. These factors contributed to a lower grade mill feed in the fourth quarter of 2017 compared to 2016.
- Average mill feed grade for silver was 172 grams per tonne (g/t) in 2017, down 4% from 180 g/t in 2016.
- Silver production decreased slightly to 907,848 ounces in 2017 from 952,768 ounces in 2016.
- Throughput at the mill was increased 6% to 194,266 tonnes milled in 2017 from 183,032 in 2016.

1 Mine operating earnings before amortization and depletion is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance.
2 Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance.
See "NON-IFRS MEASURES".

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2017	2016	% Change	**2017**	2016	% Change
Total tonnes (t) milled	48,516	48,366	0.3%	194,266	183,032	6%
Tonnes produced per day	527	526	0.2%	532	500	6%
Silver production (oz)	220,148	247,410	-11%	907,848	952,768	-5%
Lead production (t)	132	108	22%	481	434	11%
Zinc production (t)	-	-		-	42	-100%
Gold production (oz)	128	138	-7%	540	511	6%
Silver sales (oz)	195,599	233,970	-16%	852,480	955,275	-11%
Lead sales (t)	109	106	3%	448	444	1%
Zinc sales (t)	-	-		-	65	-100%
Gold sales (oz)	128	128	-	533	525	2%
Average mill head grade –silver g/t	162	178	-9%	172	180	-4%
Revenue per tonne sold[3]	$ 62.39	$ 82.53	-24%	$ 79.62	$ 91.73	-13%
Direct costs per production tonne[3]	$ 78.59	$ 70.17	12%	$ 76.49	$ 70.14	9%

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

The Company has continued to expand the capacity at its Guadalupe processing plant and milled a record high of 194,266 tonnes in the year ended 2017. This is an increase of 6% over the 183,032 tonnes milled in 2016. There was a nominal increase of 0.3% in tonnage milled in Q4 2017 over Q4 2016. Production tonnes are being drawn from several mines with different feed grades; therefore, mine production can vary from quarter to quarter. The average mill head silver grade decreased to 172 g/t in 2017 compared to 180 g/t in 2016. There was a 9% decline in silver grades in Q4 2017 to 162 g/t compared to 178 g/t in the Q4 2016.

Overall, revenues in 2017 were negatively impacted by weak silver prices, lower silver grades and a weakening US dollar. Silver sales decreased 11% in 2017 to 852,480 ounces from 955,275 ounces sold in the same period in 2016. The annual revenue per tonne of concentrate was $79.62, compared to $91.73 in the same period of 2016. Silver sales decreased 16% in Q4 2017 to 195,599 ounces from 233,970 ounces in Q4 2016. The decline in revenue per tonne sold from $82.53 in Q4 2016 to $62.39 in Q4 2017 is due in part to lower silver grades and prices, but was compounded by lower than estimated revenue recorded for Q3. In an effort to address decreasing revenues, the Company has negotiated a considerably more favourable refining contract for 2018. The 9% increase in direct costs per production tonne for the year to $76.49 from $70.14 is mainly due to a new hauling contract which increased hauling costs and increased development costs to access ore.

MINE PRODUCTION

Royal Mines of Zacualpan District

Since acquiring the Royal Mines of Zacualpan, there has been extensive work done to upgrade operations and expand production. Expanding the tailings capacity is an ongoing process. Additional surface lands near the Guadalupe mill were also purchased to address the need for additional tailings capacity in the future which is in the process of design and permitting.

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

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. During 2014, the Company discovered new high grade silver zones in the nearby San Ramon Deeps area and mining of this area began in Q3 2014. During the fourth quarter of 2017, the San Ramon Deeps Mine provided 46% (Q4 2016 – 40%) of feed to the Guadalupe mill. To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20, 21, 22, 23 and 24 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the quarter ranged from 191 to 196 g/t silver. Underground drilling outlined the vein over a vertical distance of 10 to 80 metres below the current mine workings where the size and grade are decreasing. Drilling of the southeast extension will begin with completion of a new underground drill station. IMPACT has also expanded the main mine ramp to accommodate surface truck access down to Level 22 to increase efficiencies of extracting mineral from the mine. In Q3 2017, IMPACT signed an agreement to mine on a neighbouring claim in return for royalty payments of MXN$75 per dry tonne of mineral extracted. Subsequent to year end, IMPACT carried out initial mining and exploration work in this area including some drilling from surface to outline zones for mining (see Exploration below).

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the fourth quarter of 2017, the Cuchara Mine provided 35% (Q4 2016 – 42%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza, Santa Lucia, and Millmaravillas veins. Diluted mining grades at Cuchara during the quarter ranged from 152 to 166 g/t silver.

Mirasol Silver Mine

The Mirasol Mine is located 5.5 kilometres southeast of the Guadalupe mill and mining began in Q3 2014. In Q3 2017 production from Mirasol was put on standby as the remaining tonnes are at depth and require some development in order to access them. During the quarter, there were no tonnes mined at Mirasol (Q4 2016 – 18%).

San Patricio (Chivo) Silver Mine

The new San Patricio (Chivo) Mine is located three kilometres southeast of the Guadalupe mill and is accessed through the former Chivo Mine entrance. The mine produces from the San Patricio vein and the Los Reyes vein. During the fourth quarter of 2017, the San Patricio (Chivo) Mine provided 19% (Q4 2016 –nil) of feed to the Guadalupe mill. Diluted mining grades at San Patricio during the quarter ranged from 161 to 178 g/t silver.

Capire Processing Plant and Mine

Capire is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire district is predominantly silver-rich with zinc and lead credits.

In Q2 2013, IMPACT announced the commissioning of the new Capire open pit mine and completion of construction of the 200-tpd pilot plant. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potentially larger operation in the future. The work performed has increased the Company's knowledge about the metallurgy of minerals in both districts and has helped define the operating costs at Capire. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes, hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not presently economical. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended. The Capire plant is currently on care and maintenance. Production from the Capire open pit may restart in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

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

Capire Mineral Resource

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

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

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

The reported resource ("Base Case") cutoff grade is US$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates ("MDA") of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards, definitions and guidelines. The resources were estimated by inverse distance cubed ("ID^3") and checked the estimate with inverse distance to the 4th power, kriging, and nearest neighbour.

The table presents the inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3m by 3m by 3m. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US$30/t lying within a pit optimized using $31/oz Ag, $1.51/lb Zn, and $1.69/lb Pb. MDA considered a US$30/t cutoff to be appropriate for production using IMPACT's 200t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed "reasonable prospects for eventual economic extraction" which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43 101. There is additional mineralization too deep to fulfill the criteria of "reasonable prospects for eventual economic extraction" within an open pit, but that may be available for potential underground development. For further details on the Capire mineral resource see IMPACT's news release dated January 18, 2016.

EXPLORATION

Mines on epithermal veins that were discovered and built by the IMPACT team include the Cuchara Silver Mine (currently in operation), San Ramon Deeps Silver Mine (currently in operation), San Patricio (Chivo) Silver Mine (currently in operation), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), the Noche Buena Silver Mine (operated 2010-2014) and the Mirasol Silver Mine (operated 2014-July 2017), as well as the Capire VMS open pit mine (on care and maintenance). Exploration is continuing with the goal of finding and developing new mines for the Company. Recent exploration highlights were as follows:

Drilling Results

During the first quarter, IMPACT announced further drill results from San Ramon Deeps which included 1,613 g/t silver over 4.12 metres and 248 g/t silver over 11.08 metres. Subsequent to year end, IMPACT announced results from surface drilling above the San Ramon Deeps area which included 627 g/t silver over 3.26 metres. Drilling has begun again with completion of a new underground drill station.

During the third quarter, IMPACT announced the first drill results from the El Paso Vein at the San Felipe prospect with 834 g/t silver over 3.38 meters (true width) including 1,448 g/t silver over 1.26 meters (true width). The zone remains open for expansion. IMPACT mining personnel have almost completed access to the old San Felipe Mine workings and establishing an underground drill station to continue drilling the zone. The El Paso Vein is centrally located within the district, passes less than one kilometer from IMPACT's producing Guadalupe processing plant, and represents a potential near-term source of high-grade feed for the plant.

A number of surface drill holes were also completed on veins near the Cuchara Mine and Los Reyes area during the year, most of which returned low grades.

Exploration Field Work

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

FUTURE PLANS

Mining Plans

In the longer term, management intends to continue exploration and development of gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 4,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to drilling and potential production, and building mineral inventories for mining. The Company is continuing surface and underground drilling programs to build tonnes for mining. Currently, exploration work is focused on larger and higher grade targets. Drilling is next being planned on the extensions of the El Paso Vein located near the Guadalupe plant access road.

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

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

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

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

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

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

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

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

The Company has social, environmental and other policies related to its operations and promotes a culture for working safely. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and communities. The Company has established a mine safety committee and employs a safety officer to implement and supervise the safety program. In the event of an emergency, the Company keeps a paramedic and onsite ambulance on standby. In 2017, the Company's mine rescue team competed in a safety and rescue competition for the first time and placed fifth overall.

INVESTOR RELATIONS

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

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31		
	2017	2016	2015
Revenues	$ 3,150	$ 3,801	$ 3,883
Net loss	$ (2,267)	$ (803)	$ 168
Loss per share – basic and diluted	$ (0.03)	$ (0.01)	$ 0.00

Net loss for the fourth quarter of 2017 was impacted by the following factors:

- Mine operating loss was $1.2 million in Q4 2017 compared to $0.2 million in the fourth quarter of 2016. Amortization and depletion expenses decreased to $0.4 million during the fourth quarter of 2017 from $0.7 million in the comparable period of 2016. Mine operating results were directly impacted by lower revenues and increased operating costs as discussed below.
- Revenue for Q4 2017 was $3.2 million, a 17% decrease from Q4 2016. Revenue per tonne sold decreased to $62.39 in Q4 2017 compared to $82.53 in Q4 2016. The decrease in revenue in the quarter was a result of weaker silver prices, lower silver grade and a weaker US dollar, but was exacerbated by lower than estimated actual revenues for Q3 which had been accrued for.
- Direct costs per tonne at the Guadalupe mill increased to $78.59 in Q4 2017 from $70.17 in Q4 2016. Direct cost per tonne were impacted by the Company's efforts to increase mill throughput as the Company incurred costs to access additional ore and repaired and refurbished their equipment in order to achieve this.
- General and administrative costs decreased to $0.4 million in Q4 2017 from $0.6 million in Q4 2016, due to a decrease of $0.2 million in share based compensation expense.
- The Company had a $0.05 million foreign exchange gain in the fourth quarter of 2017 compared to $0.2 million in the comparable period of 2016.
- The Company had deferred and current income tax expense of $0.8 million in the fourth quarter of 2017 compared to a recovery of $0.01 million in the fourth quarter of 2016. The tax expense in Q4 2017 is mainly due to a valuation allowance taken on deferred tax assets.

Summary of Year to Date Results

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

In thousands except for earnings per share	Year ended December 31		
	2017	2016	2015
Revenues	$ 15,365	$ 16,685	$ 14,638
Net loss	$ (4,636)	$ (1,939)	$ (1,428)
Loss per share – basic and diluted	$ (0.05)	$ (0.02)	$ (0.02)
Total assets	$ 50,195	$ 54,661	$ 58,038

Net loss for 2017 was impacted by the following factors:

- The Company earned revenues of $15.4 million in 2017 compared to $16.7 million in 2016. More tons were produced and sold in 2017, but this were offset by lower silver grades and a weakening US dollar.
- Revenue per tonne sold decreased 13% from $91.73 last year to $79.62 in 2017 as a result of lower silver grade and a weakening US dollar.
- Silver production was 907,848 ounces in 2017 compared to 952,768 ounces produced in 2016.
- Mine operating loss was $1.7 million in 2017 compared to earnings of $1.4 million in the same period of 2016.

- Direct costs per tonne at the Guadalupe mill for the current year were $76.49, compared to $70.14 in 2016. IMPACT has invested in upgrades and improvements to increase their long-term production capabilities including refurbishing and repairing operating equipment. Haulage expenses have also risen in 2017. In addition, the Company has been incurring costs related to accessing additional ore to allow for increases in tonnage throughput at the mill. Tonnes milled in 2017 increased 6% to 194,266 from 183,032 in 2016.
- General and administrative costs decreased to $2.2 million in 2017 from $2.5 million in 2016, mainly due to a decrease in management fees and consulting of $0.1 million and in office salaries and services of $0.2 million.
- The Company had a $0.6 million foreign exchange loss in 2017 compared to a $0.5 million loss in the same period of last year. The Mexican peso has been increasing against the U.S. dollar, which is impacting the foreign exchange expense.
- The Company had deferred and current income taxes expense of $0.5 million in 2017 compared to $0.3 million in 2016.
- During the second quarter, the Company completed the sale of its non-active Zacatecas assets (200tpd mill, 14 hectares surface rights and 10 mineral concessions) to Endeavour Silver Corp. (TSX:EDR, NYSE:EXK) for 154,321 common shares of EDR valued at $0.6 million. The Company recorded a gain of $0.3 million on the transaction.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

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

	For the Three Months Ended ($ in thousands except for earnings per share)							
	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016
Revenues	3,150	4,024	3,592	4,599	3,801	4,728	4,393	3,762
Net loss	(2,267)	(990)	(1,027)	(352)	(803)	(678)	(147)	(311)
Loss per share – Basic and Diluted*	(0.03)	(0.01)	(0.01)	0.00	(0.01)	(0.01)	0.00	0.00
Total assets	50,195	54,835	57,320	57,454	54,661	56,828	58,450	54,597
Total liabilities	7,212	7,107	7,308	7,064	7,029	7,250	7,301	8,231

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

In the year ended December 31, 2017, the Company generated positive cash flows from operating activities of $0.2 million (2016 – $3.4 million). During the fourth quarter of 2017, the Company used cash flows from operating activities of $0.8 million compared to generating cash flows from operating activities of $1.0 million in the fourth quarter of 2016.

The Company invested $0.1 million in the fourth quarter of 2017 (2016 – $0.7 million) in exploration and evaluation assets and $0.4 million (2016 – $0.4) in property, plant and equipment. During the year ended December 31, 2017, the Company invested $1.9 million (2016 – $2.3 million) in exploration and evaluation assets, and $1.7 million (2016 – $0.8) million in property, plant and equipment.

The Company has working capital of $5.6 million. Working capital is expected to remain strong as IMPACT continues to be strategic with its investing and exploration activities.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 9, 2018:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	85,566,840		
Stock options	1,210,000	$0.55	January 6, 2019
Warrants	2,220,000	$0.90	May 26, 2019
Warrants	697,600	$0.90	June 2, 2019
Warrants	1,250,150	$0.90	June 9, 2019
Warrants	218,215	$0.90	June 16, 2019
Stock options	1,830,000	$0.98	July 27, 2021
Stock options	1,770,000	$0.35	September 20, 2022
Fully diluted	94,762,805		

All of the 4,810,000 options outstanding have vested.

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

CHANGES IN ACCOUNTING POLICIES

IFRS standards adopted

IFRS 9 – Financial Instruments – classification and measurement

The Company has early adopted all of the requirements of IFRS 9 as of October 1, 2017. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristic of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were retained in IFRS 9.

The Company has assessed the financial assets and financial liabilities held at the date of initial application of IFRS 9. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original Classification – IAS 39	New Classification – IFRS 9
Cash	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Concentrate trade receivables	Embedded derivative separately identified as FVTPL	Whole contract FVTPL
Investments	Available for sale	FVTOCI
Trade payables and accrued liabilities	Amortized cost	Amortized cost

The Company elected to classify our investments in equity securities as FVTOCI as they are not considered to be held for trading.

There was no difference between the previous carrying amount (under IAS 39) and the revised carrying amount (under IFRS 9) of the financial assets or financial liabilities as at January 1, 2017 to be recognized in opening deficit.

Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2017:

IFRS 15 – Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. January 1, 2018), i.e. without restating the comparative period. This will only apply to contracts that are not completed as of the date of initial application. The Company has reviewed its contracts and concluded that there will be no material impact from the adoption of the standard.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company's financial instruments consist of cash, concentrate trade receivables, other receivables, investments, and trade payables. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at FVTPL. Investments are designated as FVTOCI and measured at fair value as determined by reference to quoted market prices. Trade payables are measured at amortized cost.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Trafigura Mexico S.A. de C.V. ("Trafigura"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($4.7 million) and trade and other receivables ($2.3 million).

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2017, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2017, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $52,000 decrease or increase in the Company's net loss for the year ended December 31, 2017.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2017 by $0.2 million (2016 – $0.1 million).

OPERATIONAL RISK

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

POLITICAL, REGULATORY AND SECURITY ISSUES

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

APPROVAL

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

SUPPLEMENTARY INFORMATION

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2017	2016	2017	2016
Operating expenses	$ 3,974,066	$ 3,314,446	$ 14,894,005	$ 12,984,236
(Deduct): operating expenses for Capire	(49,995)	(72,745)	(182,036)	(206,444)
(Deduct) add: inventory	(111,375)	152,100	146,682	59,521
Direct costs	$ 3,812,696	$ 3,393,801	$ 14,858,651	$ 12,837,313
Tonnes milled	48,516	48,366	194,266	183,032
Direct costs per tonne	$ 78.59	$ 70.17	$ 76.49	$ 70.14
Revenues	$ 3,149,068	$ 3,800,943	$ 15,364,726	$ 16,684,658
Tonnes sold	50,470	46,053	192,968	181,883
Revenue per tonne sold	$ 62.39	$ 82.53	$ 79.62	$ 91.73

NON-IFRS MEASURES

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

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

	For the Three Months Ended December 31		For the Twelve months Ended December 31	
	2017	2016	2017	2016
Revenues	$ 3,149,068	$ 3,800,943	$ 15,364,726	$ 16,684,658
Operating expenses	3,974,066	3,314,446	14,894,005	12,984,236
Mine operating earnings before amortization and depletion	$ (824,998)	$ 486,497	$ 470,721	$ 3,700,422

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2017	2016	**2017**	2016
Net loss	$ (2,266,236)	$ (803,046)	$ (4,635,697)	$ (1,939,278)
Add:				
Finance cost	8,505	9,159	34,904	60,144
Current income tax (recovery) expense	(29,334)	68,308	15,521	134,485
Deferred income tax expense (recovery)	818,924	(80,919)	525,010	160,598
Depreciation and amortization	383,682	714,979	2,235,889	2,360,842
Less:				
Finance income	(13,453)	(13,008)	(52,247)	(31,843)
Earnings (loss) before interest, taxes, depreciation and amortization	$ (1,097,912)	$ (104,527)	$ (1,876,620)	$ 744,948

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

NOTE REGARDING FORWARD–LOOKING STATEMENTS

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

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

Additional information relating to IMPACT is on the Company website at www.IMPACTSilver.com and on SEDAR at www.sedar.com.

On behalf of the Board of Directors,

"Frederick W. Davidson"
PRESIDENT AND CHIEF EXECUTIVE OFFICER
March 9, 2018

IMPACT Silver Corp.

Management's Responsibility for Financial Reporting

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

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

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

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

"F. W. Davidson"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jerry Huang
"J. Huang"
Chief Financial Officer

March 9, 2018

IMPACT Silver Corp.
Independent Auditor's Report

TO THE SHAREHOLDERS OF IMPACT SILVER CORP.

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IMPACT Silver Corp. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

March 9, 2018

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

IMPACT Silver Corp.

Consolidated Statements of Financial Position

As at December 31 (Canadian dollars)

	2017	2016
ASSETS		
Current		
Cash	$ 4,713,580	$ 8,124,563
Trade and other receivables *(Note 4)*	1,787,913	3,787,648
Inventories *(Note 5)*	1,008,370	1,016,291
Investments	474,299	3,750
	7,984,162	12,932,252
Value added and other taxes receivable	537,871	206,087
Property, plant and equipment *(Note 6)*	20,951,101	21,220,426
Exploration and evaluation assets *(Note 7)*	20,722,197	20,149,111
Deferred income tax assets *(Note 13)*	-	153,615
	$ 50,195,331	$ 54,661,491
LIABILITIES		
Current		
Trade payables and accrued liabilities	$ 2,345,266	$ 2,413,017
Reclamation provision *(Note 9)*	369,306	424,900
Deferred income tax liabilities *(Note 13)*	4,497,125	4,191,075
	7,211,697	7,028,992
SHAREHOLDERS' EQUITY		
Share capital	59,651,422	59,651,422
Warrants *(Note 12(c))*	973,378	973,378
Contributed surplus	6,259,079	5,523,617
Accumulated other comprehensive loss	(7,538,763)	(6,790,133)
Accumulated deficit	(16,361,482)	(11,725,785)
	42,983,634	47,632,499
	$ 50,195,331	$ 54,661,491

ON BEHALF OF THE BOARD:

"F.W. Davidson"
DIRECTOR

"P. Tredger"
DIRECTOR

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

IMPACT Silver Corp.

Consolidated Statements of Loss

For Years Ended December 31 (Canadian dollars)

		2017		2016
Revenues	$	15,364,726	$	16,684,658
Expenses				
Operating expenses *(Note 10)*		14,894,005		12,984,236
Amortization and depletion		2,211,739		2,331,822
		17,105,744		15,316,058
Mine operating (loss) earnings		(1,741,018)		1,368,600
General and administrative expenses				
Accounting, audit and legal		184,581		187,853
Amortization		24,150		29,020
Investor relations, promotion and travel		69,600		69,494
Management fees and consulting		215,226		351,740
Office, rent, insurance and sundry		281,089		277,390
Office salaries and services		686,608		836,469
Share-based payments *(Note 12(b))*		735,462		747,444
		2,196,716		2,499,410
Operating loss		(3,937,734)		(1,130,810)
Other income (expenses)				
Finance cost		(34,904)		(60,144)
Finance income		52,247		31,843
Foreign exchange loss		(561,406)		(498,511)
Other income		68,939		69,697
Gain (loss) on disposal of assets		317,692		(15,448)
Write-down of exploration and evaluation assets *(Note 7)*		-		(40,822)
		(157,432)		(513,385)
Loss before taxes		(4,095,166)		(1,644,195)
Current income tax expense *(Note 13)*		15,521		134,485
Deferred income tax expense *(Note 13)*		525,010		160,598
Net loss	$	(4,635,697)	$	(1,939,278)
Loss per share – Basic and Diluted *(Note 12(d))*	$	(0.05)	$	(0.02)
Weighted average number of shares outstanding – Basic and Diluted		85,566,840		79,442,771

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)

	2017	2016
Net loss	$ (4,635,697)	$ (1,939,278)
Other comprehensive loss		
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustment	(611,155)	(7,548,807)
Items that will not be subsequently reclassified to profit or loss		
Loss on investments	(137,475)	(1,250)
Comprehensive loss	$ (5,384,327)	$ (9,489,335)

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

IMPACT Silver Corp.

Consolidated Statements of Changes in Equity

For Years Ended December 31 (Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Accumulated Deficit ($)	Total Shareholders' Equity ($)
Balance at December 31, 2015	68,128,244	53,495,947	-	4,776,173	759,924	(9,786,507)	49,245,537
Net loss for the year	-	-	-	-	-	(1,939,278)	(1,939,278)
Shares issued in relation to private placements	17,438,596	7,620,000	-	-	-	-	7,620,000
Share issue costs	-	(491,147)	-	-	-	-	(491,147)
Warrants issued in relation to private placements	-	(973,378)	973,378	-	-	-	-
Share-based compensation expense	-	-	-	747,444	-	-	747,444
Cumulative translation adjustments	-	-	-	-	(7,548,807)	-	(7,548,807)
Loss on investments	-	-	-	-	(1,250)	-	(1,250)
Balance at December 31, 2016	85,566,840	59,651,422	973,378	5,523,617	(6,790,133)	(11,725,785)	47,632,499
Net loss for the year	-	-	-	-	-	(4,635,697)	(4,635,697)
Share-based compensation expense	-	-	-	735,462	-	-	735,462
Cumulative translation adjustments	-	-	-	-	(611,155)	-	(611,155)
Loss on investments	-	-	-	-	(137,475)	-	(137,475)
Balance at December 31, 2017	85,566,840	59,651,422	973,378	6,259,079	(7,538,763)	(16,361,482)	42,983,634

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

IMPACT Silver Corp.

Consolidated Statements of Cash Flows

For Years Ended December 31 (Canadian dollars)

Cash resources provided by (used in)		2017		2016
Operating activities				
Net loss	$	(4,635,697)	$	(1,939,278)
Items not affecting cash				
Amortization and depletion		2,235,889		2,360,842
Share-based payments		735,462		747,444
Deferred income tax expense		525,010		160,598
(Gain) loss on disposal of assets		(317,692)		15,448
Accretion expense		34,904		38,623
Write-down of exploration and evaluation assets		-		40,822
Write-down of inventory		-		33,441
Unrealized (gain) loss on foreign exchange		(162,925)		650,399
Changes in non-cash working capital				
Trade and other receivables		832,525		294,341
Income taxes receivable		910,116		1,372,014
Inventories		41,923		(101,213)
Trade payables		52,765		(122,149)
Income taxes payable		(63,704)		(177,874)
		188,576		3,373,458
Investing activities				
Additions of long-lived assets		(3,599,559)		(3,104,872)
Proceeds on sale of assets		-		9,755
		(3,599,559)		(3,095,117)
Financing activities				
Proceeds from private placements, net		-		7,128,853
Net change in cash		(3,410,983)		7,407,194
Cash at the beginning of the year		8,124,563		717,369
Cash at the end of the year	$	4,713,580	$	8,124,563

Supplementary cash flow information *(Note 11)*

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

1. NATURE OF OPERATIONS

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 9, 2018.

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.

Asset carrying values and impairment analysis

Each asset or cash generating unit ("CGU") is evaluated every reporting date to determine whether there are any indications of impairment. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, and life-of-mine estimates. The determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, taxes, reclamation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty;

hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or a previous impairment charge may be reversed with the impact recorded in the consolidated statements of loss.

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

Reclamation provisions

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

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

Valuation of inventory

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

d) Basis of consolidation

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

Subsidiary	Incorporation Location	Nature of operations
Chalco Services Inc. ("Chalco")	Canada	Exploration
Minera Impact Silver de Mexico, S.A. de C.V. ("MISM")	Mexico	Mining Service Company
Minera Aguila Plateada, S.A. de C.V. ("MAP")	Mexico	Mining/Exploration
Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ")	Mexico	Mining/Exploration
Minera Laureles, S.A. de C.V. ("ML")	Mexico	Mining/Exploration
Arrendadora y Servicios Chalco, S.A. de C.V. ("AS Chalco")	Mexico	Mining Service Company

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 fair value through other comprehensive income ("FVTOCI") because the Company does not hold these securities for the purpose of trading. Equity securities are valued at fair value, using quoted market prices, and with gains and losses arising from changes in fair value recognized in other comprehensive loss.

e) Exploration and evaluation expenditures

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

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

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

Exploration, development and field support costs directly related to mineral resources are deferred until the property to which they relate is developed for production, determined to be commercially viable, sold, abandoned or subject to a condition of impairment. Exploration and evaluation expenditures are transferred to mining assets when the technical feasibility and commercial viability of a mineral resource has been demonstrated and a development decision has been made and all necessary mine development permits issued.

Property option payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

f) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and applicable impairment losses. Plant and mine equipment is amortized on a declining balance at rates varying from 10% to 20% annually. Vehicles and office furniture and equipment are amortized on a declining balance at rates varying from 20% to 30% annually.

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

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

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

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

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

Commercially viable mineral resource exploration and evaluation expenditures
Exploration and evaluation expenditures are transferred to mining assets when they are determined to be technically feasible and commercially viable, a development decision has been made, and all necessary mine development permits have been issued. The deferred exploration and evaluation expenditures are amortized over the useful life of the ore body following achievement of commercial production, or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed, as incurred.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

g) Asset impairment *– continued*

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

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

h) Loss per share

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

i) Share based payments

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

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

j) Income taxes

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

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

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

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

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

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

k) Foreign currency translation

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

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

- Canadian dollars for 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.

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

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

(ii) Income and expenses for each statement of comprehensive income are translated at an average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

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

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

l) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recognized at fair value.

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, concentrate trade receivables, other receivables, investments, and trade payables. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at fair value through profit and loss ("FVTPL"). Concentrate trade receivables include a commodity-based embedded derivative resulting from provisional sales prices of metals. Investments are designated as FVTOCI and measured at fair value as determined by reference to quoted market prices. Trade payables are measured at amortized cost.

Impairment of financial assets

An expected credit loss is recognized on financial assets measured at amortized cost.

At each reporting date, a loss allowance for the financial asset is measured at an amount equal to twelve months expected credit losses. If at the reporting date, the credit risk on the financial asset has increased significantly since initial recognition, a loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses. For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

l) Financial instruments – *continued*

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. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

m) Reclamation provisions

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

n) IFRS standards adopted

IFRS 9 – Financial Instruments – classification and measurement

The Company has early adopted all of the requirements of IFRS 9 as of October 1, 2017. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristic of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were retained in IFRS 9.

The Company has assessed the financial assets and financial liabilities held at the date of initial application of IFRS 9. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original Classification – IAS 39	New Classification – IFRS 9
Cash	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Concentrate trade receivables	Embedded derivative separately identified as FVTPL	Whole contract FVTPL
Investments	Available for sale	FVTOCI
Trade payables and accrued liabilities	Amortized cost	Amortized cost

The Company elected to classify our investments in equity securities as FVTOCI as they are not considered to be held for trading.

There was no difference between the previous carrying amount (under IAS 39) and the revised carrying amount (under IFRS 9) of the financial assets or financial liabilities as at January 1, 2017 to be recognized in opening deficit.

o) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2017:

December 31, 2017 (Canadian dollars)

IFRS 15 – Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. January 1, 2018), i.e. without restating the comparative period. This will only apply to contracts that are not completed as of the date of initial application. The Company has reviewed its contracts and concluded that there will be no material impact from the adoption of the standard.

IFRS 16 – Leases

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

4. TRADE AND OTHER RECEIVABLES

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

	2017	2016
Value added taxes receivable – current portion	$ 464,084	$ 1,619,702
Trade and other receivables	1,184,696	2,022,956
Prepaids	139,133	144,990
Total trade and other receivables	$ 1,787,913	$ 3,787,648

5. INVENTORIES

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

	2017	2016
Materials and supplies	$ 481,490	$ 636,170
Stockpile inventory	7,985	7,907
Concentrate inventory	518,895	372,214
Total inventories	$ 1,008,370	$ 1,016,291

The amount of inventories recognized as an expense during the year ended December 31, 2017 was $14,894,005 (December 31, 2016 – $12,984,236).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2017 was $nil (December 31, 2016 – $33,441) relating to concentrate inventory.

December 31, 2017 (Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

a) Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	Total ($)
Cost						
Balance at December 31, 2015	10,884,333	491,199	232,315	1,344,999	28,646,712	41,599,558
Additions	548,533	59,927	7,051	-	1,269,040	1,884,551
Disposals	-	(7,374)	(8,639)	(18,417)	-	(34,430)
Change in reclamation estimate	-	-	-	-	(141,521)	(141,521)
Foreign exchange movement	(2,067,195)	(93,870)	(24,271)	(257,034)	(4,932,899)	(7,375,269)
Balance at December 31, 2016	9,365,671	449,882	206,456	1,069,548	24,841,332	35,932,889
Additions	70,903	11,714	10,505	-	1,498,526	1,591,648
Transfers	-	-	-	-	914,467	914,467
Disposals	(171,737)	-	-	-	-	(171,737)
Change in reclamation estimate	-	-	-	-	(79,464)	(79,464)
Foreign exchange movement	(185,687)	(8,985)	(2,111)	(21,358)	(439,117)	(657,258)
Balance at December 31, 2017	9,079,150	452,611	214,850	1,048,190	26,735,744	37,530,545
Accumulated amortization						
Balance at December 31, 2015	4,778,127	383,341	168,362	-	9,697,613	15,027,443
Amortization for the period	875,649	42,124	17,797	-	1,474,990	2,410,560
Disposals	-	(4,916)	(5,388)	-	-	(10,304)
Foreign exchange movement	(982,711)	(75,822)	(17,445)	-	(1,639,258)	(2,715,236)
Balance at December 31, 2016	4,671,065	344,727	163,326	-	9,533,345	14,712,463
Amortization for the period	792,004	20,501	13,227	-	1,470,405	2,296,137
Disposals	(2,524)	-	-	-	-	(2,524)
Foreign exchange movement	(149,827)	(8,716)	(2,169)	-	(265,920)	(426,632)
Balance at December 31, 2017	5,310,718	356,512	174,384	-	10,737,830	16,579,444
Net book value						
At December 31, 2016	4,694,606	105,155	43,130	1,069,548	15,307,987	21,220,426
At December 31, 2017	3,768,432	96,099	40,466	1,048,190	15,997,914	20,951,101

b) Sale of Zacatecas assets

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

December 31, 2017 (Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

Details are as follows:

		Total ($)
Balance at January 1, 2016	$	22,622,890
Additions		1,067,683
Write-down		(40,822)
Foreign exchange		(3,500,640)
Balance at December 31, 2016	$	20,149,111
Additions		1,933,306
Transfers		(914,467)
Disposals		(130,634)
Foreign exchange		(315,119)
Balance at December 31, 2017	**$**	**20,722,197**

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2017 was $nil (December 31, 2016 – $40,822).

8. RELATED PARTY TRANSACTIONS

a) Key management personnel compensation

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

		2017		2016
Salaries and fees	$	398,048	$	565,225
Share-based compensation		444,819		442,037
Total compensation	$	842,867	$	1,007,262

b) Transactions with other related parties

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

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

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

9. RECLAMATION PROVISION

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's development of the open pit Capire mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are approximately $1,188,340 (2016 – $1,271,889). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.4% (2016 – 3.2%) and discounted using a Mexican risk-free rate of 7.7% (2016 – 7.8%). Settlement of the liability may extend up to 18 years in the future.

Additions to the reclamation provision were as follows:

		2017		2016
Reclamation provision, beginning of the year	$	424,900	$	656,515
Foreign exchange movement		(11,034)		(128,718)
Accretion of reclamation provision		34,904		38,624
Revisions to estimated cash flows		(79,464)		(141,521)
Total reclamation provision, end of the year	$	369,306	$	424,900

December 31, 2017 (Canadian dollars)

10. EXPENSES BY NATURE

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

		2017		2016
Production costs	$	8,079,928	$	6,739,478
Administration		830,229		713,726
Transportation		594,322		554,413
Wages and salaries		5,389,526		4,976,619
Total operating expenses	$	14,894,005	$	12,984,236

11. SUPPLEMENTARY CASH FLOW INFORMATION

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

		2017		2016
Cash received for interest income	$	52,247	$	31,843
Cash paid for income taxes	$	30,312	$	80,349

12. EQUITY

a) Share capital

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

On April 12, 2016, the Company completed a $2,000,000 private placement. A total of 6,666,666 common shares were issued to an accredited investor at a price of $0.30 per share for aggregate gross proceeds of $2,000,000.

On April 19, 2016, the Company completed a $620,000 private placement. A total of 2,000,000 common shares were issued to accredited investors at a price of $0.31 per share for aggregate gross proceeds of $620,000.

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

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

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

b) Stock options

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

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

December 31, 2017 (Canadian dollars)

On July 28, 2016, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,860,000 shares of the Company. The options are exercisable on or before July 27, 2021 at a price of $0.98 per share. Options vested 25% on the date granted and 25% every six months thereafter.

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

Date Granted	September 21, 2017	July 28, 2016
Number of options granted	1,770,000	1,860,000
Risk-free interest rate	1.58%	0.57%
Expected dividend yield	Nil	Nil
Expected share price volatility	104.16%	106.62%
Expected option life in years	2.5	3

The expected volatility is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Bank of Canada marketable bonds with a remaining term equal to the stock options' expected life. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the year ended December 31, 2017 is $0.7 million (December 31, 2016 – $0.7 million).

A summary of the Company's stock options as at December 31, 2017 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2016	4,865,000	1.26
Granted	1,860,000	0.98
Forfeited	(20,000)	1.20
Expired	(1,660,000)	1.85
At December 31, 2016	5,045,000	0.96
Granted	1,770,000	0.35
Forfeited	(70,000)	1.11
At December 31, 2017	**6,745,000**	**0.80**

The following table summarizes information about the stock options outstanding at December 31, 2017:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$1.20	1,935,000	0.06	1,935,000	January 22, 2018
$0.55	1,210,000	1.02	1,210,000	January 6, 2019
$0.98	1,830,000	3.57	1,395,000	July 27, 2021
$0.35	1,770,000	4.72	1,770,000	September 20, 2022
	6,745,000	**2.41**	**6,310,000**	

December 31, 2017 (Canadian dollars)

12. EQUITY *– continued*

c) Warrants

A summary of the Company's warrants as at December 31, 2017 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2016	-	-
Issued	4,385,965	0.90
At December 31, 2016 and 2017	**4,385,965**	**0.90**

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

Date Granted	May 27, 2016	June 3, 2016	June 10, 2016	June 17, 2016
Expiry Date	May 26, 2019	June 2, 2019	June 9, 2019	June 16, 2019
Number of warrants granted	2,220,000	697,600	1,250,150	218,215
Risk-free interest rate	0.64%	0.51%	0.50%	0.52%
Expected dividend yield	Nil	Nil	Nil	Nil
Expected share price volatility	116.90%	117.29%	115.48%	113.19%
Expected warrant life in years	1.5	1.5	1.5	1.5

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

d) Loss per share

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

	2017	2016
Net loss attributable to shareholders	$ (4,635,697)	$ (1,939,278)
Weighted average number of shares outstanding – basic and diluted	85,566,840	79,442,771
Loss per share – basic and diluted	(0.05)	(0.02)

December 31, 2017 (Canadian dollars)

13. INCOME TAXES

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

	2017	2016
Loss before income taxes	$ (4,095,166)	$ (1,644,195)
Canadian federal and provincial income tax rates	26.00%	26.00%
Income tax recovery based on the above rates	$ (1,064,743)	$ (427,491)
Increase (decrease) due to:		
Non-deductible expenses	448,187	260,298
Losses and temporary differences for which a deferred tax asset has not been recognized	1,600,790	464,143
Withholding tax	5,178	67,675
Difference between foreign and Canadian tax rates	(83,561)	13,705
Deferred taxes in respect of Mexican royalty	119,940	54,641
Foreign exchange and other	(485,260)	(137,888)
Income tax expense	$ 540,531	$ 295,083

Total income tax expense consists of:

	2017	2016
Current income tax expense	$ 15,521	$ 134,485
Deferred income tax expense	525,010	160,598
	$ 540,531	$ 295,083

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

	2017	2016
Deferred income tax assets		
Non-capital losses	$ 4,941,305	$ 4,653,503
Current assets and liabilities	138,472	415,168
Total deferred tax assets	$ 5,079,777	$ 5,068,671
Deferred income tax liabilities		
Property, plant and equipment	$ 5,270,060	$ 4,706,034
Exploration and evaluation assets	3,967,775	4,080,523
Other	339,067	319,574
Total deferred income tax liabilities	$ 9,576,902	$ 9,106,131
Deferred income tax liabilities, net	$ 4,497,125	$ 4,037,460

December 31, 2017 (Canadian dollars)

13. INCOME TAXES – *continued*

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

		2017		2016
Deferred tax assets	$	-	$	(153,615)
Deferred tax liabilities		4,497,125		4,191,075
	$	4,497,125	$	4,037,460

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

		2017		2016
Deferred income tax assets				
Non-capital losses	$	(363,118)	$	347,675
Other		269,976		(383,467)
Deferred income tax liabilities				
Property, plant and equipment	$	640,191	$	221,173
Exploration and evaluation assets		(46,705)		(33,854)
Other		24,666		9,071
Deferred income tax expense	$	525,010	$	160,598

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

		2017		2016
Deferred income tax liability				
Balance at January 1	$	4,037,460	$	4,814,554
Deferred income tax expense during the year		525,010		160,598
Changes due to foreign currency translation		(65,345)		(937,692)
Balance at December 31	$	4,497,125	$	4,037,460

The unrecognized deferred tax asset is as follows:

		2017		2016
Non-capital losses	$	4,531,133	$	3,044,285
Capital losses		227,763		278,762
Property, plant and equipment		343,493		164,827
Exploration and evaluation assets		1,054,710		1,015,647
Unrecognized deferred tax asset	$	6,157,099	$	4,503,521

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

As at December 31, 2017, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

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

Expiry Year		
2026	$	828,544
2027		541,044
2028		141,907
2029		415,894
2030		1,266,681
2031		1,137,299
2032		1,598,366
2033		1,884,041
2034		1,485,486
2035		984,102
2036		1,207,916
2037		1,210,337
	$	12,701,617
Capital losses		
No expiry date	$	1,687,131

14. CAPITAL MANAGEMENT

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

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

15. FINANCIAL INSTRUMENTS

Financial assets and liabilities

The Company's financial instruments consist of cash, concentrate trade receivables, other receivables, investments, and trade payables. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at FVTPL. Investments are designated as FVTOCI and measured at fair value as determined by reference to quoted market prices. Trade payables are measured at amortized cost.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Trafigura Mexico S.A. de C.V. ("Trafigura"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($4.7 million) and trade and other receivables ($2.3 million).

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2017, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2017, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $52,000 decrease or increase in the Company's net loss for the year ended December 31, 2017.

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.

December 31, 2017 (Canadian dollars)

15. FINANCIAL INSTRUMENTS – *continued*

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

	2017	2016
Silver price	$ 166,000	$ 89,000

16. SEGMENTED INFORMATION

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

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

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

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:

	2017	2016
Revenues by geographic area		
Mexico	$ 15,364,726	$ 16,684,658
Net loss by geographic area		
Mexico	$ (2,624,377)	$ 48,840
Canada	(2,011,320)	(1,988,118)
	$ (4,635,697)	$ (1,939,278)

	2017	2016
Assets by geographical area		
Mexico	$ 45,234,475	$ 47,917,304
Canada	4,960,856	6,744,187
	$ 50,195,331	$ 54,661,491
Property, plant and equipment by geographical area		
Mexico	$ 20,933,183	$ 21,203,676
Canada	17,918	16,750
	$ 20,951,101	$ 21,220,426

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

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AGM

Date: May 25, 2018 at 9am
Location: Suite 1100,
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