IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

Management's Responsibility for Financial Reporting

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

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

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

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

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

"T. Dang" Chief Financial Officer

March 13, 2017

March 13, 2017

Independent Auditor's Report

To the Shareholders of IMPACT Silver Corp.

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

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IMPACT Silver Corp.

Consolidated Statements of Financial Position
As at December 31

(Canadian dollars)

ASSETS		2016		2015
Current				
Cash	$	**8,124,563**	$	717,369
Trade and other receivables *(Note 4)*		**3,787,648**		3,972,634
Inventories *(Note 5)*		**1,016,291**		1,103,970
Available for sale investments		**3,750**		5,000
		12,932,252		5,798,973
Value added and other taxes receivable		**206,087**		2,628,652
Property, plant and equipment *(Note 6)*		**21,220,426**		26,572,115
Exploration and evaluation assets *(Note 7)*		**20,149,111**		22,622,890
Deferred income tax assets *(Note 13)*		**153,615**		414,940
	$	**54,661,491**	$	58,037,570

LIABILITIES				
Current				
Trade payables and accrued liabilities	$	**2,413,017**	$	1,453,148
Due to related party		**-**		1,452,876
		2,413,017		2,906,024
Reclamation provision *(Note 9)*		**424,900**		656,515
Deferred income tax liabilities *(Note 13)*		**4,191,075**		5,229,494
		7,028,992		8,792,033

SHAREHOLDERS' EQUITY				
Share capital		**59,651,422**		53,495,947
Warrants *(Note 12(c))*		**973,378**		-
Contributed surplus		**5,523,617**		4,776,173
Accumulated other comprehensive (loss) income		**(6,790,133)**		759,924
Accumulated deficit		**(11,725,785)**		(9,786,507)
		47,632,499		49,245,537
	$	**54,661,491**	$	58,037,570

ON BEHALF OF THE BOARD:

"F.W. Davidson", Director

"P. Tredger", Director

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

IMPACT Silver Corp.

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

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

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

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

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

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

IMPACT Silver Corp.

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

IMPACT Silver Corp.

Consolidated Statements of Cash Flows

For Years Ended December 31

(Canadian dollars)

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

Supplementary cash flow information *(Note 11)*

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

1. Nature of operations

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

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

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

2. Basis of Preparation

a) Statement of compliance

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

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

b) Basis of measurement

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

c) Use of estimates and judgments

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

2. Basis of Preparation - *continued*

d) Use of estimates and judgments - *continued*

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

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

Grade and tonnage estimates

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

Asset carrying values and impairment analysis

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

Reclamation provisions

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

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

2. Basis of preparation- *continued*

c) Use of estimates and judgments - *continued*

Valuation of inventory

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

d) Basis of consolidation

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

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

3. Significant accounting policies

a) Revenue recognition

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

3. Significant accounting policies - *continued*

b) Cash

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

c) Inventories

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

d) Investments

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

e) Exploration and evaluation expenditures

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

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

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

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

Property option payments

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

3. Significant accounting policies - *continued*

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.

3. Significant accounting policies - *continued*

g) Asset impairment - *continued*

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

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

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

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

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

h) Loss per share

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

3. Significant accounting policies - *continued*

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.

3. Significant accounting policies - *continued*

k) **Foreign currency translation**

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

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

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

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

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

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

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

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

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

l) **Financial instruments**

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

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

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

3. Significant accounting policies - *continued*

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

Impairment of financial assets

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

Objective evidence of impairment could include the following:

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

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

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

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

m) **Reclamation provisions**

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

m) **Recent accounting pronouncements issued but not yet implemented**

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

<u>IFRS 9 - Financial Instruments - classification and measurement</u>

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

3. Significant accounting policies - *continued*

m) Recent accounting pronouncements issued but not yet implemented - *continued*

IFRS 15 - Revenue from contracts with customers

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

IFRS 16 – Leases

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

(Canadian dollars)

4. Trade and other receivables

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

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

5. Inventories

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

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

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

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

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

(Canadian dollars)

7. Exploration and evaluation assets

Details are as follows:

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

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

8. Related Party Transactions

a) Key management personnel compensation

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

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

b) Transactions with other related parties

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

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

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

(Canadian dollars)

9. Reclamation provision

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

Additions to the reclamation provision were as follows:

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

10. Expenses by nature

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

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

11. Supplementary cash flow information

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

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

12. Equity

a) Share capital

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

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

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

(Canadian dollars)

12. Equity

a) **Share capital** - *continued*

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

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

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

b) **Stock options**

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

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

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

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

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

(Canadian dollars)

12. Equity - *continued*

b) **Stock options** - *continued*

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

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

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

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

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

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

c) **Warrants**

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

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

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

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

(Canadian dollars)

12. **Equity** - *continued*

c) **Warrants** – *continued*

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

d) **Loss per share**

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

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

13. **Income taxes**

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

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

Total income tax expense consists of:

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

(Canadian dollars)

13. Income taxes - *continued*

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

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

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

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

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

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

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

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

(Canadian dollars)

13. Income taxes - *continued*

The unrecognized deferred tax asset is as follows:

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

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

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

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

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

14. Capital management

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

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

15. Financial instruments

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade and other receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available-for-sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2016 investments were classified as Level 1 on the fair value hierarchy of IFRS 13 – *Fair Value Measurement*. At December 31, 2016 and 2015, the carrying value of the Company's cash, trade and other receivables, investments, and trade payables approximate fair values.

Financial instrument risk exposure

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

Credit risk

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

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2016, the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2016, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $211,000 decrease or increase in the Company's net loss for the year ended December 31, 2016.

15. Financial instruments – *continued*

Commodity price risk

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

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

	2016	**2015**
Silver price	**$ 89,000**	$ -

(Canadian dollars)

16. Segmented information

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

i) Mexico – This part of the business includes the Company's mining operations and exploration properties
ii) Canada – This part of the business includes head office and group services

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

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

Details at December 31 are as follows:

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

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

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