10 YEARS OF IMPACT

IMPACT SILVER CORP

2015 ANNUAL REPORT

Celebrating 10 Years of IMPACT

This year IMPACT Silver Corp. proudly celebrates ten years of continuous silver production in Mexico. Since 2006, the company has produced silver, gold, zinc and lead from a portfolio of low-cost mines on a large, 357 square kilometre property in one of Mexico's richest mining districts.

IMPACT Silver has grown and increased revenues during a phase of low metal prices by transitioning to higher grade silver production while bringing production costs down. The company's focus for 2016 is to continue to improve efficiency and increase production while building towards becoming a multi-million ounce precious metals producer.

Throughout IMPACT Silver's history, the company has operated with a strong commitment to community support and responsible social and environmental policies. We hire locally for nearly all management, staff and contracted positions, while our mining and exploration is designed to leave a minimal environmental footprint.

A Decade of Growth and Achievement

2006
IMPACT Silver reports its first production from the Guadalupe Production Centre, Royal Mines of Zacualpan Project.

2007
The high grade Chivo Silver Mine begins production. IMPACT Silver acquires 100% interest in the neighbouring 200km^2 Capire-Mamatla Mineral District, located 16 kilometres southwest of the Guadalupe Production Centre.

2010
Noche Buena Mine begins production. IMPACT Silver reports high revenues ($16.7M) and earnings ($3.4M) while raising $15M by private placement.

2011
IMPACT Silver reports record revenues ($24.3M) and earnings ($7.6M).

2013
The Capire Production Centre and Cuchara-Oscar Mine open. Test mining and processing of gold and copper begins on the Carlos Pacheco Vein in the Noche Buena Mine.

2014
High grade San Ramon Deeps and Mirasol Mines open, raising average grades to the Guadalupe plant in response to lower silver prices. Test mining ceases at the Capire Production Centre.

2015
With the highest silver grades in company history, IMPACT Silver achieves record silver production of 950,059 ounces and revenues of $14.6M.

TABLE OF CONTENTS

Milestones in Production, Revenues and Higher Silver Grades

2015 Milestones

- Record silver production of 950,059 ounces, a 31% increase over 2014 (725,733 ounces)
- Revenues reached $14.6 million, a 22% increase over 2014 ($12.0M)
- Q4 2015 profit of $168,212 compared with a net loss in Q4 2014 of $598,406
- Achieved average head grade of 193 g/t silver, 21% higher than 2014 (159 g/t silver)
- Revenue per tonne of $84.96, 15% higher than 2014 ($74.17 per tonne)
- Net loss of $1.4M (after non-cash items including $2.1M in amortization and depletion), compared with net loss of $3.5M in 2014 (including non-cash items of $2.6M in amortization and depletion)

Looking Ahead

IMPACT Silver is carrying out a continuous three-part program of exploration, development and mine production. As a part of this process, management has established four key objectives for development of the districts:

1. Continue to expand, upgrade and optimize production with a focus on higher grade zones to optimize cash flows.
2. Optimize cost and operational controls.
3. Continue exploration across the large 357 square kilometre land package, focusing on discovery and definition of additional high grade mineral for future mining.
4. In the longer term, management also intends to produce gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve.

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

Zacualpan 10 Year Silver Production History

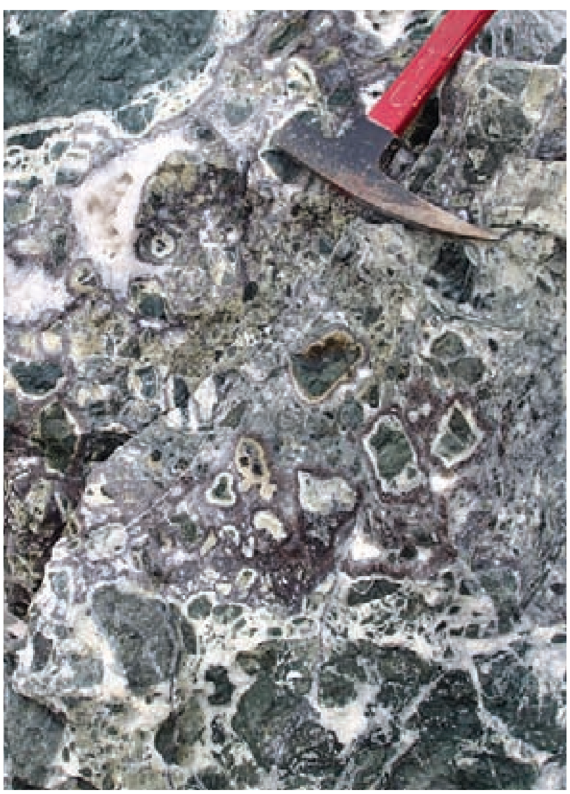
Production Highlights

Our production performance in 2015 continued to demonstrate IMPACT Silver's success and viability as a proven explorer and producer. Despite persistently low silver prices throughout 2015, our focus on profitability and mining higher grade zones of silver (especially at San Ramon Deeps and Mirasol) resulted in revenue per tonne of $91.68 in Q4 2015 compared to $68.75 in Q4 2014.

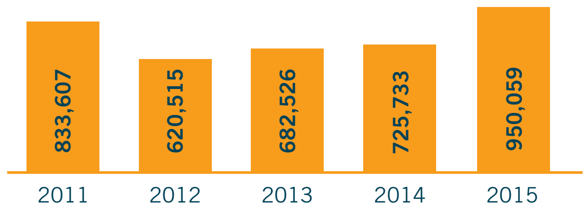
Production in 2015 was mainly derived from San Ramon, Cuchara-Oscar and Mirasol mines, all feeding the Guadalupe Production Centre in the Royal Mines of Zacualpan District.

IMPACT Silver remains debt-free, funded primarily through operational cash flow.

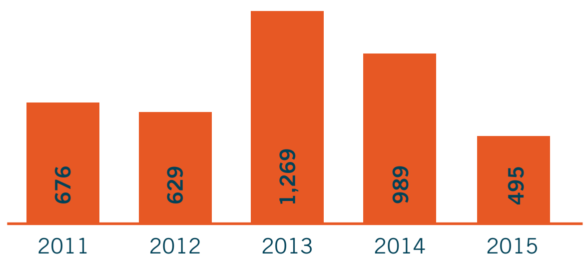
> We continued to demonstrate IMPACT Silver's viability as a proven explorer and producer.



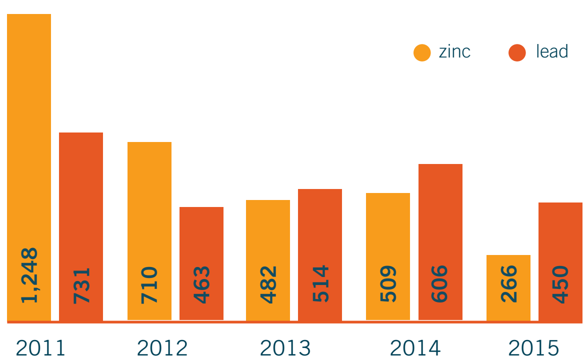
SILVER PRODUCTION in ounces



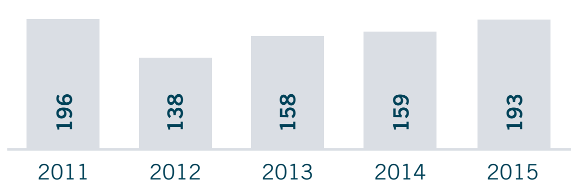
GOLD PRODUCTION in ounces



BASE METALS PRODUCED in tonnes



SILVER HEAD GRADES in grams per tonne



Managing 10 Years of Market Cycles

As the above charts illustrate, our share price and the spot price of silver move largely in tandem. We have varying degrees of control over our costs, efficiency and other operating parameters, but we have no control over silver prices—easily the biggest influence on our share price.

Silver trended downward nearly 25% throughout 2015, from a high of $18.23 in January to a low of $13.71 in December.[1] At the time of this report, silver had staged a two-month rally, climbing from $14.00 in January to around US$15.80 in March. This 13% increase provided breathing room and increased revenue, but silver was still worth less than half of where it sold just three years ago.

Commodities trade in distinct cycles, both short and long term, which is why we remain confident silver will once again attain higher levels. In the meantime, we are committed to making IMPACT Silver leaner, more efficient and more productive. When stronger markets arrive, we will be in a solid position to seize the opportunity and achieve much higher margins for our shareholders.

[1] Historical London Fix Prices as reported by kitco.com

[2] Finance.yahoo.com

10 YEARS OF IMPACT: PRESIDENT'S LETTER

Through Good Markets and Bad

Ten years ago, IMPACT Silver started mining at the Royal Mines of Zacualpan project in Mexico. Six mines, millions of ounces of silver and a few wild market swings later, we are still growing and laying groundwork for the next ten years.

This year's annual report celebrates a number of important milestones for IMPACT Silver, including a decade of continuous silver production and yet another year of record silver production in 2015. We have financed our growth largely through operational cash flow, bringing mines on stream quickly and efficiently, and we remain free of long-term debt—even in the face of an ongoing and very difficult bear market for silver.

> We will continue to upgrade silver production by expanding output from higher grade zones in the San Ramon Deeps Mine and the Mirasol Mine.

We have made great strides in production growth and efficiency while dealing with silver prices that dropped from a high of nearly $50 per ounce in 2011 to less than $14 per ounce in 2015. This decline of roughly 70% has affected most companies in the industry and put some out of business. The minor silver rally of early 2016 is heartening, but we have a long way to go before we can declare this a sustained rally, and even longer before the industry is again considered healthy.

In the meantime, our strategy for surviving and preparing for better markets has been to cut costs, find efficiencies where we can and mine higher grade ore. As our results illustrate, this strategy is bearing fruit. In addition to a 31% increase in silver production and markedly higher tonnage throughput since 2014, we increased revenues by 22% from last year and achieved a small profit in Q4 2015—despite silver prices that began the quarter around $15 per ounce and dropped to $13.82 by year end.

These are notable achievements by the entire IMPACT Silver team, and they have put the company on solid footing. Expect more of the same through 2016. If the current metals rally sustains and markets rise, we will benefit from higher margins. If not, the company expects to maintain its stable financial position and work to remain profitable.

More specifically for 2016, we will continue to upgrade silver production by expanding output from higher grade zones in the San Ramon Deeps Mine and the Mirasol Mine. We also plan to access medium grade mineral from lower cost stopes in the Cuchara-Oscar Mine. These efforts have generated the highest average mill grades of the last four years, and we expect higher grades to continue along with improved revenues.

At the same time, we will continue the substantially reduced exploration program from 2015. Our near-term objective is to identify and define additional high grade mineral near the producing mines and processing plant. New high grade drill targets have been defined on large vein systems in the Alacran North, San Ramon Deeps, El Paso and San Pablo areas.

In closing, I wish to thank the entire IMPACT Silver team for keeping the company vital and growing through both good times and bad. I believe the past ten years represent a strong beginning and foundation for prosperous decades to come.

Frederick W. Davidson
President & CEO

A Decade of Regional Development

IMPACT Silver controls two large mineral districts in central Mexico totalling 357 square kilometres: the Royal Mines of Zacualpan Silver District and the Capire-Mamatla Mineral District adjacent to Zacualpan. The area lies only a 3.5-hour drive southwest of Mexico City on paved roads.

Since acquiring the Royal Mines of Zacualpan project in 2006, IMPACT Silver has discovered, drilled and placed into production six new mines. Three underground mines are currently active serving the 500 tonnes per day (tpd) Guadalupe Production Centre:

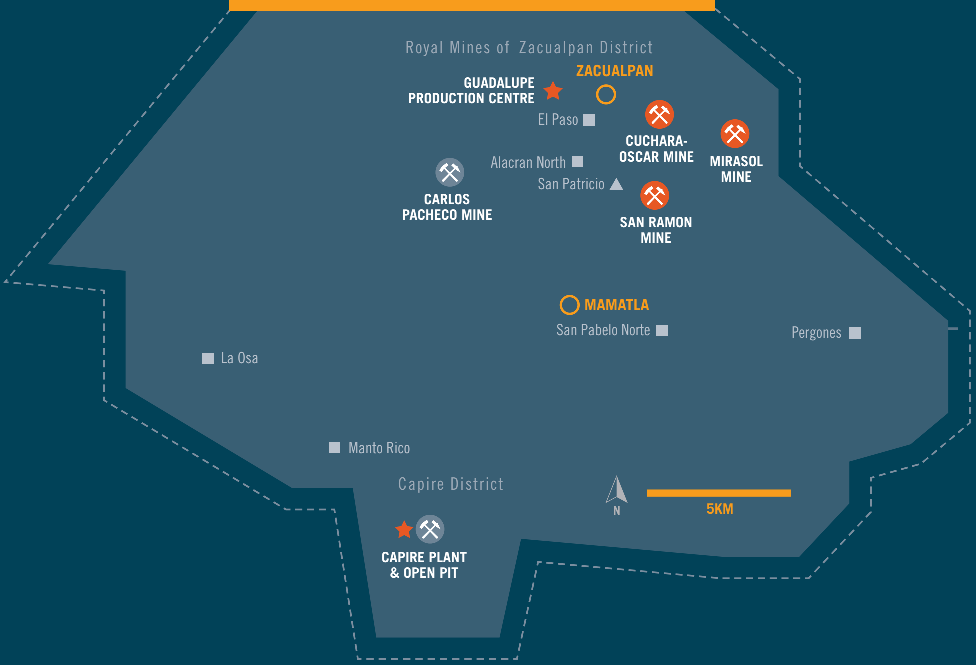
- San Ramon Silver Mine
- Mirasol Silver Mine
- Cuchara-Oscar Silver Mine

The Capire, Chivo and Carlos Pacheco/San Juan Mines are presently inactive.

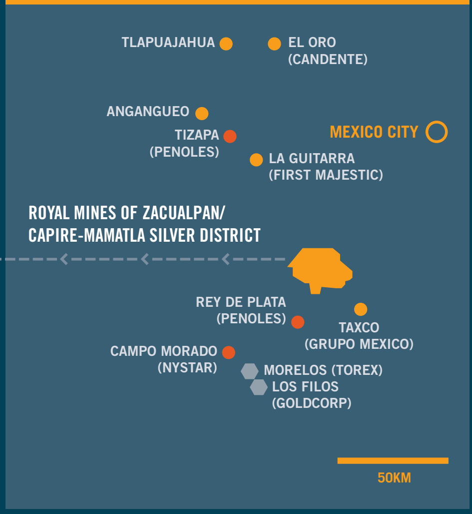
The 200 tpd Capire Pilot Plant is on care and maintenance awaiting higher metal prices. It was most recently used to bulk test the processing of gold and copper feed from the Carlos Pacheco Zone.

IMPACT Silver's exploration work in this region has catalogued over 4,500 old mine workings and 42 historic processing plants, forming an invaluable database for modern and effective exploration.

PRODUCTION CENTRES AND MINES



MEXICAN EPITHERMAL VEIN BELT



LEGEND

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

10 YEARS OF IMPACT: PRODUCTION CENTRES & MINES

Preparing for the Next 10 Years of Mining

With an entire district to explore and develop, IMPACT Silver's current mine operations in central Mexico represent only an early beginning. The growth of the past 10 years has occurred on a small portion of the prospective ground.

SAN RAMON SILVER MINE

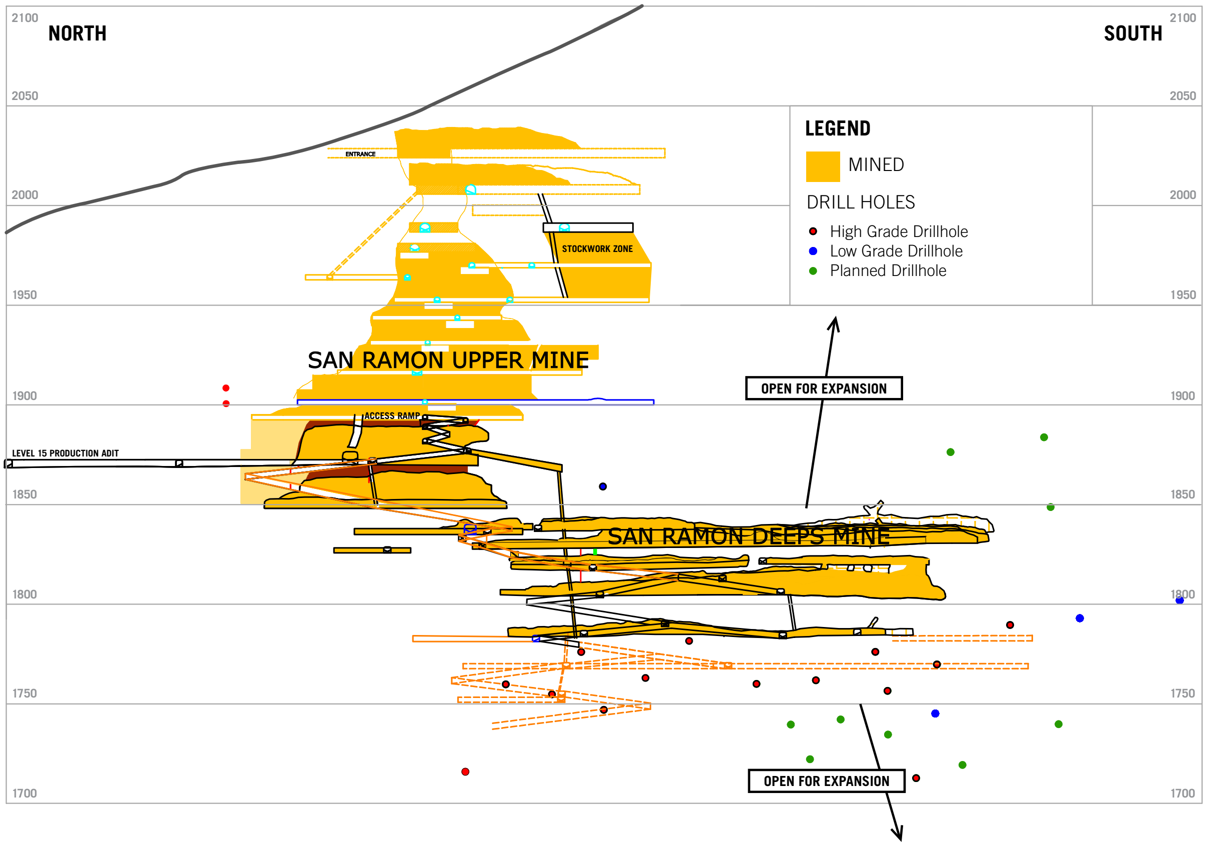
San Ramon is an epithermal underground silver mine located five kilometres south of the Guadalupe Production Centre. One of the principle producing mines in the district, San Ramon has been a significant contributor to production since 2008.

In early 2014, grades dropped with depth and production at the mine decreased. During 2014, underground drilling from the bottom levels of the mine discovered new high grade silver zones in the nearby San Ramon Deeps area, and mining of this area began in Q3 2014. During 2015, the San Ramon Deeps Mine provided 40% (2014 – 20%) of feed to the Guadalupe mill.

San Ramon is a relatively high-grade operation, with mining grades over the last six months ranging between 198-274 g/t silver (diluted mining grade) from Levels 18, 19, 20, 21. Underground drilling to date has outlined the vein over a vertical distance of 10 to 55 metres below the current mine workings, mainly near the northern portion of the vein (see diagram). During 2015 and subsequent to year end, additional high grade drill intersections were encountered, and the zone remains open for expansion to the south, north, down dip and up dip.

IMPACT Silver has expanded the main mine ramp to better access the zone and to increase monthly tonnages of high grade silver mineral extracted from the mine.

San Ramon Long Section



San Ramon Drill Results

Hole No.	True Width (metres)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)
MPZ-186	5.80	552	0.28	0.44	1.34
Including	2.84	1,025	0.53	0.81	2.45
MPZ-187	4.08	319	0.18	0.23	0.44
MPZ-195	7.89	425	0.12	0.31	0.67
MPZ-196	3.46	304	0.06	0.14	0.39
MPZ-197	11.44	189	0.05	0.13	0.29
Including	4.50	310	0.07	0.13	0.43
MPZ-198	6.80	432	0.09	0.32	1.00
Including	1.73	1,112	0.18	0.91	2.86
MPZ-200	10.38	179	0.10	0.21	0.51

CUCHARA-OSCAR SILVER MINE

Located 2.5 kilometres east of the Guadalupe mill, Cuchara-Oscar represents the fourth underground mine taken from discovery to production at the Royal Mines of Zacualpan Silver District by the IMPACT Silver team.

Encompassing a corridor of high grade, epithermal silver, lead and zinc veins, Cuchara-Oscar generated 46% of IMPACT Silver's total silver production in 2015. Current production is from the Marqueza, Santa Lucia and Oscar veins. New production is expected to come from other nearby veins as the mine develops. Diluted mining grades at Cuchara-Oscar ranged from 137 to 171 g/t silver in Q4 2015.

MIRASOL SILVER MINE

The Mirasol Silver Mine, located 5.5 kilometres southeast of the Guadalupe Mill, opened in Q3 2014 after exploration drilling produced a number of high-grade intersections including 216 g/t silver over 7.1 metres, 985 g/t silver over 1.8 metres and 288 g/t silver over 3.2 metres.

Mirasol is playing a key role in the transition to mining higher grade silver veins in response to lower silver prices. In 2015, the mine contributed roughly 14% of the mill's feed for the year. Diluted mining grades at Mirasol during Q4 2015 ranged from 176 to 179 g/t silver. Mirasol is expected to contribute significantly to overall production in 2016.

CAPIRE PRODUCTION CENTRE

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

George Gorzynski, P.Eng., Vice President and a Director of IMPACT Silver and Qualified Person as defined in National Instrument 43-101, approved the technical content in this 2015 IMPACT Silver Annual Report.

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2015 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 14, 2016 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2015 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

In January 2016, IMPACT celebrated 10 years of continuous production at the Royal Mines of Zacualpan Silver District culminating in a record-breaking year of production in 2015. 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-Mamatla Mineral District** adjacent to and southwest of Zacualpan. Over the last 10 years, the Company has provided new investment, talent and leadership to build up the operations and find efficiencies with upgraded equipment and expanded mill facilities. The Company has carried out programs of exploration, development and mine production at both districts. IMPACT has brought five sites from exploration drilling to development and profitable mining, including all mines currently in production. The Company now processes 467 tonnes per day ("tpd") of mill feed containing silver, gold, lead and zinc at its Guadalupe processing plant, up from 187 tonnes per day in 2006.

To address the changes in economics due to low silver prices, IMPACT upgraded its development and mining operations. The results became apparent over the last twelve months. The Company has been sourcing superior grade feed from its mines to ensure production remains economical. Today, operations at the Royal Mines of Zacualpan produce from markedly higher silver grades with lower costs, greater efficiency and higher tonnage throughput than just a year ago. This is a notable achievement by the entire IMPACT team, and it puts the Company on more solid footing. The Company also reduced lower priority work, laid off related personnel and substantially cut back exploration expenditures.

Between mid-2013 and early 2014, the Company also operated the 200-tpd Capire Pilot Plant, located 16 kilometres to the southwest of the Guadalupe Production Center, as a test processing plant. The work performed has increased the Company's knowledge about the metallurgy of mineral in both districts and has helped define the operating costs at Capire. In 2014, the Capire operations were put on care and maintenance to further reduce expenditures.

The Company has no long term debt and its operations are primarily funded by production revenues. If the price of silver remains at current low levels, the Company may consider opportunities to improve its balance sheet and fund future developments through financing and/or acquisition or merger.

The Company's primary plan in 2016 at Zacualpan is a continuation of its 2015 initiatives which were:

1. Continue to upgrade silver production by expanding production from higher grade zones in the San Ramon Deeps Mine and the Mirasol Mine and accessing medium grade mineral from lower cost stopes in the Cuchara-Oscar Mine. This has provided the highest average mill grades in the last four years.

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

3. Increase cash flows through continued improvements in grade and cost controls and optimize operating controls.

To date the Company has been largely successful in advancing and achieving these initiatives.

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

OVERVIEW FOR THE THREE MONTHS AND THE YEAR ENDED DECEMBER 31, 2015

Financial Overview

- Revenues for the fourth quarter were $3.9 million (2014 – $3.1 million), and year-to-date were $14.6 million (2014 – $12.0 million). The 22% increase was due to significantly higher grade mineral being processed as well as greater production tonnage.
- Earnings before interest, taxes, depreciation and amortization (EBITDA[1]) were $0.4 million for the current year compared to a $2.0 million loss in 2014.
- The Company generated net earnings of $0.2 million in the fourth quarter of 2015, in spite of a $0.6 million write-down in exploration and evaluation assets, compared to a net loss of $0.6 million in the same quarter last year with no corresponding write-down. Net loss was $1.4 million for 2015, of which non-cash items included $2.1 million in amortization and depletion, compared to a $3.5 million net loss in the prior year, of which non-cash items included $2.6 million in amortization and depletion.
- Mine operating earnings before amortization and depletion[2] were $2.3 million for the Guadalupe mill for the current year compared to $0.7 million last year due to mining more tonnes of higher grade, despite lower silver prices.
- Cash flows generated from operations were $1.0 million for the fourth quarter of 2015 (2014 – $(0.1) million) and were $2.4 million for the year (2014 – $(0.7) million). Cash flows generated from operations before changes in non-cash working capital[3] were $0.9 million during the fourth quarter of 2015 (2014 – $(0.9) million) and were $1.0 million for the year (2014 – $(2.1) million).
- Capital expenditures during the year included exploration and evaluation asset expenditures of $2.2 million, compared to $2.9 million in 2014. At December 31, 2015, cash was $0.7 million and net working capital was $2.9 million.

Production Overview

- Silver production was 233,740 ounces for the fourth quarter of 2015, up 9% from 213,928 ounces in the same period of 2014. Annual production was the highest in the Company's history at 950,059 ounces in 2015, a 31% increase from 725,733 ounces in 2014.
- Average mill feed grade for silver in 2015 was 193 grams per tonne (g/t), an increase of 21% compared to 159 g/t in 2014. This is the highest average grade achieved in the last four years.
- Total tonnes milled for the year increased 5% to 170,509 from 162,266 in 2014, raising production to 467 tonnes per day in 2015 from 445 tonnes per day in 2014.

1 EBITDA is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance.

2 Mine operating earnings / loss before amortization and depletion is a non-IFRS measure which the Company believes provides a useful indicator of how the Company's operations are performing.

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

See "NON-IFRS MEASURES" for additional information

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Twelve Months Ended December 31		
	2015	2014	% Change	**2015**	2014	% Change
Total tonnes (t) milled	42,328	41,803	+1%	170,509	162,266	+5%
Tonnes produced per day	460	454	+1%	467	445	+5%
Silver production (oz)	233,740	213,928	+9%	950,059	725,733	+31%
Lead production (t)	116	137	-15%	450	606	-26%
Zinc production (t)	78	76	+3%	266	509	-48%
Gold production (oz)	111	187	-41%	495	989	-50%
Silver sales (oz)	241,386	221,684	+9%	964,516	701,878	+37%
Lead sales (t)	116	139	-17%	457	596	-23%
Zinc sales (t)	104	71	+46%	277	454	-39%
Gold sales (oz)	109	168	-35%	522	971	-46%
Average mill head grade –silver g/t	190	180	+6%	193	159	+21%
Revenue per tonne sold[4]	$ 91.68	$ 68.75	+33%	$ 84.96	$ 74.17	+15%
Direct costs per production tonne[4]	$ 75.25	$ 67.64	+11%	$ 71.84	$ 69.26	+4%

*Table excludes Capire mine production

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

In 2015, the Company increased tonnes milled to 170,509 compared to 162,266 last year. 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 increased to 190 g/t in the fourth quarter from 180 g/t in the same quarter last year. The continued higher grade mineralization from San Ramon Deeps and Mirasol resulted in a 21% increase in average grade in 2015 at 193 g/t, compared to 159 g/t in 2014.

Silver sales were 241,386 ounces in the fourth quarter of 2015, a 9% increase from the 221,684 ounces sold in the same period in 2014. Silver sales for the year increased 37% to 964,516 ounces in 2015 from 701,878 ounces in 2014. Silver prices continue to be low, with the average for the year down 18% from the previous year. Despite the lower prices, increases in both the grade and sales resulted in raising the Company's revenues to $84.96 per tonne in 2015 from $74.17 per tonne in 2014.

MINE PRODUCTION

Royal Mines of Zacualpan District

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

San Ramon Deeps 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, but in early 2014 grades dropped with depth and production decreased. During 2014, underground drilling from the bottom levels of the mine discovered new high grade silver zones in the nearby San Ramon Deeps area, and mining of this area began in Q3 2014. It has been the main source of the increase in average overall mined silver grade since then. During the fourth quarter of 2015, the San Ramon Deeps Mine provided 39%

4 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 "NON-IFRS MEASURES". The comparative 2014 figures have been adjusted to reflect the policy adopted in the second quarter of 2014 to report inventory adjustments as part of Operating Expenses.

(Q4 2014 – 29%) of feed to the Guadalupe mill. To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20 and 21 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the quarter ranged from 198 to 247 g/t silver. Underground drilling to date has outlined the vein over a vertical distance of 10 to 55 metres below the current mine workings, mainly near the northern portion of the vein. During 2015 and subsequent to year end, additional high grade drill intersections were announced (see EXPLORATION below for details). IMPACT has expanded the main mine ramp to better access the zone and to increase monthly tonnages of high grade silver mineral extracted from the mine. The aim is to continue increasing overall silver grades and silver production ounces at the Guadalupe mill.

Cuchara-Oscar Silver Mine

The Cuchara-Oscar Mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the first quarter of 2013. During the fourth quarter of 2015, the Cuchara-Oscar Mine provided 45% (Q4 2014 – 53%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed from a corridor of veins. Current production is from the Marqueza, Santa Lucia and Oscar veins. There are plans to mine other nearby veins as the mine develops. Diluted mining grades at Cuchara-Oscar during the quarter ranged from 137 to 171 g/t silver.

Mirasol Silver Mine

The Mirasol Mine is located 5.5 kilometres southeast of the Guadalupe mill, and mining began in Q3 2014. During the fourth quarter of 2015, Mirasol contributed 15% (Q4 2014 – 4%) of silver-rich feed to the Guadalupe mill. Diluted mining grades at Mirasol during the quarter ranged from 176 to 179 g/t silver.

Gallega Mine

The Gallega Mine is located less than one kilometre from the Guadalupe mill and is mined intermittently to provide modest tonnages of supplementary silver feed to the plant. During the fourth quarter of 2015, the Gallega mine provided no mill feed (Q4 2014 – 14%) to the Guadalupe mill.

Noche Buena-Carlos Pacheco Mine

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

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-Mamatla district is predominantly silver-rich with zinc and lead credits. The district covers the same stratigraphy as the Campo Morado VMS belt where Nyrstar NV (formerly Farallon Resources) mined the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 kilometres southwest of Capire. The Capire plant is currently on care and maintenance.

In Q1 2013, IMPACT announced the commissioning of the new Capire open pit mine and completion of 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. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes, hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not presently economical. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended. Production from the Capire open pit may restart in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

After the shut-down, the Capire plant was reconfigured as a bulk test processing facility for gold and copper mineralization from the Carlos Pacheco South Zone in the Noche Buena Mine. Test operations ended during Q2 2014. 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. As a result, there was higher gold production at Guadalupe during the first half of 2014.

New Capire Mineral Resource

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

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

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

The reported resource ("Base Case") cutoff grade is US$30/tonne in the table. The Mineral Resources in this disclosure were estimated by Mine Development Associates ("MDA") of Reno, Nevada. The resources were estimated using current Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards, definitions and guidelines. The resources were estimated by inverse distance cubed ("ID^3") and checked the estimate with inverse distance to the 4^{th} power, kriging, and nearest neighbour. The Capire database was audited in its entirety and has 20,273 assays of silver, gold and lead and zinc collected from 376 exploration drill holes. There are also 889 samples with density measurements in the Capire database. MDA worked with the data on sections spaced 20 metres apart. During that work, MDA found the geology and analytical data to support each other and to present a qualitatively reasonable set of drill data. The table presents the Inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3m by 3m by 3m. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US$30/t lying within a pit optimized using $31/oz Ag, $1.51/lb Zn, and $1.69/lb Pb. MDA considers a US$30/t cutoff to be appropriate for production using IMPACT's 200 t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed "reasonable prospects for eventual economic extraction" which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43-101. There is additional mineralization too deep to fulfill the criteria of "reasonable prospects for eventual economic extraction" within an open pit, but that may be available for potential underground development. Quality Assurance/Quality Control ("QA/QC") protocols were carried out to assess the quality of the drilling assay results and the confidence that can be placed in the assay data. The QA/QC data available at Capire demonstrate the analytical data are sufficient to be used in estimating Inferred resources. The drill spacing is tighter in the central area. Overall the average distance to the nearest composite sample is 20m (less in the central area), and the average distance to all composites used in the estimation is 40m (less in the central area). Three separate drill-hole database and composite files were built, one for each of silver, zinc and lead. Each drill-hole database was composited to three-metre lengths respecting each metal's domain and the alluvium contacts. Samples from the open pit mining blastholes and samples logged as alluvium were excluded from compositing. There was no minimum width for compositing because the composites are length-weighted during grade estimation. This new mineral resource is based on improved geological and structural modeling over the previous 2011 mineral resource. MDA used this new geologic interpretation as the foundation for building mineral domains for silver, zinc and lead. Those domains followed the sedimentary/ volcanic package contacts and respected the structural deformation defined within the sedimentary package. The interpretations were made as polygons digitized on the same 20m-spaced sections. The polygons were extruded halfway to adjacent sections to obtain a volume for model coding and controlling the estimate. The extrusion of these polygons, rather than snapped-in-3D polygons and constructing solids or solid equivalents, was done at the request of IMPACT to reduce work and reduce the time to completion. That was a principal reason for the Inferred classification, which could otherwise have been higher with minor additional work. Statistics by each domain for each metal and by domain were evaluated and in part used to determine capping levels. Capping levels were determined for each metal in each domain, using quantile plots and considering coefficients of variation.

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

EXPLORATION

Mines on epithermal veins that were discovered and built by the IMPACT team include the Cuchara-Oscar Silver Mine (currently in operation), San Ramon Deeps Silver Mine (currently in operation), Mirasol Silver Mine (currently in operation), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), the Noche Buena Silver Mine (operated 2010-2014) and 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. During 2015 and subsequent to year end exploration highlights were as follows:

San Ramon Deeps Drilling Results
During the Q1 2015, IMPACT announced underground drill results from the San Ramon Deeps Zone which included 1,025 g/t silver over 2.84 metres within 552 g/t silver over 5.80 metres, and 647 g/t silver over 1.49 metres within 278 g/t silver over 6.50 metres. Subsequent to year end, IMPACT announced additional high grade results from San Ramon Deeps underground drilling including 425 g/t silver over 7.89 metres and 319 g/t silver over 4.08 metres. Drilling is continuing.

Exploration Field Work
IMPACT employs field crews dedicated to finding and bringing new mineral prospects to the drilling stage. These crews have been sampling some of the 4,500+ old mine workings and prospects in the districts. They have also trenched areas of mineralization and carried out extensive soil sampling on 100-metre x 25-metre grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling in old mine workings was mainly focused on larger and higher grade target areas close to current mines and infrastructure at 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.

Veta Grande (Zacatecas) Silver Project, Mexico
The Zacatecas project consists of a 200-tpd mill and 13 mineral concessions in the Zacatecas Silver District located 500 kilometres northwest of Mexico City. There is good infrastructure throughout the district which consists of road networks, electric power and a trained work force. Since 2007 intermittent exploration was carried out on several of the 13 mineral concessions located within the district. The Zacatecas project is currently on care and maintenance.

FUTURE PLANS

Mining Plans
Plans are to continue to expand production at the San Ramon Deeps and Mirasol Mines to take advantage of higher grades in response to low metal prices. The Company plans to continue increasing production from these higher grade zones to increase overall silver production. In the longer term, management also intends to produce gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve.

Exploration Plans
The Company will continue exploration with the goal of putting some of the 4,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Currently, exploration work is focused on larger and higher grade targets close to current production areas at Alacran North.

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

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is *responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire-Mamatla Mineral District (except the mineral resources) and the Veta Grande (Zacatecas) Silver Project. Steven Ristorcelli, C.P.G. (U.S.A.), Principal Geologist for Mine Development Associates and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the 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 these standards. The Company keeps community members informed of its activities and works with the community to address concerns. The employment of workers from the local communities fosters understanding, direct involvement in the Company's operations and financial benefits to the local communities including the development of recreational areas and parks. The Company retains a Community Relations Officer to ensure open communications.

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 emergencies, the Company keeps a paramedic and onsite ambulance on standby.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attends investment and mining related conferences in Canada and internationally. In 2015 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 loss per share	Three months ended December 31		
	2015	2014	2013
Revenues	$ 3,883	$ 3,132	$ 3,035
EBITDA[5]	$ 384	$ (745)	$ (2,930)
Net income (loss)	$ 168	$ (598)	$ (4,699)
Loss per share – basic and diluted	$ 0.00	$ (0.01)	$ (0.07)

Net earnings for the fourth quarter 2015 were impacted by the following factors:

- For the three months ended December 31, 2015, the Company's mine operating earnings were $0.2 million compared to a loss of $0.6 million in the same period of 2014, with revenues of $3.9 million in 2015 compared to $3.1 million in 2014.
- Silver production was 233,740 ounces during the fourth quarter of 2015, representing a 9% increase from 213,928 ounces produced within the same period in 2014.
- Revenue per tonne sold increased 33% from $68.75 in the fourth quarter of 2014 to $91.68 in the comparable period of 2015 as a result of the increase in average silver grade and silver sales, and even with the decrease in silver price between the two periods. As silver sales account for the majority of the Company's revenues, the changes in lead, zinc and gold prices and production did not significantly affect mine operating income.
- Direct costs per tonne at the Guadalupe mill for the three months ended December 31, 2015 were $75.25 compared to $67.64 in 2014. Operating expenses for the Guadalupe mill increased slightly to $3.2 million in the fourth quarter of 2015 compared to $3.1 million in the fourth quarter of 2014. Amortization and depletion expenses were steady at $0.5 million during the quarter ended December 31, 2015 compared to the same quarter of the previous year.
- General and administrative costs decreased to $0.3 million in the fourth quarter of 2015 from $0.4 million in the fourth quarter of 2014, as the Company continues to closely manage its administrative costs.
- The Company had a $0.6 million foreign exchange gain in the fourth quarter of 2015 compared to a $0.3 million loss in the same period of last year.
- The Company wrote down its exploration and evaluation assets by $0.6 million in the fourth quarter of 2015 mainly relating to concessions that were abandoned. There was no corresponding write down in 2014.

Summary of Year to Date Results

$ in thousands except for loss per share	Twelve months ended December 31		
	2015	2014	2013
Revenues	$ 14,638	$ 12,009	$ 14,106
EBITDA[5]	$ 403	$ (2,018)	$ (4,753)
Net loss	$ (1,428)	$ (3,487)	$ (8,519)
Loss per share – basic and diluted	$ (0.02)	$ (0.05)	$ (0.13)

Net loss for the year ended December 31, 2015 was impacted by the following factors:

- The Company's mine operating loss improved significantly to $0.1 million from a loss of $2.6 million in the same period of 2014, with an improvement in revenues of $14.6 million in 2015 compared to $12.0 million in 2014.
- Silver production was a record high 950,059 ounces during 2015, representing a 31% increase from 725,733 ounces produced in 2014.
- Revenue per tonne sold increased 15% from $74.17 in 2014 to $84.96 in 2015, as a result of significantly higher mine grades and increased sales.

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

- Direct costs per tonne at the Guadalupe mill for 2015 were $71.84, compared to $69.26 in 2014. Operating expenses for the Guadalupe mill increased 11% to $12.3 million in the year ended December 31, 2015 compared to $11.1 million in the same period of 2014 due to increased production tonnage, wage increases paid under a new union contract and higher contractor trucking costs. Amortization and depletion expenses decreased to $2.1 million during the year from $2.5 million in the previous year.
- General and administrative costs decreased to $1.6 million in 2015 from $1.8 million in 2014, as a result of having no share based payment expenses in the current year, as well as having reduced accounting and audit, investor relations and office costs in 2015.
- The Company had a $0.1 million foreign exchange gain in the year ended December 31, 2015 compared to a $0.4 million loss last year.
- The Company received $0.1 million in interest income in the first quarter of 2015 as a result of an outstanding settlement with the Mexican government.
- As part of Mexican tax regulations, the government applies an inflation adjustment when calculating the present value of value added tax to be refunded or applied. As a result, the Company recognized other income of $0.4 million in 2015 relating to the collection and application of value added taxes in Mexico. There were no corresponding transactions in 2014.
- The Company wrote down its exploration and evaluation assets by $0.6 million in 2015 mainly relating to concessions that were abandoned. There was no corresponding write down in 2014.
- Deferred and current income tax recoveries in 2015 were $0.2 million compared to recoveries of $1.1 million in the comparable period of 2014.

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 (loss) per share)							
	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014
Revenues	3,882	4,108	2,735	3,912	3,132	3,363	2,552	2,962
Net earnings (loss)	168	(270)	(1,046)	(281)	(598)	(600)	(1,024)	(1,264)
Loss per share – Basic and Diluted*	0.00	0.00	(0.02)	0.00	(0.01)	(0.01)	(0.02)	(0.02)
Total assets	58,038	57,834	57,571	61,365	58,061	61,758	61,634	64,536
Total liabilities	8,792	8,837	8,441	9,226	8,316	8,998	9,045	9,200

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

LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES

Working Capital and Cash Flow

The Company had $0.7 million in cash and net working capital of $2.9 million at December 31, 2015.

The Company generated cash flows from operations before changes in non-cash working capital[6] of $0.9 million during the fourth quarter of 2015. For the same period of 2014, the Company used cash flows from operations before changes in non-cash working capital of $0.9 million. For the year ended December 31, 2015, the Company generated cash flows from operations before changes in non-cash working capital of $1.0 million compared to cash flows used in operations before

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

changes in non-cash working capital of $2.1 million in 2014. During the year, the Company collected $1.0 million in value added taxes receivable from the Mexican government, and is continuing to recover additional amounts receivable.

The Company also continues to be strategic with its investing and exploration activities as it aims to stay cash flow positive. In the fourth quarter of 2015 cash flows used in investing activities were $0.5 million, compared to $0.6 million in the fourth quarter of 2014. The Company invested $2.2 million in development and exploration and capital additions (net of proceeds on sale of assets) throughout 2015 compared to $3.1 million in the same period of 2014.

Going Concern

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

During 2015, the Company improved its net loss position to $1.4 million from a net loss of $3.5 million incurred in 2014. The Company generated cash flows from operating activities of $2.4 million in 2015 compared to cash outflows from operating activities of $0.7 million in 2014. At December 31, 2015, the Company had unrestricted cash of $0.7 million, current assets of $5.8 million and working capital of $2.9 million. As IMPACT is a producing silver mining company, its performance is heavily impacted by the price of silver; therefore, it is possible that internally generated cash flows may not be sufficient beyond 2016 and may impact the Company's ability to cover its working capital and capital investments.

The Company's management is currently considering and pursuing various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to, equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. There can be no assurance that management will be successful in its efforts to finance all the activities of the Company, as volatility in debt and equity capital markets and other factors may impact the Company's ability to implement a financing plan.

The risks surrounding the Company's ability to secure a source of funding together with the uncertainties over variability in commodity prices on operating cash flows cast significant doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Such adjustments could be material.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 14, 2016:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	68,128,244		
Stock options	1,660,000	$1.85	September 26, 2016
Stock options	1,995,000	$1.20	January 22, 2018
Stock options	1,210,000	$0.55	January 6, 2019
Fully diluted	72,993,244		

All of the 4,865,000 options outstanding have vested at March 14, 2016.

Related Party Transactions

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

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

During the year ended December 31, 2015, no fees (2014 – $0.2 million) were incurred to Energold for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. Office services fees of $265,500 were incurred to Energold Drilling Corp. during the year ended December 31, 2015 (2014 – $300,000). At December 31, 2015, the balance owed to Energold was $1.5 million (December 31, 2014 – $1.4 million). Monies owed to Energold are unsecured, 4% interest bearing and repayable on demand.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles"), Trafigura Mexico, S.A. De C.V. ("Trafigura"), and MRI Trading AG ("MRI"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date of December 31, 2015 is the carrying value of its cash ($0.7 million), trade and other receivables ($4.0 million), which includes value added and other taxes receivable in the amount of $2.2 million and is subject to government review and regulatory changes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. Please refer to the going concern discussion above. The Company manages liquidity by maintaining cash balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2015, the Company did not have any significant debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars, and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2015, 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, 2015, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.04 million decrease or increase in the Company's net loss for the year ended December 31, 2015.

Commodity price risk

The Company is continuing to assess whether the decline in silver prices is medium or long term in nature. Should the prices continue to decline, the Company's operating results will be adversely impacted and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets. 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 as at December 31, 2015 as follows:

	2015	2014
Silver price	$ -	$ 69,000

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and 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 the area of the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the operating activities of the Company. From time-to-time, government regulatory agencies may review the books and records of the Company which may result in changes in the Company's operating results.

APPROVAL

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

NON-IFRS MEASURES

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

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2015	2014	**2015**	2014
Net earnings (loss)	$ 168,212	$ (598,406)	$ (1,427,838)	$ (3,486,754)
Add: Finance cost	20,228	5,854	55,522	24,209
Current income tax expense	105,081	74,002	122,257	74,002
Deferred income tax recovery	(384,344)	(750,315)	(353,664)	(1,217,391)
Amortization	474,789	516,074	2,139,600	2,588,024
Less: Finance Income	(131)	8,196	(133,261)	-
Earnings (loss) before interest, taxes, depreciation and amortization	$ 383,835	$ (744,595)	$ 402,616	$ (2,017,910)

Mine operating earnings / loss before amortization and depletion is a measure which the Company believes provides a useful indicator of 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					
	2015			2014		
In thousands	Guadalupe	Capire	Total	Guadalupe	Capire	Total
Revenues	$ 3,883	$ -	$ 3,883	$ 3,132	$ -	$ 3,132
Operating expenses	(3,170)	(83)	(3,253)	(3,078)	(100)	(3,178)
Mine operating earnings (loss) before amortization and depletion	$ 713	$ (83)	$ 630	$ 54	$ (100)	$ (46)

	For the Twelve Months Ended December 31					
	2015			2014		
In thousands	Guadalupe	Capire	Total	Guadalupe	Capire	Total
Revenues	$ 14,638	$ -	$ 14,638	$ 11,813	$ 196	$ 12,009
Operating expenses	(12,339)	(292)	(12,631)	(11,074)	(960)	(12,034)
Mine operating earnings (loss) before amortization and depletion	$ 2,299	$ (292)	$ 2,007	$ 739	$ (764)	$ (25)

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2015	2014	**2015**	2014
Cash flows from operating activities	$ 1,030,488	$ (77,429)	$ 2,445,178	$ (688,654)
Add (deduct) changes in non-cash working capital:				
Trade and other receivables	(222,582)	192,024	(1,310,008)	(404,986)
Income taxes receivable	(115,880)	(286,786)	(76,788)	(270,743)
Inventories	121,999	(267,464)	176,843	(119,139)
Trade payables	213,673	(355,900)	46,710	(175,276)
Income taxes payable	(195,001)	-	(230,618)	-
Due to related party	41,567	(55,159)	(67,471)	(451,271)
Cash flows from operations before changes in non-cash working capital	$ 874,264	$ (850,714)	$ 983,846	$ (2,110,069)

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	
	2015	2014	**2015**	2014
Operating expenses	$ 3,252,909	$ 3,178,335	$ 12,630,791	$ 12,034,223
(Deduct): operating expenses for Capire	(83,295)	(100,406)	(291,580)	(960,208)
Add (deduct): inventory	15,388	(250,258)	(89,277)	164,598
Direct costs	$ 3,185,002	$ 2,827,671	$ 12,249,934	$ 11,238,613
Tonnes milled	42,328	41,803	170,509	162,266
Direct costs per tonne	$ 75.25	$ 67.64	$ 71.84	$ 69.26
Revenues	$ 3,882,844	$ 3,131,819	$ 14,637,592	$ 12,008,457
(Deduct): revenues for Capire	-	-	-	(195,606)
Revenues for Guadalupe	$ 3,882,844	$ 3,131,819	$ 14,637,592	$ 11,812,851
Tonnes sold	42,351	45,522	172,296	159,270
Revenue per tonne sold	$ 91.68	$ 68.75	$ 84.96	$ 74.17

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

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

NOTE REGARDING FORWARD–LOOKING STATEMENTS

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

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

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements. 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 14, 2016

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

"R. S. Younker"
CHIEF FINANCIAL OFFICER

March 14, 2016

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, 2015 and December 31, 2014 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, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS

March 15, 2016

PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia V6C 3S7
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IMPACT Silver Corp.

Consolidated Statements of Financial Position

(As at December 31, Canadian dollars)

		2015		2014
ASSETS				
Current				
Cash	$	717,369	$	575,344
Trade and other receivables *(Note 4)*		3,972,634		5,118,682
Inventories *(Note 5)*		1,103,970		906,844
Available-for-sale investments		5,000		17,500
		5,798,973		6,618,370
Value added and other taxes receivable		2,628,652		2,915,870
Property, plant and equipment *(Note 6)*		26,572,115		26,788,116
Exploration and evaluation assets *(Note 7)*		22,622,890		21,738,706
Deferred income tax assets		414,940		-
	$	58,037,570	$	58,061,062
LIABILITIES				
Current				
Trade payables and accrued liabilities	$	1,453,148	$	1,466,280
Due to related party *(Note 8(c))*		1,452,876		1,363,389
		2,906,024		2,829,669
Reclamation provision *(Note 9)*		656,515		431,538
Deferred income tax liabilities *(Note 14)*		5,229,494		5,055,202
		8,792,033		8,316,409
SHAREHOLDERS' EQUITY				
Share capital		53,495,947		53,495,947
Contributed surplus		4,776,173		4,776,173
Accumulated other comprehensive income		759,924		(168,798)
Accumulated deficit		(9,786,507)		(8,358,669)
		49,245,537		49,744,653
	$	58,037,570	$	58,061,062

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

ON BEHALF OF THE BOARD:

"F.W. Davidson"
DIRECTOR

"P. Tredger"
DIRECTOR

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

IMPACT Silver Corp.

Consolidated Statements of Loss

(As at December 31, Canadian dollars)

		2015		2014
Revenues	$	14,637,592	$	12,008,457
Expenses				
Operating expenses *(Note 10)*		12,630,791		12,034,223
Amortization and depletion		2,107,807		2,546,553
		14,738,598		14,580,776
Mine operating loss		(101,006)		(2,572,319)
General and administrative expenses				
Accounting, audit and legal		221,497		293,346
Amortization		31,793		41,471
Investor relations, promotion and travel		35,962		89,938
Management fees and consulting		341,788		246,236
Office, rent, insurance and sundry		306,981		360,524
Office salaries and services		627,273		635,143
Share-based payments		-		145,681
		1,565,294		1,812,339
Operating loss		(1,666,300)		(4,384,658)
Other income (expenses)				
Finance cost		(55,522)		(24,209)
Finance income		133,261		-
Foreign exchange gain (loss)		62,856		(378,725)
Other income (expense)		410,704		(80,022)
Gain on sale of available-for-sale investments *(Note 7(b))*		-		237,471
Gain on disposal of assets		11,645		-
Write-down of exploration and evaluation assets *(Note 7(a))*		(555,889)		-
		7,055		(245,485)
Loss before taxes		(1,659,245)		(4,630,143)
Current income tax expense *(Note 14)*		122,257		74,002
Deferred income tax recovery *(Note 14)*		(353,664)		(1,217,391)
Net loss	$	(1,427,838)	$	(3,486,754)
Loss per share – Basic *(Note 13(c))*	$	(0.02)	$	(0.05)
– Diluted *(Note 13(c))*	$	(0.02)	$	(0.05)
Weighted average number of shares outstanding – Basic		68,128,244		68,128,244
Weighted average number of shares outstanding – Diluted		68,128,244		68,128,244

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Loss

(As at December 31, Canadian dollars)

		2015		2014
Net loss	$	(1,427,838)	$	(3,486,754)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Unrealized gain (loss) on investments held as available-for-sale *(Note 7(b))*		(12,500)		474,030
Reclassification on sale of available-for-sale investment		-		(474,030)
Cumulative translation adjustment		941,222		(1,035,940)
Comprehensive loss	$	(499,116)	$	(4,522,694)

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Loss

(As at December 31, Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Accumulated Deficit ($)	Total Shareholders' Equity ($)
Balance at January 1, 2014	68,128,244	53,495,947	-	4,630,492	867,142	(4,871,915)	54,121,666
Loss for the year	-	-	-	-	-	(3,486,754)	(3,486,754)
Share based payments expense	-	-	-	145,681	-	-	145,681
Cumulative translation adjustments	-	-	-	-	(1,035,940)	-	(1,035,940)
Balance at December 31, 2014	68,128,244	53,495,947	-	4,776,173	(168,798)	(8,358,669)	49,744,653
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

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

IMPACT Silver Corp.

Consolidated Statements of Cash Flows

(As at December 31, Canadian dollars)

Cash resources provided by (used in)	2015	2014
Operating activities		
Net loss	$ (1,427,838)	$ (3,486,754)
Items not affecting cash		
Amortization and depletion	2,139,600	2,588,024
Share-based payments	-	145,681
Deferred income taxes	(353,664)	(1,217,391)
Gain on disposal of assets	(11,645)	-
Accretion expense	28,935	23,739
Gain on sale of available-for-sale investment	-	(237,471)
Write-down of exploration and evaluation assets	555,889	-
Write-down of inventory	52,569	74,103
Changes in non-cash working capital		
Trade and other receivables	1,310,008	404,986
Income taxes receivable	76,788	270,743
Inventories	(176,843)	119,139
Trade payables	(46,710)	175,276
Income taxes payable	230,618	-
Due to related party	67,471	451,271
	2,445,178	(688,654)
Investing activities		
Acquisition of property, plant and equipment	(123,020)	(207,046)
Proceeds on sale of available-for sale investment	-	359,481
Proceeds on sale of assets	79,368	-
Proceeds from the sale of concentrate during the commission phase	-	120,580
Exploration and evaluation asset expenditures	(2,175,542)	(2,880,532)
	(2,219,194)	(2,607,517)
Effect of exchange rate changes on cash	(83,959)	386,335
Net change in cash	142,025	(2,909,836)
Cash – Beginning of year	575,344	3,485,180
Cash – End of year	$ 717,369	$ 575,344

Supplementary cash flow information *(Note 11)*

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

1. NATURE OF OPERATIONS AND GOING CONCERN

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico. 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.

During 2015, the Company improved its net loss position to $1.4 million from a net loss of $3.5 million incurred in 2014. The Company generated cash flows from operating activities of $2.4 million in 2015 compared to cash outflows from operating activities of $0.7 million in 2014. At December 31, 2015, the Company had unrestricted cash of $0.7 million, current assets of $5.8 million and working capital of $2.9 million. As IMPACT is a producing silver mining company, its performance is heavily impacted by the price of silver; therefore, it is possible that internally generated cash flows may not be sufficient beyond 2016 and may affect the Company's ability to cover its working capital and capital investments.

The Company's management is currently considering and pursuing various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. There can be no assurance that management will be successful in its efforts to finance all the activities of the Company, as volatility in debt and equity capital markets and other factors may impact the Company's ability to implement a financing plan.

The risks surrounding the Company's ability to secure a source of funding together with the uncertainties over variability in commodity prices on operating cash flows cast significant doubt about the Company's ability to continue as a going concern. The Company's consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 14, 2016.

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

2. BASIS OF PREPARATION *– continued*

c) Use of estimates and judgments *– continued*

historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates.

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

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

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

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

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

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

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

d) Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

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

b) Cash

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

c) Inventories

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

d) Investments

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

e) Exploration and evaluation expenditures

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

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

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

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

Property option payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

e) Exploration and evaluation expenditures *– continued*

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 statement of income as an expense is incurred.

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

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

Components

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

Commercially viable mineral resource exploration and evaluation expenditures

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

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

g) Asset impairment

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

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

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

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.

i) Stock options

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

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

j) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of 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

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

j) Income taxes *– continued*

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

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

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

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

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

k) Foreign currency translation

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

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

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

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

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

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

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

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

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

l) Financial instruments

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

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

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

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.

n) Recent accounting pronouncements issued but not yet implemented
The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2015:

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

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 (eg 1 January 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES *– continued*

n) Recent accounting pronouncements issued but not yet implemented *– continued*

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 is yet to assess the full impact of these standards.

4. TRADE AND OTHER RECEIVABLES

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

	2015	2014
Value added and other taxes receivable – current portion	$ 2,170,045	$ 3,578,113
Trade and other receivables	1,642,606	1,398,135
Prepaids	159,983	142,434
Total trade and other receivables	$ 3,972,634	$ 5,118,682

5. INVENTORIES

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

	2015	2014
Materials and supplies	$ 782,345	$ 500,637
Stockpile inventory	8,932	4,237
Concentrate inventory	312,693	401,970
Total inventories	$ 1,103,970	$ 906,844

The amount of inventories recognized as an expense during the year ended December 31, 2015 was $12,630,791 (December 31, 2014 – $12,034,223).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2015 was $52,569 (December 31, 2014 – $74,103) relating to concentrate inventory.

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, 2014	10,833,204	495,533	227,788	1,356,865	24,964,390	37,877,780
Additions	129,390	-	3,174	-	57,892	190,456
Transfers	-	-	-	-	2,339,083	2,339,083
Change in reclamation estimate	-	-	-	-	111,244	111,244
Foreign exchange movement	(336,731)	(15,503)	(4,008)	(42,449)	(699,582)	(1,098,273)
Balance at December 31, 2014	10,625,863	480,030	226,954	1,314,416	26,773,027	39,420,290
Additions	119,656	-	4,183	-	-	123,839
Transfers	-	-	-	-	1,130,201	1,130,201
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
Accumulated amortization						
Balance at January 1, 2014	2,645,307	281,633	119,009	-	7,393,384	10,439,333
Amortization for the period	1,173,817	56,435	29,505	-	1,344,193	2,603,950
Foreign exchange movement	(143,389)	(11,792)	(2,753)	-	(253,175)	(411,109)
Balance at December 31, 2014	3,675,735	326,276	145,761	-	8,484,402	12,632,174
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
Net book value						
At December 31, 2014	6,950,128	153,754	81,193	1,314,416	18,288,625	26,788,116
At December 31, 2015	6,106,206	107,858	63,953	1,344,999	18,949,099	26,572,115

b) Impairment test

The company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2015. The recoverable amount for the property, plant and equipment impairment testing has been assessed by reference to the FVLCD that was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. FVLCD is based on the cash flows expected to be generated from the mines included within the CGUs; being the Guadalupe mining complex and Capire. The date that mining will cease depends on a number of variables, including estimated recoverable resources and the forecast selling prices for such production. Cash flows have been projected for six years. For Capire, it is assumed that mining operations will recommence in 2019, and cash flows have been projected for seven years.

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. Long-term commodity prices are determined by reference to external market forecasts. For the December 31, 2015 impairment assessment, the metal price assumptions in U.S. dollars were as follows:

- Gold (per ounce) $1,125 – $1,200
- Silver (per ounce) $15.00 – $18.00
- Copper (per pound) $2.00 – $3.00
- Lead (per pound) $0.80 – $0.90
- Zinc (per pound) $0.80 – $1.00

6. PROPERTY, PLANT AND EQUIPMENT *– continued*

b) Impairment test *– continued*

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2015 impairment assessment, the average mineral grade assumptions were as follows:

- Gold (grams per tonne): Guadalupe – 0.14; Capire – 3.19
- Silver (grams per tonne): Guadalupe – 184; Capire – 75
- Copper (%): Capire – 0.36
- Lead (%): Guadalupe – 0.71; Capire – 0.34
- Zinc (%): Guadalupe – 1.78; Capire – 1.21

Operating Costs and Capital Expenditures

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

Discount Rates

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

Sensitivity Analysis

The impairment test is particularly sensitive to changes in commodity prices and ore grade. Adverse changes to the key assumptions of price or grade may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and recovery price assumptions as at December 31, 2015. For Guadalupe, if average forecast silver prices or silver grade mined and milled were to fall below US$15.66 or 167 grams per tonne respectively, an impairment charge would result. For Capire, if either, average forecast silver prices or silver grade mined and milled were to fall below US$15.62 or 66 grams per tonne respectively, or if average forecast gold prices or gold grade mined and milled were to fall below US$1,146 or 3.03 grams per tonne respectively, an impairment charge would result.

7. EXPLORATION AND EVALUATION ASSETS

a) Details are as follows:

	Mexico ($)	Dominican Republic ($)	**Total ($)**
Balance at January 1, 2014	21,791,493	200,000	21,991,493
Additions	2,612,759	15,203	2,627,962
Transfers to mining assets	(2,339,083)	-	(2,339,083)
Foreign exchange	(541,666)	-	(541,666)
Balance at December 31, 2014	21,523,503	215,203	21,738,706
Additions	2,174,116	-	2,174,116
Transfers to mining assets	(1,130,201)	-	(1,130,201)
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

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2015 was $555,889 (December 31, 2014 – $nil), the majority of which relates to concessions that were abandoned.

b) Zacatecas agreement

As at January 1, 2014, the Company owned 4,067,000 shares of Defiance Silver Corp. ("Defiance"), a Canadian public company, which were obtained in part in an agreement to option its Veta Grande Project assets in Zacatecas, Mexico. In January 2014, Defiance terminated its option agreement with the Company. As a result of this termination the Company retained the Veta Grande Project assets, and the shares of Defiance already granted to the Company under the option agreement. During 2014, the Company sold all 4,067,000 shares of Defiance for proceeds of $359,481. A total gain of $237,471 was realized on the sale of these shares. Any unrealized gains recorded during 2014 were reversed.

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:

	2015	2014
Salaries and fees	$ 348,800	$ 424,088
Share based compensation	-	80,715
Total compensation	$ 348,800	$ 504,803

b) Transactions with other related parties

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

During the year ended December 31, 2015, no fees (2014 – $237,646) were incurred to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Guadalupe and Capire production centres. Office services fees of $265,500 were incurred to Energold Drilling Corp. during the year ended December 31, 2015 (2014 – $300,000).

c) Due to related party

At December 31, 2015, an amount of $1,452,876 (December 31, 2014 – $1,363,389) was due to Energold Drilling Corp., a significant shareholder of the Company. Monies owed to Energold Drilling Corp. are unsecured, 4% interest bearing and repayable on demand.

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 increased development of the open pit Capire mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are approximately $1,311,011 (2014 – $1,098,919). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.7% (2014 – 3.8%) and discounted using a Mexican risk-free rate of 6.7% (2014 – 6.5%). Settlement of the liability may extend up to 14 years in the future.

Additions to the reclamation provision were as follows:

	2015	2014
Reclamation provision, beginning of the year	$ 431,538	$ 307,427
Foreign exchange movement	9,985	(10,872)
Accretion of reclamation provision	28,935	23,739
Revisions to estimated cash flows	186,057	111,244
Total reclamation provision	$ 656,515	$ 431,538

10. EXPENSES BY NATURE

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

	2015	2014
Production costs	$ 6,447,150	$ 5,641,914
Administration	790,719	825,570
Transportation	502,743	521,373
Wages and salaries	4,890,179	5,045,366
Total operating expenses	$ 12,630,791	$ 12,034,223

11. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2015	2014
Interest income received	$ 133,261	$ -

12. COMMITMENTS

The Company signed a three year lease for office premises in Vancouver, British Columbia from June 1, 2013 to May 31, 2016. Lease obligations, net of operating costs, are $38,526 for 2016.

13. EQUITY

a) Share capital

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

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 12.5% every quarter thereafter.

A summary of the Company's stock options as at December 31, 2015 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2014	6,432,500	1.25
Forfeited	(481,250)	1.39
At December 31, 2014	5,951,250	1.24
Forfeited	(297,500)	1.32
Expired	(788,750)	1.10
At December 31, 2015	4,865,000	1.26

The following table summarizes information about the stock options outstanding at December 31, 2015:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$1.85	1,660,000	0.74	1,660,000	September 26, 2016
$1.20	1,995,000	2.06	1,995,000	January 22, 2018
$0.55	1,210,000	3.02	1,210,000	January 6, 2019
	4,865,000	1.85	4,865,000	

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, 2015 is $nil (December 31, 2014 – $145,681).

c) Loss per share

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

	2015	2014
Net loss attributable to shareholders	$ (1,427,838)	$ (3,486,754)
Weighted average number of shares outstanding – basic and diluted	68,128,244	68,128,244
Loss per share – basic and diluted	(0.02)	(0.05)

14. 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:

		2015		2014
Loss before income taxes	$	(1,659,245)	$	(4,630,143)
Canadian federal and provincial income tax rates		26.00%		26.00%
Income tax recovery based on the above rates	$	(431,404)	$	(1,203,837)
Increase (decrease) due to:				
Non-deductible expenses		144,363		198,607
Losses and temporary differences for which a deferred tax asset has not been recognized		179,920		290,140
Withholding tax		83,211		74,001
Difference between foreign and Canadian tax rates		(43,667)		(142,482)
Deferred taxes in respect of Mexican royalty		81,946		(170,955)
Foreign exchange and other		(245,776)		(188,863)
Income tax recovery	$	(231,407)	$	(1,143,389)

Total income tax expense consists of:

		2015		2014
Current income tax expense	$	122,257	$	74,002
Deferred income tax recovery		(353,664)		(1,217,391)
	$	(231,407)	$	(1,143,389)

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

		2015		2014
Deferred income tax assets				
Non-capital losses	$	6,210,807	$	5,538,569
Property, plant and equipment		134,948		126,561
Current assets and liabilities		39,368		117,691
Total deferred tax assets	$	6,385,123	$	5,782,821
Deferred income tax liabilities				
Property, plant and equipment	$	5,704,557	$	5,563,831
Exploration and evaluation assets		5,109,516		4,909,254
Other		385,604		364,938
Total deferred income tax liabilities	$	11,199,677	$	10,838,023
Deferred income tax liabilities, net	$	4,814,554	$	5,055,202

The composition of deferred tax expense is as follows:

	2015	2014
Deferred income tax assets		
Non-capital losses	$ (548,415)	$ (1,200,182)
Other	80,954	390,548
Deferred income tax liabilities		
Property, plant and equipment	$ 10,781	$ 146,213
Exploration and evaluation assets	90,508	(298,668)
Other	12,508	(255,302)
Deferred income tax recovery	$ (353,664)	$ (1,217,391)

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

	2015	2014
Net deferred tax liability, January 1	$ 5,055,202	$ 6,412,603
Deferred income tax recovery during the year	(353,664)	(1,217,391)
Changes due to foreign currency translation	113,016	(140,010)
Net deferred tax liability, December 31	$ 4,814,554	$ 5,055,202

The unrecognized deferred tax asset is as follows:

	2015	2014
Non-capital losses	$ 2,716,692	$ 2,511,291
Capital losses	203,193	1,262
Property, plant and equipment	(67,948)	12,808
Exploration and evaluation assets	1,015,647	1,000,093
Unrecognized deferred tax asset	$ 3,867,584	$ 3,525,454

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

As at December 31, 2015, 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	850,449
	$ 10,286,922
Capital losses	
No expiry date	$ 1,563,023

15. CAPITAL MANAGEMENT

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

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

16. 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, 2015 investments were classified as Level 1 on the fair value hierarchy of IFRS 13 – Fair Value Measurement. At December 31, 2015 and 2014, the carrying value of the Company's cash, trade and other receivables, investments, and trade payables approximate fair values.

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

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles"), Trafigura Mexico S.A. de C.V. ("Trafigura) and MRI Trading AG ("MRI"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($0.7 million), trade and other receivables ($4.0 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due (note 1). The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. All trade payables and accrued liabilities are due within ninety days. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2015, the Company did not have any significant debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2015, 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, 2015, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $43,000 decrease or increase in the Company's net loss for the year ended December 31, 2015.

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:

	2015	2014
Silver price	$ -	$ 69,000

17. SEGMENTED INFORMATION

The Company has one operating segment and three 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

(iii) Caribbean – This part of the business includes exploration properties held in the Dominican Republic

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:

		2015		2014
Revenues by geographic area				
Mexico	$	14,637,592	$	12,008,457
Net loss by geographic area				
Mexico	$	(948,432)	$	(2,406,475)
Canada		(264,203)		(1,080,279)
Caribbean		(215,203)		-
	$	(1,427,838)	$	(3,486,754)

		2015		2014
Assets by geographical area				
Mexico	$	57,794,840	$	57,628,336
Canada		242,730		217,523
Caribbean		-		215,203
	$	58,037,570	$	58,061,062
Property, plant and equipment by geographical area				
Mexico	$	26,548,031	$	26,760,176
Canada		24,084		27,940
	$	26,572,115	$	26,788,116

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

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