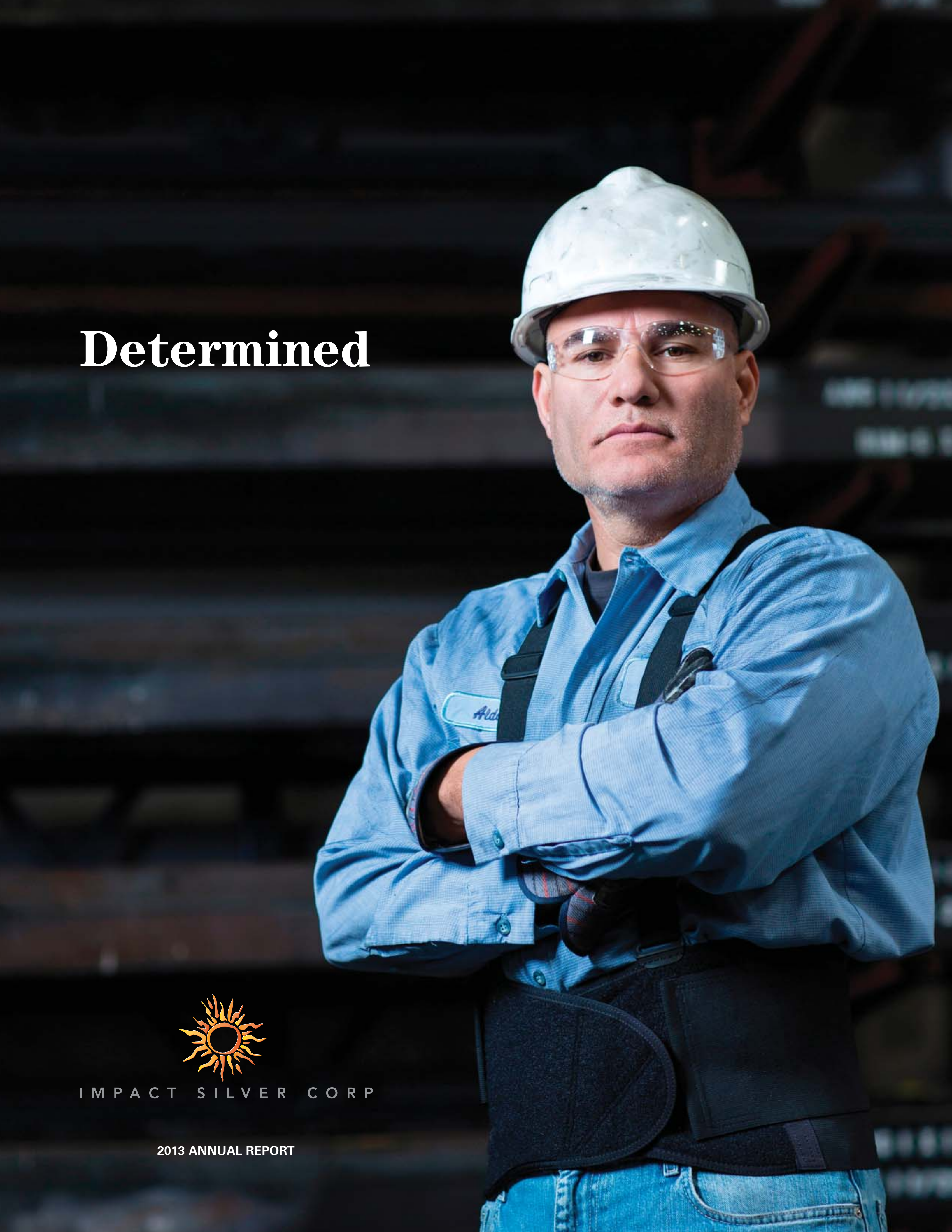

Determined

IMPACT SILVER CORP

2013 ANNUAL REPORT

Determined
to build a mid-tier precious metals producer

IMPACT's long-term vision is to build a mid-tier, multimillion-ounce precious metals company. We operate four mines and two production centres within a 623-square-kilometer land package in Mexico. Our mines produce silver, gold, lead and zinc from underground operations, all owned 100% by IMPACT. We plan on adding gold and copper to our production profile in 2014. A cornerstone of IMPACT's success is systematic exploration leading to rapid mine development to increase mill throughput and generate near term cash flow. IMPACT is focused on creating value by growth primarily though earnings. Despite challenging market conditions, we continue to bring new production on stream.

Community support and responsible social policies underlie our activities at every level. We hire locally for nearly all management, staff and contracted labour positions, while our mining and exploration is designed to leave a small environmental footprint.

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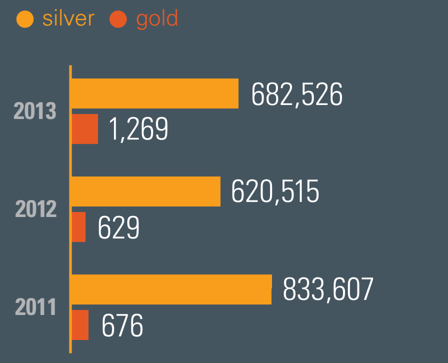
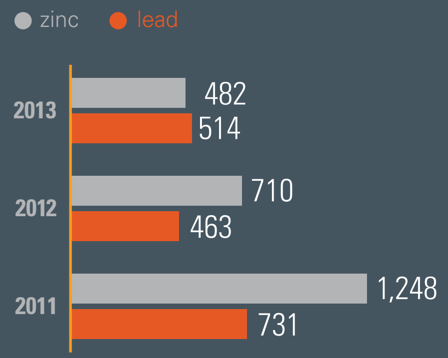
The Annual General Meeting will take place on May 15, 2014 at our head office. 1100 – 543 Granville Street Vancouver, BC, Canada.

Ounces Produced Per Year



Tonnes Produced Per Year



158 g/t Ag

Average Head Grade in 2013, up 14%

3500+

Mine workings now in the exploration database

2013 Achievements

- Produced 682,526 ounces of silver, a 10% increase over the 620,515 ounces produced in 2012
- Average head grades increased 14% in 2013, reaching 158 g/t silver compared with 138 g/t silver in 2012
- Brought the new Cuchara-Oscar Silver Mine into initial production, just eight months after a production decision
- Carried out test production at the Capire open pit mine and pilot plant
- Discovered the new high grade Carlos Pacheco/San Juan gold-copper zone beside the Noche Buena Silver Mine
- Expanded the exploration database to more than 3,500 old mine workings, representing nearly 500 years of mining history for the project
- Funded production growth and exploration without dilution or capital raises

2014 Objectives

- Begin mining gold and copper at Carlos Pacheco South
- Complete ramp up of Cuchara Silver Mine
- Shut down the Capire open pit and convert Capire plant to produce gold and copper
- Begin production at the Mirasol Silver Mine
- Begin supplementary production at the San Patricio Silver Mine
- Continue exploration focusing on discovery and definition of additional high grade mineral near the producing mines

Determined *to prosper and grow in challenging markets*

Frederick W. Davidson *President & CEO*

The metals sector had a challenging year, a period marked by lower commodity prices, sagging equity markets and industry-wide cost-cutting. That's the macro view. From our internal perspective, however, IMPACT Silver's accomplishments in 2013, strategy for 2014 and project pipeline provide a brighter outlook for shareholders.

Yes, the times have been tough for our industry, but we are, and have always been, a "roll-up-your-sleeves-and-get-the-job-done" kind of company. We remain determined not only to continue building the Company through exploration and production growth, but also to prepare for the inevitable rebound in precious metals prices and market sentiment.

Silver prices opened the year on a relatively strong note, breaking $32 per ounce in January. But for the most part, we endured a downhill slide from there. By December, the price was well under $20. Theories abound as to why silver is under pressure. What matters to us is, what are we doing to preserve and increase shareholder value?

We are determined to see our strategies and goals realized. We brought two mines into production in 2013. The Cuchara-Oscar Mine opened in February 2013, followed by the Capire open pit pilot operation in March 2013. We also invested $3.6 million in development and mineral exploration, $8.4 million in capital additions and made significant discoveries, particularly at the San Juan Gold-Copper Project.

Our accomplishments in 2013 were funded entirely through mine revenues and working capital. This anti-dilutive policy is a key aspect of our growth strategy and one we will adhere to as much as possible going forward.

Silver production totaled 682,526 ounces in 2013, a 10% increase over 2012. In 2014, we are laying plans to allow us to continue to adapt and grow despite challenging market conditions. This includes production from the Cuchara-Oscar Silver Mine that is ramping up to become our principal producer while new higher grade silver mines are being developed at Mirasol and San Patricio to replace declining production from San Ramon. Finally, we are diversifying into gold and copper production with a new mine at Carlos Pacheco/San Juan.

While overall production increased in 2013, mine revenues did not—a result of lower metals prices. On a year-over-year basis, the price of silver declined by 35%. We offset this steep decline by targeting higher grade silver zones. We plan to continue this strategy until metal prices improve.

Looking ahead, we are encouraged with the new Carlos Pacheco/San Juan discovery, which will not only add gold and copper to our production profile in 2014, but also may serve as an indication that an entire gold-copper district could underlie the Zacualpan silver district. This target gives us an important and fresh exploration model with considerable blue sky potential. While our name says "silver", we are first and foremost a mining company as gold and copper production provides important diversification to help buffer volatility in the precious metals markets.

In 2014, we must work with tax legislation recently passed by the Mexican congress. The new laws include a two-tiered royalty system that may require us to re-define our definition of economic cut-off mineralization. We are following this situation closely and will report further, pending added clarity from the Mexican government.

Management remains determined to grow its operations in accordance with market variables, as well as provide financial growth by targeting profitable operations and commodity mixes over the course of 2014 and beyond.

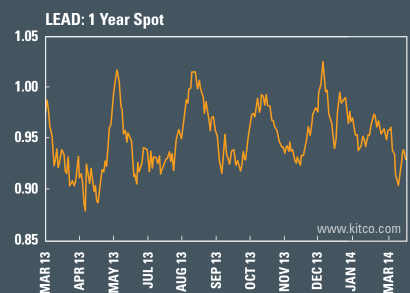
In closing, I want to thank our entire staff, both in Mexico and in Canada, for the determination shown in these challenging times. We are performing well despite market difficulties, and it is the dedication and creative thinking of our team that will see us through to a much brighter future.

Frederick W. Davidson
President & CEO

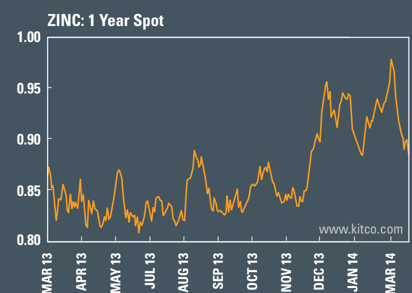
A Year of Volatility in the Metals Markets

Silver Price 2013-2014
US$ PER OUNCE

Lead Price 1 Year
US$ PER TONNE



Zinc Price 1 Year
US$ PER TONNE



After opening the year on a strong note, silver trended lower throughout the year. The 2013 high, set on January 23, was $32.23 (London Fix), with a low of $18.61 on June 27. Silver closed out the year at $19.50, and has traded slightly higher since.

Look at the volatility in lead prices for the past 12 months. Although prices traded in a fairly narrow range, the trend at year end was lower.

Zinc prices have traded in a rather bearish and narrow trend for the past 12 months. Like lead, the trend in March was sharply lower.

Determined
to be part of Mexico's bright future

IMPACT Silver's mining and exploration operations are located entirely in Mexico. We are focused on Mexico because of its rich mineral endowment, modern infrastructure, mining expertise and proximity to Canada. In fact, we view Mexico as one of the best places in the world to explore and mine. Mexico is also a country that continues to show strong economic growth and a widespread trend of modernization amidst a generally challenging global economic environment. IMPACT Silver intends to be a part of Mexico's continued growth.

Determined
to expand and diversify production

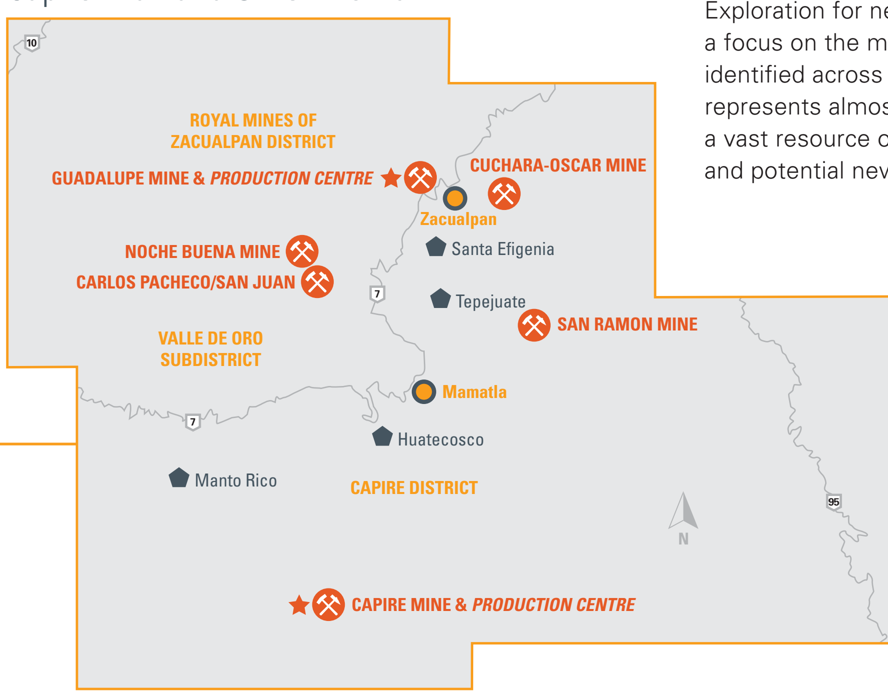
IMPACT Silver controls two contiguous mineral districts in south-central Mexico: the 423-square-kilometer Royal Mines of Zacualpan Silver District and the 200-square-kilometer Capire-Mamatla Mineral District.

At Zacualpan, we operate the Guadalupe Production Centre which is fed by three underground silver mines: Noche Buena, Cuchara-Oscar and San Ramon. In 2014, plans are to bring the higher grade Mirasol and San Patricio Silver mines into production to replace declining San Ramon Mine production.

The Capire test mill has provided the Company with added processing capacity and technical advancement. This mill is defining higher recovery and more efficient processing methods as new mines are brought online over the investment horizon. In 2014, the Capire mill will be available to process new discoveries such as the gold-copper mineralization from the new Carlos Pacheco/San Juan Zone and allow IMPACT to add gold and copper to its silver-lead-zinc production profile.

Exploration for new mineral resources continues with a focus on the more than 3,500 old mine workings identified across the Company's districts. This represents almost 500 years of mining history and is a vast resource of rich targets for future exploration and potential new mines.

Royal Mines Of Zacualpan/ Capire-Mamatla Silver District



LEGEND

- Producing Mine
- Early Stage Exploration
- Production Centre
- City or Town

Guadalupe Production Centre

The Guadalupe Production Centre, currently the Company's primary processing facility, is a 500-tonne-per-day (tpd) crushing and flotation plant that produces silver-lead and zinc-silver concentrates.

Three mines feed the Guadalupe Production Centre: Noche Buena, Cuchara-Oscar and San Ramon. In 2013, head grades from the mines averaged 158 g/t silver, and they produced a combined 682,526 ounces of silver in 2013. In 2014, plans are to bring the higher grade Mirasol and San Patricio Silver Mines into production to replace declining San Ramon Mine production.

Noche Buena Silver Mine

Noche Buena provided 32% of mill feed to the Guadalupe mill in 2013 (2012 – 31%). The mine is located four kilometers southwest of the Guadalupe Production Centre. Noche Buena, which opened in Q1 2010, contributes a silver-gold feed to the Guadalupe mill.

682,526 oz

of silver produced at Guadalupe in 2013

Cuchara-Oscar Silver Mine

Following its opening on February 20, 2013, the new Cuchara-Oscar Mine produced 23% of mill feed to the Guadalupe mill in 2013 (2012 – 0%). Cuchara-Oscar encompasses a corridor of silver veins located 2.5 kilometers east of the Guadalupe mill. Higher silver grades from Cuchara-Oscar are largely responsible for the overall increased production grades in 2013. The Cuchara-Oscar Mine is being expanded and will become the primary silver producer in 2014.

San Ramon Silver Mine

San Ramon provided 43% of mill feed to the Guadalupe mill in 2013 (2012 – 39%). San Ramon has been a significant contributor to production since 2008, but with greater depth, grades are dropping. Subsequent to year-end, a decision was made to transition production to new higher grade mines at Mirasol and San Patricio, subject to results from additional drilling at depth in San Ramon.

Capire Production Centre

Capire is IMPACT's second production centre, located 16 kilometers southwest of the Guadalupe Production Centre. The Capire mill is a 200-tpd pilot plant designed to test and process mineral zones for potential commercial production.

In 2013, the Company conducted a test mining phase at the Capire open pit to determine production costs and optimize mining and processing methods for a potential larger operation in the future. Processing methods were optimized and production costs and cut-off grades in the open pit (at 200-tpd) were determined. Additional studies with respect to optimal strip ratios, grade control and projections toward scaling up the operation have yet to be completed. Together, these measures will assist in planning a potentially larger, lower grade open pit operation in the future.

Due to lower silver prices, recent Mexican mining tax changes and low overall silver grade at Capire, the Company recognized that the open pit test operation was not economic at its present small scale. As a result, operations were suspended subsequent to year end and renovations were undertaken at the Capire plant to modify it to process copper and gold mineral from the Carlos Pachecho/San Juan Zone.

200 tonnes

pilot plant production capacity per day

Q2 2014

expected completion of Capire copper-gold circuit

Copper-Gold

to be produced from the Carlos Pachecho/San Juan Zone

New Mine Developments

In response to the need for higher grade feed due to lower metal prices and new taxes, IMPACT Silver has initiated several significant new mine development projects.

Mirasol Silver Mine Development
IMPACT has been drilling the Mirasol Zone since late 2012. This zone is located 5.5 kilometers southeast of the Guadalupe Processing Plant. Highlights from Mirasol drilling include intersections of 216 g/t silver over 7.1 meters (IMPACT news release dated November 26, 2012), and 945 g/t silver over 1.8 meters and 288 g/t silver over 3.2 meters (IMPACT news release dated January 28, 2013). Many other significant intersections in this vein system were also reported in the listed news releases.

Based on these results, IMPACT conducted mining engineering and metallurgical studies followed by a decision to move Mirasol into production in order to replace lower grade San Ramon Mine feed. Underground mine construction is planned for Q2 2014, subject to timely receipt of mining permits.

San Patricio Silver Mine Development
The San Patricio Project is located three kilometers southeast of the Guadalupe processing plant. IMPACT partially drilled San Patricio in 2007. Highlights from that drilling include 242 g/t silver over 4.6 meters (IMPACT news release dated September 25, 2007). Other significant intersections in this vein system were also reported in that news release.

Based on these results, mining engineering and metallurgical studies are being carried out to build a small high grade mine at San Patricio. Additional drilling is planned as the zone remains open to the north. Commencement of underground mine construction is tentatively scheduled for Q3 2014.

Carlos Pacheco/San Juan Gold-Copper Mine Development
New production from the Carlos Pacheco/San Juan Vein will add gold and copper to IMPACT's metal production profile. The vein is accessed through the Noche Buena Silver Mine workings and as such, no additional mining permits were needed to begin mining Carlos Pacheco in the Q3 2013. Through year-end 2013, modest tonnage of Carlos Pacheco mineral was mined and mixed with silver feed and then processed in the Guadalupe plant. Subsequent to year end, the Company began to convert the Capire plant to process gold-copper mineral from Carlos Pacheco/San Juan to optimize metal recoveries and revenues.

Introduction

This Management's Discussion and Analysis ("MD&A") is for the three months and year ended December 31, 2013 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at April 1, 2014 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2012 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

This document contains forward-looking statements. Please refer to "Note Regarding Forward-Looking Statements."

Corporate Overview

IMPACT has control of nearly two entire mineral districts in central Mexico – the 423 square kilometer **Royal Mines of Zacualpan Silver District** and the 200 square kilometer **Capire-Mamatla Mineral District** adjacent to and southwest of Zacualpan. The Company currently produces silver with lead, zinc and gold at its 500 tonnes per day ("tpd") Guadalupe processing plant in the Zacualpan District and is working to add gold and copper production in 2014 utilizing its 200-tpd Capire processing plant.

The Company is carrying out a three-part program of exploration, development and mine production at both the Royal Mines of Zacualpan Silver District and Capire-Mamatla Mineral District. As part of this process, management has established **three key objectives** for the districts in 2014:

1. Upgrade silver production by transitioning some production to new mines in the Zacualpan District: the Cuchara-Oscar Mine, the Mirasol Development Project and the San Patricio Development Project.
2. Renovate the Capire plant to process new gold and copper mineral mined from the Carlos Pacheco/San Juan vein of the Noche Buena mine.
3. Continue exploration with a focus on discovery and definition of additional high grade mineral resources near the producing mines.

The year in review

2013 proved to be a year with many accomplishments and some challenges along the way. During the year, the Company completed a number of major projects and addressed development work on others.

In February, the Company started shipping mineral from the Cuchara-Oscar Mine to the Guadalupe plant. This mine had been fast-tracked as a result of the decline in grades from the Chivo mine in 2012. Production from Cuchara-Oscar continued to grow throughout the year.

By fall of 2013, the new Capire 200-tpd processing facility was completed and test mining of the Capire open pit was well under way. The physical construction involved the building of water lines, power lines, a new tailings pond, a complete mineral processing facility and supporting facilities. Designed as a pilot plant to initially test the Capire open pit, the facility performed to specifications. Commercial production was reached in late 2013.

During this time, the Company also conducted a bulk sample of approximately 33,000 tons of ore at the Capire open pit. Upon completion of the initial testing, the Company determined that, with low silver prices and the recent Mexican mining tax changes, the test mining of the Capire open pit was not economic at its current small scale. As a result, subsequent to the year end, the Capire open pit was put on care and maintenance, while the plant and milling facility is being reconfigured to test the higher grade gold-copper mineral from Carlos Pacheco. This transition provides the Company an opportunity to process the gold-copper mineral without having to blend it with our silver-lead-zinc mineral.

During 2013, surface rights were acquired, geo-technical testing completed and permitting was well advanced on the new tailings facility for the Guadalupe mill. These developments are anticipated to provide approximately nine additional years of capacity for the Guadalupe silver, lead, zinc facility.

Over the last five years, the Company has invested considerable money, time and effort on developing an extensive database for the future development of the Company's mineral holdings in the Mamatla and Zacualpan Mining Districts. Based on this data, the Company has conducted a very extensive drill program during the last two years—including 34,000 meters in 2013. The drilling has provided a number of exploration/development projects which will ultimately replace some of the lower grade production from the Company's older mines and add production for the future.

Refocusing in Times of Lower Metal Prices

On January 2, 2013, the first day of trading for the year, the London Fix silver price was US$30.87. At year end December 31, 2013 the silver price was US$19.50, representing a 37% decrease. In response to this significant drop in silver price, the Company has been refocusing its mining and exploration work. Mining is now targeting the higher grade silver zones at the operating Noche Buena and Cuchara-Oscar mines with plans to replace San Ramon Mine production with higher grade mineral from new mines in development at Mirasol and at San Patricio. The Capire processing plant is being renovated to produce gold and copper from the Carlos Pacheco Zone in the Noche Buena Mine in the second quarter of 2014 after closure of the Capire open pit in February, 2014. Although production may be lower during these transitions, the new operations are planned to enhance production in the longer term. IMPACT is fortunate to have these higher grade zones to offset the decrease in metal prices and declining grades at older mines. Exploration work in 2014 will decrease approximately 40% to reduce expenditures and will largely focus on near term production targets in the vicinity of the current producing mines. IMPACT's ability to adapt to changing economics, including the addition of copper and gold production from Carlos Pacheco, enhances the Company's ability to address the downturn in the metals markets and to be ready to benefit and grow in the coming recovery

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 Year Ended December 31, 2013

Financial Overview

- Revenues of $14.1 million for the year, compared to $15.9 million in 2012, despite a 37% drop in silver prices.
- Net loss of $8.5 million for the year of which non-cash items included: $2.3 million in depreciation and amortization, $1.5 million in share based payments (stock option grants), $3.7 million in write-downs required under IFRS, and an adjustment to deferred taxes of $1.6 million ($1.5 million of this reflects the impact of the new Mexican mining taxes). After eliminating the impact of the above non-cash items and, in spite of the years' lower metal prices and lower volumes, there was a positive cash contribution of approximately $0.6 million[1].
- Mine operating earnings before amortization and depreciation were $2.7 million compared to $5.6 million in the prior year. The last half of 2013 reflected the dramatic downturn in silver prices generating only $0.6 million of cash flow from mine operations.
- Capital expenditures during the year (related primarily to the Capire milling facility, of $3.6 million, and mineral property expenditures of $8.4 million (part of which included the 2013 drill program of 34,000 meters) drew cash down to $3.5 million. However, the programs were completed without incurring any debt financing.

Production Overview

- Silver production increased 3% to 153,512 ounces for the fourth quarter of 2013, up from 148,333 ounces in the same period of 2012. For the year, silver production increased 10% to 682,526 ounces in 2013 from 620,515 ounces in 2012.
- Average mill feed grade for silver in the fourth quarter of 2013 increased to 151 grams per tonne (g/t) from 131 g/t in the fourth quarter of 2012, which was reflected in the higher production for the comparative periods. Average mill feed grade for the year was up 14% to 158 g/t in 2013 from 138 g/t in 2012.
- Total tonnes milled during the fourth quarter of 2013 decreased to 36,655 from 42,870 in the fourth quarter of 2012 and 38,520 tonnes from the third quarter of 2013.
- Testing of the Capire pilot plant, using mill feed from the Capire open pit, was completed and the plant entered into commercial production in December 2013. The plant will be reconfigured in 2014 to process higher value gold and copper mineralization from the Carlos Pacheco/San Juan area.
- The Cuchara-Oscar mine was put into production in February 2013. The mine has contributed 32% of mill feed for the fourth quarter of 2013 and 23% of total mill feed for the year.

1 Cash contribution 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."

Production and Sales: Guadalupe Mill

	For the three months ended December 31			For the year ended December 31		
	2013	2012	% Change	**2013**	2012	% Change
Total tonnes (t) produced	36,655	42,870	-14%	159,270	168,826	-6%
Tonnes produced per day	398	466	-15%	436	463	-6%
Silver production (oz)	153,512	148,333	+3%	682,526	620,515	+10%
Lead production (t)	154	78	+97%	514	463	+11%
Zinc production (t)	107	99	+8%	482	710	-32%
Gold production (oz)	337	164	+105%	1,269	629	+102%
Silver sales (oz)	165,139	130,857	+26%	717,334	563,258	+27%
Lead sales (t)	165	70	+136%	556	430	+29%
Zinc sales (t)	95	105	-10%	416	721	-42%
Gold sales (oz)	380	143	+166%	1,298	570	+128%
Average mill head grade – silver g/t g/t gr/t	151	131	+15%	158	138	+14%
Revenue per tonne sold[2]	$ 75.20	$ 92.66	-19%	$ 84.48	$ 94.27	-10%
Direct costs per production tonne[2]	$ 70.75	$ 61.13	+16%	$ 67.94	$ 62.39	+9%

*Table excludes Capire mine production

2 Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See "NON-IFRS MEASURES".

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

As the Company disclosed in March 2013, mine production in 2012 was impacted by lower silver grades – particularly from the Chivo Mine, where silver grades decreasing with depth resulted in lower overall production. Further, Chivo also supplied higher grades of lead and zinc. Therefore the phasing down of Chivo also contributed to reduced overall lead and zinc production. To offset these production losses, the Company fast-tracked the high grade Cuchara-Oscar Mine into production. Commencement of production at Cuchara-Oscar was announced in late February of 2013. Initial mining consisted of development muck, with the expectation of mining higher grade material later.

Within the fourth quarter of 2013, Cuchara-Oscar provided 32% of all mill feed. As the Company developed Cuchara-Oscar to make it Guadalupe's principal producer, lower grade development muck was being processed through the mill. This shift resulted in lower grade ore in the fourth quarter with average head grade at 151 g/t compared to the third quarter at 171 g/t. Grades are still much higher than 2012, with year-to-date grade at 158 g/t for the current year compared with 138 g/t for the same period in 2012. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. However, with the Cuchara-Oscar Mine developing into higher grade mineral, the Company expects a steady increase in grades going forward in 2014.

The Capire plant commenced commercial production in December 2013. As a result, there was a small contribution of production from this mill with 4,096 tonnes produced and silver sales of 3,275 ounces. As the Capire plant is reconfigured to process the gold-copper mineralization, the Company anticipates a much higher contribution to sales and production in 2014.

Average silver metal prices based upon the London Metal Exchange ("LME") PM fix have decreased by 31% from the first quarter to the fourth quarter of 2013. Additionally, average silver prices have decreased 36% in the fourth quarter of 2013 from the same period in 2012. Silver sales were 165,139 ounces in the fourth quarter of 2013, an increase over the 130,857 ounces sold in the same period of 2012. Silver sales also increased year-to-date from 2013 to 717,334 ounces compared with 563,258 ounces sold year-to-date in 2012. The decrease in silver price contributed to the decrease in revenue from the fourth quarter of 2013 (compared to the same period in 2012), even though the Company had increased silver sales in the fourth quarter.

The Company's lower revenues in the fourth quarter of 2013 of $75.20 per tonne, a decrease from $92.66 per tonne from the same period in 2012, is a result of lower realized metal prices and slightly higher smelting and refining charges. The lower silver price also affected the year-to-date revenue per tonne, as it decreased to $84.48 per tonne for the year compared with $94.27 per tonne for same period in 2012.

Mine Production

Mine Operations

The Company has been operating the 500-tpd Guadalupe production centre in the Royal Mines of Zacualpan Silver District since 2006 and the 200-tpd Capire production centre, located 16 kilometers to the southwest, since mid-2013.

Royal Mines of Zacualpan District

The Royal Mines of Zacualpan silver district was acquired by the Company in January 2006. Since acquisition, an extensive program of upgrading operations and expanding production has been carried out. IMPACT has expanded and upgraded the majority of the mining equipment, including the rebuilding and purchase of a number of scoop-trams and underground trucks. Upgrade expenditures included new equipment in the Guadalupe production centre and expansion of the tailings dam (continuing). The Company has also purchased additional surface lands near the Guadalupe mill to address the need for additional tailings capacity in the future.

While plant and facilities limit processing capacity to 500-tpd at Guadalupe, sourcing superior grade mill feed from the Company's mines remains the critical factor for increasing silver production. This is especially true in the current environment of lower silver prices. To address this issue, the Company is shifting the focus of mining operations to the higher grade silver zones in the Cuchara-Oscar and Noche Buena Mines and new mine development projects at Mirasol and San Patricio. Additionally, the Company is beginning to produce gold and copper from the Carlos Pacheco project.

Noche Buena Mine

During the fourth quarter of 2013, the Noche Buena mine provided 32% (Q4 2012 – 33%) of mill feed to the Guadalupe mill. The mine is located 4 kilometers southwest of the Guadalupe production centre and commenced production in the first quarter of 2010. The mine is contributing a silver-gold feed to the Guadalupe mill. A crosscut was excavated to the nearby Carlos Pacheco gold-copper vein, where mining began in August 2013 resulting in a modest increase in gold production at the Guadalupe mill. Subsequent to year end in February 2014, a decision was made to reconfigure the Capire plant to a dedicated plant to process the gold-copper mineralization from the Carlos Pacheco vein.

Cuchara-Oscar Mine

On February 20, 2013, the Company announced initial production at the new Cuchara-Oscar mine. During the fourth quarter, Cuchara-Oscar produced 32% of mill feed for the Guadalupe plant. Subsequent to year end, a decision was made to expand production and make Cuchara-Oscar the principal producer as production from San Ramon declines with depth.

Cuchara-Oscar encompasses a corridor of high-grade silver veins located 2.5 kilometers east of the Guadalupe plant. Initial production at Cuchara-Oscar is from development muck in the Marqueza, Santa Lucia footwall and Oscar veins with plans to develop other nearby veins in the near future.

San Ramon Mine

During the fourth quarter of 2013, the San Ramon mine provided 35% (Q4 2012 – 51%) of mill feed to the Guadalupe mill. San Ramon has been a significant contributor to production since 2008, but grades are dropping with depth. Subsequent to year end, and subject to results of additional drilling, a decision was made to transition production to new mines and higher grade zones.

Gallega Mine

The Gallega mine is located less than one kilometer from the Guadalupe processing plant and is periodically restarted to provide modest tonnages of supplementary silver feed to the plant. During the fourth quarter of 2013, the Gallega mine provided 1% (Q4 2012 – 2%) of mill feed to the Guadalupe mill.

Chivo Mine

After a period of reduced production, the Chivo mine was put on care and maintenance during the first quarter of 2013 and production shifted to the new higher grade Cuchara-Oscar mine.

Capire Production Centre

Capire is located 16 kilometers southwest of the Guadalupe production centre. During the fourth quarter of 2013, and subsequent to year end, the Capire production centre and mine have seen significant changes.

On March 14, 2013, IMPACT announced that commissioning of the new Capire mine and 200-tpd pilot plant had begun. Subsequent to year end, on February 12, 2014, the Company announced that open pit operations had been shut down and the plant was being reconfigured to process higher grade gold and copper mineralization from the Carlos Pacheco vein in the Noche Buena mine.

The purpose of the test mining and processing operations at the Capire open pit and plant was to determine production costs and optimize mining and processing methods in planning for a larger operation in the future. Subsequent to year end, most of this test work had been completed. In light of lower silver prices, recent Mexican mining tax changes and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economic at its present small scale. Thus, open pit operations were suspended. During the test mining and processing, processing methods were optimized and production costs and cut-off grades at 200-tpd in the open pit were determined. Additional studies with respect to open pit optimal strip ratios, grade control and projections toward scaling up the operation have yet to be completed. Together, these measures will provide the foundation for planning of a potentially larger, lower grade open pit operation in the future.

The Capire processing plant is now undergoing renovations which include minor adjustments to the crushing and grinding circuit and metallurgical adaptations to the flotation circuit to optimize gold and copper recoveries from Carlos Pacheco feed. A gold gravity recovery unit is also being considered. Using a dedicated processing plant offers the potential of improving gold and copper recoveries over use of the Guadalupe silver lead zinc facility. Renovations are projected to be completed in the late second quarter of 2014. Mineral feed to the plant will be ramped up through the second half of the year as additional mining faces at Carlos Pacheco/San Juan are developed.

Capire Mineral Resources

Capire is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire-Mamatla district is predominantly silver-rich with zinc and lead credits. The district covers the same stratigraphy as the Campo Morado VMS belt where Nyrstar NV (formerly Farallon Resources) is in commercial production on the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 kilometers southwest of Capire.

NI 43-101 compliant measured and indicated mineral resource estimates for the Capire deposit, based on information available through early 2011, total 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a U.S. $20/tonne in ground metal value envelope contained in 4.9 million tonnes grading 45.7 g/t silver, 0.88% zinc and 0.34% lead with higher grade internal zones (see IMPACT news release dated February 1, 2011 for details). Since 2011, exploration drilling has continued at Capire and nearby zones of mineralization with the aim of expanding mineral inventories for future production.

Production from the Capire open pit was put on care and maintenance subsequent to year end, but production may be restarted in the future with higher metal prices.

New Mine Developments

Subsequent to year end, several significant new mine development projects were initiated in response to the need for higher grade feed due to lower metal prices and new taxes.

Mirasol Silver Mine Development

IMPACT has been drilling the Mirasol zone, located 5.5 kilometers southeast of the Guadalupe processing plant, since late 2012. Highlights from Mirasol drilling include intersections of 216 g/t silver over 7.1 meters (*IMPACT news release dated November 26, 2012*), and 945 g/t silver over 1.8 meters and 288 g/t silver over 3.2 meters (*IMPACT news release dated January 28, 2013*). Many other significant intersections in this vein system were also reported in the listed news releases.

Based on these results, mining engineering and metallurgical studies were carried out and a decision was made to move Mirasol into production to replace lower grade San Ramon mine feed to the Guadalupe plant. Commencement of underground mine construction at Mirasol is planned for the second quarter of 2014, subject to timely receipt of mining permits.

San Patricio Silver Mine Development

The San Patricio project is located three kilometers southeast of the Guadalupe processing plant. IMPACT partially drilled the San Patricio Zone in 2007. Highlights from that drilling include 242 g/t silver over 4.6 meters (*IMPACT news release dated September 25, 2007*). Other significant intersections in this vein system were also reported in the listed news release.

Based on these results, mining engineering and metallurgical studies are being carried out to build a small but high grade mine. Additional drilling is planned as the zone remains open to the north. Commencement of underground mine construction is tentatively planned for the third quarter of 2014. The San Patricio silver vein is within the old Chivo silver mine operating permit area, so no additional mining permits are needed to begin mining San Patricio except surface land permissions which are now being negotiated.

Carlos Pacheco Gold-Copper Mine Development

New production from the Carlos Pacheco vein will add gold and copper to IMPACT's metal production profile. The vein is accessed through the Noche Buena silver mine workings, so no additional mining permits were needed to begin mining Carlos Pacheco in the third quarter of 2013. Through year end 2013, modest tonnages of Carlos Pacheco mineral were mined and mixed with silver feed and processed in the Guadalupe plant. In February 2014, a decision was made to reconfigure the Capire plant and dedicate it to process gold-copper mineral from Carlos Pacheco to optimize metal recoveries and revenues. Mineral is now being mined from the Carlos Pacheco south zone and is being stockpiled. Processing in the Capire plant will begin once renovations are completed in summer of 2014. Construction of mine access into the larger San Juan gold-copper zone further north on the Carlos Pacheco vein has also begun and should reach the zone later this year. See EXPLORATION below for recent drill results from San Juan.

Exploration

IMPACT's team has explored and placed five mines (Noche Buena, Carlos Pacheco, Cuchara-Oscar, Chivo and Capire) into production over the past seven years with two new mine development projects (Mirasol and San Patricio) planned to enter production in 2014. New exploration drill results for the fourth quarter of 2013 are as follows:

Carlos Pacheco / San Juan Drill Results

During the fourth quarter, and subsequent to year end, drilling focussed on the San Juan portion of the Carlos Pacheco project which covers the northern extensions of the veins currently being mined in the Noche Buena and Carlos Pacheco south mine. Highlights from the San Juan drilling include intersections of 1,409.8 g/t silver over 2.07 meters from the Noche Buena vein and 17.1 g/t gold over 1.89 meters from the Carlos Pacheco vein (*IMPACT news release dated October 30, 2013*), 1,587.8 g/t silver over 1.72 meters from the Noche Buena vein and 3.44 g/t gold over 7.17 meters from the Carlos Pacheco vein (IMPACT news release dated January 7, 2014), 1,218.1 g/t silver over 1.17 meters from the Noche Buena vein and 10.34 g/t gold over 3.19 meters from the Carlos Pacheco vein (*IMPACT news release dated February 18, 2014*) and 994.2 g/t silver over 5.67 meters from the Noche Buena vein and 5.0 g/t gold over 1.81 meters from the Carlos Pacheco vein (*IMPACT news release dated March 3, 2014*). Many other significant intersections on these and other veins in this system were also reported in the listed news releases. Additional drilling is planned to target further expansion of the zones.

Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the districts. These crews have been sampling some of the 3,500+ old mine workings and prospects in the district. They have also trenched areas of mineralization and carried out extensive soil sampling on 100 meter x 25 meter grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling was carried out in the San Pablo Norte, Manto Rico, El Paso, Noche Buena North and San Miguel areas with favourable results.

Veta Grande (Zacatecas) Silver Project, Mexico

The Zacatecas Project consists of a 200-tpd plant and 13 mineral concessions in the Zacatecas silver district located 500 kilometers northwest of Mexico City. Access is by paved highways which run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force. Over the past six years, intermittent exploration has focused on several of the 13 mineral concessions located within the district.

In 2011, the Company optioned most of its Zacatecas assets to Defiance Silver Corp. ("Defiance", DEF: TSX.V) in return for a major share position (paid) and a final payment of $1,955,200 in cash (not paid). During 2013 the Company participated in several small private placements in Defiance and currently holds 4,067,000 shares. The Company now has an 8.4% interest in Defiance (as a result of the issuance on March 27, 2014 of 20 million new share units). Defiance advanced the project to the final stages of re-permitting the plant. In January 2014 Defiance returned the Zacatecas project to IMPACT to focus on its exploration project. IMPACT is now considering its options with regard to the Zacatecas plant and mineral concessions.

Dominican Republic

The Dominican Republic is attracting interest from the industry with significant drill discoveries by Goldquest Mining, exploration work by other junior companies and the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc. Currently, the Company is in the process of renewing its mineral concessions in the Dominican Republic, a process it has successfully done several times in the past. However, the current government is undertaking an extensive review of all applications for concession renewals, and it is uncertain at this time whether such renewals will be granted. The Company's exploration concessions under renewal constitute a block of early stage exploration areas covering favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous structures which the Company believes offer the opportunity for mineralization. The Company's block of concessions is located some 100 km east of Barrick's large Pueblo Viejo Gold deposit which contains reported proven and probable gold reserves of over 23.7 million ounces. Pueblo Viejo is hosted in the same rock formation as the Company's concessions. The Company began a small prospecting and sampling field program in the Dominican Republic during the quarter.

Future Plans

Future plans for mining and exploration in the Zacualpan and Capire Districts represent a balance between the near term need to focus on high grade zones close to the active mining operations in response to the current lower metal price environment and activities to prepare for and seize opportunities in the Districts and elsewhere in anticipation of a recovery in metal prices.

Mining Plans

During and subsequent to the fourth quarter, IMPACT implemented some significant changes to its mining activities. Silver production is shifting to new mines to take advantage of higher grades in response to lower metal prices. The new Cuchara-Oscar silver mine is ramping up to become IMPACT's principal silver producer. The new Mirasol and San Patricio silver mines are being developed to replace San Ramon mine production. The new Carlos Pacheco project has begun mining gold and copper which will soon be processed in a dedicated plant at Capire. Although production may be weaker in the short-term during this transition, in the longer term management believes these new higher grade operations will enhance the Company's operations. Longer term plans are to grow the Company into a multimillion ounce silver producer with significant gold and copper production.

Exploration Plans

Plans are to continue exploration with a goal of putting some of the other 3,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Current field work and drilling has focused on targets close to current production areas. Near term drill targets include expansion of the San Juan gold-copper zone and the northern extensions of the Noche Buena silver mine, and the Condesa South and Cuchara North targets in the Cuchara-Oscar mine area of the Zacualpan district.

With a track record of successful exploration, rapid mine development and more than 3,500 old mine workings identified to date, the Company's long term vision sees potential for establishment of multiple mills throughout the two districts, each fed by multiple mines producing silver as well as gold and copper.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District and the Veta Grande (Zacatecas) Silver Project. The Capire mineral resource estimates in this MD&A were taken from a technical report (posted on www.sedar.com) by Claus G. Wiese. P. Eng. of I-Cubed LLC, a Qualified Person under the meaning of Canadian National Instrument 43-101 and an independent professional engineer. Other information on the Company's projects can be found on the Company website at www.IMPACTSilver.com .

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian NI 43-101, is responsible for the technical information described in this MD&A for the Dominican Republic Projects.

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, where possible, effects reclamation on both current and historical activities.

Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised. The Company has social, environmental and other policies related to its operations.

We work as part of a community, whose members are kept informed of our activities and their concerns addressed. The Company retains a Community Relations Officer to ensure open communications. The use of personnel and other workers from the local communities foster understanding, direct involvement in the Company's operations and financial benefits to the local communities.

The Company has formulated specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities surrounding us. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program. A paramedic and onsite ambulance are on standby in case of emergencies.

Investor Relations

During 2013, the Company continued to build investor awareness and shareholder value by conducting institutional presentations and attending investment and mining related conferences in Canada and internationally. Plans for 2014 include continued participation in investor and mining related conferences and conducting institutional presentations with the intent to increase the Company's visibility. Beyond this, the Company continues to strengthen its presence via social media, print magazine articles and online advertisements.

Financial Discussion

Summary of Quarterly Results

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

	For the three months ended December 31			
		2013		2012
Revenue	$	3,035	$	4,654
Net loss	$	(4,699)	$	(839)
Loss per share – basic	$	(0.07)	$	(0.01)
Loss per share – diluted	$	(0.07)	$	(0.01)

Note: The Company has no non-current financial liabilities.

For the three months ended December 31, 2013, the Company's mine operating losses were $0.3 million compared to earnings of $0.5 million in 2012, with revenues of $3.0 million in 2013 compared to $4.7 million in 2012. Direct costs per tonne for the three months ended were $70.75 in the fourth quarter of 2013 compared to $61.13 in 2012. Operating expenses decreased from $3.7 million in the fourth quarter of 2012 to $2.8 million in the same period of 2013. The decrease in cost is mainly due to the decrease in tonnes produced. Amortization and depletion expenses remained unchanged at $0.5 million during the quarter ended December 31, 2013 from the same period of 2012.

The net loss was $4.7 million for the fourth quarter in 2013, compared to net loss of $0.8 million in 2012. The increase in loss was largely attributable to write-downs of mineral properties of $2.6 million, write-down to inventory of $0.4 million, and the requirement to record a deferred tax liability for the effect of new mining royalties in Mexico in Q4 2013. The effect of these royalties resulted in an additional $1.5 million in deferred tax expense in the quarter. General and administrative expenses, excluding share based payments, were $0.5 million for the current quarter unchanged from $0.5 million in the same period of 2012.

Silver production was 153,512 ounces during the three months ended December 31, 2013, representing a 3% increase compared with 148,333 ounces produced within the same period of 2012. Lead production increased in the fourth quarter of 2013 over the same time period in 2012, from 78 tonnes to 154 tonnes. Zinc production increased in the fourth quarter of 2013 to 107 tonnes from 99 tonnes in the same period in 2012. Gold production increased from 164 ounces to 337 ounces during the fourth quarter of 2012 and 2013, respectively.

Average silver prices declined 36% from the fourth quarter of 2012 in comparison to the same period in 2013. During this same period, lead prices decreased by 4% and zinc prices decreased by 2%. As silver sales account for the majority of the Company's revenues, the decrease in lead and zinc prices did not significantly affect mining operating earnings.

Summary of Year to Date Results

	Year ended December 31			
In Thousands		2013		2012
Revenue	$	14,106	$	15,934
Net earnings (loss)	$	(8,519)	$	(1,145)
Earnings (loss) per share – basic	$	(0.13)	$	(0.02)
Earnings (loss) per share – diluted	$	(0.13)	$	(0.02)

Note: The Company has no non-current financial liabilities.

For the year ended December 31, 2013, the Company's mine operating earnings were $0.5 million compared to $4.0 million in 2012, with revenues of $14.1 million in 2013 compared to $15.9 million in 2012. Operating expenses, excluding amortization and depletion, were $11.4 million compared to $10.3 million in 2012. Direct costs per tonne for the year increased to $67.94 in 2013 compared to $62.39 in 2012 because of a decrease in total tonnes produced. The increase in operating expenses in 2013 was due mainly to retroactive payments to union employees, severance payments to workers who were laid-off and higher mining costs at the Cuchara-Oscar mine as initial production consisted of development muck and higher transportation costs. In addition, the average foreign exchange rate between the Mexican peso and Canadian dollar increased every quarter in 2013 from 2012: 3% from Q1 2012 and Q1-2013, 10% from Q2 2012 and Q2 2013, 6% from Q3 2012 and Q3 2013, 5% from Q4 2012 and Q4 2013, which increased expenses accordingly. Amortization and depletion expenses increased to $2.2 million in 2013 from $1.6 million in 2012 as a result of revised resource estimates and the make-up of mines used for mill feed.

The net loss was $8.5 million in 2013, compared to a net loss of $1.1 million in 2012. General and administrative expenses, excluding share-based payments, were $2.2 million in 2013 – unchanged from $2.2 in 2012. The largest increase in general and administrative expenses was from share-based payments due to new stock options issued in the first quarter of 2013 and the expense associated with the revaluation of stock options as a result of extending the exercise period by five years during the second quarter of 2013.

It was determined that there was a significant and prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company recorded a non-cash partial write-down of $0.8 million.

Upon review of the mineral property balances, the Company determined that some properties required write-downs. As a result, the Company wrote down $2.6 million for the current year (no comparable expense in 2012), of which $1.0

million relates to the Dominican Republic properties due to uncertainty that mineral concessions will be renewed. The remaining $1.6 million relates to areas in the Zacualpan and Mamatla regions where drill results indicate that we are unlikely to return to do further work.

The Company was required to record a deferred tax liability and expense in relation to new mining royalties in Mexico. In Q4 2013, the Mexican congress passed legislation for a two-tiered royalty system for precious metals: 1) a royalty of 7.5% on the earnings before interest, taxes, depreciation and amortization ("EBITDA"); 2) a further 0.5% royalty on revenue from gold and silver, based on Net Smelter Returns ("NSR"). Under the EBITDA royalty, depreciation and depletion are not allowable deductions. Therefore, the Company is required to establish a deferred tax liability to account for this additional cost on all property, plant and equipment and mineral property subject to this royalty. This resulted in an additional expense of $1.5 million in the period.

The Company's net smelter revenues decreased 11% to $14.1 million in 2013 compared to $15.9 million in the same period in 2012. During 2013, 717,334 ounces of silver were sold compared to 563,258 ounces sold in the same period in 2012, an increase of 27%. However, since the beginning of 2013, silver prices decreased by 37%, offsetting this increase in sales.

Silver production during 2013 compared to 2012 increased by 10% as a result of mining higher grade feed materials from the Company's mines in 2013. During this period, silver production increased to 682,526 ounces from 620,515 ounces in 2012. Additionally, gold production in 2013 reached 1,269 ounces, a 102% increase over the 629 ounces produced in 2012.

Other Financial Information

Summary of Quarterly Results

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

	For the three months ended							
	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012
Revenues	3,035	3,119	3,779	4,173	4,654	3,194	3,619	4,467
Net earnings (loss)	(4,699)	(1,223)	(1,942)	(655)	(839)	(436)	278	(147)
Earnings (loss) per share – Basic*	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	0.00	0.00
Earnings (loss) per share – Diluted*	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	0.00	0.00
Cash	3,485	6,741	9,973	13,340	16,013	19,563	23,057	28,065
Total assets	63,119	65,860	68,648	69,803	66,074	64,972	65,476	67,842
Total liabilities	8,997	8,191	8,481	8,167	7,131	6,224	6,896	8,191

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

The Company's financial position at December 31, 2013 remained sound with $3.5 million in cash and net working capital of $6.9 million. The Company had cash flows from operations before changes in non-cash working capital[3] of $0.6 million for the year ended December 31, 2013. This compares to cash flow generated from operations before changes in non-cash working capital of $3.3 million in the same period of 2012.

The Company's working capital at December 31, 2013 of $6.9 million decreased from $9.9 million at September 30, 2013 as the Company continued to invest its capital in the development of the Capire Mine and pilot plant and on-going exploration in the Royal Mines of Zacualpan Silver District. Total investments for the quarter in development and exploration and capital additions were $2.0 million. Total investments year-to-date in development and exploration were $3.6 million and in capital additions were $8.4 million. In addition, cash flow from operations decreased during the quarter due to the decrease in the silver price which contributed to the overall decrease in working capital during the quarter.

The Company's working capital position is expected to remain sufficiently strong to fund all planned resource property costs, exploration expenditures and acquisition of property, plant and equipment over the coming year.

Capire Mine Development

Commercial production was declared at the Capire plant in December 2013. To date, $14.3 million has been invested in exploration and capital development at Capire, of which $8.3 million was invested in capital development of the mine and pilot plant. The remaining $6.0 million was invested in exploration for additional mineral deposits at the Capire Mine.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 1, 2014:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares as of April 1, 2014	68,128,244		
Stock Options	1,310,000	$0.55	January 6, 2019
Stock Options	867,500	$1.10	December 6, 2015
Stock Options	1,970,000	$1.85	September 26, 2016
Stock Options	2,285,000	$1.20	January 23, 2018
Fully diluted at April 1, 2014	74,560,744		

Of the 6,432,500 options outstanding, 5,861,250 have vested at April 1, 2014.

Related Party Transactions

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

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

During the year ended December 31, 2013, fees in the amount of $4.2 million (2012 – $3.9 million) were incurred by Energold, for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. At December 31, 2013, the balance owed to Energold was $0.9 million (December 31, 2012 – $0.6 million).

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

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, 2013, investments were classified as Level 1 on the fair value hierarchy of IFRS 7 – Financial Instruments – Disclosures.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles"), Trafigura Mexico, S.A. De C.V. ("Trafigura") 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, 2013 is the carrying value of its cash ($3.5 million), trade and other receivables ($1.7 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At December 31, 2013, the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2013, 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, 2013, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.6 million decrease or increase in the Company's net loss for the period ended December 31, 2013.

Commodity price risk

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

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

	2013	2012
Silver price	$ 77,000	$ 215,000

Operational Risk

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

Political, Regulatory and Security Issues

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

In October 2013, the Mexican government enacted significant changes to the mining tax and royalty regime which have significant impacts on the mining industry. Given the magnitude of these changes, it will create significant impact on the Company's earnings.

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 Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors. Following are the non-IFRS measures the Company uses in assessing performance:

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

		2013		2012
Cash flows from operating activities	$	(623,290)	$	(1,986,717)
Add (deduct) changes in non-cash working capital:				
Trade and other receivables		(661,578)		1,416,747
Inventories		(81,255)		(25,388)
Value added taxes receivable		2,376,702		2,025,563
Trade payables		(73,167)		732,977
Income taxes payable		-		1,198,228
Due to related party		(340,372)		(64,900)
Cash flows from operations before changes in non-cash working capital	**$**	**597,040**	**$**	**3,296,510**
Add (deduct) Accretion expense		(40,196)		-
Cash contribution	**$**	**556,844**	**$**	**3,296,510**

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

	For the three months ended December 31				For the year ended December 31			
		2013		2012		2013		2012
Operating expenses	$	2,823,546	$	3,727,706	$	11,357,608	$	10,314,273
(Deduct): operating expenses for Capire		(46,644)		-		(46,644)		-
Add (deduct): inventory		(183,687)		(725,473)		(490,096)		219,299
Direct costs	$	2,593,215	$	3,002,233	$	10,820,868	$	10,533,572
Tonnes produced		36,655		42,870		159,270		168,826
Direct costs per tonne	**$**	**70.75**	**$**	**70.03**	**$**	**67.94**	**$**	**62.39**
Revenue	$	3,304,929	$	4,654,609	$	14,106,056	$	15,934,060
(Deduct): revenue for Capire		(57,564)		-		(57,564)		-
Revenue for Guadalupe	$	2,977,365	$	4,654,609	$	14,048,492	$	15,934,060
Tonnes sold		39,593		56,248		166,303		169,019
Revenue per tonne sold	**$**	**75.20**	**$**	**82.75**	**$**	**84.48**	**$**	**94.27**

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

Note Regarding Forward–Looking Statements

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

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

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

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

On behalf of the Board of Directors,

“Frederick W. Davidson”
PRESIDENT & CHIEF EXECUTIVE OFFICER

April 1, 2014

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 & CHIEF EXECUTIVE OFFICER

April 1, 2014

"R. S. Younker"
CHIEF FINANCIAL OFFICER

April 1, 2014

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, 2013 and December 31, 2012 and the consolidated statements of income/(loss), comprehensive income/(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 as issued by the IASB, 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, 2013 and December 31, 2012 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the IASB.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS

April 1, 2014

IMPACT Silver Corp.

Consolidated Statements of Financial Position

(As at December 31, Canadian dollars)

	2013	2012
Assets		
Current		
Cash	$ 3,485,180	$ 16,013,245
Trade and other receivables *(Note 5)*	4,485,903	4,821,395
Inventories *(Note 6)*	1,112,667	1,461,994
Investments	139,510	870,815
	9,223,260	**23,167,449**
Value added taxes receivable	4,465,447	2,025,563
Property, plant and equipment *(Note 7)*	27,438,447	18,400,875
Mineral properties *(Note 8)*	21,991,493	22,479,702
	$ 63,118,647	**$ 66,073,589**
Liabilities		
Current		
Trade payables and accrued liabilities	$ 1,330,123	$ 1,191,805
Due to related party *(Note 9)*	946,828	590,829
	2,276,951	**1,782,634**
Reclamation provision *(Note 11)*	307,427	771,416
Deferred income tax liabilities *(Note 17)*	6,412,603	4,577,196
	8,996,981	**7,131,246**
Shareholders' Equity		
Share capital	53,495,947	53,495,947
Contributed surplus	4,630,492	3,156,199
Accumulated other comprehensive income (loss)	867,142	(1,356,896)
Retained earnings (deficit)	(4,871,915)	3,647,093
	54,121,666	**58,942,343**
	$ 63,118,647	**$ 66,073,589**

ON BEHALF OF THE BOARD:

"F.W. Davidson"
DIRECTOR

April 1, 2014

"P. Tredger"
DIRECTOR

April 1, 2014

The accompanying notes are an integral part of the consolidated financial statements

IMPACT Silver Corp.

Consolidated Statements of Income (Loss)

(For years ended December 31, Canadian dollars)

	2013	2012
Revenues	$ 14,106,056	$ 15,934,060
Expenses		
Operating expenses *(Note 12)*	11,357,608	10,314,273
Amortization and depletion	2,232,636	1,583,806
	13,590,244	**11,898,079**
Mine operating earnings	**515,812**	**4,035,981**
General and administrative expenses		
Accounting, audit and legal	267,044	228,470
Amortization	44,714	52,133
Investor relations, promotion and travel	219,326	250,050
Management fees and consulting	303,625	284,723
Office, rent, insurance and sundry	340,789	513,930
Office salaries and services	880,220	890,379
Property investigations	178,508	-
Share-based payments	1,474,293	951,408
Write-down of inventory *(Note 6)*	359,896	-
Write-down of mineral properties *(Note 8 (a))*	2,583,765	-
	6,652,180	**3,171,093**
Operating (loss) income	**(6,136,368)**	**864,888**
Other income (expenses)		
Finance cost	(40,196)	-
Finance income	179,221	223,159
Foreign exchange loss	(108,842)	(381,623)
Other income	18,388	2,739
Write-down of available-for-sale investment *(Note 8 (b))*	(803,305)	(750,000)
	(754,734)	**(905,725)**
Loss before taxes	**(6,891,102)**	**(40,837)**
Current income tax expense	50,663	-
Deferred income tax expense	1,577,243	1,104,009
Net loss	**$ (8,519,008)**	**$ (1,144,846)**
Loss per share – Basic *(Note 16 (c))*	$ (0.13)	$ (0.02)
– Diluted *(Note 16 (c))*	$ (0.13)	$ (0.02)
Weighted average number of shares outstanding – Basic	**68,128,244**	**68,061,035**
Weighted average number of shares outstanding – Diluted	**68,128,244**	**68,061,035**

The accompanying notes are an integral part of the consolidated financial statements

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Income

(For year ended December 31, Canadian dollars)

		2013		2012
Net loss	$	(8,519,008)	$	(1,144,846)
Other comprehensive (loss) income		-		-
Items that may be subsequently reclassified to profit or loss				
Unrealized loss on investments held as available-for-sale		(803,305)		(782,500)
Reclassification on write-down of available-for-sale investment		803,305		750,000
Cumulative translation adjustment		2,224,038		1,251,905
Comprehensive (loss) income	**$**	**(6,294,970)**	**$**	**74,559**

The accompanying notes are an integral part of the consolidated financial statements

IMPACT Silver Corp.

Consolidated Statements of Changes In Equity

(For year ended December 31, Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income ($)	Retained Earnings ($)	Total Shareholders' Equity ($)
Balance at January 1, 2012	68,027,210	53,304,772	-	2,256,643	(2,576,301)	4,791,939	57,777,053
Loss for the year	-	-	-	-	-	(1,144,846)	(1,144,846)
Stock options exercised	101,034	139,323	-	-	-	-	139,323
Fair value of stock options exercised	-	51,852	-	(51,852)	-	-	-
Share based payments expense	-	-	-	951,408	-	-	951,408
Cumulative translation adjustments	-	-	-	-	1,251,905	-	-
Reclassification on write-down of available-for-sale investment	-	-	-	-	750,000	-	750,000
Unrealized gains (losses) on investments	-	-	-	-	(782,500)	-	(782,500)
Balance at December 31, 2012	**68,128,244**	**53,495,947**	**-**	**3,156,199**	**(1,356,896)**	**3,647,093**	**58,942,343**
Loss for the year	-	-	-	-	-	(8,519,008)	(8,519,008)
Share based payments expense	-	-	-	1,474,293	-	-	1,474,293
Cumulative translation adjustments	-	-	-	-	2,224,038	-	2,224,038
Reclassification on write-down of available-for-sale investment	-	-	-	-	803,305	-	803,305
Unrealized gains (losses) on investments	-	-	-	-	(803,305)	-	(803,305)
Balance at December 31, 2013	**68,128,244**	**53,495,947**	**-**	**4,630,492**	**867,142**	**(4,871,915)**	**54,121,666**

The accompanying notes are an integral part of the consolidated financial statements

IMPACT Silver Corp.

Consolidated Statements of Cash Flows

(For years ended December 31, Canadian dollars)

	2013	2012
Operating activities		
Net loss	$ (8,519,008)	$ (1,144,846)
Items not affecting cash		
Amortization and depletion	2,277,350	1,635,939
Share-based payments	1,474,293	951,408
Deferred income taxes	1,577,243	1,104,009
Accretion expense	40,196	-
Write-down of available-for-sale investment	803,305	750,000
Write-down of mineral properties	2,583,765	-
Write-down of inventory	359,896	-
Changes in non-cash working capital		
Trade and other receivables	661,578	(1,416,747)
Inventories	81,255	25,388
Value added taxes receivable	(2,376,702)	(2,025,563)
Trade payables	73,167	(732,977)
Income taxes payable	-	(1,198,228)
Due to related party	340,372	64,900
	(623,290)	**(1,986,717)**
Investing activities		
Purchase of available-for-sale investment	(60,000)	(182,650)
Acquisition of property, plant and equipment	(3,599,198)	(7,317,215)
Proceeds from the sale of concentrate during the commission phase	816,725	-
Mineral property expenditure	(9,212,396)	(5,455,639)
	(12,054,869)	**(12,955,504)**
Financing activities		
Share capital issued, net	**-**	**140,698**
Effect of exchange rate changes on cash	**150,094**	**39,518**
Net change in cash	(12,528,065)	(14,762,005)
Cash – Beginning of year	**16,013,245**	**30,775,250**
Cash – End of year	**$ 3,485,180**	**$ 16,013,245**

Supplementary cash flow information (Note 13)

The accompanying notes are an integral part of the consolidated financial statements

1. Nature of operations

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

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

2. Basis of Preparation

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on April 1, 2014.

b) Basis of measurement

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

c) Use of estimates and judgments

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

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

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

Grade and tonnage estimates

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

2. Basis of preparation *– continued*

c) Use of estimates and judgements *– continued*

Asset carrying values and impairment analysis
In accordance with the Company's accounting policy (note 3 (g)), each asset or cash generating unit ("CGU") is evaluated every reporting date to determine whether there are any indications of impairment. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, and life-of-mine estimates. The determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, taxes, reclamation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances, will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the consolidated statements of income.

Reclamation provisions
Reclamation provisions are a consequence of mining, and the majority of reclamation provisions are incurred near the end of 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 a currency other than the Canadian dollar. 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. All intercompany transactions and balances are eliminated on consolidation. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as of the Company. These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, comprising:

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

3. Significant accounting policies

a) Revenue recognition

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

b) Cash

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

c) Inventories

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

d) Investments

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

e) Mineral and evaluation expenditures

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

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

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

Exploration, development and field support costs directly related to mineral resources are deferred until the property to which they relate is developed for production, determined to be commercially viable, sold, abandoned

3. Significant accounting policies *– continued*

e) Mineral and evaluation expenditures *– continued*

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

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

f) Property, plant and equipment

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

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

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

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

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

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

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

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

g) Asset impairment

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

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

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

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

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated.

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

h) Earnings per share

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

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

3. Significant accounting policies *– continued*

i) Stock options *– continued*

reporting date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

j) Income taxes

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend to either settle their 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 currency for all 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, other than those at fair value, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

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

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

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

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

m) Reclamation provisions

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

n) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued, but are not effective during the period ended December 31, 2013:

3. Significant accounting policies – *continued*

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

IFRS 9 – Financial Instruments – classification and measurement

IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 does not currently have a mandatory effective date. An effective date will be added when all phases of the project are completed.

The Company is currently assessing the impact of these standards.

4. Adoption of New and Amended IFRS Pronouncements

IFRS 10 – Consolidated financial statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

Adoption of IFRS 10 does not have an effect on the consolidated financial statements of the current period.

IFRS 11 – Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

Adoption of IFRS 11 does not have an effect on the consolidated financial statements of the current period.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, associates, joint arrangements, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of and risks associated with an entity's interests in other entities.

Adoption of IFRS 12 does not have an effect on the consolidated financial statements, but more comprehensive disclosure, which is provided in Note 2(d).

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements for fair value measurement.

Adoption of IFRS 13 does not have an effect on the consolidated financial statements of the current period.

IAS 1 – Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

IAS 1 amendments are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. These amendments require that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

Adoption of IAS 1 does not have an effect on the consolidated financial statements of the current period.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 clarifies the requirements for accounting for overburden waste removal (stripping) costs in the production phase of a mine. The Company adopted IFRIC 20 and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions. Under IFRIC 20, stripping activity assets are recognized when the following three criteria are met:

- it is probable that future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets capitalized under IFRIC 20 are classified within mining assets, which is consistent with the classification of the asset these costs relate to. These assets are amortized on a units-of-production basis over the remaining proven and probable reserves of the respective components.

The Company completed an analysis of IFRIC 20 and did not require any adjustments to the consolidated financial statements.

5. Trade and other receivables

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

		2013		2012
Value added taxes receivable – current portion	$	2,528,729	$	2,591,911
Trade and other receivables		1,684,235		2,079,740
Prepaids		272,939		149,744
Total trade and other receivables	**$**	**4,485,903**	**$**	**4,821,395**

6. Inventories

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

		2013		2012
Materials and supplies	$	763,476	$	719,717
Stockpile inventory		1,732		14,809
Concentrate inventory		347,459		727,468
Total inventories	**$**	**1,112,667**	**$**	**1,461,994**

The amount of inventories recognized as an expense during the year ended December 31, 2013 was $11,357,608 (December 31, 2012 – $10,222,766).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2013 was $359,896 (December 31, 2012 – $nil) relating to concentrate inventory.

7. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	Total ($)
Cost						
Balance at January 1, 2012	5,598,802	305,707	94,080	939,837	12,402,235	19,340,661
Additions	802,005	91,948	85,635	245,568	5,388,041	6,613,197
Transfers	-	-	-	-	(10,055)	(10,055)
Disposal on option payment*	(803,378)	-	-	-	-	(803,378)
Disposals	-	(20,581)	(1,535)	-	-	(22,116)
Foreign exchange movement	292,840	36,772	1,545	49,777	535,421	916,355
Balance at December 31, 2012	5,890,269	413,846	179,725	1,235,182	18,315,642	26,034,664
Additions	3,380,595	57,689	42,814	50,057	72,161	3,603,316
Transfers	-	-	-	-	7,400,473	7,400,473
Reclassification	1,252,970	-	-	-	(1,252,970)	-
Change in reclamation estimate	-	-	-	-	(536,864)	(536,864)
Foreign exchange movement	309,370	23,998	5,249	71,626	965,948	1,376,191
Balance at December 31, 2013	**10,833,204**	**495,533**	**227,788**	**1,356,865**	**24,964,390**	**37,877,780**
Accumulated amortization						
Balance at January 1, 2012	1,306,594	157,415	72,056	-	4,186,932	5,722,997
Amortization for the period	519,918	59,187	16,411	-	1,084,027	1,679,543
Disposal	-	(7,289)	(946)	-	-	(8,235)
Foreign exchange movement	73,193	12,263	1,211	-	152,817	239,484
Balance at December 31, 2012	1,899,705	221,576	88,732	-	5,423,776	7,633,789
Amortization for the period	510,744	46,988	28,336	-	1,710,739	2,296,807
Foreign exchange movement	234,858	13,069	1,941	-	258,869	508,737
Balance at December 31, 2013	**2,645,307**	**281,633**	**119,009**	**-**	**7,393,384**	**10,439,333**
Net book value						
At December 31, 2012	3,990,564	192,270	90,993	1,235,182	12,891,866	18,400,875
At December 31, 2013	**8,187,897**	**213,900**	**108,779**	**1,356,865**	**17,571,006**	**27,438,447**

*See Note 8 (b).

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

During the year ended December 31, 2013, the Company reduced mining assets by $940,145 (December 31, 2012 - $nil) relating to concentrate sold during the pre-commercial production period of the Capire mine.

b) Impairment test

The company performed an impairment test on property, plant and equipment and did not identify any impairment losses. The recoverable amounts for the property, plant and equipment impairment testing were determined using a discounted cash flow methodology. The key assumptions used to determine fair value less cost to sell are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. For the December 31, 2013 impairment assessment, the metal price assumptions were as follows:

- Gold (per ounce) $1,200 – $1,300
- Silver (per ounce) $20 – $22
- Copper (per pound) $3.05 – $3.25
- Lead (per pound) $0.90 – $1.00
- Zinc (per pound) $0.90

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

A post-tax discount rate of 9.0% was used for the impairment test. Adjustments to the rate are made for any risks that are not reflected in the underlying cash flows. These rates are based on the weighted average cost of capital for a mining industry group and were calculated based on management's estimates.

Sensitivity Analysis

Reasonably possible movements in any one of the key assumptions of metal prices, grade and tonnage estimates, operating costs and discount rates would still result in no impairment.

8. Mineral properties

a) Details are as follows:

	Zacualpan and Mamatla ($)	Zacatecas ($)	Dominican Republic ($)	Total ($)
Balance at January 1, 2012	13,153,053	691,632	1,134,361	14,979,046
Additions	7,426,098	38,907	148,550	7,613,555
Disposal on option payment	-	(596,865)	-	(596,865)
Transfers to mining assets	10,055	-	-	10,055
Write-off	-	-	(22,464)	(22,464)
Foreign exchange	466,949	29,426	-	496,375
Balance at December 31, 2012	21,056,155	163,100	1,260,447	22,479,702
Additions	8,650,918	350	(75,090)	8,576,178
Recoveries	-	(1,234)	-	(1,234)
Transfers to mining assets	(7,400,473)	-	-	(7,400,473)
Write-off	(1,598,408)	-	(985,357)	(2,583,765)
Foreign exchange	911,636	9,449	-	921,085
Balance at December 31, 2013	**21,619,828**	**171,665**	**200,000**	**21,991,493**

The amount of write-down of mineral properties during the year ended December 31, 2013 was $2,583,765 (December 31, 2012 – $nil). $985,357 of the write-down relates to the Dominican properties due to uncertainty that the mineral concessions will be renewed. $1,598,408 of the write-down relates to properties in the Zacualpan and Mamatla regions where drill results indicate we are unlikely to return to do further work.

b) Zacatecas agreement

On September 9, 2011 the Company signed an agreement with Defiance Silver Corp. ("Defiance"), a Canadian public company, to option its Veta Grande Project assets in Zacatecas, Mexico in exchange for a shareholding in Defiance. The Zacatecas Veta Grande Project assets included the 200-tonne-per-day processing plant, surface rights, and thirteen mineral concessions owned 100% by IMPACT. Ten of these concessions were included within the Defiance option agreement. The Company retained a 28% carried interest in three other Zacatecas concessions through a formal joint venture agreement.

The option agreement consisted of two staged payments to the Company, an initial payment of 2,680,500 common shares of Defiance (paid) for total consideration of $1,420,665 and $1,955,200 in cash due as a final closing payment on the earlier of September 9, 2013 or the commencement of commercial production. On July 9, 2013, the Company amended the agreement to extend the final closing payment. Under the terms of the amended agreement Defiance issued 150,000 common shares in September 2013 to extend the term to September 9, 2014, and must pay $25,000 or 350,000 common shares at the Company's option on or before September 9, 2014 to extend the term to September 9, 2015.

It was determined that as at December 31, 2013, there was a prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company recorded a non-cash write-down of $803,305 (2012: $750,000). The Company still has legal ownership to these assets as the final payments on the option agreement are not yet due.

Subsequent to the year end, these assets were returned to the Company (refer to Note 21).

c) Mineral property titles

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

9. Due to related party

At December 31, 2013, an amount of $946,828 (December 31, 2012 – $590,829) was due to Energold Drilling Corp., a significant shareholder of the Company. Monies owed to Energold Drilling Corp. are unsecured, non-interest bearing and without specific repayment terms. Management anticipates that the amount will be repaid within one year and accordingly it has been classified as current.

10. Related party transactions

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

During the year ended December 31, 2013, fees in the amount of $4,215,125 (2012 – $3,929,500) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Guadalupe and Capire production centres.

11. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's increased development of the open pit Capire Mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are approximately $1,007,508 (2012 – $941,105). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.6% (2012 – 4.3%) and discounted using a Mexican risk-free rate of 7.6% (2012 – 5.0%). Settlement of the liability may extend up to 30 years in the future.

Additions to the reclamation provision were as follows:

		2013		2012
Reclamation provision, beginning of the year	$	771,416	$	-
Foreign exchange movement		32,679		-
Accretion of reclamation provision		40,196		-
Revisions to estimated cash flows		(536,864)		
New liability recognized		-		771,416
Total reclamation provision	**$**	**307,427**	**$**	**771,416**

12. Expenses by nature

The following table details the nature of expenses within cost of goods sold at December 31:

		2013		2012
Production costs	$	5,430,712	$	5,114,217
Administration		909,603		508,443
Transportation		408,761		313,862
Wages and salaries		4,608,532		4,377,751
Total operating expenses	**$**	**11,357,608**	**$**	**10,314,273**

13. Supplementary cash flow information

The following table details additional supplementary cash flow information at:

		2013		2012
Income taxes paid	**$**	**-**	**$**	**-**
Interest income received	**$**	**90,452**	**$**	**221,576**

14. Commitments

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

15. Key management personnel compensation

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

		2013		2012
Salaries and fees	$	503,734	$	512,256
Share based compensation		847,520		206,039
Total compensation	**$**	**1,351,254**	**$**	**718,295**

16. Equity

a) Share capital

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

b) Stock options

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

A summary of the Company's stock options as at December 31, 2013 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2012	5,155,000	1.31
Exercised	(101,034)	1.38
Expired	(843,966)	1.42
At December 31, 2012	4,210,000	1.31
Granted	2,285,000	1.20
Expired	(62,500)	1.46
At December 31, 2013	**6,432,500**	**1.25**

The following table summarizes information about the stock options outstanding at December 31, 2013:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$0.55	1,310,000	5.02	1,310,000	January 6, 2019
$1.10	867,500	1.43	867,500	June 6, 2015
$1.85	1,970,000	2.74	1,970,000	September 26, 2016
$1.20	2,285,000	4.06	1,428,125	January 22, 2018
	6,432,500	**3.50**	**5,575,625**	

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

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

16. Equity *– continued*

b) Stock options *– continued*

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

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

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

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

c) Earnings per share

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

	2013	2012
Net loss attributable to shareholders	$ (8,519,008)	$ (1,144,846)
Weighted average number of shares outstanding – basic	68,128,244	68,061,035
Adjustment for share options	-	-
Weighted average number of shares outstanding – diluted	**68,128,244**	**68,061,035**

17. Income taxes

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

	2013	2012
Loss before income taxes	$ (6,891,102)	$ (40,837)
Canadian federal and provincial income tax rates	25.75%	25.00%
Income tax recovery based on the above rates	$ (1,774,459)	$ (10,209)
Increase (decrease) due to:		
Non-deductible expenses	710,634	616,062
Losses and temporary differences for which an income tax asset has not been recognized	874,282	459,077
Difference between foreign and Canadian tax rates	(66,585)	155,989
Change in long term Mexican tax rates	375,508	(80,621)
Deferred taxes in respect of Mexican royalty	1,522,279	-
Foreign exchange and other	(13,753)	(36,289)
Income tax expense	**$ 1,627,906**	**$ 1,104,009**

Total income tax expense consists of:

		2013		2012
Current income tax expense	$	50,663	$	-
Deferred income tax expense		1,577,243		1,104,009
	$	**1,627,906**	**$**	**1,104,009**

In December 2013, the Mexican congress passed legislation that increases the effective tax rate applicable to the Company's Mexican operations. The law is effective January 1, 2014 and increases the future corporate income tax rate to 30%, creates a new 0.5% royalty on gross revenues from the sale of gold and silver, and establishes a 7.5% royalty on earnings before income tax, depreciation, depletion, amortization, and interest.

As a result of the law becoming enacted in the fourth quarter of 2013, the Company recognized a non-cash charge of $1,897,787 related to the deferred tax impacts of the above tax changes.

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

		2013		2012
Deferred income tax assets				
Non-capital losses	$	4,435,223	$	1,793,931
Current assets and liabilities		519,584		440,714
Total Deferred tax assets	**$**	**4,954,807**	**$**	**2,234,645**
Deferred income tax liabilities				
Property, plant and equipment	$	5,409,159	$	2,774,232
Mineral properties		5,324,169		4,037,609
Other		634,082		-
Total deferred income tax liabilities		11,367,410		6,811,841
Deferred income tax liabilities, net	**$**	**6,412,603**	**$**	**4,577,196**

The composition of deferred tax expense is as follows:

		2013		2012
Deferred income tax assets				
Non-capital losses	$	(2,540,111)	$	(1,348,101)
Other		(54,013)		177,280
Deferred income tax liabilities				
Property, plant and equipment	$	2,478,454	$	1,030,633
Mineral properties		1,058,831		1,244,197
Other		634,082		-
Deferred income tax expense	**$**	**1,577,243**	**$**	**1,104,009**

17. Income taxes *– continued*

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

		2013		2012
Net deferred tax liability, January 1	$	4,577,196	$	3,294,548
Deferred income tax expense during the year		1,577,243		1,104,009
Changes due to foreign current translation		258,164		178,639
Net deferred tax liability, December 31	**$**	**6,412,603**	**$**	**4,577,196**

The unrecognized deferred tax asset is as follows:

		2013		2012
Non-capital losses	$	2,195,113	$	1,590,044
Capital losses		32,135		30,899
Property, plant and equipment		15,396		12,546
Mineral properties		979,217		697,693
Other		241,803		174,282
Unrecognized deferred tax asset	**$**	**3,463,664**	**$**	**2,505,464**

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

As at December 31, 2013, 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		
2014	$	169,820
2015		235,727
2026		828,544
2027		541,044
2028		141,907
2029		415,894
2030		1,266,681
2031		1,151,330
2032		1,598,888
2033		1,874,727
	$	**8,224,562**
Capital losses		
No expiry date	**$**	**247,189**

18. Capital management

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

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

19. Financial instruments

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade and other receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available-for-sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2013 investments were classified as Level 1 on the fair value hierarchy of IFRS 13 – *Fair Value Measurement*. At December 31, 2013 and 2012, 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 ($3.5 million), trade and other receivables ($1.7 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. 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, 2013, the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2013, the Company is exposed to currency

19. Financial instruments *– continued*

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, 2013, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $563,000 decrease or increase in the Company's net earnings for the year ended December 31, 2013.

Commodity price risk

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

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

	2013	2012
Silver price	$ 77,000	$ 215,000

20. Segmented information

The Company has one operating segment and three reportable segments based on geographic area: Mexico, the Caribbean, and Canada (Corporate) 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:

	2013	2012
Revenues by geographic area		
Mexico	$ 14,106,056	$ 15,934,060
Net earnings (loss) by geographic area		
Mexico	$ (3,247,845)	$ 2,017,868
Canada	(4,290,811)	(3,162,714)
Caribbean	(980,352)	-
	$ (8,519,008)	**$ (1,144,846)**

	2013	2012
Assets by geographic area		
Mexico	$ 59,950,148	$ 49,207,166
Canada	2,968,499	15,520,975
Caribbean	200,000	1,345,448
	$ 63,118,647	**$ 66,073,589**
Property, plant and equipment by geographical area		
Mexico	$ 27,405,048	$ 18,368,904
Canada	33,399	31,971
	$ 27,438,447	**$ 18,400,875**

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

21. Subsequent events

a) In January 2014, Defiance terminated its option agreement (note 8 (b)) with the Company and returned the Veta Grande Project assets (which consists of the 200 tonnes per day Santa Gabriela processing plant and mineral concessions), in the Zacatecas silver district in central Mexico. The Company will retain the original option payments.

b) On February 12, 2014 the Company announced that the mining operations at the Capire open pit had been suspended. The current lower silver prices, recent Mexican mining tax changes, and low overall silver grade have made the mining operations not currently economic at its present small scale. The Capire production facility will continue operating and is now being converted to process gold-copper from the Carlos Pacheco/ San Juan area.

Notes:

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

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

Management
Frederick W. Davidson President, CEO, Director
George A. Gorzynski, VP Exploration, Director
Richard S. Younker, CFO
Armando Alexandri, COO
H. Walter Sellmer, Director
Victor A. Tanaka, Director
Richard J. Mazur, Director
Peter N. Tredger, Director
Jean–Pierre Bourtin, Director

Solicitors
Boughton Law Corporation
700 – 595 Burrard Street
Vancouver, BC, Canada V7X 1S8

Norton Rose Fulbright Canada LLP
Canterra Tower, Suite 3700 – 400 Third Avenue SW
Calgary, AB, Canada T2P 4H2

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

Transfer Agent
Computershare Investor Services
510 Burrard Street
Vancouver, BC, Canada V6C 3B9
Shares Traded
TSX.V: Symbol IPT
Frankfurt: Symbol IKL

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