IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve Months Ended December 31, 2019

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2019 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at April 1, 2020 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2019 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

This document contains forward-looking statements. Please refer to "NOTE REGARDING FORWARD-LOOKING STATEMENTS."

CORPORATE OVERVIEW

IMPACT controls the majority of two large mineral districts totalling 211 km^2 in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire Mineral District** adjacent to and southwest of Zacualpan. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over 14 years.

IMPACT is considered one of the purest silver producers in Mexico. IMPACT's primary production metal is silver with approximately 95% of its revenues currently generated by silver. Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing eight sites from exploration drilling to development and mining. IMPACT has produced over 10 million ounces of silver since 2006 and generated over $191 million in revenues. As a result, a significant portion of over $40 million in capital expenditures and $20 million in exploration on the properties was funded by operations and the company still has no long-term debt.

In mid-2018 with a depressed silver price the Company reduced output by focusing production on the mines with higher operating margins and leaving the mines with a more modest grade or higher costs on stand-by. By the second half of 2019, the Company generated positive mine operating earnings due to a combination of cost reductions, higher metal prices and higher mining grades. Recently IMPACT had been revising production plans to take advantage of long term forecasted silver prices and pursuing key silver and gold exploration targets with near term mining potential.

Subsequent to the year end, the global impact of the COVID-19 Virus as well as recent declines in spot prices for certain commodities and oil and gas resulted in significant declines in global stock markets and has fostered a great deal of uncertainty as to the health of the global economy over the next 12 to 18 months. As such, companies could be subject to liquidity risks in maintaining their revenues and earnings as well as ongoing and future development and operating expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. The current environment has had an impact on both foreign exchange and commodity prices and the Company is unable to ascertain the ultimate net effect on the Company's operations.

During the last quarter of 2019, the Company reported the development of the Veta Negra open pit as detailed in news releases and elsewhere in this MD&A. By the end of the year Veta Negra was generating 10% of the mill feed and it is anticipated that production from this open pit will increase over the next few months.

In 2019, the Company reduced the size of its mineral concession holdings in the districts from 357 km2 to 211 km2 to save on concession taxes. All active mines and facilities, and most of the 5,000 known historic mines and mineral prospects have been retained within the revised property boundaries and mainly peripheral areas with lower mineral potential were dropped.

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

1. Continue development of the Guadalupe mine while optimizing production with a focus on maximizing cash flows.
2. Expand production from the recently opened Veta Negra open pit mine.
3. Drill key targets across the large land package, focusing on discovery and definition of additional high-grade silver and gold zones for near term mining.
4. Accelerate exploration by also looking to possible joint ventures with third parties on more remote tracts.
5. Continue exploration with plans for eventual development of gold and copper from the Valle de Oro area of the property.

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

Financial Overview

- Revenue for Q4 2019 was $4.0 million compared to $3.0 million in 2018 and for the year it was $13.3 million compared to $13.1 million in 2018. Revenue increased despite lower mill throughput as a result of improved grades and higher silver price.
- Mine operating loss for the year was $0.2 million (including $1.5 million in amortization and depletion) compared to a loss of $3.5 million in 2018 (including $1.9 million in amortization and depletion).
- Operating expenses for the 2019 year were $11.9 million down from $14.8 million in 2018 due to the ongoing cost reductions, and lower mill throughput.
- The Company's cash position at December 31, 2019 was $3.8 million and working capital was $3.6 million. In 2018 cash was $1.2 million and working capital was $0.3 million.
- Net loss for the quarter $1.0 million due primarily to the write down of $1.1 million in exploration and development expenditures, with a further $0.4 million in stock-based compensation. The net loss in Q4 2018 was $2.1 million.

Production Overview

- Production at the Guadalupe mill during the fourth quarter of 2019 came from the Guadalupe Mine (45% of total mill feed), the San Ramon Deeps Mine (22% of mill feed), the Cuchara Mine (23% of mill feed), and the Veta Negra Mine (10% of mill feed).
- Average mill feed grade for silver was 182 grams per tonne (g/t) in Q4 2019, an increase of 7% from 170 g/t in Q4 2018. Average mill feed grade for the year was 173 g/t compared to 159 g/t in 2018.
- Silver production was 180,246 ounces in Q4 2019 compared to 167,049 ounces in Q4 2018 due to higher grades. For the year silver production was 664,056 ounces (2018 -743,950 ounces) as a result of fewer tonnes milled.
- Throughput at the mill in Q4 2019 was 36,528 tonnes compared to 36,295 in Q4 2018, with 140,878 tons for the year 2019 (2018 173,217 tonnes). The decreased production was due to the planned production reduction implemented in September 2018.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2019	2018	% Change	**2019**	2018	% Change
Total tonnes (t) milled	**36,528**	36,295	0%	**140,878**	173,217	-19%
Tonnes produced per day	**397**	395	0%	**386**	475	-19%
Silver production (oz)	**180,246**	167,049	8%	**664,056**	743,950	-11%
Lead production (t)	**78**	65	20%	**275**	329	-16%
Gold production (oz)	**113**	99	14%	**376**	469	-20%
Silver sales (oz)	**182,670**	179,268	2%	**667,628**	733,267	-9%
Lead sales (t)	**76**	73	4%	**287**	344	-17%
Gold sales (oz)	**112**	104	8%	**367**	489	-25%
Average mill head grade –silver g/t	**182**	170	+7%	**173**	159	+9%
Revenue per tonne sold[1]	**$105.47**	$79.55	+33%	**$92.82**	$74.88	+24%
Direct costs per production tonne[2]	**$82.60**	$91.50	-10%	**$82.55**	$83.63	-1%

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

The Company shifted its strategy during Q3 2018 from utilising capacity at its Guadalupe processing plant to a focusing on lower cost, higher grade production. In September 2018, production was reduced by approximately 25% in order to concentrate mining on higher grade areas and/or lower cost mines (i.e. with shorter hauling requirements). As a result, for the twelve months ending December 31, 2019, 140,878 tonnes were milled compared to 173,217 tonnes for the comparative period in 2018. The decrease in production tonnes allowed the Company to focus on mining higher grade areas lower cost situations with the average mill head silver grade increasing to 182 g/t in the fourth quarter. The average grade was 173 g/t in 2019 compared to 159 g/t processed in 2018.

Revenue per tonne sold was $105.47 in Q4 2019, an increase of over 33% from Q4 2018 at $79.55. This was the result of improved grades and higher silver prices. Revenue for 2019 per tonne sold was $92.82 compared to $74.88 in 2018.

In spite of reduced production, silver sales increased to 182,670 ounces in Q4 2019 from 179,268 ounces in Q4 2018, due to higher grades. Silver sales for 2019 decreased to 667,628 ounces from 733,267 ounces in 2018 as a result of the revised mining plan.

Direct costs per production tonne were $82.60 in Q4 2019, a 10% decrease from Q4 2018 at $91.50.

For the first time since 2009, the largest contributor to mill feed in 2019 was the Guadalupe mine located adjacent to the Guadalupe mill. A two-stage refurbishment of a mine shaft at the Guadalupe mine was initiated in the third quarter 2019 allowing for considerably higher capacity with lower associated hauling

[1] 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".

costs. The first phase has been completed and the second stage scheduled early 2020 will improve access to the 195 level.

Late in the year the Company started test mining the Veta Negra open pit while at the same time conducting exploration on its possible extension to the North West.

The Company is reassessing its production plans in light of work at the Guadalupe Mine and Veta Negra open pit.

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground mines on epithermal silver-zinc-lead veins feed the central Guadalupe processing plant rated at 535 tonnes per day ("tpd"). Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Additional surface lands near the Guadalupe mill were also purchased and permitted to address the need for additional tailings capacity in the future.

Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This mine restarted commercial production in September 2018 after a hiatus of five years and is now the largest producing mine on the property. Very low hauling costs associated with mining here as well as positive drill results led to a decision to reopen parts of this low cost mine. During the fourth quarter of 2019, the Guadalupe Mine provided 46% (Q4 2018 – 21%) of feed to the Guadalupe mill. Diluted mining grades at Guadalupe during the quarter ranged from 181 to 189 g/t silver. Production during Q4 2019 was from the Lipton, Liptonia and Caballo veins on Levels 30, 60, 70 and 100. With a lower cost structure and improving grades, the Company is expanding production from Guadalupe, and has upgraded the shaft and is now upgrading other infrastructure in the mine to access additional veins for mining on the 195 level and beyond.

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In 2014 the Company discovered new high-grade silver zones in the San Ramon Deeps area and mining of this area began in Q4 2014. During the fourth quarter of 2019, the San Ramon Deeps Mine provided 22% (Q4 2018 – 49%) of feed to the Guadalupe mill. Diluted mining grades at San Ramon during the quarter ranged from 174 to 190 g/t silver.

To date this vein has been mined on Levels 16.5 through 27 over a length of up to 180 metres and widths of 2 to 17 metres. Production during Q4 2019 was from Levels 23 and 27. Size and grade of San Ramon Deeps were decreasing with depth but new drilling below current mining levels during the third quarter intersected additional high grade as described below. Further drilling along strike indicate another possible zone of mineralization approximately 100 meters to the south

Veta Negra Silver Mine

The Veta Negra mine is a new small open pit operation which commenced production in September 2019. It is located four kilometres northwest of the Guadalupe mill. The mine contributes a silver-rich feed to the Guadalupe mill from a near surface bulk tonnage zone. During the fourth quarter of 2019, the Veta Negra Mine provided 10% (Q4 2018 – 0%) of feed to the Guadalupe mill. Diluted mining grades at Veta Negra during Q4 2019 ranged from 194 to 212 g/t silver. Work in progress is focused on determining the full production potential of this zone. The Veta Negra vein system was mined in the 1970's and 1980's by a previous operator from open pit and underground. North-northwest trending parallel, near surface veins over a width averaging 14 metres justified open pit mining methods and are presently being tested to determine the potential of expanding the open pit. Historic sampling has shown vein system continuity over a strike length of 650 meters. IMPACT personnel carried out three series of continuous chip samples across the El Socorro vein and the Veta Negra vein along a 50m strike length in the Veta Negra open pit which returned the following results:

Vein Name	Sampled Width (m)	Sampled Vein Length (m)	Silver gm/t	Gold gm/t	Lead %	Zinc %
Veta El Socorro	22.70	50.84	205.7	0.02	0.14	0.31
Veta Negra	16.02	52.28	208.5	0.13	0.41	0.56

These veins have been traced on surface and are being trenched and sampled over a strike length of 650m.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the fourth quarter of 2019, the Cuchara Mine provided 23% (Q4 2018 – 30%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza and Millmaravillas veins. Diluted mining grades at Cuchara during the quarter ranged from 159 to 169 g/t silver.

Capire Processing Plant and Mine

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

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

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

The Capire plant is currently on care and maintenance. Production from the Capire open pit may restart in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation. The Company is current testing the potential of an ore sorting system to upgrade the mineral feed at low cost to the near by Capire mill. Work is expected to continue on the metallurgical studies during 2020.

Capire Mineral Resource

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

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

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

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

EXPLORATION

Mines on epithermal veins that were discovered and built by the IMPACT team include the Cuchara Silver Mine (currently in operation), San Ramon Deeps Silver Mine (currently in operation), San Patricio (Chivo) Silver Mine (operated 2017-2018), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), the Noche Buena Silver Mine (operated 2010-2014) and the Mirasol Silver Mine (operated 2014-2017), as well as the Capire VMS open pit mine (on care and maintenance). Exploration is continuing with the goal of finding and developing new mines for the Company. Recent exploration highlights were as follows:

Drilling Results

During the third quarter, IMPACT announced results from underground drilling below current mining levels at the San Ramon Deeps Mine which included 418g/t silver over 2.14 metres and 1,393g/t silver over 1.58 metres. A new underground drill station is being excavated at San Ramon to drill the depth extensions of this new high-grade mineralization.

Exploration Field Work

IMPACT crews have been sampling some of the 5,000+ old mine workings and prospects in the districts as well as exploring new areas. During the quarter, fieldwork was mainly focused on the Chapanial area north of Noche Buena where new gold and silver prospects have been identified. Subsequent to year end, IMPACT announced results of surface sampling at Chapanial including 97.5 g/t gold and 97.9 g/t silver over a true width of 0.8m. In addition, exploration of silver and gold targets elsewhere on the property is ongoing, and compilation of historical maps and other technical data from the districts into a large computer database continues and is being used to plan future exploration programs.

FUTURE PLANS

Mining Plans

In the near term, the Company is reassessing its production plans in light of the recent silver prices. In the longer term, management intends to continue exploration and development of gold and copper from Carlos Pacheco and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 5,000+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to drilling and potential production, and building mineral inventories for mining. The Company is continuing surface and underground drilling programs to build tonnes for mining. Currently, exploration work is focused on the Manto America gold targets, the Chapanial area gold and silver prospects, and several silver targets near the Guadalupe mill.

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

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

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

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

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

The Company has educated its employees and contract personnel to maintain high standards related to environmental and safety issues and they are continually reminded to uphold this standard. In 2019, IMPACT received recognition for its compliance to health and safety standards by the Secretary of Labour and Social Welfare in Mexico. This recognition acknowledges that the Company:

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

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

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

INVESTOR RELATIONS

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

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31	
	2019	2018
Revenue	**$ 4,026**	$ 3,019
Net loss	**$ (1,005)**	$ (2,088)
Loss per share – basic and diluted	**$ (0.01)**	$ (0.02)

Net loss for the fourth quarter of 2019 was impacted by the following factors:

- Revenue for Q4 2019 was $4.0 million, a 33% increase from $ 3.0 million in Q4 2018. Revenue per tonne sold increased to $105.47 in Q4 2019 compared to $79.55 in Q4 2018. Improved grades and higher silver prices helped to offset decreased production.

- Operating expenses for Q4 2019 were $3.2 million compared to $3.4 million in Q4 2018 which is due to a reduction in tonnes produced as well as a decrease in overall operating costs. Direct costs per tonne at the Guadalupe mill decreased to $82.60 in Q4 2019 from $91.50 in Q4 2018.

- Mine operating earnings were $0.5 million in Q4 2019 compared to a loss of $1.1 million in the fourth quarter of 2018. Amortization and depletion expenses were lower at $0.4 million compared $0.7 million in Q4 2018.

- Q4 2019 general and administrative costs were $0.8 million (Q4 2018 $0.3 million) primarily due stock-based compensation expense of $0.4 million.

- The Company had deferred and current income tax recovery of $0.5 million in the fourth quarter of 2019 compared to a recovery of $0.8 million in the fourth quarter of 2018.

Summary of Year to Date Results

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

In thousands except for earnings per share	Twelve months ended December 31		
	2019	2018	2017
Revenue	$ **13,311**	$ 13,098	$ 15,365
Net loss	$ **(4,939)**	$ (5,063)	$ (4,636)
Loss per share – basic and diluted	$ **(0.05)**	$ (0.06)	$ (0.05)
Total assets	$ **49,955**	$ 49,365	$ 50,195

Net loss for the twelve months of 2019 was impacted by the following factors:

- The Company earned revenue of $13.3 million during the twelve months ended December 31, 2019 compared to $13.1 million in the twelve months ended December 31, 2018. Average revenue per tonne sold for the year increased to $92.82 in 2019 compared to $74.88 in 2018. Improved grades and stronger silver prices helped to offset decreased production.

- Mine operating loss was $0.2 million for the twelve months 2019 compared to $3.5 million in the same period of 2018. Amortization and depletion expenses were $1.5 million compared to $1.9 million in 2018.

- Operating expenses for the twelve months ended December 31, 2019 were $11.9 million compared to $14.8 million in the same period of 2018. This decrease is due to a reduction of tonnes milled from 173,217 in 2018 to 140,878 in 2019 as the Company focused on higher grade production and lower capacity and implemented certain cost efficiencies. Direct costs per tonne at the Guadalupe mill for the twelve months 2019 were $82.55, compared to $83.63 in 2018.

- General and administrative costs were $2.1 million in the year 2019 compared to $1.3 million in the same period 2018. In 2019 stock-based compensation and promotional costs related to the private placements increased by $0.4 and $0.3 million respectively compared to the prior year.

- The Company wrote down exploration and evaluation assets of $2.3 million in 2019 and mining assets for $0.5 million with no comparable write-downs in 2018. These write-downs related to historical costs incurred on the concessions that were abandoned during the year and an evaluation of certain limited mining assets. The concessions were considered to have low mineral potential and were dropped to reduce ongoing concession taxes, whereas the mining assets were regarded as no longer viable.

- The Company had a $0.2 million foreign exchange loss in the year ended December 31, 2019 which was comparable to the same period of last year.

- The Company had deferred and current income taxes recovery in the twelve months ended December 31, 2019 of $0.4 million (2018 - $0.01 million).

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

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

	For the Three Months Ended ($ in thousands except for earnings per share)							
	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018
Revenue	4,026	3,537	2,767	2,981	3,019	3,095	3,109	3,876
Net loss	(1,005)	(203)	(2,826)	(905)	(2,088)	(1,449)	(1,016)	(510)
Loss per share – Basic and Diluted*	(0.01)	(0.00)	(0.03)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)
Total assets	49,955	50,255	49,969	49,396	49,365	49,367	50,116	53,216
Total liabilities	7,476	7,976	8,296	8,043	8,030	6,568	7,166	7,198

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

At December 31, 2019 the Company had cash of $3.8 million, an increase of $2.5 million from December 31, 2018. Working capital was $3.6 million compared to $0.3 million at December 31, 2018.

For the twelve months ended December 31, 2019:

- The Company used cash flows from operating activities of $0.9 million compared to using cash flows from operating activities of $2.3 million in 2018.

- The Company invested $0.7 million in property, plant and equipment (2018 - $1.3 million), and $1.2 million (2018 - $1.4 million) in exploration and evaluation assets.

- During the year the Company completed a private placement for gross proceeds of $5.0 million.: 7,500,000 series 1 units were issued at a price of $0.26 per unit and 10,344,827 series 2 units at a price of $0.29 per unit. Each series unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of $0.30 per common share for series 1, and at $0.385 per series 2, for a period of 36 months from the date of issuance. These funds will be used to re-energize exploration on key targets including the high potential gold-copper targets in Valle de Oro, continue dense media separation (DMS) engineering studies on the Capire Volcanic Massive Sulphide resource mill and production center, and invest in efficiency improvements at the Guadalupe production mill.

- In 2019 the Company received proceeds of $0.1 million on the exercise of warrants, and $5.3 million (net of share issue costs) from private placements.

For the three months ended December 31, 2019:

- The Company used cash flows from operating activities of $0.2 million (2018 - $0.2 million).
- The Company invested $0.1 million in Q4 2019 (2018 - $0.2 million) in exploration and evaluation assets and $0.2 million (2018 - $0.1 million) in property, plant and equipment.

Going Concern

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

During the year ended 2019, the Company incurred a net loss of $4.9 million and cash outflows from operating activities of $1.2 million. At December 31, 2019, the Company had unrestricted cash of $3.8 million, current assets of $6.1 million and working capital of $3.6 million. As IMPACT is a producing silver mining company, its performance is heavily impacted by the price of silver; therefore, it is possible that internally generated cash flows may not be sufficient in 2020 and may affect the Company's ability to cover its working capital and capital investments.

The Company's management continues to consider various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. Although the Company has been successful in closing private placements in 2018 and 2019, there can be no assurance that management will continue to be successful in its efforts to finance all the activities of the Company in the future, as there is still volatility in debt and equity capital markets and other factors which may adversely affect the Company's ability to implement a financing plan.

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

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 1, 2019:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	110,325,345		
Stock options	1,625,000	$0.98	July 27, 2021
Stock options	1,560,000	$0.35	September 20, 2022
Stock options	2,000,000	$0.36	October 24, 2024
Warrants	1,972,500	$0.35	November 30, 2020
Warrants	4,070,328	$0.35	January 18, 2021
Warrants	4,702,770	$0.30	July 5, 2022
Warrants	2,747,230	$0.30	July 24, 2022
Warrants	8,433,759	$0.385	August 2, 2022
Warrants	1,911,068	$0.385	August 12, 2022
Fully diluted	139,348,000		

All of the 5,185,000 options outstanding have vested.

CHANGES IN ACCOUNTING POLICIES

IFRS standards adopted

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17 – Leases and its associated interpretative guidance. The new standard applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces a single, on-balance sheet accounting model with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively.

The Company has applied IFRS 16 using the modified retrospective approach with the cumulative impact of application recognized as at January 1, 2019. The Company has elected to measure right-of-use assets at an amount equal to their carrying amount from commencement date discounted by the incremental borrowing rate at the date of initial application. Certain practical expedients were applied allowing for the exclusion of leases with a term of less than one year remaining at the transition date and using a single discount rate for a portfolio of leases with similar characteristics.

Policy applicable from January 1, 2019

At inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is measured at cost, which is comprised of:

- The initial measurement of the lease liability
- Lease payments made at or before the commencement date less lease incentives
- Initial direct costs incurred
- Decommissioning costs

The right-of-use asset is depreciated using the straight-line method over the earlier of the term of the lease or the useful life of the asset determined on the same basis as the Company's property, plant and equipment.

The lease liability is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using either the implicit rate of the lease or the Company's incremental borrowing rate when the implicit rate cannot readily be determined. Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments
- Variable payments linked to an index or rate
- Expected payments for residual value guarantee
- Purchase option, extension option or termination option when the Company is reasonably certain to exercise

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less and leases of low-value assets. The lease payments associated with these leases are expensed on a straight-line basis over the term of the lease.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Samsung C&T Corp. or Trafigura Mexico S.A. de C.V. 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 adequate credit ratings 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 ($3.8 million) and trade and other receivables ($1.8 million).

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2019, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in US dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2019, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $133,000 decrease or increase in the Company's net loss for the twelve months ended December 31, 2019.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2019 by $0.1 million (2018 - $0.1 million).

OPERATIONAL RISK

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

POLITICAL, REGULATORY AND SECURITY ISSUES

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

APPROVAL

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

SUPPLEMENTARY INFORMATION

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2019	2018	**2019**	2018
Operating expenses	$ **3,159,921**	3,410,307	$ **11,946,199**	14,777,527
(Deduct): operating expenses for Capire	**(32,395)**	(62,342)	**(135,033)**	(187,717)
Add (deduct): inventory	**(110,176)**	(27,065)	**(181,517)**	(103,779)
Direct costs	$ **3,017,350**	3,320,900	$ **11,629,649**	14,486,031
Tonnes milled	**36,528**	36,295	**140,878**	173,217
Direct costs per tonne	$ **82.60**	91.50	$ **82.55**	83.63
Revenue	$ **4,026,217**	3,018,749	$ **13,311,376**	13,098,339
Tonnes sold	**36,175**	37,947	**143,402**	174,915
Revenue per tonne sold	$ **105.47**	79.55	$ **92.82**	74.88

NON-IFRS MEASURES

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

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2019	2018	**2019**	2018
Revenue	$ **4,026,217**	3,018,749	$ **13,311,376**	13,098,339
Operating expenses	**3,159,921**	3,410,307	**11,946,199**	14,777,527
Mine operating earnings before amortization and depletion	$ **866,296**	(391,558)	$ **1,365,177**	(1,679,188)

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

NOTE REGARDING FORWARD–LOOKING STATEMENTS

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

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

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

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

April 1, 2020