IMPACT SILVER CORP

Milestone

2019

10 million ounces so far – 500 Years of proven district wide production.

1 square kilometer is all you require to build a mine with a processing plant and a few tailing ponds. With 500 years of historical production and flanked by the most famous historical silver mine in Mexico called Taxco, IMPACT Silver Corp boasts over 210 square kilometers in a land package full of potential.

When the project was bought in 2006, the previous owner had run out of ore having not put an exploration budget in place to maintain a steady flow of new production tonnes. Through diligent and systematic targeting and exploration of known areas of historical production, IMPACT's team was able to find new targets and continually maintain feed for operations. In 2019 with 10 million ounces of silver production accomplished, IMPACT's future looks bright with new discovery targets, gold prospects, and a predicted rise in price of silver given shortages to meet demand and the highest gold:silver price ratio ever witnessed in history.

With production dating from Aztec times, we believe there is tremendous potential waiting to be unlocked here at the Royal Mines of Zacualpan district.

IMPACT is here to find, develop, and produce the next 10 million ounces of silver and beyond as the purest silver producer for our investors.

Royal Mines of Zacualpan: 500+ Years of Production

1450 to 1520

Indigenous peoples mined silver on the property and built temples in the current location of Zacualpan town.

1521

Cortes conquered Mexico. The Conquistadores mined gold and silver on the property over the ensuing centuries, leaving many historical mine workings.

1531

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

5,000+

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

42

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

IMPACT: 13 Years and Beyond

2006

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

2007

Production begins at the Chivo silver mine. Acquired 100% interest in the 200 km² Capire-Mamatla Mineral District, 16 km from the Guadalupe Production Centre.

2010

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

2011

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

2013

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

2014

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

2015

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

2016

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

2017

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

2018

Exploration Success across silver and gold/copper prospects. San Ramon (Q1) 627g/t silver over 3.26 meters and 354g/t silver over 4.97m underground. Santa Teresa surface sampling returned 6.5g/t gold across 1.66 meters along 50 meter strike.

2019

10 million ounces produced since 2006. Drills 1.58m of 1,393 g/t Silver at San Ramon, samples 19.5 g/t gold over 1.2m at Manto America, 5.27 g/t gold over 2.69m drilled at El Canelo

2019 HIGHLIGHTS

Production Summary so far

10M Oz

produced since 2006.

Drilled 1.59m of

1,393 g/t

Silver at San Ramon

One of the purest silver producers with

90%+

of revenues from silver.

Sampled 1.2M grading

19.5 g/t Gold

at Manto America

Raised

$6.7M

Within 2019.

Drilled 2.69M grading

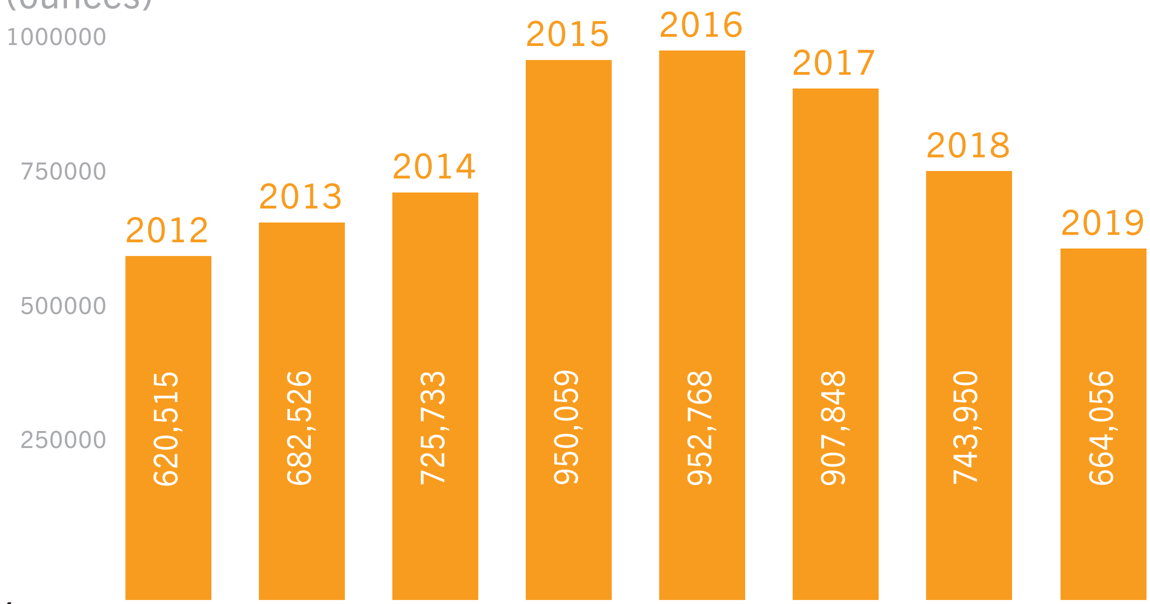
5.27 g/t Gold

at El Canelo

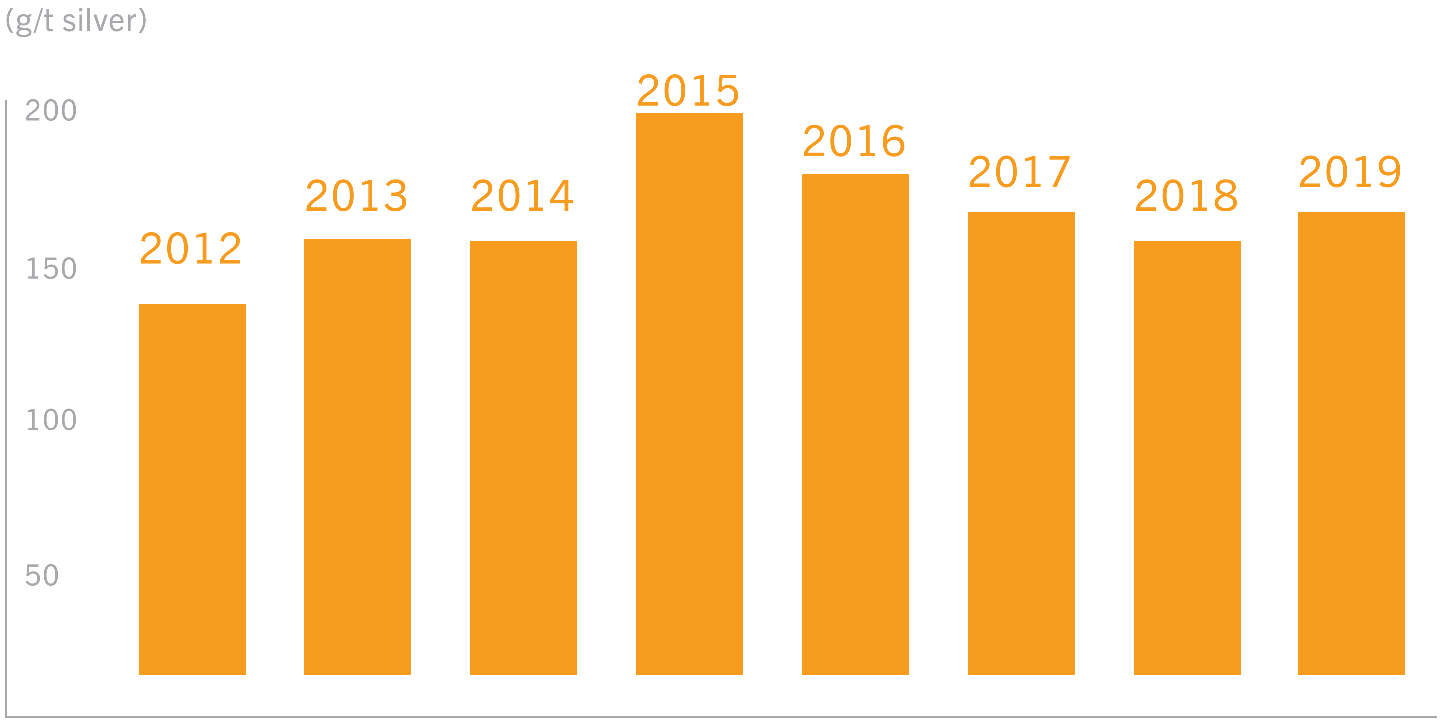
While we cannot forecast nor control the timing of silver prices – our consistent and diligent track record of maintaining and expanding production potential of the Royal Mines of Zacualpan positions IMPACT very well for the inevitable upward swing in prices. With gold to silver ratio at a historical high of over 120 to 1 and physical precious metals in shortage, we believe 2020 and beyond to be a very fruitful year for our stakeholders.

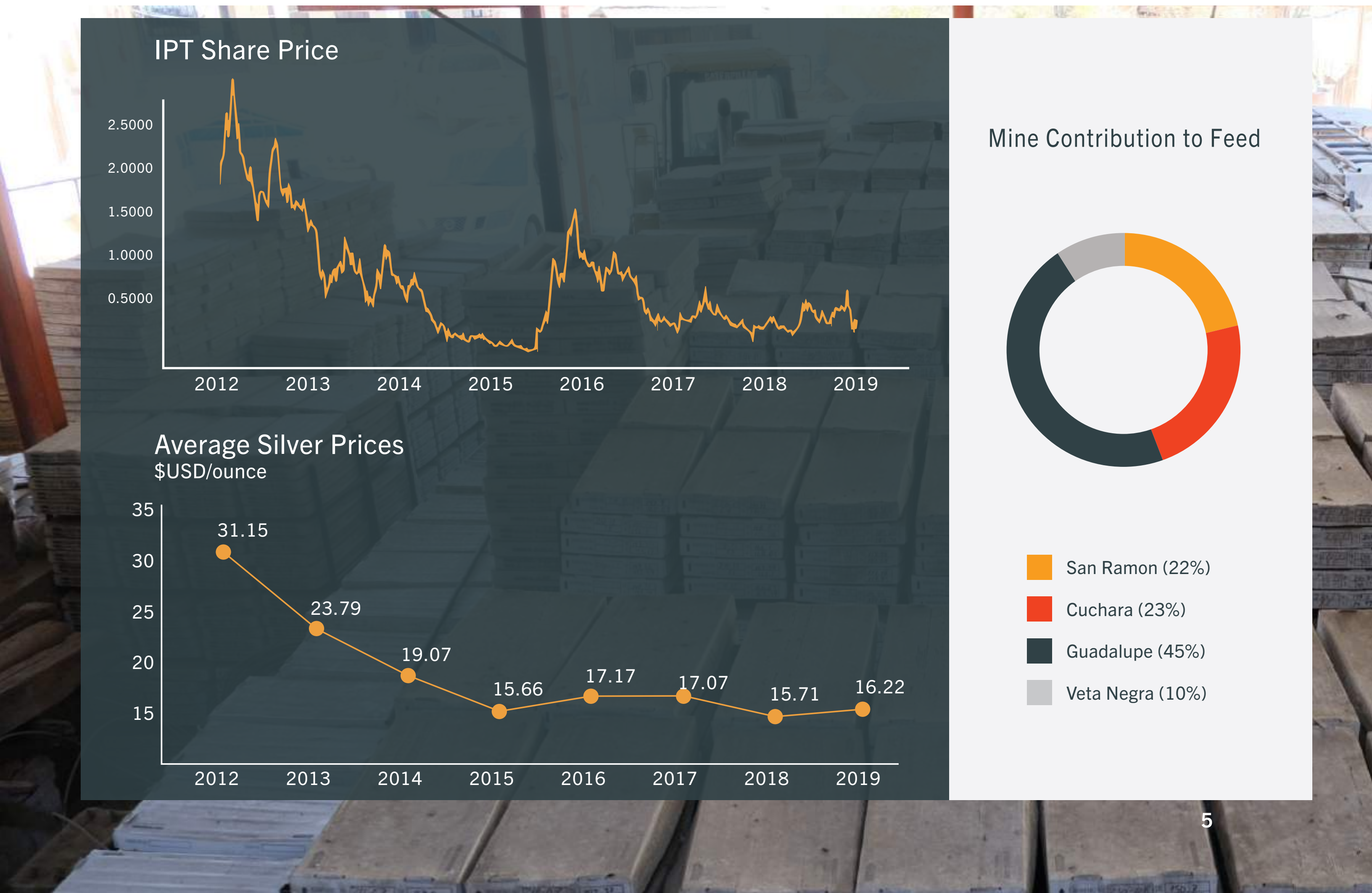
Zacualpan Silver Production

(ounces)



Production Grade profile Over Years





2019 – 10 million ounces and rising.

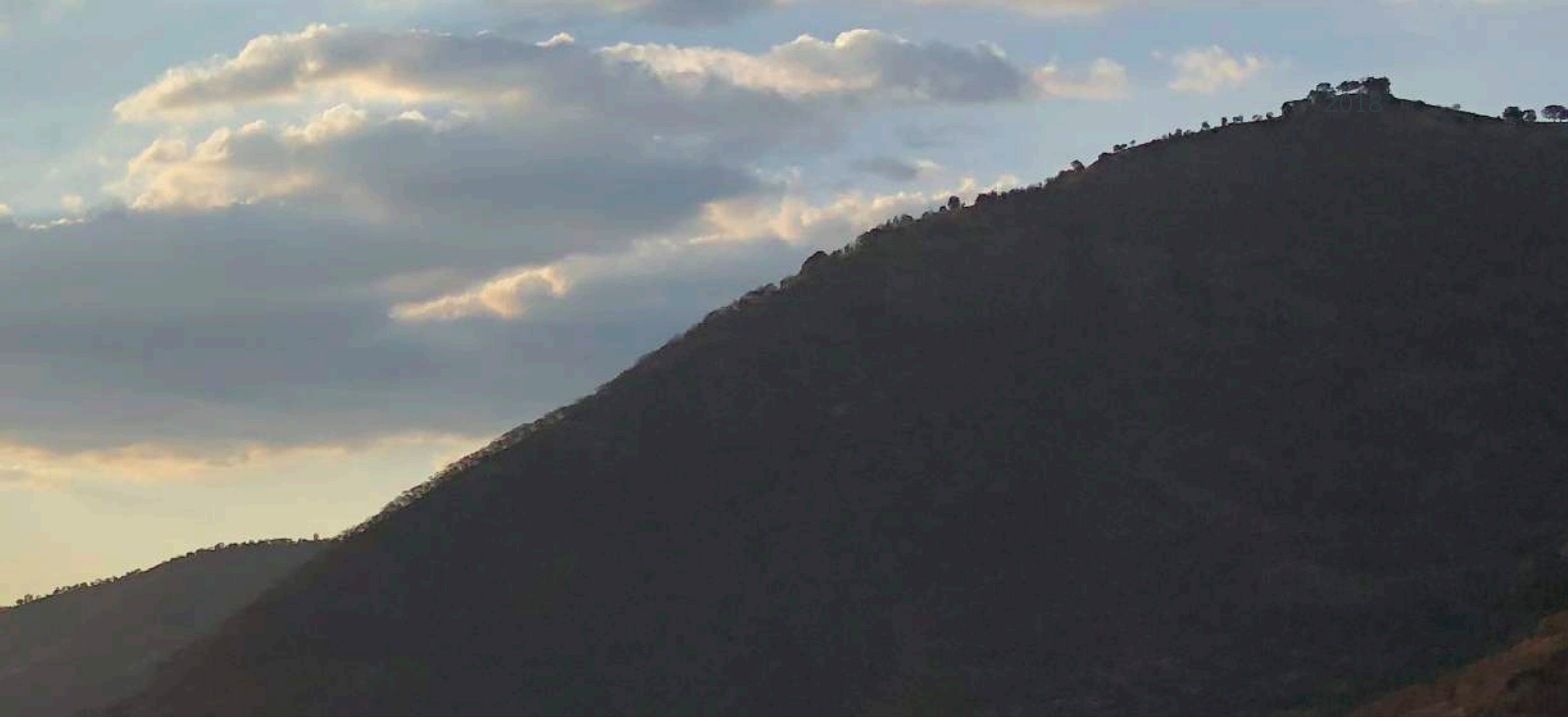
Since acquiring the Guadalupe mill in 2007 in a district known for centuries of silver production, the team at IMPACT Silver has always focused on proving up and producing ounces of silver.

In 2019 the team achieved a milestone of 10 million ounces of silver produced. This equates to over $175 million of revenue since the Company started operating despite going through three mining downturns and prolonged lower silver prices. We are proud of all we have achieved and continue to realize the potential of the large land package at Royal Mines of Zacualpan which has seen production since the 1500's and is along trend from one of the most venerable silver mines in Mexican history, the Taxco.

Over the last 12 months, IMPACT has made a number of strategic moves with the intention of not only surviving weaker global prices for silver but preparing for the future. In the capital markets the Company was able to raise over $6.7 million in 2019. Operationally it took a decision to actually reduce silver production by focusing only on those mines with the highest operating margins, putting others on care and maintenance.

This resulted in positive cash flow during the second half of 2018 and combined with the capital raises allowed the company to continue its exploration and development projects deferred during 2016 to 2018, including the Guadalupe and Veta Negra mines along with the earlier stage Chapanial gold target. A number of earlier stage exploration projects were also initiated in the Valle de Oro region of the property.

Combined with a rising price of silver in the latter half of 2019, and strict cost controls in the last few months of 2019 and the first two months of 2020, the Company anticipated a strong performance for the first half of 2020.



Subsequent to the year end, the price of silver was impacted by COVID-19. In April, the government of Mexico issued a decree shutting down industrial activity and is likely to extend this for some time. As there is a high degree of uncertainty to overall economic activity in April, the Company took the prudent move of completing a $2.0 million private placement to ensure ongoing liquidity during these trying times.

On the exploration front in 2019, we continue to find new targets to add both near term production and upsides. In addition to silver, we have discovered new gold targets below our traditional silver epithermal veins. Results of sampling at Chapanial included 97.5 g/t Gold and 97.9 g/t Silver over a true width of 0.80 meter and 18.25 g/t Gold and 75.4 g/t Silver over a true width of 0.20 meter. Testing targets in the Santa Teresa area, the El Canelo project drilled 2.69 meters of 5.27 g/t gold. We aim to provide further updates in 2020 on these and other prospects.

A testament to IMPACT's ability to fast track from exploration to production, the Veta Negra open pit began production in September 2019 sampling 205.7 g/t Silver over 22.7 meters and now is responsible for 18% of current production. The Veta Negra vein system was mined in the 1970's and 1980's by a previous operator as both an open pit and from underground with existing infrastructure intact. With the substantially lower cost of open pit mining yet good grades of 200g/t right at surface, Veta Negra is instrumental in lowering our current cost per ounces at the mill.

At this point I would like to take this opportunity to thank our shareholders, directors, employees, contractors and suppliers for their support during these trying times. IMPACT remains what is most likely the purest silver producer in Mexico where over 90% of our revenue is generated from silver production. That leverage to silver provides substantial volatility as well as opportunity to our shareholders. At the same time after 14 years of continuous production and 10 million ounces of silver sold with revenues in excess of $175 million to date, it also remains a unique precious metals exploration project.

With 500 years of silver production, the Royal Mines of Zacualpan has had a long and storied history and IMPACT believes we will be here to bring the next significant silver era in.

Regards,

Frederick W. Davidson

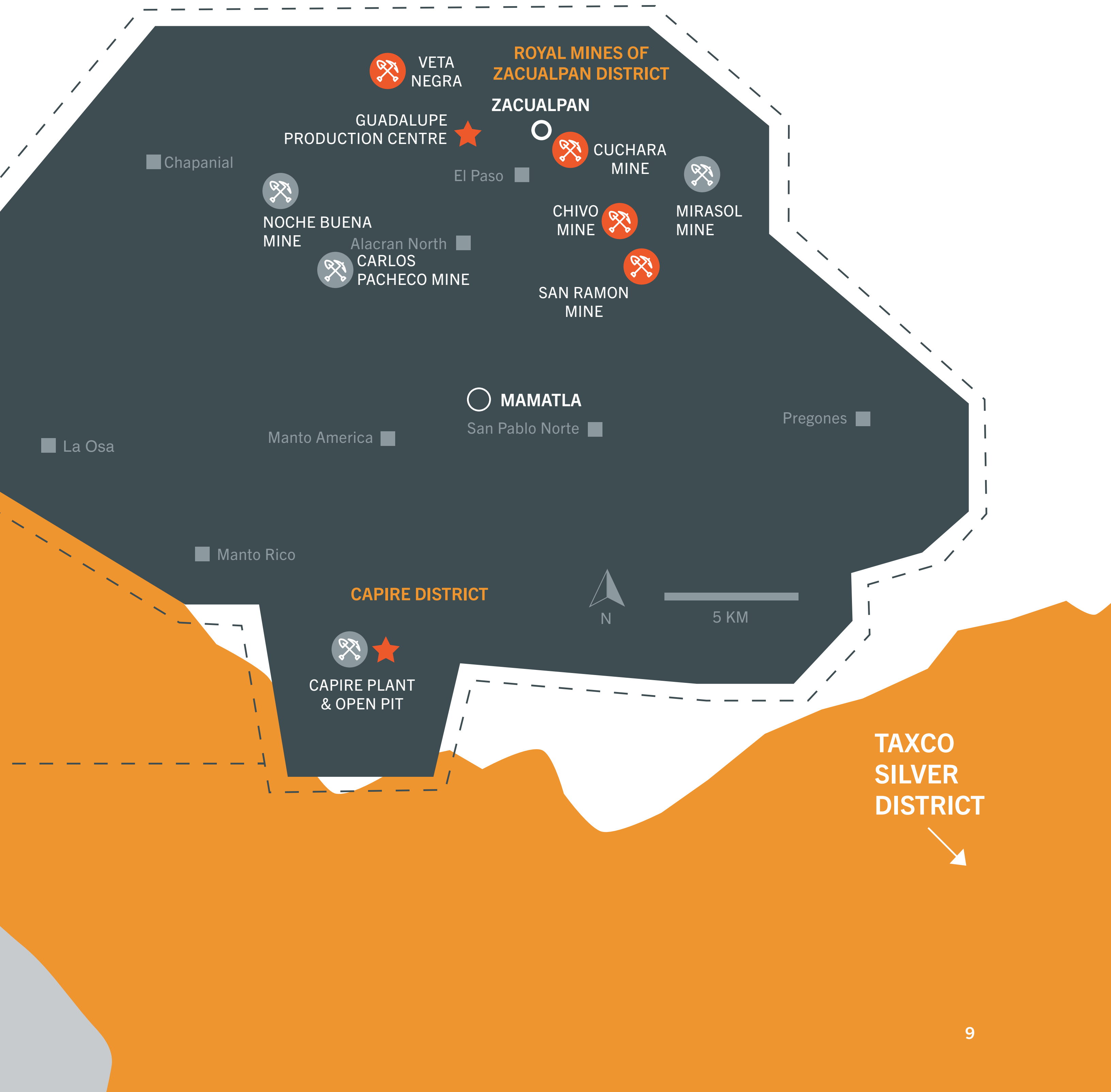
Frederick W. Davidson
President & CEO

Mexican Epithermal Vein Belt

Production Centres and Mines

LEGEND

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



Exploration Targets for 2019

CHAPANIAL GOLD EXPLORATION AREA

- Chapanial is located seven kilometers west of the Guadalupe Production Centre.
- The historic Chapanial Mine produced on three levels over 45 meters depth and along 100m strike.
- Surface sampling by IMPACT exploration teams has returned high grades including 97.5 g/t Gold and 97.9 g/t Silver over a true width of 0.80 meters, and 18.25 g/t Gold and 75.4 g/t Silver over a true width of 0.20 meters.
- Many other veins and geochemical anomalies occur in the area where the target is high grade gold and silver veins.

MANTO AMERICA GOLD EXPLORATION AREA

- Manto America is located seven kilometers north of the Capire Production Centre and covers the strongest gold-in-soil anomaly on the property, measuring 800m by 3200m.
- Reconnaissance rock samples taken on surface and in historic underground workings have returned 33 samples greater than 2g/t gold with values up to 19.5 g/t Gold over a true width of 1.2 meters.
- Mineralization takes the form of sulphide lenses and quartz veinlets in strongly altered volcanic rocks.
- IMPACT is continuing to explore the area with the goal of defining large bulk tonnage gold mineralization.

SAN RAMON SILVER MINE EXTENSIONS

- San Ramon has been a significant producer for over 10 years and new high grade silver veins continue to be found.
- Recent drill results at depth include 1,393 g/t Silver over 1.58 meters true width and 418 g/t Silver over 2.14 meters true width.

VETA NEGRA OPEN PIT SILVER MINE

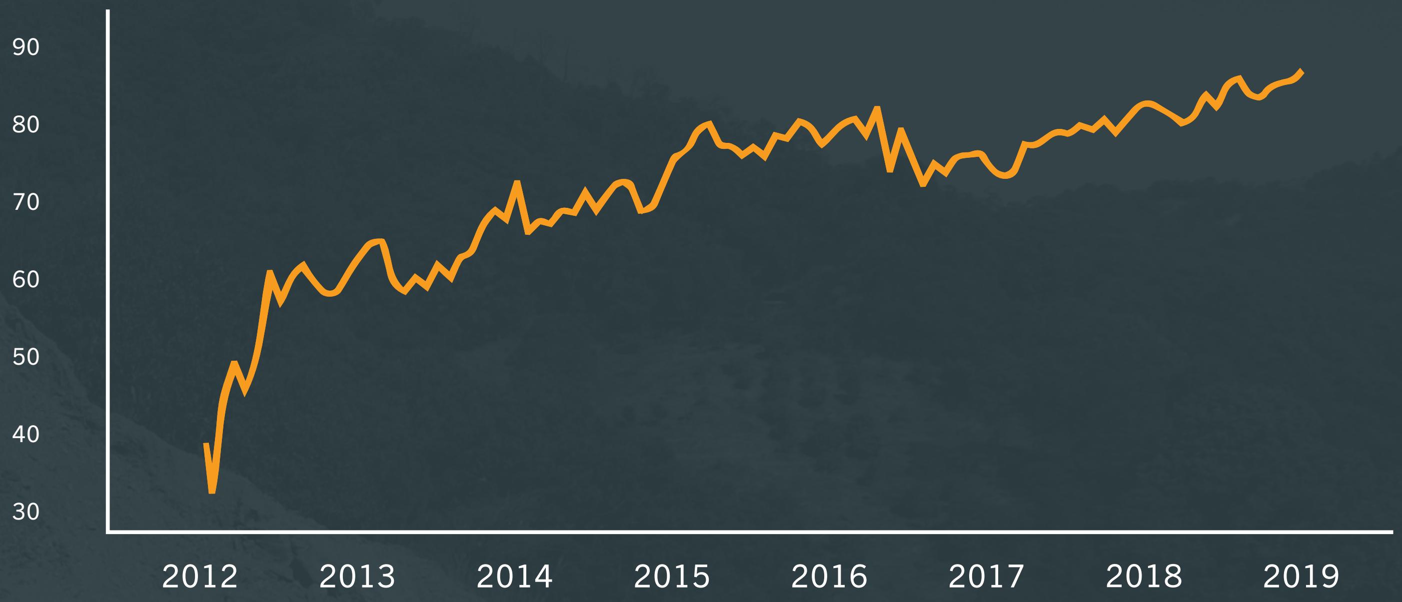
- Veta Negra is IMPACT's newest mine where production began in September 2019 and has quickly expanded to 18% of current production.
- Recent open pit mining grades averaged between 170 g/t and 209 g/t Silver across widths of about 20 meters.

SAN FELIPE MINE, SOCAVON ZACUALPAN MINE: EL PASO SILVER VEIN

- The El Paso Vein is located less than one kilometer from IMPACT's Guadalupe processing plant.
- San Felipe and Socavon Zacualpan are two of several historical mine workings located on this vein system. Drilling on this structure at San Felipe returned 834g/t silver over 3.38m.
- Underground sampling at Socavon Zacualpan returned 196g/t silver across a true width of 1.29m over a strike length of 57m.
- Further drilling is planned on the El Paso structure as a potential source of near term silver feed for the plant.

- George Gorzynski, P.Eng. is a "Qualified Person" within the meaning of NI 43-101 and is responsible for the technical information contained in this annual report.

Gold/Silver ratio at record highs - IPT well positioned to benefit from potential reversal.



The Guadalupe Production Center and land package surrounding it. Town of Zacualpan over hills.

The San Ramon mine and surrounding areas.

Financials

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 FORWARDLOOKING 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 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.

[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”.

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground mines on epithermal silver-zinclead 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 5 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 Legnth (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.

Capire Mineral Resource

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

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

The reported resource ("Base Case") cutoff grade is US$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates ("MDA") of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards, definitions and guidelines. The resources were estimated by inverse distance cubed ("ID3") 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 aprice of $0.29 per unit. Each series unit consists of one common share and one warrant. Each warrantentitles 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 beused to re-energize exploration on key targets including the high potential gold-copper targets inValle de Oro, continue dense media separation (DMS) engineering studies on the Capire VolcanicMassive Sulphide resource mill and production center, and invest in efficiency improvements at theGuadalupe 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	110,262,345		
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	4,083,328	$0.35	January 18, 2021
Warrants	4,752,770	$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 shortterm 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 nonfinancial 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 forwardlooking 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

IMPACT Silver Corp.
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Management's Responsibility for Financial Reporting

rThe 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 Davidson & Company LLP on behalf of the shareholders and their report follows.

F. W. DAVIDSON
President and Chief Executive Officer

J. HUANG
Chief Financial Officer

March 8, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
IMPACT Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of loss, comprehensive loss, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which describes matters and conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The consolidated financial statements of IMPACT Silver Corp. for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on March 11, 2019.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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. In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Catherine Tai.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 1, 2020

IMPACT Silver Corp.
Consolidated Statements of Financial Position
As at December 31
(Canadian dollars)

ASSETS		2019		2018
Current				
Cash	$	3,773,062	$	1,234,427
Trade and other receivables *(Note 4)*		1,783,571		1,117,763
Inventories *(Note 5)*		539,041		748,364
Investments		2,500		4,000
		6,098,174		3,104,554
Value added and other taxes receivable *(Note 4)*		725,369		667,373
Right of Use Assets *(Note 6)*		155,856		-
Property, plant and equipment *(Note 9)*		20,903,706		21,987,256
Exploration and evaluation assets *(Note 10)*		22,071,788		23,605,588
	$	49,954,893	$	49,364,771

LIABILITIES				
Current				
Trade payables and accrued liabilities	$	2,434,623	$	2,813,404
Lease liabilities *(Note 7)*		89,506		-
		2,524,129		2,813,404
Lease liabilities *(Note 7)*		67,098		-
Reclamation provision *(Note 12)*		467,839		339,700
Deferred income tax liabilities *(Note 16)*		4,417,422		4,876,984
		7,476,488		8,030,088
SHAREHOLDERS' EQUITY				
Share capital		63,923,949		60,082,587
Warrants *(Note 15(c))*		2,193,199		1,061,916
Contributed surplus		7,628,059		6,240,620
Accumulated other comprehensive loss		(4,899,146)		(4,626,026)
Accumulated deficit		(26,367,656)		(21,424,414)
		42,478,405		41,334,683
	$	49,954,893	$	49,364,771

Nature of operations and going concern *(Note 1)*
Subsequent Event *(Note 20)*

ON BEHALF OF THE BOARD:

"F.W. Davidson", Director

"P. Tredger", Director

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

IMPACT Silver Corp.

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

		2019		2018
Revenues *(Note 8)*	$	13,311,376	$	13,098,339
Expenses				
Operating expenses *(Note 13)*		11,946,199		14,777,527
Amortization and depletion		1,541,203		1,864,915
		13,487,402		16,642,442
Mine operating loss		(176,026)		(3,544,103)
General and administrative expenses				
Accounting, audit and legal		161,222		160,534
Amortization		18,881		17,536
Investor relations, promotion and travel		408,423		62,517
Management fees and consulting		229,260		178,568
Office, rent, insurance and sundry		273,316		249,126
Office salaries and services		589,698		643,986
Share-based payments *(Note 15(b))*		414,061		(18,459)
		2,094,861		1,293,808
Operating loss		(2,270,887)		(4,837,911)
Other income (expenses)				
Finance cost		(35,345)		(30,139)
Finance income		38,287		28,782
Foreign exchange loss		(202,701)		(228,335)
Other expense		(18,648)		(5,299)
Loss on disposal of assets		(4,518)		-
Write-down of property, plant and equipment *(Note 9)*		(526,639)		-
Write-down of exploration and evaluation assets *(Note 10)*		(2,321,340)		-
		(3,070,904)		(234,991)
Loss before taxes		(5,341,791)		(5,072,902)
Current income tax expense *(Note 16)*		17,649		281
Deferred income tax (recovery) *(Note 16)*		(420,018)		(10,251)
Net loss	$	(4,939,422)	$	(5,062,932)
Loss per share – Basic and Diluted *(Note 15(d))*	$	(0.05)	$	(0.06)
Weighted average number of shares outstanding – Basic and Diluted		99,794,121		85,744,944

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

IMPACT Silver Corp.

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

		2019		2018
Net loss	$	**(4,939,422)**	$	**(5,062,932)**
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Cumulative translation adjustment		**(271,620)**		**2,855,099**
Items that will not be subsequently reclassified to profit or loss				
(Loss) gain on investments		**(1,500)**		**57,638**
Comprehensive loss	$	**(5,212,542)**	$	**(2,150,195)**

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

IMPACT Silver Corp.

Consolidated Statements of Changes in Equity
For Years Ended December 31
(Canadian dollars)

	Shares Outstanding	Share Capital ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Other Comprehensive Income (Loss) ($)	Accumulated Deficit ($)	Total Shareholders' Equity ($)
Balance at December 31, 2017	85,566,840	59,651,422	973,378	6,259,079	(7,538,763)	(16,361,482)	42,983,634
Net loss for the year	-	-	-	-	-	(5,062,932)	(5,062,932)
Share-based compensation expense	-	-	-	(18,459)	-	-	(18,459)
Shares issued in relation to private placement	2,031,500	548,505	-	-	-	-	548,505
Share issue costs	-	(28,802)	-	-	-	-	(28,802)
Warrants issued in relation to private placement	-	(88,538)	88,538	-	-	-	-
Cumulative translation adjustments	-	-	-	-	2,855,099	-	2,855,099
Gain on investments	-	-	-	-	57,638	-	57,638
Balance at December 31, 2018	87,598,340	60,082,587	1,061,916	6,240,620	(4,626,026)	(21,424,414)	41,334,683
Net loss for the year	-	-	-	-	-	(4,939,422)	(4,939,422)
Impact of adopting IFRS 16	-	-	-	-	-	(3,820)	(3,820)
Share-based compensation expense	-	-	-	414,061	-	-	414,061
Shares issued in relation to private placements	22,266,580	6,143,873	-	-	-	-	6,143,873
Share issue costs	-	(336,949)	-	-	-	-	(336,949)
Warrants issued in relation to private placements	-	(2,130,540)	2,130,540	-	-	-	-
Warrants exercised	397,425	164,978	(25,879)	-	-	-	139,099
Warrants expired	-	-	(973,378)	973,378	-	-	-
Cumulative translation adjustments	-	-	-	-	(271,620)	-	(271,620)
Loss on investments	-	-	-	-	(1,500)	-	(1,500)
Balance at December 31, 2019	**110,262,345**	**63,923,949**	**2,193,199**	**7,628,059**	**(4,899,146)**	**(26,367,656)**	**42,478,405**

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

IMPACT Silver Corp.

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

Cash resources provided by (used in)		2019		2018
Operating activities				
Net loss	$	**(4,939,422)**	$	(5,062,932)
Items not affecting cash				
Amortization and depletion		**1,560,080**		1,882,451
Share-based payments		**414,061**		(18,459)
Deferred income tax (recovery) expense		**(420,018)**		(10,251)
Loss on disposal of assets		**4,518**		-
Accretion expense		**29,450**		30,139
Write-down of inventory		**37,687**		40,247
Write-down of exploration and evaluation assets		**2,321,340**		-
Write-down of property, plant and equipment		**526,639**		-
Unrealized (gain) loss on foreign exchange		**(15,759)**		56,448
Changes in non-cash working capital				
Trade and other receivables		**(751,125)**		744,710
Income taxes receivable		**10,607**		(38,230)
Inventories		**157,328**		272,664
Trade payables		**141,350**		(228,712)
Income taxes payable		**5,602**		27,680
		(917,662)		(2,304,245)
Investing activities				
Additions of long-lived assets		**(1,942,513)**		(2,714,398)
Proceeds on sale of investments		**-**		527,937
		(1,942,513)		(2,186,461)
Financing activities				
Repayment of lease liability		**(55,361)**		-
Proceeds from exercise of warrants		**139,098**		-
Share subscriptions received in advance		**-**		491,850
Proceeds from private placements, net		**5,315,073**		519,703
		5,398,810		1,011,553
Net change in cash		**2,538,635**		(3,479,153)
Cash at the beginning of the year		**1,234,427**		4,713,580
Cash at the end of the year	$	**3,773,062**	$	1,234,427

Supplementary cash flow information *(Note 14)*

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

1. Nature of operations and going concern

IMPACT Silver Corp. and its subsidiaries (collectively, “IMPACT” or the “Company”) are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico. The Company operates a series of mines near Zacualpan in the State of Mexico and in Guerrero State and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The registered address of the Company is 705 – 543 Granville Street, Vancouver, British Columbia.

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

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

During 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, 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.

1. 2. Basis of Preparation

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on April 1, 2020.

2. Basis of Preparation - continued

b) **Basis of measurement**

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

c) **Use of estimates and judgments**

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

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

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

Asset carrying values and impairment analysis

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

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

Reclamation provisions

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

2. Basis of preparation - *continued*

c) Use of estimates and judgments - *continued*

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

Valuation of inventory

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

d) Basis of consolidation

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

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

3. Significant accounting policies

a) Revenue recognition

The Company generates revenue from the sale of concentrate containing silver and other metals. Revenue is recognized on individual sales to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company considers five steps in assessing whether all of the criteria are met:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations; and
- recognize revenue when or as a performance obligation is satisfied.

The Company satisfies its performance obligation and revenue is recognized at the point in time when the product is delivered, which is typically once the concentrate arrives at the location specified by the customer. The Company considers that control has passed when there is a present obligation to pay from the customer's perspective; physical possession, legal title and the risks and rewards of ownership have all passed to the customer; and the customer has accepted the concentrate.

In order to determine the transaction price, revenue from contracts with customers is measured by reference to the forward price for the commodities for the expected quotation period and the Company's best estimate of contained metal at the date revenue is recognized. Concentrate is provisionally priced whereby the selling price is subject to final adjustment at the end of a period normally being 30 to 60 days after delivery to the customer as defined in the sales contract. The final price is based on the market price at the relevant quotation point stipulated in the contract.

At each reporting date, the receivable is marked to fair value based on the forward selling price for the quotation period stipulated in the contract. The change in fair value of the receivable subsequent to the date of revenue recognition is recognized within 'Revenue' on the statements of loss and is shown separately as 'other revenue' in the notes to the consolidated financial statements.

b) Cash

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

c) Inventories

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

d) Investments

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

3. Significant accounting policies - *continued*

e) Exploration and evaluation expenditures

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

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

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

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

Property option payments

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

f) Property, plant and equipment

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

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

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

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

3. Significant accounting policies - *continued*

f) **Property, plant and equipment** - *continued*

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

Components

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

Commercially viable mineral resource exploration and evaluation expenditures

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

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

g) **Asset impairment**

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

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

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

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

3. Significant accounting policies - *continued*

g) Asset impairment - *continued*

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

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

h) Loss per share

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

i) Share based payments

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

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

j) Warrants

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative values as follows: the fair value of the common shares is based on the market close on the date the units are issued and the fair value of the common share purchase warrants is determined using the Black-Scholes Option Pricing Model.

3. Significant accounting policies - *continued*

k) Income taxes

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

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

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

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

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

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

l) 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 statement of financial position date are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

- Canadian dollars for Chalco Services Inc.
- Mexican pesos for Minera Impact Silver de Mexico S.A. de C.V., Arrendadora y Servicios Chalco S.A. de C.V., Minera Aguila Plateada S.A. de C.V., Minera El Porvenir de Zacualpan S.A. de C.V. and its wholly owned subsidiary, Minera Laureles, S.A. de C.V.

3. Significant accounting policies - *continued*

l) Foreign currency translation - *continued*

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

i. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
ii. Income and expenses for each statement of comprehensive income are translated at an average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
iii. All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

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

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

m) Financial instruments

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

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

The Company's financial instruments consist of cash, concentrate trade receivables, other receivables, investments, trade payables and lease obligations. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at fair value through profit and loss ("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.

A financial asset is derecognized when the contractual right to the asset's cash flows expires or if the Company transfers the financial asset and all risks and rewards of ownership to another entity. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

n) Reclamation provisions

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

3. Significant accounting policies - *continued*

o) IFRS standards adopted

<u>IFRS 16 – Leases</u>

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. Under the new model, the lessee will be required to recognize a right of use asset and corresponding lease liability for the lease component of future payments. Lessees will also be required to replace operating lease expense with depreciation of right of use assets and interest on lease liabilities in the statement of income. 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.

<u>Policy applicable from January 1, 2019</u>

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 vuse 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.

(Canadian dollars)

3. Significant accounting policies - *continued*

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.

4. Trade and other receivables

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

		2019		2018
Value added taxes receivable – current portion	$	316,753	$	356,579
Trade and other receivables		1,131,119		501,819
Prepaids		335,699		259,365
Total trade and other receivables	$	1,783,571	$	1,117,763

5. Inventories

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

		2019		2018
Materials and supplies	$	297,934	$	415,118
Stockpile inventory		7,507		14,024
Concentrate inventory		233,600		319,222
Total inventories	$	539,041	$	748,364

The amount of inventories recognized as an expense during the year ended December 31, 2019 was $11,946,199 (December 31, 2018 - $14,777,527).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2019 was $37,687 (December 31, 2018 - $40,247) relating to concentrate inventory.

(Canadian dollars)

6. Right-of-use assets

Details are as follows:

		Land and Buildings
Balance at December 31, 2018	$	-
Initial adoption of IFRS 16		63,600
Additions		161,008
Remeasurements		(10,428)
Amortization		(58,131)
Foreign exchange movement		(193)
Balance at December 31, 2019	$	155,856

7. Lease Liabilities

Details are as follows:

Balance at December 31, 2018	$	-
Initial adoption of IFRS 16		
Future aggregate minimum lease payments of operating leases		70,012
Discounted using the incremental borrowing rate		(8,292)
Lease liabilities on initial application of IFRS 16		61,720
Interest		5,895
Repayments		(61,256)
Additions		161,008
Remeasurements		(10,428)
Foreign exchange movement		(335)
Balance at December 31, 2019		156,604
Less: current portion		89,506
Non-current lease liabilities	$	67,098

The Company's leased assets are for land and buildings. The lease liabilities were discounted at the Company's incremental borrowing rate. The weighted average rate applied at January 1, 2019 was 8% for Mexican leases and 5% for Canadian leases. Operating lease expense relating to short-term and low-value leases not included in the

Measurement of lease obligations for the year ended December 31, 2019 was $100,047.
The expected timing of undiscounted lease payments at December 31, 2019 is as follows:

Less than one year	$	101,522
One to five years		64,792
	$	166,314

(Canadian dollars)

8. Revenue

The following table details revenue at December 31:

		2019		2018
Concentrate revenue	$	12,914,211	$	13,066,119
Other revenue		397,165		32,220
Total revenue	$	13,311,376	$	13,098,339

9. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	**Total ($)**
Cost						
Balance at December 31, 2017	9,079,150	452,611	214,850	1,048,190	26,735,744	**37,530,545**
Additions	11,168	-	4,669	-	1,279,380	**1,295,217**
Change in reclamation estimate	-	-	-	-	(93,159)	**(93,159)**
Foreign exchange movement	793,846	39,870	9,480	92,332	2,094,282	**3,029,810**
Balance at December 31, 2018	9,884,164	492,481	228,999	1,140,522	30,016,247	**41,762,413**
Additions	-	-	37,118	-	661,205	**698,323**
Transfers					315,996	**315,996**
Disposals	-	-	(57,315)	-	(1,826,883)	**(1,884,198)**
Change in reclamation estimate	-	-	-	-	101,675	**101,675**
Foreign exchange movement	(84,849)	(4,256)	(1,053)	(9,858)	(233,412)	**(333,428)**
Balance at December 31, 2019	9,799,315	488,225	207,749	1,130,664	29,034,828	**40,660,781**
Accumulated amortization						
Balance at December 31, 2017	5,310,718	356,512	174,384	-	10,737,830	**16,579,444**
Amortization for the year	667,015	20,885	11,864	-	1,151,652	**1,851,416**
Foreign exchange movement	484,191	32,068	7,700	-	820,338	**1,344,297**
Balance at December 31, 2018	6,461,924	409,465	193,948	-	12,709,820	**19,775,157**
Amortization for the year	566,258	17,718	14,225	-	895,953	**1,494,154**
Disposals	-	-	(52,797)	-	(1,298,424)	**(1,351,221)**
Foreign exchange movement	(56,599)	(3,574)	(873)	-	(99,969)	**(161,015)**
Balance at December 31, 2019	6,971,583	423,609	154,503	-	12,207,380	**19,757,075**
Net book value						
At December 31, 2018	3,422,240	83,016	35,051	1,140,522	17,306,427	**21,987,256**
At December 31, 2019	2,827,732	64,616	53,246	1,130,664	16,827,448	**20,903,706**

9. Property, plant and equipment – *continued*

b) Impairment tests

The Company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2019. The recoverable amount for the property, plant and equipment impairment testing has been assessed by reference to the fair value less cost of disposal (FVLCD) that was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. FVLCD is based on the cash flows expected to be generated from the mines included within the cash generating units (CGUs); being the Guadalupe mining complex and Capire. The date that mining will cease depends on a number of variables, including estimated recoverable resources and the forecast selling prices for such production. For Capire, it is assumed that mining operations will recommence in 2022. Cash flows have been projected for nine years.

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. Long-term commodity prices are determined by reference to external market forecasts. For the December 31, 2019 impairment assessment, the metal price assumptions in US$ were as follows:

- Gold (per ounce) $1,347 - $1,354
- Silver (per ounce) $16.34 - $17.62
- Copper (per pound) $3.01 - $3.22
- Lead (per pound) $0.92 - $0.96

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2019 impairment assessment, the average mineral grade assumptions were as follows:

- Gold (grams per tonne) 0.6
- Silver (grams per tonne) 146
- Copper (%) 0.3
- Lead (%) 0.77

Exchange rate assumptions

The projected cash flows used in impairment testing are significantly affected by changes in exchange rates. Long-term exchange rates are determined by reference to external market forecasts. For the December 31, 2019 impairment assessment, the average exchange rate assumptions were as follows:

- US dollars $1.26
- Mexican pesos $0.0671

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.

(Canadian dollars)

9. Property, plant and equipment – *continued*

c) Impairment tests– *continued*

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

Sensitivity Analysis

The impairment test is particularly sensitive to changes in commodity prices, exchange rates and ore grade. Adverse changes to these key assumptions may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and long-term price assumptions as at December 31, 2019. An impairment charge may result if assumptions changed as follows:

- Average long-term forecast silver prices were to fall below US$16.50
- Average forecast US dollar exchange rates were to decrease below $1.24
- Average forecast Mexican pesos exchange rates were to increase above $0.069
- Silver grade mined and milled were to fall below 140 grams per tonne

10. Exploration and evaluation assets

Details are as follows:

Balance at January 1, 2018	$	20,722,197
Additions		1,479,732
Foreign exchange		1,403,659
Balance at December 31, 2018		23,605,588
Additions		1,237,512
Transfers to mining assets		(315,996)
Write-down		(2,321,340)
Foreign exchange		(133,976)
Balance at December 31, 2019	**$**	**22,071,788**

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2019 was $2,321,340 (December 31, 2018 - $nil).

(Canadian dollars)

11. 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:

		2019		2018
Salaries and fees	$	494,889	$	369,685
Share-based compensation		269,139		(10,917)
Total compensation	$	764,028	$	358,768

12. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's development of the open pit Capire mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are $1,230,304(2018 – $1,292,255). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.6% (2018 – 3.4%) and discounted using a Mexican risk-free rate of 7.0% (2018 – 8.7%). Settlement of the liability may extend up to 18 years in the future.

Additions to the reclamation provision were as follows:

		2019		2018
Reclamation provision, beginning of the year	$	339,700	$	369,306
Foreign exchange movement		(2,986)		33,414
Accretion of reclamation provision		29,450		30,139
Revisions to estimated cash flows		101,675		(93,159)
Total reclamation provision, end of the year	$	467,839	$	339,700

13. Expenses by nature

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

		2019		2018
Production costs	$	6,167,572	$	8,017,785
Administration		458,509		644,390
Transportation		441,701		556,277
Wages and salaries		4,878,417		5,559,075
Total operating expenses	$	11,946,199	$	14,777,527

(Canadian dollars)

14. Supplementary cash flow information

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

		2019		2018
Cash received for interest income	$	38,287	$	28,782
Cash paid for income taxes	$	1,419	$	4,074

15. Equity

a) Share Capital

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

On August 12, 2019, the Company closed a non-brokered private placement which was completed in four tranches. The private placement raised aggregate gross proceeds of $4,950,000 by issue of 7,500,000 series 1 units 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 1 unit consists of one common share and one warrant. Each series 1 warrant entitles the holder to purchase one common share at a price of $0.30 per common share for a period of 36 months from the date of issuance. Each series 2 unit consists of one common share and one warrant. Each series 2 warrant entitles the holder to purchase one common share at a price of $0.385 per common share for a period of 36 months from the date of issuance.

On July 5, 2019, a total of 4,752,770 series 1 units were issued for aggregate gross proceeds of $1,235,720.
On July 24, 2019, a total of 2,747,230 series 1 units were issued for aggregate gross proceeds of $714,280.
On August 2, 2019, a total of 8,433,759 series 2 units were issued for aggregate gross proceeds of $2,445,790.
On August 12, 2019, a total of 1,911,068 series 2 units were issues for aggregate gross proceeds of $554,210.

On January 18, 2019, the Company closed the second tranche of a non-brokered private placement which commenced in 2018. The private placement raised aggregate gross proceeds of $1,742,378 by issue of 6,453,253 units at a price of $0.27 per unit. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of $0.35 per common share for a period of 24 months from the date of issuance.

On November 30, 2018, a total of 2,031,500 units were issued for aggregate gross proceeds of $548,505.
On January 18, 2019, a total of 4,421,753 units were issued for aggregate gross proceeds of $1,193,873.

b) Stock options

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

On October 25, 2019, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,000,000 shares of the Company. The options are exercisable on or before October 24, 2024 at a price of $0.36 per share. Options vested 100% on the date granted.

(Canadian dollars)

15. 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	October 25, 2019
Number of options granted	2,000,000
Risk-free interest rate	1.68%
Expected dividend yield	Nil
Expected share price volatility	81.263%
Expected option life in years	2.5

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

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the year ended December 31, 2019 is $414,061 (December 31, 2018 – recovery of $18,459).

A summary of the Company's stock options as at December 31, 2019 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2018	6,745,000	0.80
Expired	(1,935,000)	1.20
Forfeited	(100,000)	0.67
At December 31, 2018	4,710,000	0.64
Granted	2,000,000	0.36
Expired	(1,210,000)	0.55
Forfeited	(315,000)	0.66
At December 31, 2019	**5,185,000**	**0.55**

The following table summarizes information about the stock options outstanding at December 31, 2019:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$0.98	1,625,000	1.57	1,625,000	July 27, 2021
$0.35	1,560,000	2.72	1,560,000	September 20, 2022
$0.36	2,000,000	4.82	2,000,000	October 24, 2024
	5,185,000	**3.17**	**5,185,000**	

(Canadian dollars)

15. Equity – *continued*

c) Warrants

A summary of the Company's warrants as at December 31, 2019 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2018	4,385,965	0.90
Issued	2,031,500	0.35
At December 31, 2018	6,417,465	0.73
Issued	22,266,580	0.35
Exercised	(397,425)	0.35
Expired	(4,385,965)	0.90
At December 31, 2019	**23,900,655**	**0.35**

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

Date Granted	Nov 30, 2018	Jan 18, 2019	July 5, 2019	July 24, 2019	Aug 2, 2019	Aug 12, 2019
Expiry Date	Nov 30, 2020	Jan 18, 2021	July 5, 2022	July 24, 2022	Aug 2, 2022	Aug 12, 2022
Number of warrants granted	2,031,500	4,421,753	4,752,770	2,747,230	8,433,759	1,911,068
Risk-free interest rate	2.14%	1.93%	1.69%	1.51%	1.41%	1.39%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Expected share price volatility	82.37%	82.07%	72.93%	74.32%	75.39%	75.81%
Expected warrant life in years	1.5	1.5	1.5	1.5	1.5	1.5

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

d) Loss per share

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

	2019	2018
Net loss attributable to shareholders	**$ (4,939,422)**	$ (5,062,932)
Weighted average number of shares outstanding – basic and diluted	**99,794,121**	85,744,944
Loss per share – basic and diluted	**(0.05)**	(0.06)

(Canadian dollars)

16. 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:

		2019		2018
Loss before income taxes	$	**(5,341,791)**	$	(5,072,902)
Canadian federal and provincial income tax rates		27.00%		27.00%
Income tax recovery based on the above rates	$	**(1,442,284)**	$	(1,369,684)
Increase (decrease) due to:				
Non-deductible expenses		**365,689**		117,192
Losses and temporary differences for which a deferred tax asset has not been recognized		**383,966**		1,601,706
Changes in estimate of deferred tax assets		**1,218,767**		-
Difference between foreign and Canadian tax rates		**(101,922)**		(121,308)
Deferred taxes in respect of Mexican royalty		**(42,872)**		75,981
Foreign exchange and other		**(783,713)**		(313,857)
Income tax (recovery) expense	$	**(402,369)**	$	(9,970)

Total income tax expense consists of:

		2019		2018
Current income tax expense	$	**17,649**	$	281
Deferred income tax (recovery) expense		**(420,018)**		(10,251)
	$	**(402,369)**	$	(9,970)

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

		2019		2018
Deferred income tax assets				
Non-capital losses	$	**5,599,860**	$	5,876,192
Current assets and liabilities		**106,691**		69,661
Total deferred tax assets	$	**5,706,551**	$	5,945,853
Deferred income tax liabilities				
Property, plant and equipment	$	**5,764,633**	$	5,994,253
Exploration and evaluation assets		**3,907,994**		4,449,064
Other		**451,346**		379,520
Total deferred income tax liabilities	$	**10,123,973**	$	10,822,837
Deferred income tax liabilities, net	$	**4,417,422**	$	4,876,984

(Canadian dollars)

16. Income taxes – *continued*

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

		2019		2018
Deferred tax liabilities	$	4,417,422	$	4,876,984

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

		2019		2018
Deferred income tax assets				
Non-capital losses	$	228,685	$	(506,245)
Other		(37,596)		80,823
Deferred income tax liabilities				
Property, plant and equipment	$	(181,015)	$	267,032
Exploration and evaluation assets		(504,994)		137,097
Other		74,902		11,042
Deferred income tax (recovery) expense	$	(420,018)	$	(10,251)

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

		2019		2018
Deferred income tax liability				
Balance at January 1	$	4,876,984	$	4,497,125
Deferred income tax (recovery) expense during the year		(420,018)		(10,251)
Changes due to foreign currency translation		(39,544)		390,110
Balance at December 31	$	4,417,422	$	4,876,984

The unrecognized deferred tax asset is as follows:

		2019		2018
Non-capital losses	$	7,711,366	$	6,083,235
Capital losses		206,638		206,638
Property, plant and equipment		451,817		434,476
Exploration and evaluation assets		1,132,111		1,131,006
Unrecognized deferred tax asset	$	9,501,932	$	7,855,355

(Canadian dollars)

16. Income taxes – *continued*

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

As at December 31, 2019, 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	Canada	Mexico	Total
2021	$ -	$ 753,504	$ 753,504
2022	-	1,905,446	1,905,446
2023	-	2,228,147	2,228,147
2026	828,544	-	828,544
2027	541,044	1,431,926	1,972,970
2028	141,907	4,792,916	4,934,823
2029	415,894	723,397	1,139,291
2030	1,266,681	-	1,266,681
2031	1,137,299	-	1,137,299
2032	1,598,366	-	1,598,366
2033	1,877,272	-	1,877,272
2034	1,485,486	-	1,485,486
2035	984,102	-	984,102
2036	1,207,916	-	1,207,916
2037	1,277,877	-	1,277,877
2038	1,084,178	-	1,084,178
2039	1,519,514	-	1,519,514
	$ 15,366,080	$ 11,835,336	$ 27,201,416
Capital losses			
No expiry date	$ 1,530,653	$	$

17. Capital management

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

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

18. Financial instruments

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 this company at any one time, but is satisfied that this company has 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 ($3.8 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.

18. Financial instruments - *continued*

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, 2019, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 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 year ended December 31, 2019.

Commodity price risk

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

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

		2019		2018
Silver price	**$**	**93,000**	$	64,000

(Canadian dollars)

19. Segmented information

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

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

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

Details at December 31 are as follows:

		2019		2018
Revenues by geographic area				
Mexico	**$**	**13,311,376**	$	13,098,339
Net loss by geographic area				
Mexico	**$**	**(2,994,218)**	$	(4,033,618)
Canada		**(1,945,204)**		(1,029,314)
	$	**(4,939,422)**	$	(5,062,932)
Assets by geographical area				
Mexico	**$**	**46,313,779**	$	48,449,366
Canada		**3,641,114**		915,405
	$	**49,954,893**	$	49,364,771
Property, plant and equipment by geographical area				
Mexico	**$**	**20,867,360**	$	21,974,167
Canada		**36,346**		13,089
	$	**20,903,706**	$	21,987,256

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

20. Subsequent Event

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.

The Company's impairment test for property, plant and equipment is based on a fair value less costs of disposal model. Accordingly, as required by IFRS the Company has not reflected these subsequent conditions in the measurement of property, plant and equipment as at December 31, 2019. Impairment indicators for the Company's property, plant and equipment could exist at April 1, 2020, if current conditions persist. The Company continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions / forecasts in its impairment indicator analysis and for impairment tests, if such tests are required.

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