

**IMPACT Silver Corp.**  
**Form 51-102F1**  
**Management's Discussion and Analysis**  
**For the Three and Twelve Months Ended December 31, 2018**

**INTRODUCTION**

*This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2018 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 8, 2019 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018 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](http://www.sedar.com).*

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

**CORPORATE OVERVIEW**

IMPACT controls the majority of two large mineral districts totalling 357 km<sup>2</sup> 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 twelve years.

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, including all mines currently in production. IMPACT has produced over 9.4 million ounces of silver since 2006 and generated over \$175 million in revenues without any long-term debt. In 2017, the Company accelerated exploration and restarted drilling on higher priority targets. The initial results have led to the San Felipe silver discovery, the discovery of a new extension at the San Ramon silver mine, the discovery of a new silver zone at the Guadalupe mine, and positive rock sampling results for gold at Santa Teresa, as detailed in respective news releases and elsewhere in this MD&A.

IMPACT is considered one of the purest silver producers in Mexico. IMPACT's primary metal is silver with approximately 95% of its revenues generated by silver. Due to the recent rapid decline of the silver price, the Company strategically revised its mine plan reducing production by approximately 25% effective September 2018 with a focus on higher grade areas in an effort to mine economically viable tonnes. The Company generated revenues in Q4 2018 of \$3.0 million compared to Q4 2017 of \$3.2 million despite the production decrease and silver price decline. The Company continues to closely monitor variable costs and make reductions where possible. The Company believes that its approach to strategically mine higher grade areas and control costs will allow it to weather this period of low silver prices.

IMPACT is focused on maintaining production, strategically accessing economically viable tonnes to control costs and pursuing key exploration targets with near term mining potential.

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

1. Continue to optimize production with a focus on higher grade zones to optimize cash flows.
2. Exploration including drilling key targets across the large 357 km<sup>2</sup> land package, focusing on discovery and definition of additional high-grade mineral for near term mining.
3. Accelerate exploration by also looking to possible joint ventures with third parties on more remote tracts.
4. Continue exploration with plans for eventual development of gold and copper from Carlos Pacheco South and San Juan, and re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.
5. In the longer term, the objective is to become a multi-million ounce per year producer of silver either through development of current properties or by acquisition or merger.

IMPACT is proud to have been named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture exchange. 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**

- The Company's cash position at December 31, 2018 was \$1.2 million with net working capital of \$0.3 million (December 2017 - \$5.6 million).
- Revenue for Q4 2018 was \$3.0 million, a 4% decrease from Q4 2017 at \$3.2 million, despite a 25% decrease in production and a 10% decline in the silver price. The Company's strategy to reduce mill throughput and focus mining on higher grade tonnes was initiated in September 2018.
- Revenue for 2018 was \$13.1 million compared to 2017 at \$15.4 million largely due to lower silver prices and grades, although grades improved significantly in Q4 2018.
- Operating expenses for 2018 were \$14.8 million, compared to 2017 at \$14.9 million.
- General and administrative expenses, not including share-based payments, totalled \$1.3 million in 2018, a 10% reduction from 2017 at \$1.5 million.
- Mine operating loss for 2018 was \$3.5 million compared to \$1.7 million in 2017 primarily due to the impact of silver prices and grades on revenue.
- Net loss for 2018 was \$5.1 million which included non-cash expenses of \$1.9 million for amortization and depletion. This compares to a \$4.7 million net loss for 2017, which included non-cash expenses of \$3.5 million for amortization, depletion, share-based compensation and deferred income tax expense.
- Subsequent to year end, the Company closed the second tranche of a non-brokered private placement for aggregate gross proceeds of \$1.2 million. The gross proceeds of all tranches of the private placement totalled \$1.7 million.

### **Production Overview**

- Production at the Guadalupe mill during the fourth quarter of 2018 came from the San Ramon Deeps Mine (49% of total mill feed), the Cuchara Mine (30% of mill feed), and the Guadalupe mine (21% of mill feed).
- Average mill feed grade for silver in Q4 2018 was 170 grams per tonne (g/t), which is the highest average feed grade since Q3 2017 and an increase of 5% over Q4 2017 at 162 g/t.
- Silver production decreased to 743,950 ounces in 2018 from 907,848 ounces in 2017 due to lower grades and fewer tonnes produced.
- Throughput at the mill decreased to 173,217 tonnes milled in 2018 from 194,266 in 2017 due to the production decrease effective September 2018.

## PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2018	2017	% Change	2018	2017	% Change
Total tonnes (t) milled	<b>36,295</b>	48,516	-25%	<b>173,217</b>	194,266	-11%
Tonnes produced per day	<b>395</b>	527	-25%	<b>475</b>	532	-11%
Silver production (oz)	<b>167,049</b>	220,148	-24%	<b>743,950</b>	907,848	-18%
Lead production (t)	<b>65</b>	132	-51%	<b>329</b>	481	-32%
Gold production (oz)	<b>99</b>	128	-23%	<b>469</b>	540	-13%
Silver sales (oz)	<b>179,268</b>	195,599	-8%	<b>733,267</b>	852,480	-14%
Lead sales (t)	<b>73</b>	109	-33%	<b>344</b>	448	-23%
Gold sales (oz)	<b>104</b>	128	-19%	<b>489</b>	533	-8%
Average mill head grade –silver g/t	<b>170</b>	162	5%	<b>159</b>	172	-8%
Revenue per tonne sold <sup>1</sup>	<b>\$79.55</b>	\$62.39	28%	<b>\$74.88</b>	\$79.62	-6%
Direct costs per production tonne <sup>1</sup>	<b>\$91.50</b>	\$78.59	16%	<b>\$83.63</b>	\$76.49	9%

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

In light of lower silver prices, the Company shifted its strategy during Q3 2018 from utilising capacity at its Guadalupe processing plant to a focus 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, 36,295 tons were milled in Q4 2018 compared to 48,516 in Q4 2017. The decrease in production tonnes allowed the Company to focus mining on higher grade areas with the average mill head silver grade increasing to 170 g/t in Q4 2018 compared to 162 g/t processed in Q4 2017. The Company is carefully monitoring operations toward mining of economically viable tonnes so a focus on exploration for new higher grade zones can continue.

Revenue per tonne sold was \$79.55 in Q4 2018, an increase of 17% from Q3 2018 at \$68.02 and 28% from Q4 2017 at \$62.39, largely due to higher silver grades. Silver sales decreased 8% to 179,268 ounces sold in Q4 2018 from 195,599 ounces sold in Q4 2017 due to fewer tonnes produced. Direct costs per production tonne increased in Q4 2018 to \$91.50 from \$78.59 in Q4 2017. Costs reductions are being reviewed in accordance with the production decrease including variable costs. Cost per tonne will remain higher than 2017 levels as a result of processing lower volumes.

<sup>1</sup> 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**

Since acquiring the Royal Mines of Zacualpan, there has been extensive work done to upgrade operations and expand production. Expanding the tailings capacity is an ongoing process. Additional surface lands near the Guadalupe mill were also purchased to address the need for additional tailings capacity in the future which is in the process of construction.

#### **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. During 2014, the Company discovered new high-grade silver zones in the nearby San Ramon Deeps area and mining of this area began in Q3 2014. During the fourth quarter of 2018, the San Ramon Deeps Mine provided 49% (Q4 2017 – 46%) of feed to the Guadalupe mill. To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20, 21, 22, 23, 24, 25 and 26 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the quarter ranged from 168 to 190 g/t silver. In Q3 2017, IMPACT signed an agreement to mine on a neighbouring claim in return for royalty payments of MXN\$75 per dry tonne of mineral extracted. During the quarter, IMPACT carried out additional mining and exploration work throughout the mine area.

#### **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 third quarter of 2018, the Cuchara Mine provided 30% (Q4 2017 – 35%) 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 Millmaravillas vein. Diluted mining grades at Cuchara during the quarter ranged from 153 to 167 g/t silver.

#### **Guadalupe Silver Mine**

The Guadalupe Mine is located adjacent to the Guadalupe mill. This mine has been on standby since 2013. However, the very low hauling costs associated with mining here as well as recent positive drill results (see Exploration below) have led to a decision to reopen part of this mine. The mine requires some refurbishments and development work, which is being done concurrent to production restarting. During the fourth quarter of 2018, the Guadalupe Mine provided 21% (Q4 2017 – nil) of feed to the Guadalupe mill. Diluted mining grades at Guadalupe during the quarter ranged from 166 to 182 g/t silver.

#### **San Patricio (Chivo) Silver Mine**

The San Patricio (Chivo) Mine is located three kilometres southeast of the Guadalupe mill and is accessed through the former Chivo Mine entrance. At the end of the third quarter the mine was put on standby due to low grades and high costs. During the fourth quarter, there were no tonnes mined at San Patricio (Q4 2017 – 19%) as the Guadalupe Mine began production.

#### **Mirasol Silver Mine**

The Mirasol Mine is located 5.5 kilometres southeast of the Guadalupe mill and mining began in Q3 2014. In Q3 2017, production from Mirasol was put on standby as the remaining tonnes are at depth and require some development in order to access them. During the quarter, there were no tonnes mined at Mirasol (Q4 2017 – >1%).

## Capire Processing Plant and Mine

Capire is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic massive sulphide (“VMS”) base and precious metal deposit. VMS mineralization in the Capire 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 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 presently economical. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended. 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.

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.

### 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](http://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
<b>30</b>	<b>1,786,000</b>	<b>63.74</b>	<b>79.49</b>	<b>1.22</b>	<b>0.54</b>	<b>4,563,000</b>	<b>47,975,000</b>	<b>21,423,000</b>
35	1,490,000	69.96	87.65	1.33	0.59	4,199,000	43,692,000	19,504,000
40	1,242,000	76.47	96.20	1.45	0.65	3,842,000	39,596,000	17,666,000
45	1,035,000	83.30	105.37	1.56	0.70	3,507,000	35,693,000	15,905,000
50	859,000	90.69	115.49	1.69	0.75	3,189,000	31,983,000	14,203,000
60	636,000	103.31	133.60	1.88	0.84	2,732,000	26,339,000	11,793,000
70	489,000	114.89	150.72	2.04	0.92	2,370,000	22,034,000	9,909,000
80	381,000	126.33	167.97	2.20	0.99	2,057,000	18,455,000	8,338,000
90	294,000	138.53	187.15	2.34	1.07	1,772,000	15,194,000	6,966,000

The reported resource (“Base Case”) cutoff grade is US\$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates (“MDA”) of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) standards, definitions and guidelines. The resources were estimated by inverse distance cubed (“ID<sup>3</sup>”) and checked the estimate with inverse distance to the 4<sup>th</sup> 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 Ag, \$1.51/lb Zn, and \$1.69/lb Pb. MDA considered a US\$30/t cutoff to be appropriate 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" 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 (currently in operation), Guadalupe new zones (initial production), 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 first quarter, IMPACT announced results from surface drilling above the San Ramon Deeps area which included 627 g/t silver over 3.26 metres. Drilling resumed from a new underground drill station which discovered the new San Ramon Deeps 2 zone to the south with initial drill results that included 661 g/t silver over 2.04 metres and 354 g/t silver over 4.97 metres (see IMPACT news release dated July 17, 2018 for details). Underground drilling was carried out at Guadalupe and initial results included 1,263 g/t silver over 2.61 metres and 306 g/t silver over 8.82 metres (see IMPACT news release dated September 6, 2018 for details). Surface drilling was also carried out at El Angel and results included 3.21% copper over 5.85 metres and 1.41% copper over 9.72 metres.

### *Exploration Field Work*

IMPACT crews have been sampling some of the 5,000+ old mine workings and prospects in the districts. They have also trenched areas of mineralization and carried out extensive soil sampling on 100-metre x 25-metre grids. During the quarter, fieldwork was mainly focused on the Santa Teresa and San Ramon extensions areas. New surface sampling at Santa Teresa returned encouraging results (see IMPACT news release dated September 25, 2018 for details) including 6.5g/t gold across 1.66 metres along a 50 metre strike length; additional work is being carried out. In addition, compilation of historical maps and other mining data from the districts into a large computer database continues and is being used to plan future exploration programs.

## **FUTURE PLANS**

### **Mining Plans**

In the near term, the Company is mining lower volumes of higher grade mineral in response to depressed silver prices. In the longer term, management intends to continue exploration and development including exploration for gold and copper from Carlos Pacheco South, San Juan, and Santa Teresa areas, 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. Currently, exploration work is focused on larger and higher grade targets including gold zones at Santa Teresa.

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, is responsible for 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, is responsible for 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](http://www.IMPACTSilver.com) and on [www.sedar.com](http://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 2016, IMPACT received recognition for its compliance to health and safety standards at the San Ramon Mine, the La Cuchara Mine and the Guadalupe mill 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 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 keeps a paramedic and onsite ambulance on standby. In 2017, the Company's mine rescue team competed in a safety and rescue competition for the first time and placed fifth overall.

## 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. To date this year, the Company participated in investor and mining related conferences and conducted institutional presentations. Beyond this, the Company continues to strengthen its presence via social media and online advertisements.

## FINANCIAL DISCUSSION

### Summary of Quarterly Results

In thousands except for earnings per share	Three months ended	
	December 31	
	2018	2017
Revenue	\$ 3,019	\$ 3,150
Net loss	\$ (2,088)	\$ (2,267)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.03)

Net loss for the fourth quarter of 2018 was impacted by the following factors:

- Revenue for Q4 2018 was \$3.0 million, a decrease of 4% compared to \$3.2 million in Q4 2017, despite a 25% decrease in production and a 10% decline in the silver price. Revenue per tonne sold correspondingly increased 28% to \$79.55 in Q4 2018 compared to \$62.39 in Q4 2017. Better grades and more favourable refining fees helped to offset the lower silver prices and production decrease.
- Operating costs for Q4 2018 decreased 14% to \$3.4 million from \$4.0 million in Q4 2017. Direct costs per tonne at the Guadalupe mill for Q4 2018 were \$91.50 compared to \$78.59 in Q4 2017 but overall costs decreased as a result of the decreased production. The Company anticipates higher costs per tonne while production levels are reduced and continues to focus on further cost reductions.
- Mine operating loss was \$1.1 million in Q4 2018 compared to \$1.2 million in the fourth quarter of 2017. Amortization and depletion expenses increased to \$0.7 million during the fourth quarter of 2018 from \$0.4 million in the comparable quarter of 2017.
- General and administrative costs decreased to \$0.3 million in Q4 2018 from \$0.4 million in Q4 2017, due to nominal cost reductions in various administrative costs.
- Foreign exchange gain was comparable at \$0.05 million in Q4 2018 and Q4 2017.
- Deferred and current income tax expense in the fourth quarter of 2018 was comparable to 2017 at \$0.8 million.



## 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	Year ended December 31		
	2018	2017	2016
Revenue	\$ <b>13,098</b>	\$ 15,365	\$ 16,685
Net loss	\$ <b>(5,063)</b>	\$ (4,636)	\$ (1,939)
Loss per share – basic and diluted	\$ <b>(0.06)</b>	\$ (0.05)	\$ (0.02)
Total assets	\$ <b>49,365</b>	\$ 50,195	\$ 54,661

Net loss for 2018 was impacted by the following factors:

- The Company earned revenue of \$13.1 million in 2018 compared to \$15.4 million in 2017. This decrease was mainly due to weaker silver prices and lower silver grades.
- Revenue per tonne sold was \$74.88 in 2018 compared to \$79.62 in 2017, a 6% decrease despite an 8% decrease in head grades and a 10% decline in silver prices. More favourable refining fees helped to offset these factors.
- Operating expenses were \$14.8 million in 2018, marginally down from \$14.9 million in 2017. The decrease is mainly due to decreased production. Inflation has resulted in cost increases in wages, subcontractors, diesel and electricity. The Company will continue to focus on controlling costs, with a specific focus on variable costs, to help offset lower production levels and silver prices. Direct costs per tonne at the Guadalupe mill for 2018 were \$83.63 compared to \$76.49 in 2017.
- Mine operating loss was \$3.5 million in 2018 compared to \$1.7 million in 2017. Amortization and depletion expenses decreased to \$1.9 million in 2018 from \$2.2 million in the comparable period of 2017.
- General and administrative costs decreased to \$1.3 million in 2018 from \$2.2 million in 2017, due to a decrease of \$0.8 million in share-based compensation expense and nominal decreases in various other administrative costs.
- The Company had a \$0.2 million foreign exchange loss in 2018 compared to \$0.6 million loss in 2017.
- The Company had deferred and current income taxes recovery in the year ended December 31, 2018 of \$0.01 million compared to expense of \$0.5 million in the comparable period of 2017.
- In Q2 2017, the Company completed the sale of its non-active Zacatecas assets (200 tpd mill, 14 hectares surface rights and 10 mineral concessions) to Endeavour Silver Corp. The Company recorded a gain of \$0.3 million on the transaction. There is no corresponding gain or loss in 2018.

## 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 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017
Revenue	3,019	3,095	3,109	3,876	3,150	4,024	3,592	4,599
Net loss	(2,088)	(1,449)	(1,016)	(510)	(2,267)	(990)	(1,027)	(352)
Loss per share – Basic and Diluted*	(0.02)	(0.02)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)	0.00
Total assets	49,365	49,367	50,116	53,216	50,195	54,835	57,320	57,454
Total liabilities	8,030	6,568	7,166	7,198	7,212	7,107	7,308	7,064

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

### Liquidity, Financial Position and Capital Resources

#### Working Capital and Cash Flow

The Company had cash of \$1.2 million and net working capital of \$0.3 million at December 31, 2018.

During the fourth quarter of 2018, the Company used cash from operating activities of \$0.2 million compared to \$0.8 million in the comparable period of 2017. The Company invested \$0.2 million during the quarter (2017 - \$0.1 million) in exploration and evaluation assets and \$0.1 million (2017 - \$0.4) in property, plant and equipment.

In the year ended December 31, 2018, the Company used cash from operating activities of \$2.3 million compared to generating cash from operating activities of \$0.2 million in the comparable period of 2017. During 2018, the Company invested \$1.4 million (2017 - \$1.9 million) in exploration and evaluation assets, \$1.3 million (2017 - \$1.7 million) in property, plant and equipment and had proceeds of \$0.5 million from the sale of investments (2017 - \$nil).

In Q4 2018, the Company completed the first tranche of a private placement with net proceeds of \$0.5 million (2017 - \$nil). Subsequent to the year end, the second tranche of the private placement was closed with gross proceeds of \$1.2 million. \$0.5 million of the proceeds for the second tranche were received in 2018. These proceeds will be used to explore for additional high potential precious metals, to improve efficiencies at the Guadalupe production mill, and for general working capital.

#### 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 2018, the Company incurred a net loss of \$5.1 million and cash outflows from operating activities of \$2.3. At December 31, 2018, the Company had unrestricted cash of \$1.2 million, current assets of \$3.1 million and working capital of \$0.3 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 2019 and may affect the Company's ability to cover its working capital and capital investments.

The Company's management is currently considering and pursuing various alternatives for future financing requirements, within the context of existing market conditions. These alternatives could include, but are not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors at the time. Although the Company has been successful in closing a private placement subsequent to year end (see January 18, 2019 news release posted on the Company website at [www.IMPACTSilver.com](http://www.IMPACTSilver.com) for details), 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.

### Outstanding Share Data

The following common shares and convertible securities were outstanding at March 8, 2019:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	92,020,093		
Warrants	2,220,000	\$0.90	May 26, 2019
Warrants	697,600	\$0.90	June 2, 2019
Warrants	1,250,150	\$0.90	June 9, 2019
Warrants	218,215	\$0.90	June 16, 2019
Stock options	1,780,000	\$0.98	July 27, 2021
Stock options	1,720,000	\$0.35	September 20, 2022
Warrants	2,031,500	\$0.35	November 29, 2020
Warrants	4,421,753	\$0.35	January 17, 2021
Fully diluted	<u>106,359,311</u>		

All of the 3,500,000 options outstanding have vested.

### CHANGES IN ACCOUNTING POLICIES

#### IFRS standards adopted

##### IFRS 15 - Revenue from contracts with customers

The Company has adopted IFRS 15 effective January 1, 2018 on a modified retrospective approach to implementation in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and the new standard has therefore been applied only to contracts that remain in force on the date of initial application, which is January 1, 2018.

The standard contains a single model that applies to contracts with customers. Revenue is recognized as control is passed to the customer, either at a point in time or over time.

The Company concluded that, in its specific circumstances, there were no measurement differences between IAS 18, Revenue, and IFRS 15, Revenue from Contracts with Customers. As such, no adjustment has been recorded to Deficit at January 1, 2018. However, additional disclosures were required under IFRS 15 related to movements in the fair value of trade receivables, which are disclosed separately within the revenue note.

## **Recent accounting pronouncements issued but not yet implemented**

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2018:

### 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 assets meeting 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 completed its review of all contracts to determine which ones are in scope of the new standard. Adoption of the new standard will result in higher assets and liabilities on the balance sheet in 2019. The present value of operating lease payments will be recognized as lease liabilities on the balance sheet. The right of use assets will be included in non-current assets. Operating cash flows will increase under the new standard as the cash paid attributed to the repayment of principal will be included in financing cash flows. The net increase/decrease in cash will remain the same.

The Company will apply a modified retrospective approach to transition with the cumulative impact of application recognized as at January 1, 2019.

## **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, and trade payables. 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 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 Trafigura Mexico S.A. de C.V. ("Trafigura"). 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 (\$1.2 million) and trade and other receivables (\$1.8 million).

#### Interest rate risk

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

#### Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2018, 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, 2018, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$70,000 decrease or increase in the Company's net loss for the year ended December 31, 2018.

#### Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2018 by \$0.1 million (2017 - \$0.2 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 revenue 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	
	<b>2018</b>	2017	<b>2018</b>	2017
Operating expenses	\$ <b>3,410,307</b>	\$ 3,974,066	\$ <b>14,777,527</b>	\$ 14,894,005
(Deduct): operating expenses for Capire	<b>(62,342)</b>	(49,995)	<b>(187,717)</b>	(182,036)
Add (deduct): inventory	<b>(27,065)</b>	(111,375)	<b>(103,779)</b>	146,682
Direct costs	\$ <b>3,320,900</b>	\$ 3,812,696	\$ <b>14,486,031</b>	\$ 14,858,651
Tonnes milled	<b>36,295</b>	48,516	<b>173,217</b>	194,266
Direct costs per tonne	\$ <b>91.50</b>	\$ 78.59	\$ <b>83.63</b>	\$ 76.49
Revenue	\$ <b>3,018,749</b>	\$ 3,149,068	\$ <b>13,098,339</b>	\$ 15,364,726
Tonnes sold	<b>37,947</b>	50,470	<b>174,915</b>	192,968
Revenue per tonne sold	\$ <b>79.55</b>	\$ 62.39	\$ <b>74.88</b>	\$ 79.62

## 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 revenue less operating expenses, excluding amortization and depletion.

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	<b>2018</b>	2017	<b>2018</b>	2017
Revenue	\$ <b>3,018,749</b>	\$ 3,149,068	\$ <b>13,098,339</b>	\$ 15,364,726
Operating expenses	<b>3,410,307</b>	3,974,066	<b>14,777,527</b>	14,894,005
Mine operating (loss) earnings before amortization and depletion	\$ <b>(391,558)</b>	\$ (824,998)	\$ <b>(1,679,188)</b>	\$ 470,721

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

#### **NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

Additional information relating to IMPACT is on the Company website at [www.IMPACTSilver.com](http://www.IMPACTSilver.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

March 8, 2019