IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Management's Responsibility for Financial Reporting

The accompanying financial statements of IMPACT Silver Corp. ("the Company") have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and within the framework of the summary of significant accounting policies in these consolidated financial statements, and reflect management's best estimate and judgment based on currently available information.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors meets periodically with management and with the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

"F. W. Davidson" President and Chief Executive Officer

"J. Huang" Chief Financial Officer

March 8, 2019

Independent auditor's report

To the Shareholders of IMPACT Silver Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of IMPACT Silver Corp. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Material uncertainty related to going concern

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

Other information

Management is responsible for the other information. The other information comprises the 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 identified above 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.

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 Craig McMillan.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
March 11, 2019

IMPACT Silver Corp.

Consolidated Statements of Financial Position
As at December 31
(Canadian dollars)

ASSETS		2018		2017
Current				
Cash	$	1,234,427	$	4,713,580
Trade and other receivables *(Note 4)*		1,117,763		1,787,913
Inventories *(Note 5)*		748,364		1,008,370
Investments		4,000		474,299
		3,104,554		7,984,162
Value added and other taxes receivable		667,373		537,871
Property, plant and equipment *(Note 7)*		21,987,256		20,951,101
Exploration and evaluation assets *(Note 8)*		23,605,588		20,722,197
	$	49,364,771	$	50,195,331
LIABILITIES				
Current				
Trade payables and accrued liabilities	$	2,813,404	$	2,345,266
Reclamation provision *(Note 10)*		339,700		369,306
Deferred income tax liabilities *(Note 14)*		4,876,984		4,497,125
		8,030,088		7,211,697
SHAREHOLDERS' EQUITY				
Share capital		60,082,587		59,651,422
Warrants *(Note 13(c))*		1,061,916		973,378
Contributed surplus		6,240,620		6,259,079
Accumulated other comprehensive loss		(4,626,026)		(7,538,763)
Accumulated deficit		(21,424,414)		(16,361,482)
		41,334,683		42,983,634
	$	49,364,771	$	50,195,331

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

ON BEHALF OF THE BOARD:

"F.W. Davidson", Director

"P. Tredger", Director

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

IMPACT Silver Corp.

Consolidated Statements of Loss

For Years Ended December 31

(Canadian dollars)

		2018		2017
Revenues	$	**13,098,339**	$	15,364,726
Expenses				
Operating expenses *(Note 11)*		**14,777,527**		14,894,005
Amortization and depletion		**1,864,915**		2,211,739
		16,642,442		17,105,744
Mine operating loss		**(3,544,103)**		(1,741,018)
General and administrative expenses				
Accounting, audit and legal		**160,534**		184,581
Amortization		**17,536**		24,150
Investor relations, promotion and travel		**62,517**		69,600
Management fees and consulting		**178,568**		215,226
Office, rent, insurance and sundry		**249,126**		281,089
Office salaries and services		**643,986**		686,608
Share-based payments *(Note 13(b))*		**(18,459)**		735,462
		1,293,808		2,196,716
Operating loss		**(4,837,911)**		(3,937,734)
Other income (expenses)				
Finance cost		**(30,139)**		(34,904)
Finance income		**28,782**		52,247
Foreign exchange loss		**(228,335)**		(561,406)
Other (expense) income		**(5,299)**		68,939
Gain (loss) on disposal of assets		**-**		317,692
		(234,991)		(157,432)
Loss before taxes		**(5,072,902)**		(4,095,166)
Current income tax expense *(Note 14)*		**281**		15,521
Deferred income tax (recovery) expense *(Note 14)*		**(10,251)**		525,010
Net loss	$	**(5,062,932)**	$	(4,635,697)
Loss per share – Basic and Diluted *(Note 13(d))*	$	**(0.06)**	$	(0.05)
Weighted average number of shares outstanding – Basic and Diluted		**85,744,944**		85,566,840

-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)

		2018		2017
Net loss	**$**	**(5,062,932)**	$	(4,635,697)
Other comprehensive loss				
Items that may be subsequently reclassified to profit or loss				
Cumulative translation adjustment		**2,855,099**		(611,155)
Items that will not be subsequently reclassified to profit or loss				
Gain (loss) on investments		**57,638**		(137,475)
Comprehensive loss	**$**	**(2,150,195)**	$	(5,384,327)

-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 ($)	Accumulated Other Comprehensive Income ($)	Accumulated Deficit ($)	Total Shareholders' Equity ($)
Balance at December 31, 2016	85,566,840	59,651,422	973,378	5,523,617	(6,790,133)	(11,725,785)	47,632,499
Net loss for the year	-	-	-	-	-	(4,635,697)	(4,635,697)
Share-based compensation expense	-	-	-	735,462	-	-	735,462
Cumulative translation adjustments	-	-	-	-	(611,155)	-	(611,155)
Loss on investments	-	-	-	-	(137,475)	-	(137,475)
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**

- 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)	**2018**	2017
Operating activities		
Net loss	**$ (5,062,932)**	$ (4,635,697)
Items not affecting cash		
Amortization and depletion	**1,882,451**	2,235,889
Share-based payments	**(18,459)**	735,462
Deferred income tax (recovery) expense	**(10,251)**	525,010
(Gain) loss on disposal of assets	**-**	(317,692)
Accretion expense	**30,139**	34,904
Write-down of inventory	**40,247**	-
Unrealized loss (gain) on foreign exchange	**56,448**	(162,925)
Changes in non-cash working capital		
Trade and other receivables	**744,710**	832,525
Income taxes receivable	**(38,230)**	910,116
Inventories	**272,664**	41,923
Trade payables	**(228,712)**	52,765
Income taxes payable	**27,680**	(63,704)
	(2,304,245)	188,576
Investing activities		
Additions of long-lived assets	**(2,714,398)**	(3,599,559)
Proceeds on sale of investments	**527,937**	-
	(2,186,461)	(3,599,559)
Financing activities		
Proceeds from private placements, net	**1,011,553**	-
Net change in cash	**(3,479,153)**	(3,410,983)
Cash at the beginning of the year	**4,713,580**	8,124,563
Cash at the end of the year	**$ 1,234,427**	$ 4,713,580

Supplementary cash flow information *(Note 12)*

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 1100 – 543 Granville Street, Vancouver, British Columbia.

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

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

During the year ended 2018, the Company incurred a net loss of $5.1 million and cash outflows from operating activities of $2.3 million. 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 Note 18), 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.

2. Basis of Preparation

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 8, 2019.

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 and assumptions about expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, taxes, reclamation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or a previous impairment charge may be reversed with the impact recorded in the consolidated statements of loss.

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 consolidated 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 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 received.

f) Property, plant and equipment

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

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

Subsequent costs are recognized in the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognized in the 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-of-production basis over the estimated economic life of the ore body following commencement of production. The commencement of commercial production is deemed to occur on a determination made by management with reference to factors such as the asset’s ability to operate at its designed capacity over a reasonable period of time.

g) Asset impairment

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

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Recoverable amount is the higher of an asset or CGU’s fair value less costs of disposal (“FVLCD”) and its value in use (“VIU”). In assessing VIU, the estimated future 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 re-evaluation 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 income and loss and is limited to the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. After such a reversal, any amortization charge is adjusted prospectively.

h) Loss per share

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

i) 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) 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.

3. Significant accounting policies – *continued*

j) **Income taxes** – *continued*

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.

k) **Foreign currency translation**

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

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

- Canadian dollars for 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*

k) 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.

l) 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 balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial instruments consist of cash, concentrate trade receivables, other receivables, investments, and trade payables. 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 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.

m) Reclamation provisions

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

3. Significant accounting policies – *continued*

n) **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. Refer to Note 3(a) for the complete accounting policy.

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 (Note 6).

o) **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 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 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.

(Canadian dollars)

4. Trade and other receivables

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

		2018		2017
Value added taxes receivable – current portion	$	**356,579**	$	464,084
Trade and other receivables		**501,819**		1,184,696
Prepaids		**259,365**		139,133
Total trade and other receivables	$	**1,117,763**	$	1,787,913

5. Inventories

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

		2018		2017
Materials and supplies	$	**415,118**	$	481,490
Stockpile inventory		**14,024**		7,985
Concentrate inventory		**319,222**		518,895
Total inventories	$	**748,364**	$	1,008,370

The amount of inventories recognized as an expense during the year ended December 31, 2018 was $14,777,527 (December 31, 2017 - $14,894,005).

The amount of write-down of inventories to net realizable value during the year ended December 31, 2018 was $40,247 (December 31, 2017 - $nil) relating to concentrate inventory.

6. Revenue

The following table details revenue at December 31:

		2018		2017
Concentrate revenue	$	**13,066,119**	$	15,812,191
Other revenue		**32,220**		(447,465)
Total revenue	$	**13,098,339**	$	15,364,726

(Canadian dollars)

7. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment ($)	Vehicles ($)	Office furniture and equipment ($)	Surface rights ($)	Mining Assets ($)	**Total ($)**
Cost						
Balance at December 31, 2016	9,365,671	449,882	206,456	1,069,548	24,841,332	**35,932,889**
Additions	70,903	11,714	10,505	-	1,498,526	**1,591,648**
Transfers	-	-	-	-	914,467	**914,467**
Disposals	(171,737)	-	-	-	-	**(171,737)**
Change in reclamation estimate	-	-	-	-	(79,464)	**(79,464)**
Foreign exchange movement	(185,687)	(8,985)	(2,111)	(21,358)	(439,117)	**(657,258)**
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**
Accumulated amortization						
Balance at December 31, 2016	4,671,065	344,727	163,326	-	9,533,345	**14,712,463**
Amortization for the period	792,004	20,501	13,227	-	1,470,405	**2,296,137**
Disposals	(2,524)	-	-	-	-	**(2,524)**
Foreign exchange movement	(149,827)	(8,716)	(2,169)	-	(265,920)	**(426,632)**
Balance at December 31, 2017	5,310,718	356,512	174,384	-	10,737,830	**16,579,444**
Amortization for the period	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**
Net book value						
At December 31, 2017	3,768,432	96,099	40,466	1,048,190	15,997,914	**20,951,101**
At December 31, 2018	3,422,240	83,016	35,051	1,140,522	17,306,427	**21,987,256**

b) **Sale of Zacatecas assets**

On June 5, 2017, the Company completed the sale of its non-active Zacatecas assets to Endeavour Silver Corp. for 154,321 common shares valued at $0.6 million. The Zacatecas assets consist of 10 mineral concessions, the old inactive Santa Gabriela 200 tonne per day processing plant and tailings facilities. The Company recorded a gain on sale of assets of $0.3 million.

7. Property, plant and equipment – *continued*

c) Impairment tests

The company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2018. 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 2021. 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, 2018 impairment assessment, the metal price assumptions in US$ were as follows:

- Gold (per ounce) $1,250 - $1,275
- Silver (per ounce) $16.00 - $17.50
- Copper (per pound) $2.95 - $3.00
- Lead (per pound) $0.90

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2018 impairment assessment, the average mineral grade assumptions were as follows:

- Gold (grams per tonne) 0.5
- Silver (grams per tonne) 146
- Copper (%) 0.3
- Lead (%) 0.73

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, 2018 impairment assessment, the average exchange rate assumptions were as follows:

- US dollars $1.26
- Mexican pesos $0.062

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)

7. Property, plant and equipment – *continued*

c) **Impairment test** - *continued*

Discount Rates

The rates are based on the weighted average cost of capital specific to each CGU and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU for which cash flows have not already been adjusted. These rates are based on the weighted average cost of capital for similar mining companies and were calculated based on management's estimates. A post-tax discount rate of 9% was used for the impairment 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, 2018. An impairment charge would result if assumptions changed as follows:

- Average long-term forecast silver prices were to fall below US$16.20
- Average forecast US dollar exchange rates were to decrease below $1.21
- Average forecast Mexican pesos exchange rates were to increase above $0.066
- Silver grade mined and milled were to fall below 140 grams per tonne

8. Exploration and evaluation assets

Details are as follows:

		Total ($)
Balance at January 1, 2017	$	20,149,111
Additions		1,933,306
Transfers		(914,467)
Disposals		(130,634)
Foreign exchange		(315,119)
Balance at December 31, 2017	$	20,722,197
Additions		1,479,732
Foreign exchange		1,403,659
Balance at December 31, 2018	**$**	**23,605,588**

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2018 was $nil (December 31, 2017 - $nil).

(Canadian dollars)

9. 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:

		2018		2017
Salaries and fees	$	369,685	$	398,048
Share-based compensation		(10,917)		444,819
Total compensation	$	358,768	$	842,867

10. 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 approximately $1,292,255 (2017 – $1,188,340). The estimated net present value of the reclamation provision was calculated using an inflation factor of 3.4% (2017 – 3.4%) and discounted using a Mexican risk-free rate of 8.7% (2017 – 7.7%). Settlement of the liability may extend up to 18 years in the future.

Additions to the reclamation provision were as follows:

		2018		2017
Reclamation provision, beginning of the year	$	369,306	$	424,900
Foreign exchange movement		33,414		(11,034)
Accretion of reclamation provision		30,139		34,904
Revisions to estimated cash flows		(93,159)		(79,464)
Total reclamation provision, end of the year	$	339,700	$	369,306

11. Expenses by nature

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

		2018		2017
Production costs	$	8,017,785	$	8,079,928
Administration		644,390		830,229
Transportation		556,277		594,322
Wages and salaries		5,559,075		5,389,526
Total operating expenses	$	14,777,527	$	14,894,005

(Canadian dollars)

12. Supplementary cash flow information

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

		2018		2017
Cash received for interest income	$	28,782	$	52,247
Cash paid for income taxes	$	4,074	$	30,312

13. Equity

a) Share capital

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

On November 30, 2018, the Company closed the first tranche of a non-brokered private placement. The tranche raised aggregate gross proceeds of $548,505 by issue of 2,031,500 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.

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 September 21, 2017, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 1,770,000 shares of the Company. The options are exercisable on or before September 20, 2022 at a price of $0.35 per share. Options vested 100% on the date granted.

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	September 21, 2017
Number of options granted	1,770,000
Risk-free interest rate	1.58%
Expected dividend yield	Nil
Expected share price volatility	104.16%
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.

(Canadian dollars)

13. Equity - *continued*

b) Stock options - *continued*

The total fair value of share-based payment recovery on stock options granted to employees and consultants of the Company for the year ended December 31, 2018 is $18,459 (December 31, 2017 – expense of $735,462).

A summary of the Company's stock options as at December 31, 2018 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2017	5,045,000	0.96
Granted	1,770,000	0.35
Forfeited	(70,000)	1.11
At December 31, 2017	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**

The following table summarizes information about the stock options outstanding at December 31, 2018:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
$0.55	1,210,000	0.02	1,210,000	January 6, 2019
$0.98	1,780,000	2.57	1,780,000	July 27, 2021
$0.35	1,720,000	3.72	1,720,000	September 20, 2022
	4,710,000	**2.34**	**4,710,000**	

c) Warrants

A summary of the Company's warrants as at December 31, 2018 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price ($)
At January 1, 2017 and December 31, 2017	4,385,965	0.90
Issued	2,031,500	0.35
At December 31, 2018	**6,417,465**	**0.73**

(Canadian dollars)

13. Equity - *continued*

c) Warrants - *continued*

The fair value of the services provided cannot be reliably measured; therefore, 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 Expiry Date	May 27, 2016 May 26, 2019	Jun 3, 2016 Jun 2, 2019	Jun 10, 2016 Jun 9, 2019	Jun 17, 2016 Jun 16, 2019	Nov 30, 2018 Nov 29, 2020
Number of warrants granted	2,220,000	697,600	1,250,150	218,215	2,031,500
Risk-free interest rate	0.64%	0.51%	0.50%	0.52%	2.14%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil
Expected share price volatility	116.90%	117.29%	115.48%	113.19%	82.37%
Expected warrant life in years	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:

	2018	2017
Net loss attributable to shareholders	**$ (5,062,932)**	$ (4,635,697)
Weighted average number of shares outstanding – basic and diluted	**85,744,944**	85,566,840
Loss per share – basic and diluted	**(0.06)**	(0.05)

14. Income taxes

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

	2018	2017
Loss before income taxes	**$ (5,072,902)**	$ (4,095,166)
Canadian federal and provincial income tax rates	**27.00%**	26.00%
Income tax recovery based on the above rates	**$ (1,369,684)**	$ (1,064,743)
Increase (decrease) due to:		
Non-deductible expenses	**117,192**	448,187
Losses and temporary differences for which a deferred tax asset has not been recognized	**1,601,706**	1,600,790
Withholding tax	**-**	5,178
Difference between foreign and Canadian tax rates	**(121,308)**	(83,561)
Deferred taxes in respect of Mexican royalty	**75,981**	119,940
Foreign exchange and other	**(313,857)**	(485,260)
Income tax (recovery) expense	**$ (9,970)**	$ 540,531

(Canadian dollars)

14. Income taxes - *continued*

Total income tax expense consists of:

		2018		2017
Current income tax expense	$	**281**	$	15,521
Deferred income tax (recovery) expense		**(10,251)**		525,010
	$	**(9,970)**	$	540,531

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

		2018		2017
Deferred income tax assets				
Non-capital losses	$	**5,876,192**	$	4,941,305
Current assets and liabilities		**69,661**		138,472
Total deferred tax assets	$	**5,945,853**	$	5,079,777
Deferred income tax liabilities				
Property, plant and equipment	$	**5,994,253**	$	5,270,060
Exploration and evaluation assets		**4,449,064**		3,967,775
Other		**379,520**		339,067
Total deferred income tax liabilities	$	**10,822,837**	$	9,576,902
Deferred income tax liabilities, net	$	**4,876,984**	$	4,497,125

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

		2018		2017
Deferred tax liabilities	$	**4,876,984**	$	**4,497,125**

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

		2018		2017
Deferred income tax assets				
Non-capital losses	$	**(506,245)**	$	(363,118)
Other		**80,823**		269,976
Deferred income tax liabilities				
Property, plant and equipment	$	**267,032**	$	640,191
Exploration and evaluation assets		**137,097**		(46,705)
Other		**11,042**		24,666
Deferred income tax (recovery) expense	$	**(10,251)**	$	525,010

(Canadian dollars)

14. Income taxes - *continued*

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

		2018		2017
Deferred income tax liability				
Balance at January 1	**$**	**4,497,125**	$	4,037,460
Deferred income tax (recovery) expense during the year		**(10,251)**		525,010
Changes due to foreign currency translation		**390,110**		(65,345)
Balance at December 31	**$**	**4,876,984**	$	4,497,125

The unrecognized deferred tax asset is as follows:

		2018		2017
Non-capital losses	**$**	**6,083,235**	$	4,531,133
Capital losses		**206,638**		227,763
Property, plant and equipment		**434,476**		343,493
Exploration and evaluation assets		**1,131,006**		1,054,710
Unrecognized deferred tax asset	**$**	**7,855,355**	$	6,157,099

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

As at December 31, 2018, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

The future expiration of taxes and the potential tax benefit of the losses are as follows:

Expiry Year		
2026	$	828,544
2027		541,044
2028		141,907
2029		415,894
2030		1,266,681
2031		1,137,299
2032		1,598,366
2033		1,877,272
2034		1,485,486
2035		984,102
2036		1,207,916
2037		1,277,877
2038		1,077,402
	$	13,839,790
Capital losses		
No expiry date	$	1,530,653

15. 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.

16. Financial instruments

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.

16. 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, 2018, 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, 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

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:

	2018	2017
Silver price	**$ 64,000**	$ 166,000

(Canadian dollars)

17. 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:

		2018		2017
Revenues by geographic area				
Mexico	**$**	**13,098,339**	$	15,364,726
Net loss by geographic area				
Mexico	**$**	**(4,033,618)**	$	(2,624,377)
Canada		**(1,029,314)**		(2,011,320)
	$	**(5,062,932)**	$	(4,635,697)

		2018		2017
Assets by geographical area				
Mexico	**$**	**48,449,366**	$	45,234,475
Canada		**915,405**		4,960,856
	$	**49,364,771**	$	50,195,331
Property, plant and equipment by geographical area				
Mexico	**$**	**21,974,167**	$	20,933,183
Canada		**13,089**		17,918
	$	**21,987,256**	$	20,951,101

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

18. Subsequent events

On January 18, 2019, the Company closed the second tranche of a non-brokered private placement. The tranche raised aggregate gross proceeds of $1,193,873 by issue of 4,421,753 units at a price of $0.27 per unit. $491,850 of these proceeds were received in 2018. Each unit consists of one common share and one common share purchase warrant with each warrant exercisable at a price of $0.35 and expiring two years from the date of issue.