

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Nine Months Ended September 30, 2021

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the nine months ended September 30, 2021 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at November 19, 2021 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2020 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

CORPORATE OVERVIEW

IMPACT controls the majority of two large mineral districts totalling 211 km² in central Mexico: the Royal Mines of Zacualpan Silver District and the Capire Mineral District adjacent to and southwest of the Zacualpan district. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over 15 years.

IMPACT is considered one of the purest silver producers. IMPACT's primary production metal is silver and with over 90% of its revenues currently generated by silver it is highly leveraged to the silver price. Trading volumes have been substantial over the last year, as the market appears to recognize the relationship with the price of silver.

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing nine sites from exploration drilling to development and mining. IMPACT has produced approximately 11.2 million ounces of silver since 2006 and generated over \$220 million in revenues. As a result, a significant portion of over \$65 million in capital expenditures and exploration on the properties has been funded by operations, and the company still has no long-term debt.

Total revenues for the quarter were \$4.1 million compared to \$4.8 million for the comparable period in 2020. Silver grades for the nine months of 2021 were lower (-6%), due to increased processing of development muck, and declining grades in an older section of the Guadalupe mine.

Revenues for the nine months of 2021 were \$13.7 million up from \$11.0 million in 2020. During the nine months ended September 30, 2021, the price of silver fell from a price in excess of US\$29 per ounce ("oz") to a low of less than US\$22 an oz. Mine operating earnings before amortization and depletion¹ for the nine

¹ Mine operating earnings before amortization and depletion is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance. See "Non-IFRS MEASURES".

months were \$4.1 million, up from \$3.3 million 2020, with cost per tonne at \$82.60 up from \$76.13 in 2020. The higher cost per tonne was in part a result of the Company's increased exploration and development at the Guadalupe mine. These are expected to have a positive impact on grade and tonnage from this mine by the first quarter of 2022.

Mine operating income was \$0.5 million in Q3 2021 compared to \$1.7 million in Q3 2020, as higher development costs and lower silver grades both continued to impact the operating results. Mine operating income for the nine months was \$3.2 million up from \$2.2 million in 2020.

In Q3 2021, cash provided by operating activities was \$0.5 million and at September 30, 2021 cash was \$21.5 million, up from \$17.4 million at September 30, 2020. Working capital at September 30, 2021 was \$22.1 million compared to \$16.8 million September 30, 2020.

During Q4 2020, the Company optioned approximately 1,100 hectares of its Zacualpan S.E. concession to Pantera Silver Corp. In Q1 2021 Pantera made a payment of \$50,000 in cash, and issued the Company 200,000 treasury shares valued at \$85,000. Pantera is required to make option payments of \$300,000 in cash, issue the Company 3.5 million in shares and complete a minimum of \$1.4 million in work on the project over the next three years, to acquire 100% of the project. This agreement is subject to a 1% net smelter return in favour of IMPACT.

Overall

In April 2020, the Mexican government declared a national health emergency due to the COVID-19 pandemic. Numerous health precautions were decreed, including the suspension of non-essential businesses, with only essential services to remain open. The Company commenced the process of suspending its mining operations in April as mandated by the government. The government extended this suspension until June 2020, at which time the Company resumed operations. Since that date, the Company has not experienced any significant disruption to its operations or to shipments of concentrates.

The pandemic has had a worldwide impact on the global economies, including both foreign exchange and commodity prices, with the ultimate effect on the Company's cash flows and operations difficult to predict.

With increased trading on the various exchanges IMPACT is becoming recognized as a medium cost producer, highly leveraged to the price of silver. To date the Company believes the market has not attributed significant value to its extensive land position and its exploration potential. Starting in 2021, the Company is committed to a major exploration program including a considerable drill program focused on the greenfield's potential of its large land package. In areas where it will not be able to focus over the next two years, the Company will look to potential partnerships to accelerate discovery.

IMPACT's key initiatives for the year to date and going forward.

1. Continue extensive development of the Guadalupe mine, including the newly developed Pachuqueno area while optimizing production with a focus on maximizing cash flows from its other mining operations. This work has been accompanied by expansion of an underground rail facility and an extensive underground drilling programme that has identified a number of veins in the immediate area.

2. During the year the Company acquired 3 diamond drill rigs in addition to an existing underground drill rig. This has resulted in reduced drilling costs per meter and increased operational flexibility.
3. During the year to date, IMPACT has conducted an aggressive exploration program, including a diamond drill program that is now in excess of 10,000 metres across the Company's extensive land package. The programme is focusing on discovery and definition of additional high-grade silver and gold zones for near and longer-term mining. With the current success and the operational efficiencies of its own drills, the Company plans a number of additional programmes over the next year that could approach 20,000m. of drilling.
4. Subject to market conditions and current technical studies including ore sorting, expanding the current pilot plant and infrastructure, IMPACT is looking to restart production at the Capire open pit mine on a commercial scale. With the increase in exploration activities IMPACT is still considering possible joint ventures and option agreements with third parties on more remote tracts similar to the Pantera Silver Corp. option agreement for the Pregones district.
5. Continue its staged review of other opportunities for precious metals in the Western hemisphere.

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 for the Quarter and Nine Months Ended September 30

- Lower grade silver in Q3 resulted in revenue of \$4.1 million down from \$4.8 million in 2020. While silver grades for the nine months 2021 were lower than the comparative period 2020, year to date ("YTD") revenue was \$13.7 million compared to \$11.0 million in 2020, due to higher silver prices and the temporary COVID-19 shut down in Q2 2020.
- Mine operating earnings before amortization and depletion for Q3 2021 were \$0.8 million, down from \$2.1 million in Q3 2020, and YTD 2021 was \$4.1 million (2020 \$3.3 million).
- Cash generated from operations for the nine months was \$2.8 million compared to \$2.4 million in 2020.
- Earnings before interest, taxes, depreciation, amortization ("EBITDA")² was \$1.9 million to September 30, 2021 (2020 - \$2.0 million) and \$0.5 million for Q3 2021 compared to \$1.4 million in Q3 2020.
- After investing \$3.0 million in exploration expenditures and mining assets during the year, the cash position remained strong at \$21.5 million with working capital of \$22.1 million, up from cash of \$17.4 million and working capital of \$16.8 million at September 30 2020.
- Net income for Q3 was \$0.03 million compared to net income of \$0.9 million in 2020. There was a small loss (\$3,547) for the nine months 2021 compared to net income of \$0.6 million in 2020.

² Mine operating earnings before amortization and depletion is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance. See "Non-IFRS MEASURES".

Production and Sales Highlights for the Quarter and the Nine Months ended September 30

Guadalupe Production Center:

The Company shifted its strategy in late 2018 from utilising capacity at its Guadalupe processing plant to focusing on lower cost, high-grade production. The decrease in production tonnes allowed the Company to focus on mining higher margin areas in lower cost situations.

The mining activity is becoming more focused on the Guadalupe mine and other areas accessed from that shaft, with tonnage reaching approximately 47% of the mill feed. A substantial underground development program at Guadalupe is continuing which includes a two-stage refurbishment of the mineshaft at the Guadalupe mine, and rebuilding and extending the extensive track system on the 195 level to access the Pachiqueno section of the mine. This will provide for considerably higher capacity with lower associated hauling costs. As development advances, the Company anticipates a gradual increase in production late in the year from the Guadalupe complex.

During the quarter, an extremely wet rainy season resulted in excessive haul costs and the mining at the Veta Negra open pit was halted.

Revenue per tonne sold was \$114.52 in Q3 2021, down from Q3 2020 at \$136.63. This was primarily the result of lower silver prices experienced during the quarter. Revenue per tonne for YTD 2021 was \$119.76 compared to \$111.12 in 2020.

Silver sales for Q3 2021 were 152,026 ounces compared to 158,992 ounces. While production was down 2% YTD 2021 from the prior year, silver sales for the nine months were 479,728 ounces compared to 476,472 ounces in 2020, which includes the liquidation in 2021 of the concentrate inventory held at December 31, 2020.

Direct costs per production tonne, net of concentrate inventories, were \$91.31 in Q3 2021, compared to \$76.79 in Q3 2020. The increased costs were anticipated as the Company stepped up exploration and development at the Guadalupe mine. YTD costs per tonne rose to \$82.60 compared to \$76.13.

Capire Project:

The Company completed the re-interpretation of historical geophysical data focusing primarily in the Mamatla District including the Capire project, with follow up prospecting continuing. Previous 43-101 studies on the Capire deposit have been confirmed with an inhouse review using the experience of the test mining. Other studies are being conducted with regard to critical infrastructure to determine optimum plant size for Capire operations. Also, as the result of lab scale studies, a bulk sample of 1400 kilograms of material selected by the Company's consultant from the Capire open pit was shipped for testing to a Canadian laboratory using state of the art X-Ray transmission ("XRT") pre-concentration processing technology. XRT technology is a process that recognizes and sorts rocks based on the specific atomic density of the material. XRT sorts ore grade material from waste reducing the amount of material to be processed during the milling process as well as tailings. Preliminary results have been positive and may involve further detailed testing. The Company will be evaluating the impact upon both capital and operating costs, recoveries and the ultimate mineable size of the deposit and the current pilot plant.

The objectives of these studies are to improve the possible operating margins through reduced processing costs to minimize sensitivity of operations from metal price fluctuations, and to potentially increase throughput at the current Capire plant.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2021	2020	% Change	2021	2020	% Change
Total tonnes (t) milled	34,587	34,115	+1%	108,833	99,254	+10%
Tonnes produced per day	376	371	+1%	399	362	+10%
Silver production (oz)	147,597	153,667	-4%	454,817	462,231	-2%
Lead production (t)	54	60	-10%	190	173	+10%
Gold production (oz)	69	75	-8%	217	229	-5%
Silver sales (oz)	152,026	158,992	-4%	479,728	476,473	1%
Lead sales (t)	51	49	+3%	157	164	-4%
Gold sales (oz)	60	72	-17%	212	225	-5%
Average mill head grade –silver g/t	156	166	-6%	155	174	-11%
Revenue per tonne sold ¹	\$114.52	\$136.63	-16%	\$119.76	\$111.12	+8%
Direct costs per production tonne ²	\$91.31	\$76.79	+19%	\$82.60	\$76.13	+8%

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground / open pit mines on epithermal silver (-zinc-lead) veins feed the central Guadalupe processing plant rated at 535 tonnes per day. Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Work has been completed on a third tailings dam which is ready to receive tailings when needed.

Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This mine restarted commercial production in September 2018 after a hiatus of five years and is now the largest producing mine on the property. Production comes from multiple veins on multiple levels in the largest vein cluster on the property. During the third quarter of 2021, the Guadalupe Mine provided 47% (Q3 2020 – 45%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 153 to 158 g/t silver. Production during Q3 2021 was mainly from the Lipton, Liptonia and San Lorenzo veins on Levels 40, 60, 100, 150, and 160. With its lower cost structure, the Company has expanded production from Guadalupe, upgraded the shaft infrastructure, and is upgrading other infrastructure in the mine to access additional veins for mining on the lower levels and expanding production to the northwest into the historic Pachuqueno mine area.

¹ Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See “NON-IFRS MEASURES”.

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In 2014, the Company discovered new high-grade silver zones in the San Ramon Deeps area and mining of this area began in Q4 2014. During the third quarter of 2021, the San Ramon Deeps Mine provided 15% (Q3 2020 – 21%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 151 to 171 g/t silver.

To date this vein has been mined on Levels 12 through 29 over a length of up to 180 metres and widths of 2 to 17 metres. Production during Q3 2021 was from Levels 24, 28 and 29. Size and grade of San Ramon Deeps are decreasing with depth but new drilling has begun to test potential extensions of the zone updip and to the south.

Veta Negra Silver Mine

The Veta Negra mine is a small open pit operation which commenced production in September 2019. It is located four kilometres northwest of the Guadalupe mill. The mine contributes a silver-rich feed to the Guadalupe mill from a near surface bulk tonnage zone. During the third quarter of 2021, the Veta Negra Mine provided only 3% (Q3 2020 – 11%) of feed to the Guadalupe mill due to heavy rain resulting in poor road conditions. Monthly mining grades at Veta Negra during Q3 2021 averaged 171 g/t silver. North-northwest trending parallel, near surface veins, stockworks and disseminations over a width averaging 14 metres justified open pit mining methods and drilling is continuing to determine the full potential of the zone. Work in progress has traced these veins on surface over a strike length of 650m.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the third quarter of 2021, the Cuchara Mine provided 35% (Q3 2020 – 23%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza and Milmaravillas veins. Monthly average mining grades at Cuchara during the quarter ranged from 155 to 162 g/t silver.

Capire Processing Plant and Mine

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

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

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

The Capire plant is currently on care and maintenance. Company engineers are reviewing Capire for potential restart of operations in light of current elevated silver prices. The Company is also testing the potential of an ore sorting system to upgrade the mineral feed at low cost to the Capire mill.

Capire Mineral Resource

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

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

The reported resource (“Base Case”) cutoff grade is US\$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates (“MDA”) of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) standards, definitions and guidelines. The resources were estimated by inverse distance cubed (“ID³”) and checked the estimate with inverse distance to the 4th power, kriging, and nearest neighbour.

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

EXPLORATION

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

Drilling

During the third quarter, IMPACT announced the purchase of a fourth drill and plans to increase exploration drilling to 20,000m in 2021-2022 (see IMPACT news release dated September 13, 2021 for details), and then published a series of news releases with assays from drilling on several targets. In July IMPACT announced drill results from the Veta Negra Mine area and extensions including 186 g/t silver over 13.85 metres (see IMPACT news release dated July 13, 2021 for details). In October IMPACT announced underground drill results from the Guadalupe Mine including 691 g/t silver over 1.29 metres in the Lipton Vein area (see IMPACT news release dated October 5, 2021 for details) and 2,186 g/t silver over 3.38 metres and 464 g/t silver over 6.04 metres in the Pachuqueno area (see IMPACT news release dated October 19, 2021 for details).

Exploration Field Work

IMPACT crews have been sampling some of the 5,000+ old mine workings and prospects in the districts as well as exploring new areas. Exploration targets are defined and prioritized using a very large computer database compiled over many years from historical maps and other technical data on the project. During the quarter, fieldwork was highlighted by continued exploration on the north and south extensions of the Veta Negra Mine, trenching on the bulk tonnage gold target at Manto America in the central part of the district and the Noche Norte area southwest of Veta Negra.

FUTURE PLANS

Mining Plans

In the near term, the Company is optimizing production in light of the elevated silver prices and continues evaluation of the potential restart of the Capire open pit silver mine.

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. The Company is continuing surface and underground drilling programs utilizing four Company owned drills to build tonnes for mining. Upcoming drilling and exploration work is planned for the north and south extensions of the Veta Negra Mine, the south extension of the San Ramon Deeps Mine, El Paso Vein area, the Alacran Vein area, the Manto America bulk tonnage gold target, and the Noche Norte area southwest of the Veta Negra Mine.

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.

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

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

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

Environment:

IMPACT Silver Corp. recognizes that 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 carries out reclamation on sites disturbed by its activities. As primarily an underground mining situation, surface disturbance from mining has been minimal in the past.

Tailings dams are engineered to stringent standards, the tailings themselves are benign and mine water is recycled. The Company as part of a periodic review, recently engaged independent engineers to conduct a study on the status of the current tailing's impoundment and are addressing the subsequent recommendations.

In areas of disturbance, including the location for the new tailing pond, the Company is replacing ten native trees for every one that is cut down.

The Company is currently reviewing its' power usage, while sourced primarily from the national Mexican power grid, the studies include sustainable alternatives incorporating LED lighting and solar panels, for at least part of the power demand.

Recent drills acquired by IMPACT are modular diamond drill rigs which minimize the area of disturbance due to their small size and mobility. These drills rig require little in the way of drill pads or access trails and the Company engages the local community for logistical support.

COVID-19

Like much of Mexico, the local communities in the district have experienced COVID -19. Early last year the mine established strict protocols with regards to its employees, and provided essential information to them and their families. All employees are monitored when they come to the plant site and mine sites, where practical safe distances and masks are required, and those suspected of having been exposed to a COVID-19 related event are sent to the local hospital for testing and required to isolate at home. To date this has kept the impact of COVID-19 upon its staff and operations to a minimum.

Social Responsibility:

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 recent years, IMPACT received recognition for its compliance to health and safety standards by the Secretary of Labour and Social Welfare in Mexico. This recognition acknowledges that the Company:

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

A similar external audit in 2020 was deferred due to COVID-19 restrictions.

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

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 a mine safety committee, and employs a safety officer to implement and supervise the safety program. In the event of an emergency, the Company maintains a trained mine rescue team, and keeps a paramedic and onsite ambulance on standby.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attends investment and mining related conferences that have been online during the pandemic. To ensure full disclosure, prior to COVID-19 closures, the Company regularly brought investment advisers and sophisticated investors to the project to its mine site for industrial tours.

With the changes occurring in the market place and the economy, the Company continues to strengthen its presence via social media and other online marketing, and has begun to attend some in-person conferences again.

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended September 30	
	2021	2020
Revenue	\$ 4,081	\$ 4,774
Net income	\$ 35	\$ 928
Income per share – basic and diluted	\$ 0.00	\$ 0.01

Net income for the third quarter of 2021 was impacted by the following factors:

- Revenue for Q3 2021 was \$4.1 million, a decrease from \$4.8 million in 2020 on 152,026 ounces of silver sold, down 4% from Q3 2020. Revenue per tonne sold was \$114.52 compared to \$136.63 in Q3 2020. While tonnes milled increased marginally from the prior year to 34,587, silver grade was lower by 6% at 156 g/t compared to 166 g/t in Q3 2020 due to increased processing of development muck and declining grades in an older level of the Guadalupe mine.

- Mining operating income was \$0.5 million in Q3 2021 compared to \$1.7 million in Q3 2020 with revenue per tonne lower on reduced silver grades and cost per production tonne increasing to \$91.31 from \$76.79 in Q3 2020. This was due in part to additional development and drilling expenditures in active mines which were expensed during the period.
- In Q3 2021 general and administrative costs were marginally lower at \$0.5 million compared to \$0.6 million in Q3 2020, mostly due to investor relations, promotion and travel.
- The Company had income and deferred taxes of \$0.1 million in both Q3 2021 and 2020.

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	Nine months ended September 30	
	2021	2020
Revenue	\$ 13,673	\$ 11,030
Net (loss) income	\$ (4)	\$ 643
(Loss) income per share		
Basic	\$ (0.00)	\$ 0.01
Diluted	\$ (0.00)	\$ 0.00

Net loss for the first nine months of 2021 was impacted by the following factors:

- The Company earned revenue of \$13.7 million during the nine months ended September 30, 2021 compared to \$11.0 million in the nine months ended September 30, 2020. Although the grade decreased to 155 g/t from 174 g/t in 2020, revenue per tonne sold increased to \$119.76 in the nine months 2021 compared to \$111.12 in the same period in 2020 due to higher silver prices.
- Mine operating income was \$3.2 million for the first nine months of 2021 compared to \$2.2 million in the same period of 2021. The prior years comparative results were impacted by the government decreed shut down for COVID-19 in Q2 2020. Direct costs per tonne increase to \$82.60 from \$76.13 in 2020, partially due to additional costs related to development and drilling in active mines in 2021.
- General and administrative costs were \$2.2 million in the first nine months of 2021 compared to \$1.5 million in the first nine months of 2020, due primarily to a share-based payment expense of \$0.9 million in Q1 2021 with no comparable expense in 2020.
- The Company recorded deferred and current income taxes expense in the nine months ended September 30, 2021 of \$1.0 million up from \$0.2 million in the comparable period of 2020. This is primarily due to losses from some of the companies in the group not being recognized during the current year.

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)							
	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020	Sept 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019
Revenue	4,081	4,216	5,376	4,548	4,774	2,842	3,413	4,026
Net income (loss)	35	218	(257)	1,658	928	(195)	(90)	(1,005)
Earnings (loss) per share – Basic and Diluted*	0.00	0.00	(0.00)	0.01	0.01	(0.00)	(0.00)	(0.01)
Total assets	66,306	66,546	65,070	64,832	58,592	46,319	44,715	49,955
Total liabilities	6,323	6,505	6,219	6,143	6,905	6,306	6,528	7,496

* Income (loss) per share numbers have been rounded to two decimal places

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

At September 30, 2021 the Company had cash of \$21.5 million, an increase of \$1.1 million from December 31, 2020. Working capital was \$22.1 million compared to \$20.3 million at December 31, 2020.

During the nine months ended September 30, 2021:

- For the nine months ended September 30, 2021, the Company generated cash flows from operating activities of \$2.8 million compared to cash flows of \$2.4 million in 2020 due to improved financial performance. In Q2 2020, results were impacted by the temporary cessation of operations due to COVID-19.
- In 2021, the Company invested \$3.0 million (2020 - \$1.4 million) in long-lived assets, of which \$1.7 million was for exploration expenditures and \$1.3 million for property, plant and equipment including mining assets.
- In 2021 the Company received proceeds of \$1.4 million from the exercise of warrants and stock options. In the comparative period in 2020, the Company completed a private placement for net proceeds of \$10.8 million and received \$1.9 million on the exercise of warrants and stock options.
- In 2021, the company received a cash payment of \$50,000 and 200,000 treasury shares valued at \$85,000 pursuant to the option agreement on part of its Zacualpan SE concession signed in Q4 2020.

For the three months ended September 30, 2021:

- During the third quarter of 2021, the Company generated cash flows from operating activities of \$0.5 million compared to \$1.6 million in the third quarter of 2020.
- In Q3 2021 the Company invested \$1.3 million in long-lived assets (2020 - \$0.6 million), of which \$0.9 million was for exploration expenditures and \$0.4 was for property, plant and equipment including mining assets.
- In Q3 2020 the Company completed a private placement for net proceeds of \$8.8 million and received \$1.4 million on the exercise of warrants and stock options.

Outstanding Share Data

The following common shares and convertible securities were outstanding at November 19, 2021:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	145,312,519		
Stock options	1,160,000	\$0.35	September 20, 2022
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,010,000	\$0.90	January 18, 2026
Stock options	2,300,000	\$0.48	October 8, 2026
Warrants	2,853,154	\$0.30	July 5, 2022
Warrants	1,747,230	\$0.30	July 24, 2022
Warrants	2,489,173	\$0.385	August 2, 2022
Warrants	1,039,954	\$0.385	August 12, 2022
Warrants	4,878,334	\$0.385	April 16, 2023
Brokers warrants	598,089	\$0.95	August 20, 2022
Warrants	5,024,545	\$1.30	August 20, 2022
Fully diluted	<u>171,162,998</u>		

All of the 7,220,000 stock options outstanding have vested.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with 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 currently with Trafigura Mexico S.A de C.V. and previously with Samsung C&T Corp. As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time but is satisfied that these companies have adequate credit ratings as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$21.5 million) and trade and other receivables (\$1.4 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 September 30, 2021, 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 September 30, 2021, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.3 million decrease or increase in the Company's net income for the nine months ended September 30, 2021.

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. The Company is 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 September 30, 2021 by \$0.3 million (2020 - \$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 mine revenues, 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 legislation and 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.

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 as a pandemic. In response to the pandemic, the Government of Mexico implemented measures to curb the spread of COVID-19 which included the suspension of all non-essential businesses, including mining. To comply with these measures, and for the protections of the staff, employees, contractors and communities, the Company temporarily suspended mining operations in April 2020. The Company implemented plans to minimize the risks of the COVID-19 virus, both to employees and to the business. At its site, the Company is following government health protocols and is closely monitoring the pandemic with local health authorities. Since resumption of activities in June 2020, the Company has not experienced any significant disruption to operations or to shipments of concentrates.

Notwithstanding the proactive and considered actions taken to maintain a safe workplace, it is possible that in the future there may be negative impacts on operations or supply chain, and the pandemic may trigger actions such as reduced production and mining activities. The ongoing pandemic continues to have a worldwide impact on the global economies, including both foreign exchange and commodity prices. The ultimate effect on the Company's cash flows and operations is uncertain and difficult to predict at this time.

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 that the Company believes are key indicators of performance and allow for more direct comparison of revenues and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Operating expenses	\$ 3,247,700	\$ 2,713,478	\$ 9,574,412	\$ 7,694,538
(Deduct): operating expenses for Capire	(32,514)	(30,515)	(90,311)	(85,808)
Add (deduct): inventory	(56,884)	(63,418)	(494,672)	(52,081)
Direct costs	\$ 3,158,302	\$ 2,619,545	\$ 8,989,429	\$ 7,556,649
Tonnes milled	34,587	34,115	108,833	99,254
Direct costs per tonne	\$ 91.31	\$ 76.79	\$ 82.60	\$ 76.13
Revenue	\$ 4,081,177	\$ 4,773,965	\$ 13,672,599	\$ 11,030,28
Tonnes sold	35,636	34,942	114,170	99,265
Revenue per tonne sold	\$ 114.52	\$ 136.63	\$ 119.76	\$ 111.12

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Revenue	\$ 4,081,177	\$ 4,773,965	\$ 13,672,599	\$ 11,030,028
Operating expenses	3,247,700	2,713,478	9,574,412	7,694,538
Mine operating earnings before amortization and depletion	\$ 833,477	\$ 2,060,487	\$ 4,098,187	\$ 3,335,490

EBITDA is defined as net income (loss) before interest, taxes, depreciation, depletion and amortization. The Company considers this measure to be a meaningful supplement to net income (loss) as a performance measurement. The Measure is calculated as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Net income (loss)	\$ 35,356	\$ 927,842	\$ (3,547)	\$ 642,649
Add:				
Finance cost	13,179	8,919	36,771	28,246
Current income tax expense	(47,018)	(43,427)	81,316	107,415
Deferred income tax expense	136,719	103,543	902,406	117,525
Depreciation and amortization	351,488	375,702	963,266	1,129,548
Less:				
Finance income	(25,677)	(13,947)	(89,463)	(32,907)
Earnings (loss) before interest, taxes, depreciation and amortization	\$ 464,047	\$ 1,358,632	\$ 1,890,749	\$ 1,992,476

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; pandemics; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

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

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

November 19, 2021