

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three Months Ended March 31, 2023

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three months ended March 31, 2023 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at May 19, 2023 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022 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 Silver Corp. is recognized as an intermediate miner with strength across the value chain including production, growth and exploration activities. The Company maintains an extensive land position with tremendous exploration potential both at the legacy Royal Mines of Zacualpan assets as well as the recently acquired Plomosas property. The company maintains an aggressive exploration program to continue to feed its Zacualpan complex while providing shareholders with meaningful resource upside across the Company. Given the company's significant land position, management is regularly involved in discussions to develop partnerships to unlock value.

IMPACT controls the majority of three extensive mineral districts in Mexico. The Company's legacy, producing assets, known as the Royal Mines of Zacualpan Silver-Gold District, total 211 km² and are located in central Mexico where the Company has been in production for nearly 17 years. Nearby, the Company owns the Capire Mineral District adjacent to and southwest of the Zacualpan district. Subsequent to the end of Q1 2023, the Company added a third mining district known as Plomosas. Plomosas is located in northern Mexico, just 150 km northeast of the city of Chihuahua. Plomosas is a high grade zinc, lead silver producing mine. In April the Company stopped milling operations temporarily to complete certain necessary upgrades with the objective to restart production by late summer at Plomosas, while complementing the asset's upside with substantial exploration activity in the near to medium term.

IMPACT has typically been considered a near pure play on silver with ongoing production across a vast mining region. Currently, IMPACT's primary production metal is silver, by both volume and sales, and is therefore highly leveraged to silver prices. Going forward, the Company will be adding substantial zinc production as it integrates the recent acquisition of the Plomosas high-grade zinc-lead-silver mine in northern Mexico.

Since 2006, the Company has conducted aggressive exploration programs that have led into meaningful development and production activities, with ten sites having been developed along this value chain to date. Over that period, IMPACT has produced more than 12 million ounces of silver and generated more than \$241 million in revenues. As a result, a sizable portion of the more than \$70 million in capital expenditures and exploration on the properties has been funded by operations. Notably, the Company maintains a, cash rich balance sheet with no long-term debt.

To combat industry wide cost pressures, the Company is maintaining a previously announced hiring freeze. Meanwhile, management is considering meaningful changes in mining processes and new technologies to improve margins and offset higher supplier and labour costs. The Company has deferred a number of non-critical projects to offset higher costs.

The Company remains well-funded with \$14.3 million in cash at March 31, 2023 and has no debt. Subsequent to quarter-end, the Company announced a non-brokered and oversubscribed \$9.0 million equity financing to capture strong growth at the new Plomosas project as well as to continue investing in the legacy Zacualpan assets. In addition, the Company intends to carefully allocate financial resources towards new efficiencies at the operational level and allow for meaningful exploration programs across all its properties. Working capital at March 31, 2023 remained strong at \$15.7 million.

Plomosas Mine Agreement

During the quarter (announced February 9, 2023), the Company entered into a conditional Share Purchase and Sale Agreement with (the "Sales Agreement") with Consolidated Zinc Limited ("CZL") of Australia to purchase all of the outstanding shares of their Mexican subsidiary, Minera Latin American Zinc S.A.P. I. de C.V. ("MLAZ") which holds a 100% interest in the Plomosas operating zinc-lead-silver mine in the state of Chihuahua, Northern Mexico.

On April 3, 2023, the Company announced that the acquisition had closed. The total purchase price was US\$6 million consisting of US\$3 million in cash with the balance in IMPACT shares, plus a 12% net profit interest royalty payable to CZL.

The acquisition provides the Company with a significant new chapter as it expands IMPACT's production profile from one to two producing operations. Plomosas adds meaningful and high-grade metal diversification through its world-class zinc deposit as well as exciting exploration potential across the property.

CZL reported that Plomosas had JORC mineral resources of 215,000 tonnes grading 13.5% zinc, 6.3% lead and 34.0 grams per tonne ("g/t") silver indicated, and 772,000 tonnes grading 13.1% zinc, 3.0% lead and 19.0 g/t silver inferred, at a 3% zinc cut-off at December, 2021 (*see Cautionary Statement P.9 **). IMPACT plans a drill program in 2023 to infill and test extensions of the known mineralization.

Plomosas is known host to high-grade mineralization. Historical mining is in the global upper quartile for zinc grade with approximately 2.5 million tonnes mined since 1943 grading 15 to 25% zinc, 2 to 7% lead and 40 to 60 g/t silver with low deleterious elements (*see Cautionary Statement P.9***).

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, on the U.S. OTC as ISVLF and on the Frankfurt Stock Exchange under the symbol IKL.

Quarter in Review – Q1 2023

In Q1 2023, the Company experienced ongoing inflationary pressure across its Zacualpan operations. While the rate of cost increases has started to see some signs of slowing down, meaningful cost increases continue to pressure margins as a result of higher supplier pricing, an increase in labour and union-related compensation, as well as other materials. Meanwhile, exchange rate pressures continued to negatively impact margins as the Mexican peso strengthened in Q1 2023. Notwithstanding, a healthier silver market helped offset some negative cost pressure as the price of silver started off strong at the beginning of the quarter, only to then fall dramatically mid-quarter but then recover at the end of the quarter with strength heading into Q2 2023. The Company is optimistic that higher silver prices will lead to improving margins at the operating level throughout 2023 and beyond.

During the quarter, the Company milled a total of 38,688 tonnes of mineral at the Zacualpan complex, representing a 3% decrease over Q4 2022.

Silver production during the period increased by 6% to 167,050 oz compared to 157,381 oz in Q4 2022 while contributions from lead and gold saw production increases on a year over year basis of 19% and 154%, respectively. The average silver grade in Q1 2023 was 162 g/t compared to 150 g/t in Q4 2022. Despite marginally lower production levels, additional gold production levels helped contribute to a 19% increase in revenue per tonne sold of \$126.96 compared to \$106.94 in Q4 2022. Economic headwinds and global growth concerns have helped silver prices benefit from a flight to safety standpoint and as a hedge against inflation, however there is a growing consensus that the world's leading economies may escape a deep recession, thereby improving the industrial outlook for silver as well. The combination of all these factors have provided cautious optimism vis-à-vis silver pricing going forward. However, inflation across the value chain remains rampant, and while there is some indication that this trend is slowing, the quarterly direct costs per tonne increased to \$111.79 compared to \$99.79 in Q4 2022. This increase is due to inflation in Mexico and foreign exchange. Costs are expected to continue to increase in 2023, albeit at a potentially slower rate.

In April the government of Mexico announced that it had passed new mining legislation for the next generation of mining companies operating in country. While details of this new legislation are still being established at the government level, IMPACT's near 17 years of mining activity as well as its industry-leading social programs will likely provide a strong platform for the government to use as an example for the industry as it seeks to generate investment country-wide, while ensuring companies like IMPACT continue to operate profitably and maintain high ESG programs and standards.

Financial Overview

During Q1 2023, the Company improved mill throughput on a year over year basis by 7% to 38,688 tonnes or 430 tonnes per day. The average silver grade of 162 g/t was flat year over year, however silver production improved by 10% to 167,050 during the period compared to Q1 2022. Meanwhile, silver sales in the period were 172,289 oz representing a 4% increase over the same period in 2022.

- Revenue in Q1 2023 was \$5.1 million, up from \$4.6 million in Q1 2022 due to higher production levels and gold production.
- Mine operating income in Q1 2023 was \$0.3 million, compared to \$0.8 million in Q1 2022.
- Cash used in operations for the quarter was \$0.6 million compared to \$0.9 million in Q1 2022.
- After investing \$0.8 million in exploration expenditures and mining assets during the quarter, the cash position remained strong at quarter-end with \$14.3 million with working capital of \$15.7 million, and no long term debt.
- The net loss in Q1 2023 was \$0.3 million compared to net loss of \$0.06 million in Q1 2022.
- The Company has no long term debt.

Q1 2023 Production Overview

- Mill throughput in Q1 2023 was 38,688 tonnes compared to 36,143 tonnes in Q1 2022.
- Silver production during the period increased by 10% to 167,050 oz compared to 151,645 oz in Q1 2022 while contributions from lead and gold saw production increases on a year-over-year basis of 19% and 154%, respectively.
- Revenue per tonne sold was \$126.96 in Q1 2023, representing an increase of 7% over the same period in 2022.

Direct costs per production tonne were \$111.79 in Q1 2023, representing an increase of 24% over Q1 2022 costs of \$90.01 per tonne. Most of this increase (18%) is due to foreign exchange, with the balance coming from inflation-related pressures in Mexico.

Production and Sales Highlights

Guadalupe Production Complex

The Company is continuing its strategy utilising capacity at its Guadalupe processing plant to focus on lower costs and higher-grade production. Amidst a higher cost profile in the quarter, the Company managed to improve mill tonnage, and silver production, and increase its revenue per tonne by 7% on a year over year basis. The focus on mining higher grade material has started to bear fruit in the quarter and it is expected that going forward, more evidence of this should be made apparent as mining operations are reconfigured in order to extract higher grade material.

Management has been running a focused drill program with success at the San Ramon silver vein system allowing for higher-grade silver feed while the Lipton silver vein systems at the Guadalupe mine could provide for even further grade improvement at the processing level. Finally, the Alacran mine appears to contain levels of gold mineralisation that could help improve the overall grade for the operation as the exploration team works through older workings at that location. On a general basis, activity at the Zacualpan assets had no significant missteps during the period and the Company's strategy of focused exploration and efficient milling has helped offset against stubbornly high inflation and costs associated with running the operation.

The Company is currently considering various options to increase the tailings capacity at the Guadalupe complex. This includes increasing the size of at least some of the existing capacity while work on a 3rd tailings facility with a provisional life of nine years, remains ongoing.

Capire Project

Previous 43-101 studies on the Capire deposit have been evaluated with an inhouse review using the experience of the test mining toward the potential restart of operations. 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 1,400 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 and the costs during the milling process as well as tailings. The bulk sample results have been positive and the Capire zone is being reviewed for optimization in light of potential processing with XRT. The Company is currently evaluating the impact of XRT upon both capital and operating costs, recoveries and the ultimate mineable size of the zone 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.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended March 31		
	2023	2022	% Change
Total tonnes (t) milled	38,688	36,143	+7%
Tonnes produced per day	430	402	+7%
Silver production (oz)	167,050	151,645	+10%
Lead production (t)	67	56	+19%
Gold production (oz)	175	69	+154%
Silver sales (oz)	172,289	165,089	+4%
Lead sales (t)	64	65	-1%
Gold sales (oz)	163	71	+130%
Average mill head grade –silver g/t	162	162	+0%
Revenue per tonne sold ¹	\$126.96	\$118.34	+7%
Direct costs per production tonne ²	\$111.79	\$90.01	+24%

MINE PRODUCTION

IMPACT owns two mining operations in Mexico. The Company has been operating the Royal Mines of Zacualpan Silver-Gold Mine since 2006 and subsequent to quarter end, on April 3, 2023, announced completion of its acquisition of the Plomosas Zinc-Lead-Silver Mine.

ROYAL MINES OF ZACUALPAN DISTRICT

At the Royal Mines of Zacualpan Silver-Gold District in central Mexico, several underground / open pit mines on epithermal silver-gold (-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 continues on a third tailings dam which will have a provisional life of nine years of operations at the Guadalupe mill complex.

Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This underground 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 known on the property. During the first quarter of 2023, the Guadalupe Mine provided 52% (Q1 2022 – 56%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 168 to 173 g/t silver. Production during Q1 2023 was from the Lipton, Liptonia, San Lorenzo and several Pachuqueno area veins on Levels 0, 40, 100, 110, 140, 175, 215 and 235. With its lower cost structure, the Company has expanded production from Guadalupe, upgraded the shaft and underground railroad infrastructure, and is upgrading other infrastructure in the mine to access additional veins for mining.

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 five kilometres southeast of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In September 2021, the Company finished mining the San Ramon Deeps zone and began development and mining of the San Ramon South zone which was discovered in early 2021. During the first quarter of 2023, San Ramon South provided 13% (Q1 2022 – 10%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 173 to 178 g/t silver. Production during Q1 2023 was from Levels 7 and 8 in the San Ramon South zone.

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 first quarter of 2023, the Veta Negra Mine provided 8% (Q1 2022 – 11%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during the quarter ranged from 183 to 186 g/t silver. Exploration is continuing to determine the full potential of the Veta Negra Zone and other nearby zones.

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 first quarter of 2023, the Cuchara Mine provided 16% (Q1 2022 – 24%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill. Current production is mainly from the Milmaravillas vein. Monthly average mining grades at Cuchara during the quarter ranged from 159 to 165 g/t silver.

Alacran Gold-Silver Mine

The Alacran Gold-Silver Mine is a new operation on a historic mine located three kilometres south of the Guadalupe mill. IMPACT began redevelopment of the mine during the fourth quarter of 2022 with first commercial mining in March 2023 and plans to ramp up production. The mine contributes a gold-silver feed to the Guadalupe mill. Initial production is from the San Margarito Vein. Monthly average mining grades at Alacran during the quarter ranged from 2.3 to 2.9 g/t gold and 24 to 34 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 occurring in small massive sulphide lenses enveloped in disseminated mineralization.

In Q2 2013, IMPACT announced the commissioning of the Capire test open pit mine and completion of construction of the 200-tpd pilot plant but in February 2014 suspended operations mainly due to low silver prices and low silver grades. The Capire plant is currently on care and maintenance. Company engineers are reviewing Capire for potential restart of operations. The Company is also assessing 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.

Zacualpan Exploration

Mines on epithermal veins that were drilled and built by the IMPACT team on the Zacualpan property include the Cuchara Silver Mine (currently in operation), San Ramon Mine (currently in operation), the Veta Negra open pit mine (currently in operation), Alacran Gold-Silver Mine (currently in production), 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 first quarter, IMPACT announced Zacualpan drill results from greenfields drilling targets including at the San Antonio zinc prospect, where drill results included 2.3% zinc over 3.85 metres (see IMPACT news release dated January 4, 2023 for details). Step out drilling at Aurora 2, north of the Capire open pit, included 128 g/t silver, 0.42 g/t gold, 0.76% lead and 1.84% zinc over 7.5 metres (see IMPACT news release dated February 16, 2023 for details).

Exploration Field Work

IMPACT crews are continuing to explore some of the 5,000+ old mine workings and prospects in the Zacualpan and Capire districts as well as exploring new areas to define drill targets. 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. Upcoming drilling and exploration work is planned for the Renovacion Vein east of the Alacran Mine, targets north of the Veta Negra Mine, San Ramon South extensions and new vein discoveries east of the Cuchara 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.

PLOMOSAS PROJECT

Subsequent to quarter end, on April 3, 2023, IMPACT announced completion of its acquisition of the Plomosas Zinc-Lead-Silver Mine located 150 km northeast of Chihuahua City, northern Mexico. An IMPACT team, drawing on 17 years of production experience at Zacualpan, has begun a program of extensive upgrading to mining and processing facilities and equipment toward a planned restart of operations in Q3 2023.

Plomosas is host to high-grade mineralization. The previous owner reported Plomosas JORC mineral resources¹ of 215,000 tonnes grading 13.5% zinc, 6.3% lead and 34.0 g/t silver indicated, and 772,000 tonnes grading 13.1% zinc, 3.0% lead and 19.0 g/t silver inferred, at a 3% zinc cutoff at December 2021. IMPACT plans a drill program in 2023 to infill and test extensions of the known mineralization.

The district was discovered in 1832 and has seen small scale mining since 1868. Historical mining is in the global upper quartile for zinc grade with approximately 2.5 million tonnes mined since 1943 grading 15-25% zinc, 2-7% lead and 40-60 g/t silver with low deleterious elements².

The mine and mill are fully permitted, have an offtake smelter contract² and were in production from September 2018 until recently. In 2021, the previous owner processed 31,695 tonnes producing 2,442 tonnes of zinc concentrate and 599 tonnes of lead concentrate. Mine access is by a ramp reaching a depth of 250m below surface and old shafts that can be refurbished². Mineral is fed to a 200 tonne per day conventional flotation mill. IMPACT plans to upgrade the mill and mine, and restart production in the near term followed by plans for expanding operations. The Plomosas Property is subject to an underlying 1% Net Smelter Royalty.

The 3,019 hectare property covers extensive carbonate replacement deposit-type ("CRD") zinc-lead-silver mantos (beds) mainly hosted in carbonates (limestones, marbles). Exploration potential at Plomosas is exceptional with only 600m of the 6 kilometre long CRD structure assessed plus other exploration targets including untested copper-gold targets to the northwest. IMPACT plans to send a Company-owned surface drill rig to Plomosas to begin aggressive exploration of the priority untested greenfield targets on the property. Regionally Plomosas lies in the same mineral belt as some of the largest CRD deposits in the world². (Reference to these nearby projects is for information purposes only and there are no assurances that Plomosas will achieve similar results.)

MINING PLANS

At Zacualpan in the near term, the Company is optimizing silver production, ramping up gold production from the Alacran Mine, and continues evaluation of the potential restart of the Capire open pit silver mine.

At the Plomosas mine, the Company has begun work toward restart of mining and processing operations (see IMPACT news releases dated February 9, 2023 and April 3, 2023 for details).

QP Statements: 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 Project and the Capire Mineral District (except information related to the Capire mineral resources), and the Plomosas project. 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.

Footnotes:

1. Plomosas mineral resources were reported by Consolidated Zinc Ltd. (CZL:ASX) on their website (<https://www.consolidatedzinc.com.au>) under the Australian JORC (2012) Code as mineral resources "depleted as at December 2021" based on an independent report in compliance with JORC (2012) by Shaun Searle of Ashmore Advisory Pty Ltd. IMPACT's Qualified Person has reviewed but not verified in detail these current reported mineral resources and is only reporting them as material recent mineral resources reported by CZL and available in the public record. IMPACT believes the estimates are relevant and reliable, given they are reported to Australian JORC standards; however, IMPACT's Qualified Person has not done sufficient work to classify them as current Canadian NI 43-101 mineral resources.

2. Reference: Alexandri, A. Gonzalez, H., & Salas, H. (2022). Plomosas Project (CZL), Field Visit Report. IMPACT Silver Corp. private report on field visits and compilation of historic and recent data, 56 pages.

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

IMPACT 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 conducts reclamation on sites disturbed by its activities. As a primarily underground mining operation, surface disturbances from mining activity have been minimal.

While IMPACT has always considered its responsibility to the community and the environment, in 2023 it initiated its first annual report on those activities which is now available on the Company's website.

Zacualpan Operations:

The exploration drills used and owned by IMPACT are modular diamond drill rigs which minimize the area of disturbance due to their small size and mobility. These drills rigs require little in the way of drill pads or access trails and the Company engages the local community for logistical support and assistance as part of the drill crew. All drill sites are reclaimed after use. Besides increasing our flexibility while keeping environmental disturbances to a minimum, the drill programs have proved to be very cost effective.

Tailings dams are engineered to stringent standards. The tailings themselves are benign and 100% of mine water is either recycled or lost to evaporation. In 2021, the Company, as part of a periodic review, engaged independent engineers to conduct a study on the status of the Guadalupe tailings impoundment and are continuing to follow their recommendations.

Work on tailings pond facility #3 is continuing, which is projected to accommodate approximately nine years of production from the Guadalupe mill complex in the future. The site has now been fully permitted and cleared.

Zacualpan Environmental:

In 2022, trees were planted as part of preparation for the new tailings facility number 3, and part of a larger program to improve areas of past historical activity. For each tree removed, the Company planted a further seven trees. In conjunction with the municipality and the Technological Baccalaureate Center, the Company planted approximately 6,000 trees of various indigenous species over the last two years. A further 10,000 trees are to be planted in 2023.

In areas surrounding the mine's property, tailings facilities and the complex's support facilities, the Company, collaborating with local farmers, planted 833 agave plants. The Company maintains a greenhouse for nurturing the initial plants before being transferred to the field. Plans are in place for a further 3,000 agaves to be planted. According to the Company's consultants, agave plants can reduce and isolate large quantities of atmospheric CO₂. They produce more biomass above and below ground than most other plant species. Estimates are they can absorb and store the dry weight equivalent of 30 to 60 tons of CO₂ per hectare per year. Once established, they do not require regular irrigation and are not sensitive to rising global temperatures and drought. Agave also provides a cash crop for local farmers as well as livestock feed.

The Company is currently reviewing its' power usage, which is sourced primarily from the national Mexican power grid. Studies are being conducted that include sustainable alternatives incorporating LED lighting and solar panels, for at least part of the power demand. In 2021 a test site was established to provide electricity to the mine administrative building with solar panels. This program is anticipated to expand and will supply other service buildings once suitable locations have been found for the panels. While reducing the mine's carbon footprint, it is anticipated the solar power produced will also generate economic savings for the Company.

Zacualpan Social Responsibility

The Company keeps community members informed of its activities and collaborates with the communities to address local concerns. The employment of most workers from local communities helps to foster understanding, and direct involvement in the Company's operations. Over the last several years the Company has focused on two strategies to assist the local communities. The first is to improve infrastructure which may have been neglected by government in the past. The Company continues to provide tools, materials and supplies while the communities provide labour. The Company continues to upgrade roads and has built a new school as well as a badly needed health clinic. The Company has also built soccer fields, basketball courts and other facilities for local communities.

The second strategic need is to help ensure water access, both potable and for irrigation, to a number of individual farmers and nearby communities. This includes building water tanks and providing plastic pipes for water storage and distribution.

In late summer 2022, earthquake drills were practiced across Mexico and the Zacualpan team received recognition for its use of the mine rescue team and ambulance in the district as the primary resource in the event of a natural disaster. These safety, social and environmental programs are ongoing and a source of pride for the Company.

During the current year, the Company has taken on geology and engineering students for co-op semesters to provide them, under supervision, with essential work experience that is integral to their studies.

Zacualpan Operational Impact:

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 these standards.

The Company has social, environmental, and other policies related to its operations and promotes a culture for working safely. It has long term and effective relationship with its union, as well as local contractors and personnel that it works with. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and the effect on local communities. The mining operation has a 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. With the changes occurring in the marketplace and the economy, the Company continues to also strengthen its presence via social media and other online marketing.

The Company has also revised its website to assist stakeholders in understanding its activities and the potential of the entire Royal Mines of Zacualpan and Plomosas districts. To ensure full disclosure and familiarity, prior to COVID-19 closures, the Company regularly brought investment advisers and sophisticated investors to its mine site for industrial tours. The Company has prepared video presentations of some of its operations and exploration activities which are available for viewing under the “Media” section on the Company’s website (www.IMPACTSilver.com).

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended March 31	
	2023	2022
Revenue	\$ 5,114	\$ 4,629
Net loss	\$ (330)	\$ (60)
Loss income – basic and diluted	\$ (0.00)	\$ (0.00)

Net loss for the first quarter of 2023 was impacted by the following factors:

- Revenue for Q1 2023 was \$5.1 million compared to \$4.6 million in 2022, on 172,289 oz of silver sold, up from 165,089 sold in Q1 2022. Tonnes milled increased by 2,545 over the comparative period in 2022 while silver grades remained the same. Realized silver prices were marginally lower in Q1 2023 compared to Q1 2022. However, revenue per tonne was higher at \$126.96 in Q1 2023 (\$118.34 in Q1 2022) on increased gold production and sales.
- Mining operating income was \$0.3 million in Q1 2023 down from \$0.8 million in Q1 2022. While revenue per tonne was higher by 7% compared to Q1 2022 due in part to increased gold sales, cost

per tonne was up 24% to \$111.79 from \$90.01. While the actual increase in costs in pesos was only 6%, the value of the Mexican peso increased 18% against the Canadian dollar during the period.

- General and administrative costs were up marginally to \$0.7 million compared to \$0.6 million in Q1 2022.
- The Company recorded income and deferred tax expense of \$0.1 million in Q1 2023 compared to \$0.2 million in Q1 2022.
- There was a foreign exchange gain of \$0.1 million in Q1 2023 compared to a foreign exchange loss of \$0.1 million in 2022 on the fluctuating US dollar and Mexican peso.

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)

	Mar 31 2023	Dec 31 2022	Sept 30 2022	June 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	June 30 2021
Revenue	5,114	4,412	3,794	3,501	4,629	4,026	4,081	4,216
Net (loss) income	(330)	(1,065)	(1,243)	(795)	(60)	(541)	35	218
Earnings (loss) per share – Basic and Diluted*	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	0.00	0.00
Total assets	71,959	68,796	69,257	66,781	66,781	66,544	66,306	66,546
Total liabilities	7,525	6,963	7,181	6,306	6,384	6,578	6,323	6,505

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

During the three months ended March 31, 2023:

- At March 31, 2023 the Company had cash of \$14.3 million, down from \$15.3 at December 31, 2022.
- Working capital at March 31, 2023 was \$15.7 million compared to \$16.4 million at December 31, 2022.
- In Q1 2023, the Company invested \$0.8 million (Q1 2022 - \$1.3 million) in long-lived assets, of which \$0.5 million was allocated to exploration expenditures and \$0.3 million to property, plant and equipment including mining assets.
- The Company used cash flows from operating activities of \$0.6 million compared to using \$0.9 million in 2022.
- In 2022 the Company received proceeds of \$0.1 million from the exercise of warrants, with no comparative amount in Q1 2023.

- In 2022, the Company received a cash payment of \$100,000 and 1.0 million treasury shares from Pantera valued at \$240,000 pursuant to the option agreement on part of its Zacualpan SE concession signed in Q4 2020. There was no comparative amount in Q1 2023.
- Subsequent to the end of the quarter, the Company closed a non-brokered private placement financing which was completed in 2 tranches:

On April 20, 2023, a total of 30,903,012 units were issued for aggregate gross proceeds of \$8,343,813. The securities issued are subject to a hold period until August 20, 2023. The Company paid certain registered dealers a cash commission of \$183,295 and granted 678,871 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.35 until April 19, 2025.

On May 3, 2023, a total of 2,454,092 units were issued for aggregate gross proceeds of \$662,605. The securities issued are subject to a hold period until September 4, 2025. The Company paid certain registered dealers a cash commission of \$24,016 and granted 88,950 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.35 until May 3, 2025.

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 warrant share for a period of 24 months from the date of issuance.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 25, 2022:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	148,187,710		
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,010,000	\$0.90	January 18, 2026
Stock options	2,250,000	\$0.48	October 8, 2026
Warrants	4,878,334	\$0.385	April 16, 2023
Fully diluted	<u>159,076,044</u>		

All of the 6,010,000 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 (\$14.3 million) and trade and other receivables (\$2.2 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 March 31, 2023, 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 March 31, 2023, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.2 million decrease or increase in the Company's net income for the three months ended March 31, 2023.

Commodity price risk

Due to the recent volatility in silver and zinc 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 March 31, 2023 by \$0.1 million (2022 - \$0.1 million).

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 2020, the World Health Organization declared COVID-19 as a global pandemic. This contagious disease outbreak, which has continued to spread, and the related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date there have been no material adverse effects on the Company's business, but 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 March 31	
	2023	2022
Operating expenses	\$ 4,479,009	\$ 3,569,195
Add (deduct): operating expenses for Capire	(11,018)	(9,573)
Add (deduct): inventory	(143,191)	(306,551)
Direct costs	\$ 4,324,800	\$ 3,253,071
Tonnes milled	38,688	36,143
Direct costs per tonne	\$ 111.79	\$ 90.01
Revenue	\$ 5,113,954	\$ 4,628,620
Tonnes sold	40,279	39,114
Revenue per tonne sold	\$ 126.96	\$ 118.34

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 March 31	
	2023	2022
Revenue	\$ 5,113,954	\$ 4,628,620
Operating expenses	4,479,009	3,569,195
Mine operating (loss) earnings before amortization and depletion	\$ 634,945	\$ 1,059,425

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 AND CAUTIONARY 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. The Company does not undertake to update forward-looking statements or forward-looking information, except as required by law. Additional information relating to IMPACT is on the Company website at www.IMPACTSilver.com and on SEDAR at www.sedar.com.

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 NI 43-101 the Company is required to disclose that it has not based its production decisions on NI 43-101 compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

On behalf of the Board of Directors,

“Frederick W. Davidson”

President and Chief Executive Officer

May 19, 2023