

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve Months Ended December 31, 2016

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2016 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 13, 2017 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2016 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 is proud to have been named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture exchange over the last year. IMPACT's share price closed the year at \$0.65, a 442% increase over 2015's closing price of \$0.12. In August 2016, the share price reached its highest level in three years at \$1.24.

The company controls the majority of two large mineral districts totalling 357 km² in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire Mineral District** adjacent to and southwest of Zacualpan. IMPACT celebrated 10 years of continuous production at the Royal Mines of Zacualpan Silver District in January 2016. Over the last decade, the Company has provided new investment, talent and leadership to build up the operations and find efficiencies with upgraded equipment and expanded mill facilities. IMPACT has carried out programs of exploration, development and mine production at both districts, bringing seven sites from exploration drilling to development and profitable mining, including all mines currently in production.

In 2016, the Company raised \$7.3 million through private placements, with the proceeds being utilized to increase its exploration activities and expand the capacity of its Guadalupe processing plant. In the fourth quarter of 2016, production reached 526 tonnes per day, the highest levels in the plant's history. The goal for 2017 is to process 550 tonnes per day of mill feed containing silver, gold and lead.

IMPACT continues to ensure production is economical and remains adaptable to price uncertainties. As a result, the Company recognized significant increases in both revenues and mine operating earnings in 2016. Revenues for the year totalled \$16.7 million, up from \$14.6 million in 2015. Mine operating earnings for 2016 increased to \$1.4 million from a \$0.1 million loss in the previous year.

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

1. Continue to expand, upgrade and optimize production with a focus on higher grade zones to optimize cash flows.
2. More aggressive exploration including drilling key targets across the large 357 km² land package, focusing on discovery and definition of additional high grade mineral similar to San Ramon Deeps for future mining.

3. Management plans to continue exploration and eventual development of gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.
4. In the longer term, management intends to increase production to 2 million ounces of silver per year either through development of its current properties or by acquisition or merger.

While IMPACT has no long term debt, the Company may consider additional opportunities to improve its balance sheet and fund future developments.

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**.

OVERVIEW FOR THE YEAR ENDED DECEMBER 31, 2016

Financial Overview

- Mine operating earnings for 2016 increased to \$1.4 million from a \$0.1 million loss in the previous year. Without amortization and depletion mine operating earnings¹ improved 84% to \$3.7 million in 2016 up from \$2.0 million in 2015.
- Revenues increased 14% in 2016 to \$16.7 million from \$14.6 million in 2015, due mainly to higher silver prices throughout the year.
- Net loss for the year was \$1.9 million which included \$3.1 million of non-cash items in amortization, depletion and share based compensation. This compared to a \$1.4 million net loss last year, which included \$2.1 million of non-cash items in amortization and depletion. Excluding non-cash items, adjusted net earnings in 2016 were \$1.2 million compared to \$0.7 million in 2015.
- Earnings before interest, taxes, depreciation and amortization² (EBITDA) improved 85% to \$0.7 million for 2016 from \$0.4 million in 2015.
- As a result of private placements in Q2 2016 and cash controls throughout the year, the Company's cash position at December 31, 2016 improved substantially to \$8.1 million compared to \$0.7 million at December 31, 2015. Net working capital correspondingly improved to \$10.5 million at December 31, 2016 from \$2.9 million at December 31, 2015.
- Cash flows generated from operations were \$3.3 million for 2016, compared to cash flows generated from operations of \$2.4 million in the same period of 2015.
- Capital expenditures during the year included exploration & evaluation asset expenditures of \$2.3 million (2015 - \$2.2 million) and \$0.8 million in property, plant & equipment expenditures (2015 - \$0.1 million).

Production Overview

- Production at the Guadalupe mill during 2016 came primarily from the Cuchara Mine (42% of the mill feed), the San Ramon Deeps Mine (38% of the mill feed) and the Mirasol Mine (17% of the total mill feed). The grade at San Ramon is highly variable and Mirasol is experiencing declining grade as it is reaching the end of its mine life. Both of these factors contributed to a lower grade mill feed in 2016 compared to 2015.
- Average mill feed grade for silver was 180 grams per tonne (g/t) in 2016, down from 193 g/t in the previous year.
- Silver production increased slightly to 952,768 ounces in 2016 from 950,059 ounces in 2015 due to higher tonnage throughput.

¹ Mine operating earnings before amortization and depletion is a non-IFRS measure which the Company believes provides additional information regarding how the Company's operations are performing.

² Earnings before interest, taxes, depreciation and amortization (EBITDA) 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: GUADALUPE MILL

	For the Three Months Ended December 31			For the Twelve Months Ended December 31		
	2016	2015	% Change	2016	2015	% Change
Total tonnes (t) milled	48,366	42,328	+14%	183,032	170,509	+7%
Tonnes produced per day	526	460	+14%	500	467	+7%
Silver production (oz)	247,410	233,740	+6%	952,768	950,059	0%
Lead production (t)	108	116	-7%	434	450	-4%
Zinc production (t)	-	78	-100%	42	266	-84%
Gold production (oz)	138	111	+25%	511	495	+3%
Silver sales (oz)	233,970	241,386	-3%	955,275	964,516	-1%
Lead sales (t)	106	116	-9%	444	457	-3%
Zinc sales (t)	-	104	-100%	65	277	-77%
Gold sales (oz)	128	109	+17%	525	522	+1%
Average mill head grade –silver g/t	178	190	-6%	180	193	-7%
Revenue per tonne sold ³	\$82.53	\$91.68	-10%	\$91.73	\$84.96	+8%
Direct costs per production tonne ³	\$70.17	\$75.25	-7%	\$70.14	71.84	-2%

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

The Company expanded the capacity at its Guadalupe processing plant and milled a record high 48,366 tonnes in the fourth quarter of 2016. This is an increase of 14% over the 42,328 tonnes milled in the same period last year. Year over year, production increased 7% to 183,032 tonnes milled in 2016 from 170,509 tonnes milled in 2015. Production tonnes are being drawn from several mines with different feed grades; therefore mine production can vary from quarter to quarter. The average mill head silver grade decreased to 178 g/t in the fourth quarter of 2016 compared to 190 g/t in the fourth quarter of 2015. The silver grades for the year were 180 g/t and 193 g/t in 2016 and 2015 respectively.

Silver sales decreased 3% in the fourth quarter of 2016 to 233,970 ounces from the 241,386 ounces sold in the same period in 2015, mainly due to decreased mill feed grade. While the Company's revenue per tonne decreased to \$82.53 in the fourth quarter of 2016 from \$91.68 in the same period of 2015, the annual revenue per tonne increased by 8% to \$91.73 from \$84.96 in 2016 and 2015 respectively. Revenues in 2016 were positively impacted by a stronger U.S. dollar, as well as stronger silver prices, which averaged 9% higher than the previous year.

MINE PRODUCTION

Royal Mines of Zacualpan District

Since acquiring the Royal Mines of Zacualpan, there has been extensive work done to upgrade operations and expand production. Expanding the tailings capacity is an ongoing process and the costs are expensed

³ Revenue per tonne sold and direct costs per production tonne are measures which the Company believes provides useful information on the revenues and direct costs. See "SUPPLEMENTARY INFORMATION".

as incurred and not capitalized. Additional surface lands near the Guadalupe mill were also purchased to address the need for additional tailings capacity in the future which is in the process of design and permitting.

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. During 2014, underground drilling from the bottom levels of the mine discovered new high grade silver zones in the nearby San Ramon Deeps area, and mining of this area began in Q3-2014. During 2016 the San Ramon Deeps Mine provided 38% (2015 – 40%) of feed to the Guadalupe mill. To date this vein has been exposed in mine workings on Levels 16.5, 18, 19, 20, 21 and 22 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the year ranged from 194 to 231 g/t silver. Underground drilling to date has outlined the vein over a vertical distance of 10 to 60 metres below the current mine workings. During the fourth quarter and subsequent to year end, additional high grade drill intersections were announced (see EXPLORATION below for details). Additional drilling is planned once a new underground drill station has been completed. IMPACT has also expanded the main mine ramp to accommodate surface truck access down to Level 22 to increase efficiencies of extracting mineral from the mine.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the first quarter of 2013. During 2016 the Cuchara Mine provided 42% (2015 – 46%) 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, Santa Lucia, Oscar and Resguardo veins. Diluted mining grades at Cuchara during the year ranged from 159 to 176 g/t silver.

Mirasol Silver Mine

The Mirasol Mine is located 5.5 kilometres southeast of the Guadalupe mill and mining began in Q3 2014. During 2016 Mirasol contributed 17% (2015 – 13%) of silver-rich feed to the Guadalupe mill. Diluted mining grades at Mirasol ranged from 170 to 192 g/t during the year. Production from Mirasol will probably finish in the second quarter of 2017 and will be replaced by a new silver mine at San Patricio currently under development.

Capire Processing Plant and Mine

Capire is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic massive sulphide (“VMS”) base and precious metal deposit. VMS mineralization in the Capire district is predominantly silver-rich with zinc and lead credits. The district covers the same stratigraphy as the Campo Morado VMS belt where Nyrstar NV (formerly Farallon Resources) mined the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 kilometres southwest of Capire. The Capire plant is currently on care and maintenance.

In Q1 2013, IMPACT announced the commissioning of the new 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 has 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 presently economical. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended. Production from the Capire open pit may restart in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

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

Capire Mineral Resource

On January 18, 2016, IMPACT announced new NI43-101 compliant mineral resources for the Capire Zone as follows and then filed a supporting technical report on www.sedar.com 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 current 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 Capire database was audited in its entirety and has 20,273 assays of silver (“Ag”), gold (“Au”) and lead (“Pb”) and zinc (“Zn”) collected from 376 exploration drill holes. There are also 889 samples with density measurements in the Capire database. MDA worked with the data on sections spaced 20 metres apart. During that work, MDA found the geology and analytical data to support each other and to present a qualitatively reasonable set of drill data.

The table presents the Inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3m by 3m by 3m. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US\$30/t lying within a pit optimized using \$31/oz Ag, \$1.51/lb Zn, and \$1.69/lb Pb. MDA considers a US\$30/t cutoff to be appropriate for production using IMPACT’s 200t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed “reasonable prospects for eventual economic extraction” which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43-101.

There is additional mineralization too deep to fulfill the criteria of “reasonable prospects for eventual economic extraction” within an open pit, but that may be available for potential underground development. Quality Assurance/Quality Control (“QA/QC”) protocols were carried out to assess the quality of the drilling assay

results and the confidence that can be placed in the assay data. The QA/QC data available at Capire demonstrate the analytical data are sufficient to be used in estimating Inferred resources. The drill spacing is tighter in the central area. Overall the average distance to the nearest composite sample is 20m (less in the central area), and the average distance to all composites used in the estimation is 40m (less in the central area). Three separate drill-hole database and composite files were built, one for each of silver, zinc and lead. Each drill-hole database was composited to three-metre lengths respecting each metal's domain and the alluvium contacts. Samples from the open pit mining blast-holes and samples logged as alluvium were excluded from compositing. There was no minimum width for compositing because the composites are length-weighted during grade estimation.

This new mineral resource is based on improved geological and structural modeling over the previous 2011 mineral resource. MDA used this new geologic interpretation as the foundation for building mineral domains for silver, zinc and lead. Those domains followed the sedimentary/ volcanic package contacts and respected the structural deformation defined within the sedimentary package. The interpretations were made as polygons digitized on the same 20m-spaced sections. The polygons were extruded halfway to adjacent sections to obtain a volume for model coding and controlling the estimate. The extrusion of these polygons, rather than snapped-in-3D polygons and constructing solids or solid equivalents, was done at the request of IMPACT to reduce work and reduce the time to completion. That was a principal reason for the Inferred classification, which could otherwise have been higher with minor additional work. Statistics by each domain for each metal and by domain were evaluated and in part used to determine capping levels. Capping levels were determined for each metal in each domain, using quantile plots and considering coefficients of variation.

The differences between the previous 2011 publicly reported tonnes and grade at Capire and those reported as the current resources here are substantial. The Base Case resources reported in this new estimate are much smaller than those previously reported, in part because the current resources were estimated with tighter constraints, both geostatistical and geological, and in part because they lie within an optimized pit shell and exclude additional mineralization lying at deeper levels. Much of this deeper mineralization was included in the 2011 estimate. That deep mineralization may be available for potential underground development, but that option remains to be studied and is not included in the current resource tabulation.

EXPLORATION

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

San Ramon Deeps Drilling Results

During the fourth quarter, IMPACT announced underground drill results from the San Ramon Deeps Zone which included 354 g/t silver over 4.93 metres and 343 g/t silver over 3.10 metres. Subsequent to year end on January 23, 2017, IMPACT announced further drill results from San Ramon Deeps which included 1,613 g/t silver over 4.12 metres and 248 g/t silver over 11.08 metres. Drilling will continue when construction of a new underground drill station is completed.

Exploration Field Work

The IMPACT crews have been sampling some of the 4,500+ old mine workings and prospects in the districts. They have also trenched areas of mineralization and carried out extensive soil sampling on 100-metre x 25-metre grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling in old mine workings was mainly focused on larger and higher grade target areas at Guadalupe South, San Ramon extensions and San Felipe. In addition, compilation of historical maps and other

mining data from the districts into a large computer database continues and is being used to plan future exploration programs.

Veta Grande (Zacatecas) Silver Project, Mexico

The Zacatecas project consists of a 200-tpd mill and 10 mineral concessions in the Zacatecas Silver District located 500 kilometres northwest of Mexico City. There is good infrastructure throughout the district which consists of road networks, electric power and a trained work force. Since 2007 intermittent exploration was carried out on several of the mineral concessions. The Zacatecas project is currently on care and maintenance.

FUTURE PLANS

Mining Plans

Mining at Mirasol will probably cease in the second quarter of 2017 and will be replaced by the San Patricio Silver which is currently under development. In the longer term, management also intends to continue exploration and development of gold and copper from Carlos Pacheco South and San Juan, and to re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 4,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Utilizing new funds received in Q2 2016, the Company has initiated surface and underground drilling programs to expand resources. Currently, exploration work is focused on larger and higher grade targets at Guadalupe South, San Ramon Extensions and San Felipe. Surface drilling in 2017 will test the San Patricio extensions, Cuchara Mine extensions and the San Felipe prospect, located near the Guadalupe plant access road.

IMPACT has a track record of successful exploration and rapid mine development. The Company's long term vision sees potential for establishing mills throughout the two districts, each fed by multiple mines producing silver-lead-zinc as well as gold and copper.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District (except the mineral resources) and the Veta Grande (Zacatecas) Silver 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, is responsible for the Capire mineral resource estimate and directly related information in this MD&A. Details of the technical information in this MD&A are available in Company news releases posted on the Company website at www.IMPACTSilver.com and on www.sedar.com.

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

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

Exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and effects reclamation on sites disturbed by its activities.

The Company has educated its employees and contract personnel to maintain high standards related to environmental and safety issues and they are continually reminded to uphold this standard. In 2016 IMPACT received recognition for its compliance to the health and safety standards at the San Ramon Mine, the La Cuchara Mine and the Guadalupe mill by the Secretary of Labour and Social Welfare in Mexico. This recognition acknowledges that the Company:

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

The Company keeps community members informed of its activities and works with the community to address concerns. The employment of workers from the local communities fosters understanding, direct involvement in the Company's operations and financial benefits to the local communities including the development of recreational areas and parks.

The Company has social, environmental and other policies related to its operations and promotes a culture for working safely. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and communities. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise the safety program. In the event of an emergency, the Company keeps a paramedic and onsite ambulance on standby.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attends investment and mining related conferences in Canada and internationally. To date this year, the Company participated in investor and mining related conferences and conducted institutional presentations. Beyond this, the Company continues to strengthen its presence via social media and online advertisements.

FINANCIAL DISCUSSION

Summary of Year to Date Results

All figures are in thousands of Canadian dollars except earnings per share.

In thousands except for earnings per share	Year ended December 31		
	2016	2015	2014
Revenues	\$ 16,685	\$ 14,638	\$ 12,009
Net loss	\$ (1,939)	\$ (1,428)	\$ (3,487)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)

Net loss for 2016 was impacted by the following factors:

- IMPACT's mine operating earnings were \$1.4 million, a significant increase compared to a loss of \$0.1 million in 2015, with revenues of \$16.7 million in 2016 compared to \$14.6 million in 2015.
- Silver production was 952,768 ounces in 2016, a slight increase from 950,059 ounces produced in 2015.

- Revenue per tonne sold increased 8% from \$84.96 last year to \$91.73 in 2016, as a result of higher silver prices and a stronger U.S. dollar.
- Direct costs per tonne at the Guadalupe mill for the current year were \$70.14, compared to \$71.84 in 2015. Operating expenses for Guadalupe were \$12.8 million for 2016 compared to \$12.3 million in the previous year. The Company invested in upgrades and improvements during the year in order to increase the long-term production capabilities. Amortization and depletion expenses increased to \$2.3 million during 2016 from \$2.1 million in 2015.
- General and administrative costs increased to \$2.5 million in 2016 from \$1.6 million in 2015, mainly due to \$0.7 million in share based compensation expense related to the July 2016 issuance of share options. Office salaries and services also increased in 2016.
- The Company had a \$0.5 million foreign exchange loss in the current year compared to a \$0.1 million gain last year.
- Other income of \$0.1 million was earned in 2016 for payroll administrative services provided. In 2015, \$0.4 million of other income was earned from inflation adjustments on the collection and application of the value added taxes receivable in Mexico, in accordance with Mexican tax regulations.
- The Company received \$0.1 million in interest income in the first quarter of 2015 as a result of an outstanding settlement with the government.
- IMPACT wrote down its exploration and evaluation assets by \$0.04 million in 2016, and by \$0.6 million in 2015. The 2015 write down related mainly to concessions that were abandoned.
- Deferred and current income tax expenses in 2016 were \$0.3 million compared to recoveries of \$0.2 million in the comparable period of 2015.

Summary of Quarterly Results

All figures are in thousands of Canadian dollars except earnings per share.

In thousands except for earnings per share	Three months ended December 31		
	2016	2015	2014
Revenues	\$ 3,801	\$ 3,883	\$ 3,132
Net (loss) income	\$ (803)	\$ 168	\$ (598)
Loss per share – basic and diluted	\$ (0.01)	\$ 0.00	\$ (0.01)

Net loss for the fourth quarter of 2016 was impacted by the following factors:

- For the three months ended December 31, 2016, the Company's mine operating loss was \$0.2 million compared to earnings of \$0.2 million in the same period of 2015, with revenues of \$3.8 million in 2016 compared to \$3.9 million in 2015.
- Silver production was 247,410 ounces during the fourth quarter of 2016, representing a 6% increase from 233,740 ounces produced within the same period in 2015.
- Revenue per tonne sold for the three months ended December 31, 2016 was \$82.53 compared to \$91.68 in 2015, mainly as a result of lower silver grade and sales ounces between the two periods. As silver sales account for the great majority of the Company's revenues, the changes in lead and gold prices and production did not significantly affect mine operating income.

- Direct costs per tonne at the Guadalupe mill decreased to \$70.17 in the fourth quarter of 2016 from \$75.25 in the fourth quarter of 2015. Operating expenses for Guadalupe remained consistent at \$3.2 million between the two periods, while production tonnage increased 14% in 2016 over the prior year. Amortization and depletion expenses increased to \$0.7 million in the fourth quarter of 2016 compared to \$0.5 million in the last quarter of 2015.
- General and administrative costs increased to \$0.6 million in the quarter ending December 31, 2016, compared to \$0.3 million in the same quarter of 2015. The Company issued stock options in July 2016 which resulted in share based compensation expense of \$0.2 million for the period. There was no corresponding expense in 2015. Management fees and consulting increased by \$0.1 million in the quarter compared to the same period last year relating to work done on regulatory compliance.
- The Company had a \$0.2 million foreign exchange gain in the fourth quarter of 2016 compared to a \$0.6 million gain in the fourth quarter of 2015.
- IMPACT wrote down its exploration and evaluation assets by \$0.04 million in the fourth quarter of 2016, and by \$0.6 million in 2015. The 2015 write-down related mainly to concessions that were abandoned.
- Deferred and current income tax recoveries in the fourth quarter of 2016 were \$0.01 million compared to recoveries of \$0.3 million in the fourth quarter of 2015.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters.

	For the Three Months Ended							
	(\$ in thousands except for earnings per share)							
	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015
Revenues	3,801	4,728	4,393	3,762	3,883	4,108	2,735	3,912
Net earnings (loss)	(803)	(678)	(147)	(311)	168	(270)	(1,046)	(281)
Loss per share – Basic and Diluted*	(0.01)	(0.01)	0.00	0.00	0.00	0.00	(0.02)	0.00
Total assets	54,661	56,828	58,450	54,597	58,038	57,834	57,571	61,365
Total liabilities	7,029	7,250	7,301	8,231	8,792	8,837	8,441	9,226

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

IMPACT continued to be in a strong financial position during the quarter, with \$8.1 million in cash and net working capital of \$10.5 million at December 31, 2016.

In the fourth quarter of 2016, the Company generated cash flows from operating activities of \$1.0 million (2015 – \$1.0 million). The Company invested \$0.7 million during the quarter (2015 - \$0.4 million) in exploration and evaluation assets, and \$0.4 million (2015 - \$0.1 million) in property, plant and equipment. In the year ended December 31, 2016, the Company generated positive cash flows from

operating activities of \$3.3 million (2015 - \$2.4 million). During 2016, the Company invested \$2.3 million (2015 - \$2.2 million) in exploration and evaluation assets, and \$0.8 million (2015 - \$0.1) million in property, plant and equipment.

The Company's working capital is expected to remain strong as IMPACT continues to be strategic with its investing and exploration activities. The Company is continuing to recover its value added tax from the Mexican government.

Financing

During the second quarter, IMPACT completed three private placements for aggregate net proceeds of \$7.3 million.

- 6,666,666 shares were issued to an accredited investor at a price of \$0.30 per share for aggregate gross proceeds of \$2.0 million.
- 2,000,000 shares were issued to accredited investors at a price of \$0.31 per share for aggregate gross proceeds of \$0.62 million.
- 8,771,930 units were issued to accredited investors at a price of \$0.57 per unit for gross proceeds of \$5.0 million. Each unit consists of one common share and one-half of one warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.90 per common share for a period of 36 months from date of issuance.

All securities issued under these offerings were subject to a hold period of four months from date of issuance. The net proceeds are being used to fund the Company's continued exploration and development of its silver assets in Mexico, increase production capacity of its Guadalupe mill, and for general working capital purposes.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 13, 2017:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	85,566,840		
Stock options	1,975,000	\$1.20	January 22, 2018
Stock options	1,210,000	\$0.55	January 6, 2019
Warrants	2,220,000	\$0.90	May 26, 2019
Warrants	697,600	\$0.90	June 2, 2019
Warrants	1,250,150	\$0.90	June 9, 2019
Warrants	218,215	\$0.90	June 16, 2019
Stock options	1,860,000	\$0.98	July 27, 2021
Fully diluted	<u>94,997,805</u>		

3,882,500 of the 5,045,000 options outstanding have vested at March 13, 2017.

On July 28, 2016, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,860,000 shares of the Company. The options are exercisable on or before July 27, 2021 at a price of \$0.98 per share.

Related Party Transactions

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions which is the amount of consideration paid or received as agreed by the parties.

For the first five months of 2016, Energold Drilling Corp. (“Energold”) was considered a related party due to mutual management at the executive level and its shareholding and directorships in IMPACT. Fees in the amount of \$125,458 (2015 - \$132,510) were incurred for administrative services. On April 19, 2016, Energold acquired 1,000,000 of the Company’s shares at a price of \$0.31 per share in a private placement. Subsequent to May 27, 2016, IMPACT completed a \$5.0 million private placement which diluted Energold’s ownership position such that it was no longer considered to have significant influence over IMPACT. As a result, Energold is no longer considered a related party.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company’s financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At December 31, 2016 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - Financial Instruments - Disclosures.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. (“Penoles”) and Trafigura Mexico, S.A. de C.V. (“Trafigura”). 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 an adequate credit rating as determined by Standard and Poor’s. The Company’s maximum exposure to credit risk at the reporting date of December 31, 2016 is the carrying value of its cash and trade and other receivables, which includes value added and other taxes receivable subject to government review and regulatory changes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company’s normal operating requirements on an ongoing basis and its growth plans. At December 31, 2016, the Company did not have any future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2016, the Company was exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in US dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2016, 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 loss for the year ended December 31, 2016.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2016 by \$89,000 (2015 - \$nil).

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and other factors such as commodity prices and foreign exchange rates which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. Conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been the capital markets and project financing. The Company has been and will continue to be dependent upon adequate financing and investor support to meet its long term growth objectives.

POLITICAL, REGULATORY AND SECURITY ISSUES

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining regulations. Permission must also be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, in carrying out its mining and exploration activities, the Company may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. Furthermore, social, criminal, and political unrest may exist within a region covered by the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the operating activities of the Company. From time-to-time, government regulatory agencies may review the books and records of the Company which may result in changes in the Company's operating results.

APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

SUPPLEMENTARY INFORMATION

Revenue per tonne sold and direct costs per tonne produced are measures which the Company believes are key indicators of performance and allow for more direct comparison of revenues and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2016	2015	2016	2015
Operating expenses	\$ 3,314,446	\$ 3,252,909	\$ 12,984,236	\$ 12,630,791
(Deduct): operating expenses for Capire	(72,745)	(83,295)	(206,444)	(291,580)
Add (deduct): inventory	152,100	15,388	59,521	(89,277)
Direct costs	\$ 3,393,801	\$ 3,185,002	\$ 12,837,313	\$ 12,249,934
Tonnes milled	48,366	42,328	183,032	170,509
Direct costs per tonne	\$ 70.17	\$ 75.25	\$ 70.14	\$ 71.84
Revenues	\$ 3,800,943	\$ 3,882,844	\$ 16,684,658	\$ 14,637,592
(Deduct): revenues for Capire	-	-	-	-
Revenues for Guadalupe	\$ 3,800,943	\$ 3,882,844	\$ 16,684,658	\$ 14,637,592
Tonnes sold	46,053	42,351	181,883	172,296
Revenue per tonne sold	\$ 82.53	\$ 91.68	\$ 91.73	\$ 84.96

NON-IFRS MEASURES

The non-IFRS measures presented do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other issuers. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-IFRS measures the Company uses in assessing performance:

Mine operating earnings (loss) before amortization and depletion is a measure which the Company believes provides additional information regarding how the Company's operations are performing. This measure is calculated as Revenues less Operating expenses, excluding amortization and depletion.

In thousands	For the Twelve Months Ended December 31					
	2016			2015		
	Guadalupe	Capire	Total	Guadalupe	Capire	Total

Revenues	\$	16,685	\$	-	\$	16,685	\$	14,638	\$	-	\$	14,638
Operating expenses		(12,778)		(206)		(12,984)		(12,339)		(292)		(12,631)
Mine operating earnings (loss) before amortization and depletion	\$	3,907	\$	(206)	\$	3,701	\$	2,299	\$	(292)	\$	2,007

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

	For the Twelve Months Ended December 31	
	2016	2015
Net loss	\$ (1,939,278)	\$ (1,427,838)
Add:		
Finance cost	60,144	55,522
Current income tax expense	134,485	122,257
Deferred income tax (recovery) expense	160,598	(353,664)
Depreciation and amortization	2,360,842	2,139,600
Less:		
Finance income	(31,843)	(133,261)
Earnings before interest, taxes, depreciation and amortization	\$ 744,948	\$ 402,616

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

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

On behalf of the Board of Directors,

“Frederick W. Davidson”
President and Chief Executive Officer
March 13, 2017