

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve Months Ended December 31, 2021

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the year ended December 31, 2021 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 21, 2022 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2021 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

CORPORATE OVERVIEW

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

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

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing nine sites from exploration drilling to development and mining. IMPACT has produced approximately 11 million ounces of silver since 2006 and generated \$225 million in revenues. As a result, a significant portion of over \$65 million in capital expenditures and exploration on the properties has been funded by operations, and the company still has no long-term debt.

Silver grades for the year 2021 were lower by 8% due to the processing of development muck, and declining grades in an older section of the Guadalupe mine, but by the fourth quarter the silver grade improved to 172 g/t a 4% increase over the comparable quarter in 2020.

Cash flow from operations for the year was \$3.0 million up from \$2.5 million in the prior year. After non-cash costs including amortization and depreciation, share-based payments and deferred income taxes, the Company incurred an accounting net loss of \$0.5 million.

Revenues for the year 2021 were \$17.7 million up from \$15.6 million in 2020. The revenue for Q4 in 2021 was \$4.0 million compared to \$4.5 million in Q4 in 2020. Revenue per tonne sold in 2021 was \$119.04, (2020 - \$116.09) with costs per tonne at \$86.44 up from \$80.82 in 2020. During the year ended December 31, 2021, the price of silver varied from a price in excess of US\$29 per ounce ("oz") to a low of less than US\$22 an oz. resulting in significant volatility in revenues and earnings.

The higher cost per tonne was in part a result of the Company's increased exploration and development at the Guadalupe mine. These costs are expected to continue in the near future as the mine is engaged in a significant programme of exploration and development, but are anticipated to have a positive impact on grade and tonnage from this mine in 2022.

Mine operating income for the year was \$3.4 million up from \$3.3 million in 2020, while higher development costs and lower silver grades both continued to impact the operating results.

In Q4 2021, cash provided by operating activities was \$0.2 million and at year end cash was \$21.1 million, up from \$20.4 million December 31, 2020. Working capital at December 31, 2021 was \$21.5 million compared to \$20.3 million December 31, 2020.

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

Work continues on a third tailings facility with a provisional life of nine years of operations at the Guadalupe mill complex.

Overall

With increased trading on the various exchanges IMPACT is becoming recognized as a medium cost producer, highly leveraged to the price of silver. To date the Company believes the market has not attributed significant value to its extensive land position and its exploration potential. Starting in 2021, the Company committed to a major exploration program including a considerable drill program focused on the greenfield potential of its large land package. The results from four successful drill programmes totalling over 17,000m with its own drills were announced during the year. In areas where it will not be able to focus over the next two years, the Company will look to potential partnerships to further accelerate discovery.

On January 1, 2022, the Company completed a vertical short form amalgamation with its wholly-owned subsidiary, Chalco Services Inc. pursuant to the provisions of the Business Corporations Act (British Columbia) (the "**Amalgamation**"). No securities were issued in connection with the Amalgamation and the shares of the subsidiary were cancelled without any payment of capital in respect of them.

The continuing company has the current Articles and Notice of Articles of the Company. The Company's trading symbols of its listed securities will remain unchanged. No action will be required by existing security holders of the certificates representing the Company's securities.

IMPACT's key initiatives for the year 2022

1. Continue extensive development of the Guadalupe mine, including the newly developed Pachuqueno area while optimizing production with a focus on maximizing cash flows from its other mining operations. This work has been accompanied by upgrading of an underground rail facility and an extensive underground drilling programme that has identified a number of veins in the immediate area.
2. During 2021, IMPACT has conducted an aggressive exploration program, including a diamond drill program that was in excess of 17,000 metres. The program was focused on discovery and definition of additional high-grade silver and gold zones for near and longer-term mining. With the current success combined with the operational efficiencies of its own drills, the Company plans a number of additional programs during 2022 that could approach 20,000 metres of drilling across the Company's extensive land package

3. Subject to market conditions and current technical studies including ore sorting, expanding the current pilot plant and infrastructure, IMPACT is looking to restart production at the Capire open pit mine in 2022.
4. With the increase in exploration activities, IMPACT is still considering possible joint ventures and option agreements with third parties on more remote tracts similar to the Pantera Silver Corp. option agreement for the Pregones district.
5. Where practical, the Company will continue to expand its ESG activities focusing on community and environmental issues.
6. Continue its staged review of other opportunities for advanced precious metal opportunities in Mexico and elsewhere.

IMPACT is a reporting issuer in British Columbia and Alberta. The Company's shares trade on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL.

Financial Overview

- Higher grade silver on lower silver prices resulted in revenue of \$4.0 million in Q4 2021, down from \$4.5 million in 2020. While silver grades for the year to date ("YTD") 2021 were lower than the comparative period 2020, revenue was \$17.7 million compared to \$15.6 million in 2020, due to higher average silver prices.
- Mine operating earnings before amortization and depletion¹ YTD 2021 was \$4.7 million (2020 \$4.7 million).
- Cash generated from operations for the YTD was \$3.0 million compared to \$2.5 million in 2020.
- Earnings before interest, taxes, depreciation, amortization² ("EBITDA") was \$1.5 million in 2021 (2020 - \$2.5 million).
- After investing \$3.6 million in exploration expenditures and mining assets during the year, the cash position remained strong at \$21.1 million with working capital of \$21.5 million, up from cash of \$20.4 million and working capital of \$20.3 million at December 31 2020.
- Net loss for Q4 2021 was \$0.5 million compared to net income of \$1.7 million in 2020. There was a loss \$0.5 million for the year 2021 compared to net income of \$2.3 million in 2020. This was due in part to share-based payment expense of \$1.5 million in 2021 with no comparable amount in 2020.
- Recent legislation by the Mexican government has resulted in the reorganization of the activities of the company's Mexican subsidiaries in order to comply with what the Company's advisers understand are the new requirements in both employment and taxation. As a result, the Company has written down potential deferred tax recoveries.

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

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 Highlights

Guadalupe Production Complex

Prior to silver price prices increasing in Q2 2020, the Company shifted its strategy from utilising capacity at its Guadalupe processing plant to focusing on lower cost, high-grade production. The decrease in production tonnes allowed the Company to focus on mining higher margin areas in lower cost situations.

The mining activity is becoming more focused on the Guadalupe mine and other areas accessed from that shaft, with tonnage reaching approximately 50% of the mill feed. A substantial underground development program at Guadalupe is continuing which includes a two-stage refurbishment of the mineshaft at the Guadalupe mine, and rebuilding the extensive track system on the 195 level to access the Pachuqueno section of the mine. This will provide for considerably higher capacity with lower associated hauling costs.

After an extremely wet rainy season during Q3 2021 which resulted in excessive haul costs and the mining at the Veta Negra open-pit halted, production at this mine recommenced providing 8% of the mill feed in the fourth quarter.

As development advanced on a number of fronts, the Company saw a gradual increase in production late in the year resulting in an increase in tonnage to the mill of 2,038 tons for Q4 2021 over Q3 2021.

Revenue per tonne sold was \$116.67 in Q4 2021, down from Q4 2020 at \$130.22 despite higher grades. This was due to lower silver prices and the impact of concentrate inventories. Revenue per tonne for YTD 2021 was \$119.04 compared to \$116.09 in 2020.

Silver sales for Q4 2021 decreased to 154,224 ounces compared to 156,885 ounces in 2020, while tonnes milled increased 4% from the prior year. YTD silver sales were 633,952 ounces (2020 - 633,357 ounces).

Direct costs per production tonne, net of concentrate inventories, were \$97.79 in Q4 2021, compared to \$92.21 in Q4 2020. This increase was anticipated, as the Company stepped up exploration and development at the Guadalupe mine. YTD costs per tonne rose to \$86.44 compared to \$80.82.

Capire Project

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

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

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2021	2020	% Change	2021	2020	% Change
Total tonnes (t) milled	36,625	40,815	-10%	145,458	140,069	+4%
Tonnes produced per day	398	444	-10%	399	383	+4%
Silver production (oz)	162,869	184,303	-12%	617,686	646,534	-4%
Lead production (t)	60	68	-11%	250	240	+4%
Gold production (oz)	78	92	-15%	295	321	-8%
Silver sales (oz)	154,224	156,885	-2%	633,952	633,357	0%
Lead sales (t)	56	53	+6%	213	225	-6%
Gold sales (oz)	71	69	+3%	283	293	-3%
Average mill head grade –silver g/t	172	166	+4%	159	172	-8%
Revenue per tonne sold ³	116.67	\$130.22	-10%	119.04	\$116.09	+3%
Direct costs per production tonne ³	97.79	\$92.21	+6%	86.44	\$80.82	+7%

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground / open pit mines on epithermal silver (-zinc-lead) veins feed the central Guadalupe processing plant rated at 535 tonnes per day. Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Work has been completed on a third tailings dam which will begin to receive tailings in 2022.

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 fourth quarter of 2021, the Guadalupe Mine provided 57% (Q4 2020 – 45%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 156 to 182 g/t silver. Production during Q4 2021 was from the Lipton, Liptonia, San Lorenzo and several Pachuqueno area veins on Levels 0, 40, 60, 100, 150, 160, 195 and 234. 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 on the lower levels and expanding production.

³ 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 south 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 earlier in 2021. During the fourth quarter of 2021, San Ramon provided 8% (Q4 2020 – 21%) of feed to the Guadalupe mill as production at San Ramon South ramps up. Monthly average mining grades at San Ramon during the quarter ranged from 201 to 244 g/t silver. Production during Q4 2021 was from Levels 7 and 19 in the San Ramon South zone. Drilling to expand the San Ramon South zone continues from surface.

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 fourth quarter of 2021, the Veta Negra Mine provided 8% (Q4 2020 – 10%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during the quarter ranged from 189 to 198 g/t silver. North-northwest trending parallel, near surface veins, enveloped by stockworks and disseminations occur over a width averaging 14 metres. Drilling is continuing to the north, south and to depth to determine the full potential of the zone.

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 fourth quarter of 2021, the Cuchara Mine provided 27% (Q4 2020 – 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 Marqueza and Milmaravillas veins. Monthly average mining grades at Cuchara during the quarter ranged from 153 to 165 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 open pit mine and completion of construction of the 200-tpd pilot plant. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potentially larger operation in the future. The work performed increased the Company’s knowledge about the metallurgy of minerals in both districts and has helped define operating costs at Capire. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes, hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economical at that time. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended.

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

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

Capire Mineral Resource

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

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

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

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

EXPLORATION

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

Drilling

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

Exploration Field Work

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

FUTURE PLANS

Mining Plans

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

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 5,000+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to drilling and potential production. The Company is continuing surface and underground drilling programs utilizing four Company owned drills to build tonnes for mining. Upcoming drilling and exploration work is planned for the north and south extensions of the Veta Negra Mine, San Ramon South extensions, the Alacran Vein area, the Manto America bulk tonnage gold target, and the Pachuqueno Vein extensions from the Guadalupe Mine.

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

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

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

assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

IMPACT Silver Corp. recognizes that exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and carries out reclamation on sites disturbed by its activities. As primarily an underground mining situation, surface disturbance from mining has been minimal in the past.

The exploration drills acquired by IMPACT are modular diamond drill rigs which minimize the area of disturbance due to their small size and mobility. These drills rig require little in the way of drill pads or access trails and the Company engages the local community for logistical support and assistance as part of the drill crew. All drill sites are reclaimed. Besides increasing our flexibility in the drill programs and keeping environmental disturbance to a minimum, they have proved extremely 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. The Company in 2021 as part of a periodic review, engaged independent engineers to conduct a study on the status of the current tailing's impoundment and are addressing the subsequent recommendations.

Construction of tailing pond number 3 is continuing and will begin to receive tailings in 2022. It can accommodate approximately 9 years of production from the Guadalupe mill complex. Fully permitted, the site was cleared and for each tree removed the Company planted a further 7 trees, working in conjunction with the regulatory officials.

Environmental Impact

In 2020, the trees planted as part of preparation for the new tailings facility number 3, were part of a larger program to improve areas of past historical physical disturbance. In conjunction with the municipality and the Technological Baccalaureate Center in total the Company planted approximately 6,000 trees of various indigenous species in 2021. A further 10,000 trees are to be planted in 2022/2023.

On the mine's property surrounding the current tailings facilities and the complex's support facilities the Company working with local farmers planted 833 agave plants. Plans for the next 12 months are for a further 3,000 Agave to be planted. According to the Company's consultants, Agave plants have the ability to 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 irrigation and are not sensitive to rising global temperatures and drought. Agave also provides a cash crop for the 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. The studies 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 as continuing in 2022 to supply other service buildings once suitable locations have been found for the panels. While reducing the mine's carbon foot print, it is anticipated the solar power produced will also generate economic savings.

Social Responsibility

The Company keeps community members informed of its activities and works with the communities to address local concerns. The employment of most workers from the local communities' fosters understanding, and direct involvement in the Company's operations. Over the last several years the mine has focused on two

strategies to assist the local communities. The first is to up-grade infrastructure which may have been neglected by senior government levels in the past. During 2021, the Company, by providing tools, materials and supplies while the communities provide labour, has upgraded roads, and 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 both potable and for irrigation to a number of individual farmers and communities. This includes building water tanks and providing plastic pipes for water storage and distribution.

COVID-19

Like much of Mexico, the local communities in the district have experienced COVID -19. Early in 2020 the mine established strict protocols with regards to its employees, and provided essential information to them and their families. All employees are monitored when they come to the plant site and mine sites, where practical safe distances and masks are required, and those suspected of having been exposed to a COVID-19 related event are sent to the local hospital for testing and required to isolate at home. To date this has kept the impact of COVID-19 upon its staff and operations to a minimum. In the second quarter of 2020 at the instruction of the Federal Government the company suspended activities until that June to assist in the reduction of the spread of COVID-19.

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

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

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 relations 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 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 that have been online during the pandemic.

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

The Company has also revised its website to assist stakeholders in understanding its activities and the potential of the entire Royal Mines of Zacualpan district. To ensure full disclosure, prior to COVID-19 closures, the Company regularly brought investment advisers and sophisticated investors to its mine site for

industrial tours. When suitable it will once again do so. In the interim, it has prepared video presentations of some of its operations and exploration activities available under “Media” on the Company’s website.

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31			
	2021		2020	
Revenue	\$	4,027	\$	4,548
Net income (loss)	\$	(541)	\$	1,658
Income per share – basic and diluted	\$	(0.00)	\$	0.01

Net loss for the fourth quarter of 2021 was impacted by the following factors:

- Revenue for Q4 2021 was \$4.0 million, a decrease from \$4.5 million in 2020 on 154,224 ounces of silver sold, down 2% from Q4 2020. Revenue per tonne sold was \$116.67 compared to \$130.22 in Q4 2020. Tonnes milled decreased 10% from the prior year to 36,625 due to increased processing of development muck and declining grades in an older level of the Guadalupe mine. Silver grade was higher by 4% at 172 g/t compared to 166 g/t in Q4 2020.
- Mining operating income was \$0.3 million in Q4 2021 compared to \$1.0 million in Q4 2020 with revenue per tonne lower on reduced tonnes milled and cost per production tonne increasing to \$97.79 from \$92.21 in Q4 2020. This was due in part to additional development and drilling expenditures in active mines which were expensed during the period.
- In Q4 2021 general and administrative costs were higher at \$1.0 million compared to \$0.5 million in Q4 2020, due to stock-based compensation expense of \$0.5 million.
- The Company had income and deferred tax recovery of \$0.2 million in Q4 2021 compared to a recovery of \$1.4 million in Q4 2020.

Summary of Year to Date Results

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

In thousands except for earnings per share	Twelve months ended December 31				
	2021		2020		2019
Revenue	\$	17,699	\$	15,578	\$ 13,311
Net income (loss)	\$	(545)	\$	2,301	\$ (4,939)
Earnings (loss) per share – basic and diluted	\$	(0.00)	\$	0.02	\$ (0.05)
Total assets	\$	65,840	\$	64,832	\$ 49,955

Net loss for 2021 was impacted by the following factors:

- The Company earned revenue of \$17.7 million during the twelve months ended December 31, 2021 compared to \$15.6 million in the twelve months ended December 31, 2020. Although the grade decreased to 159 g/t from 172 g/t in 2020, revenue per tonne sold increased to \$119.04 in 2021 compared to \$116.09 in the same period in 2020 due to higher silver prices.

- Mine operating income was \$3.4 million for the twelve months ended December 31, 2021 compared to \$3.2 million in the same period of 2020. The prior years comparative results were impacted by the government decreed shut down for COVID-19 in Q2 2020. Direct costs per tonne increased to \$86.44 from \$80.82 in 2020, partially due to additional costs related to development and drilling in active mines in 2021.
- General and administrative costs increased to \$3.2 million in 2021 compared to \$2.0 million in 2020, due to share-based payment expense of \$1.5 million in 2021 with no comparable expense in 2020.
- The Company recorded deferred and current income taxes expense in the twelve months ended December 31, 2021 of \$0.8 million compared to the Company's \$1.4 million deferred income tax recovery recorded in the comparable period of 2020. This is primarily due to losses from some of the companies in the group not being recognized during the current year.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

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

	For the Three Months Ended							
	(\$ in thousands except for earnings per share)							
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
	2021	2021	2021	2021	2020	2020	2020	2020
Revenue	4,026	4,081	4,216	5,376	4,548	4,774	2,842	3,413
Net income (loss)	(541)	35	218	(257)	1,658	928	(195)	(90)
Earnings (loss) per share – Basic and Diluted*	(0.00)	0.00	0.00	(0.00)	0.01	0.01	(0.00)	(0.00)
Total assets	65,840	66,306	66,546	65,070	64,832	58,592	46,319	44,715
Total liabilities	5,874	6,323	6,505	6,219	6,143	6,905	6,306	6,528

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

At December 31, 2021 the Company had cash of \$21.1 million, an increase of \$0.7 million from December 31, 2020. Working capital was \$21.5 million compared to \$20.3 million at December 31, 2020.

During the year ended December 31, 2021:

- For the twelve months ended December 31, 2021, the Company generated cash flows from operating activities of \$3.0 million compared to cash flows of \$2.5 million in 2020 due to improved financial performance. In Q2 2020, results were impacted by the temporary government-mandated cessation of operations due to COVID-19.
- In 2021, the Company invested \$3.6 million (2020 - \$1.8 million) in long-lived assets, of which \$1.2 million was for exploration expenditures and \$2.4 million for property, plant and equipment including mining assets.

- In 2021 the Company received proceeds of \$1.4 million from the exercise of warrants and stock options. In the comparative period in 2020, the Company completed a private placement for net proceeds of \$10.8 million and received \$5.3 million on the exercise of warrants and stock options.
- In 2021, the company received a cash payment of \$50,000 and 200,000 treasury shares valued at \$85,000 pursuant to the option agreement on part of its Zacualpan SE concession signed in Q4 2020.

For the three months ended December 31, 2021:

- During the fourth quarter of 2021, the Company generated cash flows from operating activities of \$0.2 million compared to \$0.1 million in the fourth quarter of 2020.
- In Q4 2021 the Company invested \$0.7 million in long-lived assets (2020 - \$0.4 million).
- In Q4 2021 the Company received \$0.03 million on the exercise of 68,966 warrants, compared to 2020 when the Company received net proceeds of \$3.3 million on the exercise of 9.0 million warrants and 0.1 million options.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 21, 2022:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	145,631,485		
Stock options	1,160,000	\$0.35	September 20, 2022
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,010,000	\$0.90	January 18, 2026
Stock options	2,300,000	\$0.48	October 8, 2026
Warrants	2,738,154	\$0.30	July 5, 2022
Warrants	1,613,264	\$0.30	July 24, 2022
Warrants	2,489,173	\$0.385	August 2, 2022
Warrants	969,954	\$0.385	August 12, 2022
Warrants	4,878,334	\$0.385	April 16, 2023
Brokers warrants	598,089	\$0.95	August 20, 2022
Warrants	<u>5,024,545</u>	\$1.30	August 20, 2022
Fully diluted	<u>171,162,998</u>		

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

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with refining and smelting companies for the refining and sale of its silver, lead, zinc, and gold contained in its lead and zinc concentrates. All contracts are with currently with Trafigura Mexico S.A de C.V. and previously with Samsung C&T Corp. As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time but is satisfied that these companies have adequate credit ratings as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$21.1 million) and trade and other receivables (\$1.0 million).

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc, and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2021, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in US dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2021, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.6 million decrease or increase in the Company's net income for the year ended December 31, 2021.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2021 by \$0.1 million (2020 - \$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 11, 2020, the World Health Organization declared COVID-19 as a pandemic. In response to the pandemic, the Government of Mexico implemented measures to curb the spread of COVID-19 which included the suspension of all non-essential businesses, including mining. To comply with these measures, and for the protections of the staff, employees, contractors and communities, the Company temporarily suspended mining operations in April 2020. The Company implemented plans to minimize the risks of the COVID-19 virus, both to employees and to the business. At its site, the Company is following government health protocols and is closely monitoring the pandemic with local health authorities. Since resumption of activities in June 2020, the Company has not experienced any significant disruption to operations or to shipments of concentrates.

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

APPROVAL

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

SUPPLEMENTARY INFORMATION

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2021	2020	2021	2020
Operating expenses	\$ 3,397,534	\$ 3,204,856	\$ 12,971,946	\$ 10,899,394
(Deduct): operating expenses for Capire	(41,527)	(21,263)	(129,715)	(107,070)
Add (deduct): inventory	225,392	579,762	(269,280)	527,680
Direct costs	\$ 3,581,399	\$ 3,763,355	\$ 12,572,951	\$ 11,320,004
Tonnes milled	36,625	40,815	145,458	140,069
Direct costs per tonne	\$ 97.79	\$ 92.21	\$ 86.44	\$ 80.82
Revenue	\$ 4,026,523	\$ 4,547,815	\$ 17,699,122	\$ 15,577,843
Tonnes sold	34,511	34,923	148,683	134,188
Revenue per tonne sold	\$ 116.67	\$ 130.22	\$ 119.04	\$ 116.09

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 December 31		For the Twelve Months Ended December 31	
	2021	2020	2021	2020
Revenue	\$ 4,026,523	\$ 4,547,815	\$ 17,699,122	\$ 15,577,843
Operating expenses	3,397,534	3,204,856	12,971,946	10,899,394
Mine operating earnings before amortization and depletion	\$ 628,989	\$ 1,342,959	\$ 4,727,176	\$ 4,678,449

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

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2021	2020	2021	2020
Net income (loss)	\$ (541,788)	\$ 1,658,363	\$ (545,335)	\$ 2,301,012
Add:				
Finance cost	19,364	8,936	56,135	37,182
Current income tax expense	91,893	93,325	173,209	200,740
Deferred income tax expense	-	-	648,242	-
Depreciation and amortization	378,949	332,626	1,342,215	1,462,174
Less:				
Deferred income tax recovery	(254,164)	(1,518,959)	-	(1,401,434)
Finance income	(116,694)	(31,242)	(206,157)	(64,149)
Earnings (loss) before interest, taxes, depreciation and amortization	\$ (422,440)	\$ 543,049	\$ 1,468,309	\$ 2,535,525

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

On behalf of the Board of Directors,
"Frederick W. Davidson"

President and Chief Executive Officer

March 21, 2022