IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve months ended December 31, 2017

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2017 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 9, 2018 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2017 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 357 km^2 in central Mexico: the **Royal Mines of Zacualpan Silver District** and the **Capire Mineral District** adjacent to and southwest of Zacualpan. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over eleven years.

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing eight sites from exploration drilling to development and mining, including all mines currently in production. Most recently, due to the unpredictability in silver prices and to offset the effects of low prices of silver, the Company has been focused on improving the capacity of its Guadalupe processing plant, increasing its production up to 532 tonnes per day (tpd) from 500 tpd a year ago.

IMPACT is considered one of the purest silver producers in Mexico. IMPACT's primary metal is silver and the majority of its revenues are generated by silver. Weak silver prices, lower silver grades and a weakening US dollar negatively affected revenue in 2017. The Company addressed this by increasing throughput in the mill and by actively controlling costs. Overall in 2017, revenues decreased by 8% to $15.4 million compared to 2016 revenue of $16.7 million. The Company recently negotiated significantly lower refining fees for 2018, which will have a positive effect on revenues going forward. During the first six months of the year, IMPACT invested in upgrading and repairing its capital equipment. This, combined with the costs of developing production at the San Patricio (Chivo) mine and rising inflation in Mexico, impacted operating costs. With funding currently in place, IMPACT is actively expanding its in-mine exploration and development to allow for increases in additional tonnage and higher grade throughput at the mill.

In 2016 IMPACT raised $7.1 million (net) through private placements. These funds have allowed the Company to accelerate exploration and re-start drilling on higher priority targets. The initial results have lead to the San Felipe discovery, the discovery of a new extension at the San Ramon mine and the start of field work on the gold/copper target of Santa Teresa as detailed in respective news releases.

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. Exploration including drilling key targets across the large 357 km^2 land package, focusing on discovery and definition of additional high grade mineral for future mining.
3. Continue exploration with plans for eventual development of gold and copper from Carlos Pacheco South and San Juan, and re-evaluate the Capire open pit silver mine when silver prices improve sufficiently.
4. In the longer term, the objective is to become a multi-million ounce per year producer of silver either through development of current properties or by acquisition or merger.

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

IMPACT is proud to have been named to the 2017 TSX Venture 50, a ranking of the top performers on the TSX Venture exchange. 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

- Revenue for 2017 was $15.4 million, an 8% decrease from 2016. Increased mill throughput helped to offset weak silver prices, lower silver grades and a weaker US dollar.
- Mine operating loss for 2017 was $1.7 million compared to earnings of $1.4 million in 2016. Mine operating earnings before amortization and depletion[1] were $0.5 million for the year ended December 31, 2017 compared to $3.7 million in the previous year.
- Net loss for 2017 was $4.6 million which included $0.6 million of foreign exchange loss and non-cash expenses of $3.5 million for amortization, depletion, share based compensation, and deferred income taxes. This compares to a $1.9 million net loss for the same period in 2016, which included $0.5 million of foreign exchange loss and non-cash expenses of $3.3 million for amortization, depletion, share based compensation and deferred income taxes.
- Loss before interest, taxes, depreciation and amortization[2] (EBITDA) was $1.9 million for 2017 compared to earnings of $0.7 million in the previous year.
- The Company's cash position at December 31, 2017 remains strong at $4.7 million, with net working capital of $5.6 million (2016 - $10.5 million).
- Cash flows generated from operating activities were $0.2 million in 2017, compared to $3.4 million in the same period of 2016.
- In June 2017, the Company completed the sale of its non-active Zacatecas assets (200 tpd mill, 14 hectares surface rights and 10 mineral concessions) to Endeavour Silver Corp. (TSX:EDR, NYSE:EXK) for 154,321 common shares valued at $0.6 million. The Company recorded a gain of $0.3 million on the transaction.

Production Overview

- Production at the Guadalupe mill during the fourth quarter of 2017 came primarily from the San Ramon Deeps Mine (46% of total mill feed), the Cuchara Mine (35% of mill feed), the San Patricio (Chivo) Mine (19% of mill feed). The grade at San Ramon is highly variable and provided lower grades than in the comparable quarter of 2016. The mining grades at the new San Patricio (Chivo) Mine had lower grades than the Mirasol mine that closed towards the beginning of Q3. These factors contributed to a lower grade mill feed in the fourth quarter of 2017 compared to 2016.
- Average mill feed grade for silver was 172 grams per tonne (g/t) in 2017, down 4% from 180 g/t in 2016.
- Silver production decreased slightly to 907,848 ounces in 2017 from 952,768 ounces in 2016.
- Throughput at the mill was increased 6% to 194,266 tonnes milled in 2017 from 183,032 in 2016.

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[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.
[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 Year Ended December 31		
	2017	2016	% Change	**2017**	2016	% Change
Total tonnes (t) milled	**48,516**	48,366	0.3%	**194,266**	183,032	6%
Tonnes produced per day	**527**	526	0.2%	**532**	500	6%
Silver production (oz)	**220,148**	247,410	-11%	**907,848**	952,768	-5%
Lead production (t)	**132**	108	22%	**481**	434	11%
Zinc production (t)	**-**	-		**-**	42	-100%
Gold production (oz)	**128**	138	-7%	**540**	511	6%
Silver sales (oz)	**195,599**	233,970	-16%	**852,480**	955,275	-11%
Lead sales (t)	**109**	106	3%	**448**	444	1%
Zinc sales (t)	**-**	-		**-**	65	-100%
Gold sales (oz)	**128**	128	-	**533**	525	2%
Average mill head grade –silver g/t	**162**	178	-9%	**172**	180	-4%
Revenue per tonne sold[3]	**62.39**	$82.53	-24%	**79.62**	91.73	-13%
Direct costs per production tonne[3]	**78.59**	$70.17	12%	**76.49**	70.14	9%

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

The Company has continued to expand the capacity at its Guadalupe processing plant and milled a record high of 194,266 tonnes in the year ended 2017. This is an increase of 6% over the 183,032 tonnes milled in 2016. There was a nominal increase of 0.3% in tonnage milled in Q4 2017 over Q4 2016. 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 172 g/t in 2017 compared to 180 g/t in 2016. There was a 9% decline in silver grades in Q4 2017 to 162 g/t compared to 178 g/t in the Q4 2016.

Overall, revenues in 2017 were negatively impacted by weak silver prices, lower silver grades and a weakening US dollar. Silver sales decreased 11% in 2017 to 852,480 ounces from 955,275 ounces sold in the same period in 2016. The annual revenue per tonne of concentrate was $79.62, compared to $91.73 in the same period of 2016. Silver sales decreased 16% in Q4 2017 to 195,599 ounces from 233,970 ounces in Q4 2016. The decline in revenue per tonne sold from $82.53 in Q4 2016 to $62.39 in Q4 2017 is due in part to lower silver grades and prices, but was compounded by lower than estimated revenue recorded for Q3. In an effort to address decreasing revenues, the Company has negotiated a considerably more favourable refining contract for 2018. The 9% increase in direct costs per production tonne for the year to $76.49 from $70.14 is mainly due to a new hauling contract which increased hauling costs and increased development costs to access ore.

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

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. 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, the Company discovered new high grade silver zones in the nearby San Ramon Deeps area and mining of this area began in Q3 2014. During the fourth quarter of 2017, the San Ramon Deeps Mine provided 46% (Q4 2016 – 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, 22, 23 and 24 over a length of 180 metres and widths of 2 to 17 metres. Diluted mining grades at San Ramon during the quarter ranged from 191 to 196 g/t silver. Underground drilling outlined the vein over a vertical distance of 10 to 80 metres below the current mine workings where the size and grade are decreasing. Drilling of the southeast extension will begin with completion of a new underground drill station. 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. In Q3 2017, IMPACT signed an agreement to mine on a neighbouring claim in return for royalty payments of MXN$75 per dry tonne of mineral extracted. Subsequent to year end, IMPACT carried out initial mining and exploration work in this area including some drilling from surface to outline zones for mining (see Exploration below).

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 2017, the Cuchara Mine provided 35% (Q4 2016 – 42%) 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, and Millmaravillas veins. Diluted mining grades at Cuchara during the quarter ranged from 152 to 166 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. In Q3 2017 production from Mirasol was put on standby as the remaining tonnes are at depth and require some development in order to access them. During the quarter, there were no tonnes mined at Mirasol (Q4 2016 – 18%).

San Patricio (Chivo) Silver Mine

The new San Patricio (Chivo) Mine is located three kilometres southeast of the Guadalupe mill and is accessed through the former Chivo Mine entrance. The mine produces from the San Patricio vein and the Los Reyes vein. During the fourth quarter of 2017, the San Patricio (Chivo) Mine provided 19% (Q4 2016 – nil) of feed to the Guadalupe mill. Diluted mining grades at San Patricio during the quarter ranged from 161 to 178 g/t silver.

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.

In Q2 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. The Capire plant is currently on care and maintenance. 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 Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards, definitions and guidelines. The resources were estimated by inverse distance cubed ("ID^3") 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 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 considered 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. For further details on the Capire mineral resource see IMPACT's news release dated January 18, 2016.

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), San Patricio (Chivo) Silver Mine (currently in operation), 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-July 2017), 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:

Drilling Results

During the first quarter, 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. Subsequent to year end, IMPACT announced results from surface drilling above the San Ramon Deeps area which included 627 g/t silver over 3.26 metres. Drilling has begun again with completion of a new underground drill station.

During the third quarter, IMPACT announced the first drill results from the El Paso Vein at the San Felipe prospect with 834 g/t silver over 3.38 meters (true width) including 1,448 g/t silver over 1.26 meters (true width). The zone remains open for expansion. IMPACT mining personnel have almost completed access to the old San Felipe Mine workings and establishing an underground drill station to continue drilling the zone. The El Paso Vein is centrally located within the district, passes less than one kilometer from IMPACT's producing Guadalupe processing plant, and represents a potential near-term source of high-grade feed for the plant.

A number of surface drill holes were also completed on veins near the Cuchara Mine and Los Reyes area during the year, most of which returned low grades.

Exploration Field Work

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 target areas at Santa Teresa, Alacran and Alacran North. 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.

FUTURE PLANS

Mining Plans

In the longer term, management 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 drilling and potential production, and building mineral inventories for mining. The Company is continuing surface and underground drilling programs to build tonnes for mining. Currently, exploration work is focused on larger and higher grade targets. Drilling is next being planned on the extensions of the El Paso Vein 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 multiple 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 as defined under Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project and the Capire Mineral District (except the 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, 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 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 and recreational benefits to the local communities.

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. In 2017, the Company's mine rescue team competed in a safety and rescue competition for the first time and placed fifth overall.

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 Quarterly Results

In thousands except for earnings per share	Three months ended December 31		
	2017	2016	2015
Revenues	$ **3,150**	$ 3,801	$ 3,883
Net loss	$ **(2,267)**	$ (803)	$ 168
Loss per share – basic and diluted	$ **(0.03)**	$ (0.01)	$ 0.00

Net loss for the fourth quarter of 2017 was impacted by the following factors:

- Mine operating loss was $1.2 million in Q4 2017 compared to $0.2 million in the fourth quarter of 2016. Amortization and depletion expenses decreased to $0.4 million during the fourth quarter of 2017 from $0.7 million in the comparable period of 2016. Mine operating results were directly impacted by lower revenues and increased operating costs as discussed below.

- Revenue for Q4 2017 was $3.2 million, a 17% decrease from Q4 2016. Revenue per tonne sold decreased to $62.39 in Q4 2017 compared to $82.53 in Q4 2016. The decrease in revenue in the quarter was a result of weaker silver prices, lower silver grade and a weaker US dollar, but was exacerbated by lower than estimated actual revenues for Q3 which had been accrued for.

- Direct costs per tonne at the Guadalupe mill increased to $78.59 in Q4 2017 from $70.17 in Q4 2016. Direct cost per tonne were impacted by the Company's efforts to increase mill throughput as the Company incurred costs to access additional ore and repaired and refurbished their equipment in order to achieve this.

- General and administrative costs decreased to $0.4 million in Q4 2017 from $0.6 million in Q4 2016, due to a decrease of $0.2 million in share based compensation expense.

- The Company had a $0.05 million foreign exchange gain in the fourth quarter of 2017 compared to $0.2 million in the comparable period of 2016.

- The Company had deferred and current income tax expense of $0.8 million in the fourth quarter of 2017 compared to a recovery of $0.01 million in the fourth quarter of 2016. The tax expense in Q4 2017 is mainly due to a valuation allowance taken on deferred tax assets.

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 **2017**		2016		2015
Revenues	$	**15,365**	$	16,685	$	14,638
Net loss	$	**(4,636)**	$	(1,939)	$	(1,428)
Loss per share – basic and diluted	$	**(0.05)**	$	(0.02)	$	(0.02)
Total assets	$	**50,195**	$	54,661	$	58,038

Net loss for 2017 was impacted by the following factors:

- The Company earned revenues of $15.4 million in 2017 compared to $16.7 million in 2016. More tons were produced and sold in 2017, but this were offset by lower silver grades and a weakening US dollar.
- Revenue per tonne sold decreased 13% from $91.73 last year to $79.62 in 2017 as a result of lower silver grade and a weakening US dollar.
- Silver production was 907,848 ounces in 2017 compared to 952,768 ounces produced in 2016.
- Mine operating loss was $1.7 million in 2017 compared to earnings of $1.4 million in the same period of 2016.
- Direct costs per tonne at the Guadalupe mill for the current year were $76.49, compared to $70.14 in 2016. IMPACT has invested in upgrades and improvements to increase their long-term production capabilities including refurbishing and repairing operating equipment. Haulage expenses have also risen in 2017. In addition, the Company has been incurring costs related to accessing additional ore to allow for increases in tonnage throughput at the mill. Tonnes milled in 2017 increased 6% to 194,266 from 183,032 in 2016.
- General and administrative costs decreased to $2.2 million in 2017 from $2.5 million in 2016, mainly due to a decrease in management fees and consulting of $0.1 million and in office salaries and services of $0.2 million.
- The Company had a $0.6 million foreign exchange loss in 2017 compared to a $0.5 million loss in the same period of last year. The Mexican peso has been increasing against the U.S. dollar, which is impacting the foreign exchange expense.
- The Company had deferred and current income taxes expense of $0.5 million in 2017 compared to $0.3 million in 2016.
- During the second quarter, the Company completed the sale of its non-active Zacatecas assets (200tpd mill, 14 hectares surface rights and 10 mineral concessions) to Endeavour Silver Corp. (TSX:EDR, NYSE:EXK) for 154,321 common shares of EDR valued at $0.6 million. The Company recorded a gain of $0.3 million on the transaction.

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 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016
Revenues	3,150	4,024	3,592	4,599	3,801	4,728	4,393	3,762
Net loss	(2,267)	(990)	(1,027)	(352)	(803)	(678)	(147)	(311)
Loss per share – Basic and Diluted*	(0.03)	(0.01)	(0.01)	0.00	(0.01)	(0.01)	0.00	0.00
Total assets	50,195	54,835	57,320	57,454	54,661	56,828	58,450	54,597
Total liabilities	7,212	7,107	7,308	7,064	7,029	7,250	7,301	8,231

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

In the year ended December 31, 2017, the Company generated positive cash flows from operating activities of $0.2 million (2016 - $3.4 million). During the fourth quarter of 2017, the Company used cash flows from operating activities of $0.8 million compared to generating cash flows from operating activities of $1.0 million in the fourth quarter of 2016.

The Company invested $0.1 million in the fourth quarter of 2017 (2016 - $0.7 million) in exploration and evaluation assets and $0.4 million (2016 - $0.4) in property, plant and equipment. During the year ended December 31, 2017, the Company invested $1.9 million (2016 - $2.3 million) in exploration and evaluation assets, and $1.7 million (2016 - $0.8) million in property, plant and equipment.

The Company has working capital of $5.6 million. Working capital is expected to remain strong as IMPACT continues to be strategic with its investing and exploration activities.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 9, 2018:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	85,566,840		
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	1,830,000	$0.98	July 27, 2021
Stock options	1,770,000	$0.35	September 20, 2022
Fully diluted	94,762,805		

All of the 4,810,000 options outstanding have vested.

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

CHANGES IN ACCOUNTING POLICIES

IFRS standards adopted

IFRS 9 - Financial Instruments - classification and measurement

The Company has early adopted all of the requirements of IFRS 9 as of October 1, 2017. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristic of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were retained in IFRS 9.

The Company has assessed the financial assets and financial liabilities held at the date of initial application of IFRS 9. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original Classification – IAS 39	New Classification – IFRS 9
Cash	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Concentrate trade receivables	Embedded derivative separately identified as FVTPL	Whole contract FVTPL
Investments	Available for sale	FVTOCI
Trade payables and accrued liabilities	Amortized cost	Amortized cost

The Company elected to classify our investments in equity securities as FVTOCI as they are not considered to be held for trading.

There was no difference between the previous carrying amount (under IAS 39) and the revised carrying amount (under IFRS 9) of the financial assets or financial liabilities as at January 1, 2017 to be recognized in opening deficit.

Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2017:

IFRS 15 - Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. January 1, 2018), i.e. without restating the comparative period. This will only apply to contracts that are not completed as of the date of initial application. The Company has reviewed its contracts and concluded that there will be no material impact from the adoption of the standard.

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, and trade payables. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at FVTPL. Investments are designated as FVTOCI and measured at fair value as determined by reference to quoted market prices. Trade payables are measured at amortized cost.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with 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 is the carrying value of its cash ($4.7 million) and trade and other receivables ($2.3 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 U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2017, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2017, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $52,000 decrease or increase in the Company's net loss for the year ended December 31, 2017.

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, 2017 by $0.2 million (2016 - $0.1 million).

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and other factors such as commodity prices and foreign exchange rates which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. Conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been 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	
	2017	2016	**2017**	2016
Operating expenses	**$ 3,974,066**	$ 3,314,446	**$ 14,894,005**	$ 12,984,236
(Deduct): operating expenses for Capire	**(49,995)**	(72,745)	**(182,036)**	(206,444)
(Deduct) add: inventory	**(111,375)**	152,100	**146,682**	59,521
Direct costs	**$ 3,812,696**	$ 3,393,801	**$ 14,858,651**	$ 12,837,313
Tonnes milled	**48,516**	48,366	**194,266**	183,032
Direct costs per tonne	**$ 78.59**	$ 70.17	**$ 76.49**	$ 70.14
Revenues	**$ 3,149,068**	$ 3,800,943	**$ 15,364,726**	$ 16,684,658
Tonnes sold	**50,470**	46,053	**192,968**	181,883
Revenue per tonne sold	**$ 62.39**	$ 82.53	**$ 79.62**	$ 91.73

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.

	For the Three Months Ended December 31		For the Twelve months ended December 31	
	2017	2016	**2017**	2016
Revenues	**$ 3,149,068**	$ 3,800,943	**$ 15,364,726**	$ 16,684,658
Operating expenses	**3,974,066**	3,314,446	**14,894,005**	12,984,236
Mine operating earnings before amortization and depletion	**$ (824,998)**	$ 486,497	**$ 470,721**	$ 3,700,422

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. This measure is calculated as follows:

	For the Three Months Ended December 31			For the Twelve months ended December 31				
		2017		2016		**2017**		2016
Net loss	**$**	**(2,266,236)**	$	(803,046)	**$**	**(4,635,697)**	$	(1,939,278)
Add:								
Finance cost		**8,505**		9,159		**34,904**		60,144
Current income tax (recovery) expense		**(29,334)**		68,308		**15,521**		134,485
Deferred income tax expense (recovery)		**818,924**		(80,919)		**525,010**		160,598
Depreciation and amortization		**383,682**		714,979		**2,235,889**		2,360,842
Less:								
Finance income		**(13,453)**		(13,008)		**(52,247)**		(31,843)
Earnings (loss) before interest, taxes, depreciation and amortization	**$**	**(1,097,912)**	$	(104,527)	**$**	**(1,876,620)**	$	744,948

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 9, 2018