

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Twelve Months Ended December 31, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and twelve months ended December 31, 2020 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 23, 2021 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2020 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

CORPORATE OVERVIEW

IMPACT controls the majority of two large mineral districts totalling 211 km² in central Mexico: the Royal Mines of Zacualpan Silver District and the Capire Mineral District adjacent to and southwest of Zacualpan. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over 14 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. During the year the Company saw a +560% increase in its stock price from a low of \$0.22 in March to a high in July of \$1.25, in response to its operating performance and over all market conditions. Trading volumes have also been substantial, as the market appears to recognize the relationship with the price of silver. By comparison the price of silver increased by approximately 75% in the same period.

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. IMPACT has produced approximately 10.8 million ounces of silver since 2006 and generated over \$207 million in revenues. As a result, a significant portion of over \$41 million in capital expenditures and \$21 million in exploration on the properties were funded by operations, and the company still has no long-term debt.

Total revenues for the year were over \$15.6 million compared to \$13.3 million for the comparable period in 2019, with mine operating earnings before amortization and depletion¹ of \$4.7 million compared to \$1.4 million in 2019. Net income for the year was \$2.3 million (2019 - loss of \$4.9 million).

The Company's performance in the second half of the year improved significantly from the first half, which suffered from depressed silver prices, and the government decreed COVID-19 shutdown in April. Revenue for the second half of 2020 was \$9.3 million compared to \$6.3 million in the prior half. Mine operating earnings before amortization and depletion were \$3.4 million, whereas in the first six months of the year it was \$1.3 million. During the year, improved cost controls and silver prices both contributed to the improved performance.

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".

Net income for the fourth quarter was \$1.7 million (Q4 2019 - loss of \$1.0 million) and earnings before interest, taxes, depreciation and amortization “EBITDA”² for the quarter was \$0.5 million (Q4 2019 – loss of \$1.2 million) and for the year 2020 was \$2.5 million (2019 - loss of \$3.8 million).

In April 2020, in response to the dramatic impact of COVID-19 on the world’s economy, the Company completed a \$2.0 million non-brokered private placement, issuing 6,666,634 units at \$0.30 per unit, comprised of one share and one share purchase warrant. Each warrant entitled the holder to purchase one common share at a price of \$0.385 for a three-year period.

By summer with the stock trading volumes and price reaching recent highs, IMPACT completed a further brokered private placement for aggregate gross proceeds of \$9.5 million from the issuance of 10,049,096 units of the Company at \$0.95 per unit. Each unit consists of one common share and one half-share purchase warrant, each whole purchase warrant exercisable into one common share at a price of \$1.30 for a period of 24 months from the closing.

By December 31, 2020, the cash balance was \$20.4 million, up from \$3.8 million at December 31, 2019. Working capital at December 31, 2020 was \$20.3 million compared to \$3.6 million at December 31, 2019.

The Company believes with the completion of these financings during the year, its improved financial performance and working capital, as well as increased operating efficiencies, it is in a good position to carry out its objectives for 2021.

Overall

With increased trading on the various exchanges IMPACT is becoming recognized as being highly leveraged to the price of silver, but as yet it has not given a significant attribution of value to its extensive land position and its exploration potential.

During 2020, the global impact of the COVID-19 virus, as well as volatility in spot prices for certain commodities and oil and gas, resulted in significant movement in global stock markets and fostered a great deal of uncertainty as to the health of the global economy over the next 12 to 18 months. In April 2020, the Mexican government declared a national health emergency due to the COVID-19 pandemic. Numerous health precautions were decreed, including the suspension of non-essential businesses, with only essential services to remain open. Mining did not initially qualify as an essential service, so for the protection of the staff, employees, contractors and communities, the Company commenced the process of suspending its mining operations in April as mandated by the government. The government extended this suspension until June, at which time the Company resumed operations. Since that date, the Company has not experienced any significant disruption to its operations or to shipments of concentrates.

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

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

1. Continue extensive development of the Guadalupe mine, including the newly developed Pachuqueno extension while optimizing production with a focus on maximizing cash flows from its other mine operations.
2. Conduct an aggressive diamond drill program, in excess of 10,000 metres, across the Company’s extensive land package, focusing on discovery and definition of additional high-grade silver and gold zones for near and longer-term mining.
3. Subject to market conditions and technical studies, look to recommence production at the Capire open pit mine.

²Earnings 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”.

4. Accelerate exploration by also looking to possible joint ventures and option agreements with third parties on more remote tracts.
5. Continue a staged review of other opportunities for precious metals.

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 Q4 was \$4.5 million up from \$4.0 million in 2019. Revenue for the year was \$15.6 million, for 2019 \$13.3 million.
- Net income for the year was \$2.3 million compared to a loss of \$4.9 million in 2019. Net income for the quarter was \$1.7 million compared to a net loss of \$1.0 million in 2019.
- Mine operating earnings before amortization and depletion for the year was \$4.7 million, an improvement of \$3.3 million from 2019.
- Cash generated from operations for the year was \$2.5 million compared to cash used in operations of \$0.9 million in 2019.
- EBITDA for 2020 improved to \$2.5 million compared to a loss of \$3.8 million in 2019.
- During the year, the Company closed two private placements for net proceeds of \$10.8 million, with the exercising of outstanding warrants and options generating a further \$5.3 million.
- At December 31, 2020, the cash position was \$20.4 million and working capital was \$20.3 million, compared to cash of \$3.8 million and working capital of \$3.6 million at December 31, 2019.

Production Overview

- Production at the Guadalupe mill during the fourth quarter of 2020 came from the Guadalupe Mine (45% of total mill feed), the San Ramon Deeps Mine (22% of mill feed), the Cuchara Mine (23% of mill feed), and the Veta Negra Mine (10% of mill feed).
- Average mill feed grade for silver was 162 grams per tonne (g/t) in Q4 2020, a decrease of 7% from 182 g/t in Q4 2019. Average mill feed grade for the year however was 172 g/t compared to 173 g/t in 2019.
- Throughput at the mill in Q4 2020 was 40,815 tonnes compared to 36,528 in Q4 2019, with 140,069 tonnes for the year 2020 (2019 140,878 tonnes). The decreased tonnage during the first half of the year was due to the COVID related shutdown in spring of 2020.
- Silver production was 184,303 ounces in Q4 2020 compared to 180,246 ounces in Q4 2019. For the year, silver production was 646,534 ounces down only 3% from 664,303 ounces in 2019 despite COVID related shutdown in spring.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Year Ended December 31		
	2020	2019	% Change	2020	2019	% Change
Total tonnes (t) milled	40,815	36,528	+12%	140,069	140,878	0%
Tonnes produced per day	444	397	+12%	383	386	-1%
Silver production (oz)	184,303	180,246	+2%	646,534	664,056	-3%
Lead production (t)	68	78	-13%	240	275	-13%
Gold production (oz)	92	113	-19%	321	376	-15%
Silver sales (oz)	156,885	182,670	-14%	633,357	667,628	-5%
Lead sales (t)	53	76	-30%	225	287	-22%
Gold sales (oz)	69	112	-38%	293	367	-20%
Average mill head grade –silver g/t	166	182	-9%	172	173	-1%
Revenue per tonne sold ³	\$131.87	\$105.47	+25%	\$116.47	\$92.82	+25%
Direct costs per production tonne ³	\$92.21	\$82.60	+12%	\$80.82	\$82.55	-2%

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

The Company shifted its strategy in Q3 2018 from utilising capacity at its Guadalupe processing plant to focusing on lower cost, high-grade production. The decrease in production tonnes allowed the Company to focus on mining higher margin areas in lower cost situations with the average mill head silver grade of 173 g/t in 2019 and 172 g/t in 2020.

Revenue per tonne sold was \$131.87 in Q4 2020, an increase of over 25% from Q4 2019 at \$105.47. This was the result of higher silver prices despite lower grades. Revenue for 2020 per tonne sold was \$116.47 up 25% compared to \$92.82 in 2019.

In spite of reduced production in the first half of the year due to COVID-19, silver production was 646,534 ounces only marginally lower than 2019. Silver sales for Q4 2020 were 156,885 ounces compared to 182,670 ounces in 2019 due to a build up in inventory at the 2020 year-end which was sold subsequent to year-end.

Direct costs per production tonne, net of concentrate inventories, were \$92.21 in Q4 2020, a 12% increase from Q4 2019 at \$82.60 as the Company stepped up development at the Guadalupe mine. Costs per tonne for the year were down 2% to \$80.82 per tonne as part of the program focusing on higher margin activities.

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".

For the first time since 2009, the largest contributor to mill feed in 2019/2020 was the Guadalupe mine located adjacent to the Guadalupe mill. A substantial underground programme over the last year and half was initiated and that included a two-stage refurbishment of a mineshaft at the Guadalupe mine and a rebuilding of an extensive track system on the 195 level. This was designed to allow for considerably higher capacity with lower associated hauling costs.

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground mines on epithermal silver-zinc-lead veins feed the central Guadalupe processing plant rated at 535 tonnes per day (“tpd”). Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Additional surface lands near the Guadalupe mill were also purchased and permitted to address the need for additional tailings capacity in the future.

Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This mine restarted commercial production in September 2018 after a hiatus of five years and is now the largest producing mine on the property. Very low hauling costs associated with mining here as well as positive drill results led to a decision to reopen this low cost mine. During the fourth quarter of 2020, the Guadalupe Mine provided 45% (Q4 2019 – 46%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 156 to 174 g/t silver. Production during Q4 2020 was from the Lipton, Liptonia, San Lorenzo 2, San Diego and Trinidad veins on Levels 40, 60, 70, 100, 140 and 150. With a lower cost structure, the Company is expanding production from Guadalupe, and has upgraded the shaft and is now upgrading other infrastructure in the mine to access additional veins for mining on the lower levels and expanding production to the northwest.

San Ramon Silver Mine

The San Ramon Mine is located 5 kilometres south of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In 2014, the Company discovered new high-grade silver zones in the San Ramon Deeps area and mining of this area began in Q4 2014. During the fourth quarter of 2020, the San Ramon Deeps Mine provided 21% (Q4 2019 – 22%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 168 to 176 g/t silver.

To date this vein has been mined on Levels 12 through 28 over a length of up to 180 metres and widths of 2 to 17 metres. Production during Q4 2020 was from Levels 12, 23, 24 and 28. Size and grade of San Ramon Deeps are decreasing with depth but new drilling is planned to test potential extensions of the zone to the south.

Veta Negra Silver Mine

The Veta Negra mine is a small open pit operation which commenced production in September 2019. It is located four kilometres northwest of the Guadalupe mill. The mine contributes a silver-rich feed to the Guadalupe mill from a near surface bulk tonnage zone. During the fourth quarter of 2020, the Veta Negra Mine provided 10% (Q4 2019 – 10%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during Q4 2020 ranged from 164 to 176 g/t silver. Work in progress is focused on determining the full production potential of this zone. North-northwest trending parallel, near surface veins over a width averaging 14 metres justified open pit mining methods and are presently being drilled to determine the potential of expanding the open pit. Work in progress has traced these veins on surface over a strike length of 650m.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the fourth quarter of 2020, the Cuchara Mine provided 24% (Q4 2019 – 23%)

of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza and Millmaravillas veins. Monthly average mining grades at Cuchara during the quarter ranged from 151 to 169 g/t silver.

Capire Processing Plant and Mine

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

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

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

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

Capire Mineral Resource

On January 18, 2016, IMPACT announced NI43-101 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 (“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 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 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 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” 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 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 (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 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

Subsequent to year-end, IMPACT announced the purchase of a surface and an underground drill with plans to drill 10,000 metres on both near mine and other exploration targets (see IMPACT news release dated February 1, 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. During the quarter, fieldwork was highlighted by the start of a trenching program on the bulk tonnage gold target at Manto America in the central part of the district. In addition, exploration of silver and gold targets elsewhere on the property is ongoing, and compilation of historical maps and other technical 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 near term, the Company is optimizing production in light of the recent 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, 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 the Manto America bulk tonnage gold target, the north extensions of the Veta Negra Mine, and several silver vein targets on the northwest extension of 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 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, 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 effects reclamation on sites disturbed by its activities. As primarily an underground mining situation surface disturbance has been minimal in the past. Tailings dams are engineered to stringent standards, the tailing themselves are benign and mine water is recycled.

COVID-19

Like much of Mexico, the local communities in the district have experienced COVID -19. The mine early last year established strict protocols with regards to its employees and provided valuable 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 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.

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 2019, 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 keeps community members informed of its activities and works with the community to address concerns. The employment of most 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 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 which have been online during the pandemic. To ensure full disclosure, prior to COVID closures, the Company regularly brought investment advisers and sophisticated investors to the project to its mine site for industrial tours.

With the changes occurring in the market place and the economy, the Company continues to strengthen its presence via social media and online advertisements.

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31		
		2020	2019
Revenue	\$	4,548	\$ 4,026
Net income (loss)	\$	1,658	\$ (1,005)
Earnings (loss) per share – basic and diluted	\$	0.01	\$ (0.01)

Net income for the fourth quarter of 2020 was impacted by the following factors:

- Revenue for Q4 2020 was \$4.5 million, a 13% increase from \$4.0 million in Q4 2019. Although silver grades were lower in Q4 2020 at 166 g/t compared to 182 g/t in Q4 2019, revenue per tonne sold was \$131.87 in Q4 2020 compared to \$105.47 in Q4 2019 due to higher silver prices.
- Mine operating earnings were \$1.0 million in Q4 2020 compared to \$0.5 million in the fourth quarter of 2019. This was due primarily to increased silver prices as well as a reduction in operating costs. Although tonnes milled in Q4 2020 were 40,815 up from 36,528 in the comparative period in 2019, direct operating costs were comparable at \$3.2 million compared to \$3.2 million in Q4 2019 as more mineral was sourced from the lower cost Guadalupe mine and Veta Negra open pit mine. Amortization and depletion expenses were marginally lower at \$0.3 million compared \$0.4 million in Q4 2019.
- Q4 2020 general and administrative costs were \$0.5 million compared to \$0.8 million in 2019. In 2019 there was stock-based compensation expense of \$0.4 million with no comparative amount in 2020.
- The Company had deferred income tax recovery of \$1.5 million in the fourth quarter of 2020 compared to a recovery of \$0.5 million in the fourth quarter of 2019. This is primarily due to the recognition of loss carry forwards as the future profitability of the Zacualpan mine has increased significantly.
- In Q4 2020, there was a foreign exchange loss of \$0.4 million (2019 - \$0.1 million) due to fluctuations in the US dollar affecting cash and accounts receivable denominated in that currency.

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			
		2020	2019	2018
Revenue	\$	15,578	\$ 13,311	\$ 13,098
Net income (loss)	\$	2,301	\$ (4,939)	\$ (5,063)
Earnings (loss) per share – basic and diluted	\$	0.02	\$ (0.05)	\$ (0.06)
Total assets	\$	64,832	\$ 49,955	\$ 49,365

Net income for 2020 was impacted by the following factors:

- The Company earned revenue of \$15.6 million during 2020 compared to \$13.3 million in the same period 2019. Revenue per tonne sold increased to \$116.47 in 2020 compared to \$92.82 in the same period in 2019. Improved silver prices helped to offset decreased production due to the temporary cessation of operations during the Q2 2020 because of COVID-19.
- Mine operating income was \$3.2 million in 2020 compared to a loss of \$0.2 million in the same period of 2019. This was due to the increase in the price of silver realized and the decrease in direct costs as more mineral was sourced from the lower cost Guadalupe and Veta Negra open pit mines.
- General and administrative costs were \$2.0 million in 2020 compared to \$2.1 million in the comparative period 2019. In 2019 there was stock-based compensation expense of \$0.4 million with no comparable expense in 2020.
- The Company had a \$0.2 million foreign exchange loss in 2020 (2019 - \$0.2 million) due to fluctuations in the US dollar affecting cash and accounts receivable denominated in that currency.
- The Company had deferred income tax recovery of \$1.4 million in 2020 compared to \$0.4 million in the comparable period of 2019. This is primarily due to the recognition of loss carry forwards as the future profitability of the Zacualpan mine has increased significantly. There was income tax expense of \$0.2 million in 2020 relating to the mining tax in Mexico. There was no comparable amount in 2019.
- The Company wrote down exploration and evaluation assets for \$2.3 million in 2019 due to the reduction of its concessions for tax purposes, with no comparable write-down in 2020.

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 2020	Sept 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019	Sept 30 2019	June 30 2019	Mar 31 2019
Revenue	4,548	4,774	2,842	3,413	4,026	3,537	2,767	2,981
Net income (loss)	1,658	928	(195)	(90)	(1,005)	(203)	(2,826)	(905)
Earnings (loss) per share – Basic and Diluted*	0.01	0.01	(0.00)	(0.00)	(0.01)	(0.00)	(0.03)	(0.01)
Total assets	64,832	58,592	46,319	44,715	49,955	50,255	49,969	49,396
Total liabilities	6,143	6,905	6,306	6,528	7,476	7,976	8,296	8,043

* 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, 2020, the Company had cash of \$20.4 million, an increase of \$16.6 million from December 31, 2019. Working capital was \$20.3 million compared to \$3.6 million at December 31, 2019.

During the year ended December 31, 2020:

- The Company generated cash flows from operating activities of \$2.5 million compared to cash flows used in operating activities of \$0.9 million in 2019, due to improved financial performance and collection of accounts receivable over the prior year.
- In 2020, the Company invested \$1.8 million (2019 - \$1.9 million) in long-lived assets, the majority of which were exploration expenditures. COVID-19 delayed the startup of exploration with much of the programs planned in 2020 shifting to 2021.
- On April 16, 2020, the Company closed a non-brokered private placement for 6,666,634 units of the Company at a price of \$0.30 per unit for gross proceeds of \$2.0 million. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.385 until April 16, 2023.
- On August 20, 2020, the Company completed a brokered private placement for aggregate gross proceeds of \$9.5 million from the issuance of 10,049,096 units of the Company at \$0.95 per unit. Each unit consists of one common share and one-half share purchase warrant, each whole purchase warrant exercisable into one common share at a price of \$1.30 for a period of 24 months from the date of issuance. The shares and warrants were subject to a hold period of four months which expired on December 21, 2020. The Company paid cash commissions of 6% of the gross proceeds from certain subscribers in the private placement and the agents were granted, and subscribed for, an aggregate of 598,089 broker warrants entitling the holder to acquire one unit at a price of \$0.95 per unit.
- In 2020, the Company received proceeds of \$5.1 million from the exercise of warrants, \$0.2 million from the exercise of stock options, and net proceeds of \$10.8 million from private placements. In the comparative period 2019, the Company received net proceeds of \$5.3 million from private placements and \$0.1 million from the exercise of warrants.

For the three months ended December 31, 2020:

- During the fourth quarter of 2020, the Company generated cash flows from operating activities of \$0.1 million compared to using cash flows in operations of \$0.2 million in 2019.
- In Q4 2020, the Company invested \$0.4 million in long-lived assets (2019 - \$0.3 million), primarily exploration and evaluation assets.
- The Company received net proceeds of \$3.3 million on the exercise of 9.0 million warrants and 0.1 million options in Q4 2020 (2019 - \$nil).
- In Q4 2020, the Company entered into an option agreement with Red Oak Mining Corp. ("Red Oak") on the Nuevo Taxco Project. Red Oak can earn a 100% interest in the property by making certain staged payments to the Company over three years, (total payments of \$300,000 and issuance of 3.5 million shares of Red Oak), and by incurring exploration expenditures of \$1.4 million over the period. The Company will retain a 1% net smelter return on the project that Red Oak may buy back for \$1.0 million.

Outstanding Share Data

The following common shares and convertible securities were outstanding at March 23, 2021:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	143,812,519		
Stock options	1,470,000	\$0.98	July 27, 2021
Stock options	1,160,000	\$0.35	September 20, 2022
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,110,000	\$0.90	January 18, 2026
Warrants	3,753,154	\$0.30	July 5, 2022
Warrants	1,747,230	\$0.30	July 24, 2022
Warrants	2,489,173	\$0.385	August 2, 2022
Warrants	1,039,954	\$0.385	August 12, 2022
Warrants	5,478,334	\$0.385	April 16, 2023
Brokers warrants	598,089	\$0.95	August 20, 2022
Warrants	5,024,545	\$1.30	August 20, 2022
Fully diluted	<u>170,432,998</u>		

All of the 6,490,000 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 FVTPL. Investments are designated as FVTOCI 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 Samsung C&T Corp., and previously with Trafigura Mexico S.A. de C.V. 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 (\$20.4 million) and trade and other receivables (\$1.4 million).

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2020, 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, 2020, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.3 million decrease or increase in the Company's net income for the year ended December 31, 2020.

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, 2020 by \$0.1 million (2019 - \$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 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 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 will 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

NON-IFRS MEASURES

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	
	2020	2019	2020	2019
Operating expenses	\$ 3,204,856	\$ 3,159,921	\$ 10,899,394	\$ 11,946,199
(Deduct): operating expenses for Capire	(21,263)	(32,395)	(107,070)	(135,033)
Add (deduct): inventory	579,762	(110,176)	527,680	(181,517)
Direct costs	\$ 3,763,355	\$ 3,017,350	\$ 11,320,004	\$ 11,629,649
Tonnes milled	40,815	36,528	140,069	140,878
Direct costs per tonne	\$ 92.21	\$ 82.60	\$ 80.82	\$ 82.55
Revenue	\$ 4,547,815	\$ 4,026,217	\$ 15,577,843	\$ 13,311,376
Tonnes sold	34,487	36,175	133,752	143,402
Revenue per tonne sold	\$ 131.87	\$ 105.47	\$ 116.47	\$ 92.82

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	
	2020	2019	2020	2019
Revenue	\$ 4,547,815	\$ 4,026,217	\$ 15,577,843	\$ 13,311,376
Operating expenses	3,204,856	3,159,921	10,899,394	11,946,199
Mine operating earnings before amortization and depletion	\$ 1,342,959	\$ 866,296	\$ 4,678,449	\$ 1,365,177

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	
	2020	2019	2020	2019
Net income (loss)	\$ 1,658,363	\$ (1,005,127)	\$ 2,301,012	\$ (4,939,422)
Add:				
Finance cost	8,936	10,170	37,182	35,345
Current income tax expense	93,325	-	200,740	17,649
Depreciation and amortization	332,626	354,398	1,462,174	1,560,084
Less:				
Deferred income tax recovery	(1,518,959)	(513,483)	(1,401,434)	(420,018)
Current income tax recovery	-	(10,021)	-	-
Finance income	(31,242)	(18,249)	(64,149)	(38,287)
Earnings (loss) before interest, taxes, depreciation and amortization	\$ 543,049	\$ (1,182,312)	\$ 2,535,525	\$ (3,784,649)

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 23, 2021