IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three Months Ended March 31, 2014

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three months ended March 31, 2014 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at May 26, 2014 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2013 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 has control of nearly two entire mineral districts in central Mexico—the 423 km^2 **Royal Mines of Zacualpan Silver District** and the 200 km^2 **Capire-Mamatla Mineral District** adjacent to and southwest of Zacualpan. The Company currently produces silver with lead, zinc and gold at its 500 tonne per day ("tpd") Guadalupe processing plant in the Royal Mines of Zacualpan District and is working to add gold and copper production in 2014.

The Company is carrying out a three-part program of exploration, development and mine production at both the Royal Mines of Zacualpan Silver District and Capire-Mamatla Mineral District. As part of this process, management has established **four key objectives** for the districts in 2014:

1. Upgrade silver production by transitioning some production to new higher grade mines in the Zacualpan District: the Cuchara-Oscar Mine, the Mirasol Development Project and the San Patricio Development Project.

2. Process new gold and copper mineral mined from the Carlos Pacheco/San Juan vein of the Noche Buena mine, initially through the Guadalupe plant while reviewing the feasibility of processing the material through the Capire plant.

3. Continue exploration at a reduced rate with a focus on the definition and development of additional high grade mineral resources near the producing mines.

4. Improve cashflows through increased grade controls and continued improvement on operating costs.

Refocusing in Times of Lower Metal Prices

The average London Fix silver price for the first quarter of the year was US$20.48 down from $30.11 for the comparable period in 2013. In response to this significant drop in silver price, the Company has been refocusing its mining and exploration work. Mining is now targeting the higher grade silver zones at the operating Cuchara-Oscar, Noche Buena-Carlos Pacheco and San Ramon mines with plans to also produce higher grade mineral from new mines being permitted at San Patricio and at Mirasol. Although production may be lower during these transitions, the new and revised operations are planned to enhance production in the longer term. IMPACT is fortunate to have these higher grade zones to offset the decrease in metal prices and declining grades at older mines. Exploration work in 2014 will be substantially cut to reduce expenditures and will largely focus on near term production targets in the vicinity of the current producing mines.

The Capire pilot plant, after processing approximately 33,000 tonnes of material from the test mining at the Capire open pit is being modified to handle the gold/copper material from the Carlos Pacheco mine. However it will not be re-activated until a local industrial dispute is resolved and metallurgical research is complete. As a result, other than approximately 3,000 ounces produced early in the quarter prior to the shutdown of the Capire open pit, the plant is not expect to significantly contribute to sales for the majority of 2014.

IMPACT's ability to adapt to changing economics, including the addition of copper and gold production from Carlos Pacheco to replace lower grade material at the Guadalupe mill, enhances the Company's ability to address the downturn in the metals markets and to be ready to benefit and grow in the coming recovery.

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

OVERVIEW FOR THE THREE MONTHS ENDED MARCH 31, 2014

Financial Overview:

- Revenues for the first quarter of 2014 were $3.0 million, a 30% decrease from $4.2 million in the first quarter of 2013, resulting primarily from a decline in the silver price.
- Net loss of $1.3 million for the quarter, of which non-cash items included $0.7 million in depreciation and amortization and $0.1 million in share based payments (stock option grants).
- Mine operating loss before amortization and depreciation of $0.1 million compared to $1.5 million earnings in the prior year. This was a direct reflection of the downturn in silver prices.
- Capital expenditures during the quarter included mineral property expenditures of $1.0 million which brought cash down to $2.5 million. The Company continues to be free of long term debt.

Production Overview

- Silver production decreased 10% to 148,696 ounces for the first quarter of 2014, down from 165,651 ounces in the same period of 2013.
- Average mill feed grade for silver in the first quarter of 2014 decreased to 137 grams per tonne (g/t) from 146 g/t in the first quarter of 2013.
- Total tonnes milled during the first quarter of 2013 decreased to 39,775 from 42,009 in the first quarter of 2013 but increased from the fourth quarter 2013 of 36,655 tonnes.
- The shutdown of the Capire open pit was completed during the quarter. Work commenced on modification of the Capire plant which is being planned to process higher value gold and copper mineralization from the Carlos Pacheco/San Juan area later in the year.
- The Cuchara-Oscar mine was put into production in February 2013. During 2013, the mine contributed 23% of total mill feed. For the first quarter of 2014 it provided 48%.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended March 31		
	2014	2013	% Change
Total tonnes (t) produced	**39,775**	42,009	-5%
Tonnes produced per day	**442**	472	-6%
Silver production (oz)	**148,696**	165,651	-10%
Lead production (t)	**148**	106	+40%
Zinc production (t)	**141**	142	-1%
Gold production (oz)	**234**	224	+4%
Silver sales (oz)	**138,394**	163,065	-15%
Lead sales (t)	**140**	115	+22%
Zinc sales (t)	**128**	120	+7%
Gold sales (oz)	**213**	205	+4%
Average mill head grade –silver g/t	**137**	146	-6%
Revenue per tonne sold[1]	**$72.53**	$103.00	-30%
Direct costs per production tonne[1]	**$66.08**	$64.28	-3%

*Table excludes Capire mine production

Production and Sales Highlights for the Three Months and Year Ended March 31

As noted, the Company increased tonnes produced in the current quarter to 39,775 over the previous two quarters of 36,655 and 38,520 for Q4 2013 and Q3 2013 respectively. This increase has been a result of additional feed from the Cuchara-Oscar mine as it becomes the Company's principal producer as well as strong contributions from the San Ramon and Noche Buena mines. Grades were lower in the quarter at 137 g/t compared with 146 g/t for the same period in 2013. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. However, with the Cuchara-Oscar Mine developing into higher grade mineral, the Company expects a steady increase in grades going forward in 2014.

In light of lower silver prices, recent Mexican mining tax changes and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economic at its present small scale. Thus open pit operations were suspended in February 2014. The Capire plant is being reconfigured to process the gold-copper mineralization at Carlos Pacheco. However, the plant will not be reactivated until an industrial dispute with local truck haulers is resolved and metallurgical research is completed, and the Company anticipates the Capire plant will not be contributing to sales and production until later in the year. Prior to the shutdown, there was a small contribution from this mill with 840 tonnes milled and silver sales of approximately 3,000 ounces.

Silver sales were 138,394 ounces in the first quarter of 2014, a decrease from the 163,065 ounces sold in the same period of 2013. The Company's lower revenue in the first quarter of 2014 of $72.53 per tonne, a decrease from $103.00 per tonne from the same period in 2013, is primarily a result of lower realized metal prices.

[1] Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See "NON-IFRS MEASURES.

MINE PRODUCTION

Mine Operations

The Company has been operating the 500-tpd Guadalupe Production Center in the Royal Mines of Zacualpan Silver District since 2006 and began operating the 200-tpd Capire Processing Plant, located 16 kilometers to the southwest, in mid-2013.

Royal Mines of Zacualpan District

The Royal Mines of Zacualpan silver district was acquired by the Company in January 2006. Since acquisition, an extensive program of upgrading operations and expanding production has been carried out. IMPACT has expanded and upgraded the majority of the mining equipment, including the rebuilding and purchase of a number of scoop-trams and underground trucks. Upgrade expenditures included new equipment in the Guadalupe mill and expansion of the tailings dam (continuing). The Company has also purchased additional surface lands near the Guadalupe mill to address the need for additional tailings capacity in the future.

While mill and facilities limit processing capacity to 500-tpd at Guadalupe, sourcing superior grade feed from the Company's mines remains the critical factor for increasing silver production. This is especially true in the current environment of lower silver prices. To address this issue, the Company is shifting the focus of mining operations to the higher grade silver zones in the Cuchara-Oscar, Noche Buena-Carlos Pacheco and San Ramon Mines and new mine development projects at Mirasol and San Patricio. Additionally, the Company is beginning to produce gold and copper from the Carlos Pacheco project.

Noche Buena-Carlos Pacheco Mine

During the first quarter of 2014, the Noche Buena-Carlos Pacheco mine provided 22% (Q1 2013 – 32%) of feed to the Guadalupe mill. The mine is located 4 kilometers southwest of the Guadalupe mill and commenced silver production in the first quarter of 2010. The mine is producing from two very different sets of veins – silver veins in the Noche Buena portion of the mine to the west and gold-copper veins in the Carlos Pacheco portion of the mine 170 meters to the east.

A crosscut was excavated to the nearby Carlos Pacheco gold-copper vein, where mining began in August 2013 resulting in a modest increase in gold production at the Guadalupe mill. The vein is accessed through the Noche Buena silver mine workings, so no additional mining permits were needed to begin mining Carlos Pacheco in the third quarter of 2013. Construction of mine access into the larger San Juan gold-copper zone further north on the Carlos Pacheco vein has also begun and should reach the zone later this year. See EXPLORATION below for recent drill results from San Juan.

Cuchara-Oscar Mine

During the first quarter of 2014, the Cuchara-Oscar mine provided 48% (Q1 2013 – 13%) of feed to the Guadalupe mill. The mine is located 2.5 kilometers east of the Guadalupe mill and commenced production in the first quarter of 2013. As the Company continues to focus on Cuchara-Oscar as its principal producer it will increase the number of working faces over the coming months. The mine is contributing a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Initial production is from the Marqueza, Santa Lucia footwall and Oscar veins with plans to develop other nearby veins as the mine develops.

San Ramon Mine

During the first quarter of 2014, the San Ramon mine provided 21% (Q1 2013 – 47%) of feed to the Guadalupe mill, located 5 kilometers to the northwest. San Ramon has been a significant contributor to production since 2008, but in 2014 grades were dropping with depth and production was decreasing. Subsequent to quarter end, underground drilling from the bottom levels of the mine discovered new high grade silver zones which are expected to extend production and improve the mine grade at San Ramon. (see EXPLORATION below for additional details).

Gallega Mine

The Gallega mine is located less than one kilometer from the Guadalupe mill and is periodically restarted to provide modest tonnages of supplementary silver feed to the plant. During the first quarter of 2014, the Gallega mine provided 9% (Q1 2013 – 4%) of mill feed to the Guadalupe mill.

Capire Processing Plant

Capire is located 16 kilometers southwest of the Guadalupe production center. During the fourth quarter of 2013 and the first quarter of 2014, the Capire processing plant and mine have seen significant changes.

On March 14, 2013, IMPACT announced that commissioning of the new Capire mine and 200-tpd pilot plant had begun. On February 12, 2014 the Company announced that open pit operations had been shut down and the plant was being reconfigured to test the feasibility of processing higher grade gold and copper mineralization from the Carlos Pacheco vein in the Noche Buena mine. Operations at the Capire processing plant have been temporarily suspended due to a dispute with trucking contractors regarding the cost of delivering mineral to the plant. The larger Guadalupe Production Centre continues to operate normally producing silver with lead-zinc by-products, with mineral deliveries by different trucking contractors. The Company's engineers are studying the possibility of adapting the Guadalupe Production Centre to process the copper-gold mineral on a commercial basis in addition to silver-lead-zinc production. In the interim they are replacing some of the lower grade feed at the Guadalupe plant with the Carlos Pacheco material.

The purpose of the test mining and processing operations at the Capire open pit and plant was to determine production costs and optimize mining and processing methods in planning for a larger operation in the future. Most of this test work has been completed. In light of lower silver prices, recent Mexican mining tax changes and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economic at its present small scale. Thus open pit operations were suspended in February 2014. During the test mining and processing, processing methods were optimized and production costs and cut-off grades at 200-tpd in the open pit were determined. Additional studies with respect to open pit optimal strip ratios, grade control and projections toward scaling up the operation have yet to be completed. Together, these measures may provide the foundation for planning of a potentially larger, lower grade open pit operation in the future.

Capire Mineral Resources

Unlike the Zacualpan area vein deposits, Capire is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire-Mamatla district is predominantly silver-rich with zinc and lead credits. The district covers the same stratigraphy as the Campo Morado VMS belt where Nyrstar NV (formerly Farallon Resources) is in commercial production on the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 kilometers southwest of Capire.

NI 43-101 compliant measured and indicated mineral resource estimates for the Capire deposit, based on information available through early 2011, total 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a U.S. $20/tonne in ground metal value envelope contained in 4.9 million tonnes grading 45.7 g/t silver, 0.88% zinc and 0.34% lead with higher grade internal zones (see IMPACT news release dated February 1, 2011 for details). Since 2011, exploration drilling has continued at Capire and nearby zones of mineralization with the aim of expanding mineral inventories for future production.

Production from the Capire open pit was put on care and maintenance during the quarter, but production may be restarted in the future with higher metal prices.

NEW MINE DEVELOPMENTS

During the quarter two new mine development projects were initiated in response to the need for higher grade feed due to lower metal prices and new taxes.

Mirasol Silver Mine Development

IMPACT has been drilling the Mirasol zone, located 5.5 kilometers southeast of the Guadalupe mill, since late 2012. Highlights from Mirasol drilling include intersections of 216 g/t silver over 7.1 meters (*IMPACT news release dated November 26, 2012*), and 945 g/t silver over 1.8 meters and 288 g/t silver over 3.2 meters (*IMPACT news release dated January 28, 2013*). Many other significant intersections in this vein system were also reported in the listed news releases.

Based on these results, mining engineering and metallurgical studies were carried out and a decision was made to move Mirasol into production to increase silver head grades being shipped to the Guadalupe mill. Commencement of underground mine construction at Mirasol is planned for the later in the year, subject to timely receipt of mining permits.

San Patricio Silver Mine Development

The San Patricio project is located three kilometers southeast of the Guadalupe processing plant. IMPACT partially drilled the San Patricio Zone in 2007. Highlights from that drilling include 242 g/t silver over 4.6 meters (*IMPACT news release dated September 25, 2007*). Other significant intersections in this vein system were also reported in the listed news release.

Based on these results, mining, engineering and metallurgical studies are being carried out to build a small but high grade mine. Additional drilling is planned as the zone remains open to the north and at depth. Commencement of underground mine construction is tentatively planned for later in the year. The San Patricio silver vein is within the old Chivo silver mine operating permit area, so no additional mining permits are needed to begin mining except surface land permissions which are now being negotiated.

EXPLORATION

IMPACT's team has explored and placed five mines (Noche Buena, Carlos Pacheco, Cuchara-Oscar, Chivo and Capire) into production over the past seven years with two new mine development projects (Mirasol and San Patricio) planned to enter production in 2014. Recent exploration drill results are as follows:

Carlos Pacheco / San Juan Drill Results

During the fourth quarter of 2013 and first quarter of 2014, drilling focussed primarily on the San Juan portion of the Carlos Pacheco project which covers the northern extensions of the veins currently being mined in the Noche Buena and Carlos Pacheco South zones. Highlights from the San Juan drilling include intersections of 1,409.8 g/t silver over 2.07 meters from the Noche Buena vein and 17.1 g/t gold over 1.89 meters from the Carlos Pacheco vein (*IMPACT news release dated October 30, 2013*), 1,587.8 g/t silver over 1.72 meters from the Noche Buena vein and 3.44 g/t gold over 7.17 meters from the Carlos Pacheco vein (*IMPACT news release dated January 7, 2014*), 1,218.1 g/t silver over 1.17 meters from the Noche Buena vein and 10.34 g/t gold over 3.19 meters from the Carlos Pacheco vein (*IMPACT news release dated February 18, 2014*) and 994.2 g/t silver over 5.67 meters from the Noche Buena vein and 5.0 g/t gold over 1.81 meters from the Carlos Pacheco vein (*IMPACT news release dated March 3, 2014*). Many other significant intersections on these and other veins in this system were also reported in the listed news releases. Additional drilling is planned to target further expansion of the zones.

San Ramon Deep Drilling Results

Subsequent to quarter end, underground drilling from the bottom levels of the San Ramon Mine discovered two new high grade veins. The discovery of these new veins below the deepest mine workings will extend mine life and indicates potential for discovery of additional mineral resources at depth. Results from these new drill holes include 1,163 g/t silver over 1.81 meters within 393 g/t silver over 6.67 meters, 545 g/t silver over 1.65 meters and 457 g/t silver over 2.39 meters (*IMPACT news release dated May 21, 2014*). These new high grade veins begin to appear below the deepest current mine workings and are located less than 20m from the principal vein in the mine. The new veins are open for expansion to depth and along strike. Preparations for additional drilling are in progress.

Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the districts. These crews have been sampling some of the 3,500+ old mine workings and prospects in the district. They have also trenched areas of mineralization and carried out extensive soil sampling on 100 meter x 25 meter grids. During the quarter, fieldwork in the form of detailed geological mapping and rock sampling was focussed on areas close to current mines and infrastructure at Noche Buena-Carlos Pacheco, Cuchara-Oscar and Guadalupe.

Veta Grande (Zacatecas) Silver Project, Mexico

The Zacatecas Project consists of a 200-tpd plant and 13 mineral concessions in the Zacatecas silver district located 500 kilometers northwest of Mexico City. Access is by paved highways which run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force. Over the past seven years intermittent exploration has focused on several of the 13 mineral concessions located within the district.

In 2011, the Company optioned most of its Zacatecas assets to Defiance Silver Corp. (“Defiance”, DEF: TSX.V) in return for a major share position (paid) and a final payment of $1,955,200 (not paid). Since then the Company has participated in several small private placement financings in Defiance and currently holds 4,067,000 shares representing an 8.5% interest in Defiance. Defiance advanced the project to the final stages of re-permitting the plant. In January 2014 Defiance returned the Zacatecas project to IMPACT to focus on its exploration project. IMPACT is now considering its options with regard to the Zacatecas plant and mineral concessions.

FUTURE PLANS

Future plans for mining and exploration in the Zacualpan and Capire Districts represent a balance between the near term need to focus on high grade zones close to the active mining operations in response to the current lower metal price environment and activities to prepare for and seize opportunities in the Districts and elsewhere in anticipation of a recovery in metal prices.

Mining Plans

Recently IMPACT implemented some significant changes to its mining activities. Silver production is partly shifting to new mines to take advantage of higher grades in response to lower metal prices. The Cuchara-Oscar silver mine has been ramped up to become IMPACT’s principal silver producer. The new Mirasol and San Patricio silver mines are being developed to provide higher grade silver mineral to the mill. The new Carlos Pacheco project has begun mining gold and, in the future, copper. Although production may be weaker in the short-term during this transition, in the longer term management believes these new higher grade operations will enhance the Company’s operations in silver as well as gold and copper production.

Exploration Plans

Plans are to continue exploration with a goal of putting some of the other 3,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Current field work and drilling is focused on targets close to current production areas. Near term drill targets include expansion of the San Juan gold-copper zone and the northern extensions of the Noche Buena silver mine, the San Patricio Mine north extension and Cuchara Mine north extension.

With a track record of successful exploration, rapid mine development and more than 3,500 old mine workings identified to date, the Company's long term vision sees potential for establishment of multiple mills throughout the two districts, each fed by multiple mines producing silver as well as gold and copper.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District and the Veta Grande (Zacatecas) Silver Project. The Capire mineral resource estimates in this MD&A were taken from a technical report (posted on www.sedar.com) by Claus G. Wiese. P. Eng. of I-Cubed LLC, a Qualified Person under the meaning of Canadian National Instrument 43-101 and an independent professional engineer. Other information on the Company's projects can be found on the Company website at www.IMPACTSilver.com .

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.

Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised. The Company has social, environmental and other policies related to its operations.

We work as part of a community, whose members are kept informed of our activities and their concerns addressed. The Company retains a Community Relations Officer to ensure open communications. The use of personnel and other workers from the local communities foster understanding, direct involvement in the Company's operations and financial benefits to the local communities.

The Company has formulated specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities in the vicinity of our work. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program. A paramedic and onsite ambulance are on standby in case of emergencies.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attending investment and mining related conferences in Canada and internationally. Plans for 2014 include continued participation in investor and mining related conferences and conducting institutional presentations with the intent to increase the Company's visibility. Beyond this, the Company continues to strengthen its presence via social media, print magazine articles and online advertisements.

FINANCIAL DISCUSSION

Summary of Quarterly Results

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

In thousands		Three months ended March 31				
		2014		2013		2012
Revenue	$	**2,962**	$	4,173	$	4,467
Net earnings (loss)	$	**(1,264)**	$	(655)	$	(147)
Earnings (loss) per share – basic	$	**(0.02)**	$	(0.01)	$	0.00
Earnings (loss) per share – diluted	$	**(0.02)**	$	(0.01)	$	0.00
Total assets	$	**64,536**	$	69,803	$	67,842

Note: The Company has no non-current financial liabilities.

For the three months ended March 31, 2014, the Company's mine operating losses were $0.8 million compared to earnings of $1.1 million in 2013, with revenues of $3.0 million in 2014 compared to $4.2 million in 2013. Revenue per tonne sold decreased 30% from $103.00 in the first quarter of 2013 to $72.53 in 2014. The decrease in revenue and revenue per tonne is a result of the 32% decrease in silver price and the 15% decrease in silver ounces sold, offset by the U.S. dollar appreciating 9% to the Canadian dollar in the first quarter of 2013 compared to the first quarter of 2014. Direct costs per tonne at the Guadalupe mill for the three months ended March 31, 2014 were $66.08 compared to $64.28 in 2013. Operating expenses increased from $2.7 million in the first quarter of 2013 to $3.1 million in the same period of 2014. This increase is primarily due to costs incurred to finalize production at the Capire plant and to bring it into care and maintenance. Amortization and depletion expenses increased to $0.7 million during the quarter ended March 31, 2014 from $0.4 million in the same period of 2013. This is attributable to increased depreciation on the completed Capire plant as well as some increase to depletion based on the make-up of mine feed.

The net loss was $1.3 million for the first quarter in 2014 compared to a net loss of $0.7 million in 2013. The increase in loss was a result of decreased revenue and increased operating costs. General and administrative expenses as well as other expenses and income tax actually decreased by $1.3 million in the quarter. General and administrative expenses, excluding share based payments, decreased slightly to $0.5 million for the current quarter from $0.6 million in the same period of 2013. Share based payments decreased from $0.7 million in the three months ended March 31, 2013 to $0.1 million in 2014. Foreign exchange was a $0.02 gain in the three months ended March 31, 2014 compared to a $0.1 million loss in 2013. Income taxes in the quarter ended March 31, 2014 were a recovery of $0.1 million compared to an expense of $0.4 million in the comparable quarter of 2013.

Silver production was 148,696 ounces during the three months ended March 31, 2014, representing a 10% decrease compared with 165,651 ounces produced within the same period of 2013. Lead production increased in the first quarter of 2014 over the same time period in 2013, from 106 tonnes to 148 tonnes. Zinc production decreased marginally in the first quarter of 2014 to 141 tonnes from 142 tonnes in the same period in 2013. Gold production increased from 224 ounces to 234 ounces during the first quarter of 2013 and 2014 respectively.

Average silver prices declined 32% from the first quarter of 2013 in comparison to the same period in 2014. During this same period, lead prices decreased by 8% and zinc prices remained stable. As silver sales account for the majority of the Company's revenues, the decrease in lead and zinc prices did not significantly affect mining operating earnings.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters. All figures are in thousands of Canadian dollars except earnings per share.

	For the Three Months Ended							
	Mar 31 2014	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012
Revenues	2,962	3,035	3,119	3,779	4,173	4,654	3,194	3,619
Net (loss) earnings	(1,264)	(4,699)	(1,223)	(1,942)	(655)	(839)	(436)	278
Loss per share - Basic*	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	0.00
Loss per share - Diluted*	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)	0.00
Cash	2,538	3,485	6,741	9,973	13,340	16,013	19,563	23,057
Total assets	64,536	63,119	65,860	68,648	69,803	66,074	64,972	65,476
Total liabilities	9,200	8,997	8,191	8,481	8,167	7,131	6,224	6,896

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

The Company had $2.5 million in cash and net working capital of $6.1 million at March 31, 2014. The Company used cash flows from operations before changes in non-cash working capital[2] of $0.5 million for the three months ended March 31, 2014. This compares to cash flow generated from operations before changes in non-cash working capital of $0.8 million in the same period of 2013.

The Company's working capital at March 31, 2014 of $6.1 million decreased slightly from $6.9 million at December 31, 2013. The Company has significantly reduced its investing activities as it aims to be cash flow positive with only $1.1 million invested in the quarter in development and exploration and capital additions compared to $3.9 million in the same period of 2013. In addition, cash flow from operations decreased during the quarter due to costs incurred to finalize production and go into care and maintenance at the Capire plant.

The Company's working capital position is expected to remain sufficiently strong to fund all planned resource property costs, exploration expenditures and acquisition of property, plant and equipment over the coming year.

[2] Cash flows from operations before changes in non-cash working capital is a non-IFRS measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. See "NON-IFRS MEASURES."

Outstanding Share Data

The following common shares and convertible securities were outstanding at May 26, 2014:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares as of May 26, 2014	68,128,244		
Stock options	1,310,000	$0.55	January 6, 2019
Stock options	867,500	$1.10	December 6, 2015
Stock options	1,950,000	$1.85	September 26, 2016
Stock options	2,277,000	$1.20	January 23, 2018
Fully diluted at May 26, 2014	74,532,744		

Of the 6,404,500 options outstanding, 6,146,875 have vested at May 26, 2014.

Related Party Transactions

Energold Drilling Corp. ("Energold") owns 6,980,001 shares of the Company. Due to management and directors in common, it is considered a related party.

Under a management services agreement, Energold recovers direct labour costs for administrative support and public relations. Investor relations activities are assisted by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases.

During the three months ended March 31, 2o14, fees in the amount of $0.1 million (2013 – $1.2 million) were incurred by Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. At March 31, 2014, the balance owed to Energold was $1.1 million (December 31, 2013 - $0.9 million).

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At March 31, 2014 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - Financial Instruments - Disclosures.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles"), Trafigura Mexico, S.A. De C.V. ("Trafigura") and MRI Trading AG ("MRI"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date of March 31, 2014 is the carrying value of its cash ($2.5 million), trade and other receivables ($1.3 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At March 31, 2014, the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At March 31, 2014, the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at March 31, 2014, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.03 million decrease or increase in the Company's net loss for the period ended March 31, 2014.

Commodity price risk

The Company is continuing to assess whether the recent decline in silver prices is short or long term in nature. Should the prices continue to decline, the Company's operating results will be adversely impacted and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets.

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 in the year ended as follows:

		2014		2013
Silver price	$	**89,000**	$	98,000

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 still 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 sometimes be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, the Company in carrying out its mining and exploration activities 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 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. In addition, risk exists that mining regulations may change such that mining royalties may be required. 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.

NON-IFRS MEASURES

The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors. Following are the non-IFRS measures the Company uses in assessing performance:

Cash flows from operations before changes in non-cash working capital is a measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. A reconciliation of cash flows from operating activities to cash flows from operations before changes in non-cash working capital is presented below:

		2013		2012
Cash flows from operating activities	**$**	**(10,806)**	$	1,176,500
Add (deduct) changes in non-cash working capital:				
Trade and other receivables		**(997,085)**		(691,902)
Income taxes receivable		**209,274**		(114,815)
Inventories		**(38,663)**		33,926
Value added taxes receivable		**261,000**		938,530
Trade payables		**153,726**		11,781
Due to related party		**(108,038)**		(585,726)
Cash flows from operations before changes in non-cash working capital	**$**	**(530,592)**	$	768,294

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 revenue and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended March 31			
		2014		2013
Operating expenses	**$**	**3,059,835**	$	2,664,053
(Deduct): operating expenses for Capire		**(523,754)**		-
Add (deduct): inventory		**92,217**		36,485
Direct costs	**$**	**2,628,298**	$	2,700,538
Tonnes produced		**39,775**		42,009
Direct costs per tonne	**$**	**66.08**	$	64.28
Revenue	**$**	**2,962,267**	$	4,172,842
(Deduct): revenue for Capire		**(195,606)**		-
Revenue for Guadalupe	**$**	**2,766,661**	$	4,172,842
Tonnes sold		**38,142**		40,513
Revenue per tonne sold	**$**	**72.54**	$	103.00

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 SEDAR at www.sedar.com.

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

May 26, 2014