**IMPACT Silver Corp.**
**Form 51-102F1**
**Management's Discussion and Analysis**
**For the Three and Nine Months Ended September 30, 2011**

## INTRODUCTION

*This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected IMPACT Silver Corp. and its subsidiaries' ("IMPACT" or the "Company") performance and such factors that may affect future performance. For a comprehensive understanding of IMPACT's financial condition and results of operations, this MD&A should be read in conjunction with the Company's consolidated financial statements for the Nine Months ended September 30, 2011 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts referred to herein are in Canadian dollars unless otherwise specified. The Company's accounting policies have changed and the presentation, financial statement captions and the terminology used in this MD&A and the accompanying unaudited consolidated interim financial statements differ from those used in financial statements and quarterly and annual reports issued prior to 2011. 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."*

## HIGHLIGHTS FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2011

### Financial Highlights

Due to dramatically increasing prices for silver and record mill throughput over the last nine months, the Company had record sales and earnings. With the completion of a $15.0 million financing late last year and the subsequent exercise of the related warrants for a further $10.5 million in the second quarter this year, IMPACT is now able to rapidly accelerate its exploration and development programs to respond to the improved market conditions for silver.

Key events for the Quarter

- During the quarter the smelter receiving the Company's lead-silver concentrate experienced a temporary lack of capacity during which time the Company suspended shipments but continued to produce and stockpile concentrate. Finished goods concentrate inventories at September 30, 2011 had an estimated net realizable value of $2.2 million in comparison to $0.5 million at the end of the second quarter. These inventories, which are recorded at cost in the financial statements, are valued at $1.3 million in the current quarter and $0.2 million in the previous quarter. Concentrate shipments and sales resumed in October.

- In spite of the stockpiling of the silver lead concentrates, revenues for the third quarter were $4.2 million, up from $3.2 million in the comparable period of 2010. Year to date revenues were up $19.4 up 97% from $9.9 million for the nine months of 2010.
- Mine operating earnings for the quarter ended September 30, 2011 were $2.5 million, up 99% from $1.3 million in the comparable period of 2010. For the nine months ended September 30, 2011 mine operating earnings were $11.6 million up 199% from $3.9 million in the same period in 2010
- Net earnings for the quarter ended September 30, 2011 were $2.0 million, including a $1.2 million foreign exchange gain, up from a loss of $0.05 million in the comparable period of 2010. Net earnings year to date were $6.9 million in 2011 up from $1.3 million in 2010, and earnings per share for three months ended September 30, 2011 were $0.03 compared to $0.01 in the comparative period. For the year to date earnings per share were $0.11 compared to $0.03 in 2010.
- Cash flows from operations before changes in non-cash working capital[1] in the three months ended September 30, 2011 were $3.1 million, up from $1.0 million in the comparable period of 2010. At the end of the quarter the Company had cash and cash equivalents of $33.7 million.
- During the quarter IMPACT announced the signing of an option agreement with Defiance Silver Corp. under which Defiance may acquire IMPACT's Zacatecas assets for payment of 1,787,000 Defiance shares and $1,955,200 over two years. The Zacatecas assets consist of a 200 tonne per day processing plant and 10 mineral concessions.
- On September 27, the Company announced the granting of stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,000,000 shares of the Company. The options are exercisable on or before September 26, 2016 at a price of $1.85 per share.

### Private placement financing

- On December 15, 2010 the Company closed a $15.0 million private placement consisting of 12 million units at a price of $1.25 per unit, of which 8.75 million units were sold pursuant to a brokered portion of the private placement and 3.25 million units were sold pursuant to a non-brokered portion of the private placement. Each unit consists of one common share of the company and one-half of a non-transferable common share purchase warrant, each whole warrant exercisable at $1.75 to purchase one common share of the company until December 14, 2012.
- Under the private placement the Company was entitled to accelerate the expiry date of the warrants to a date which is at least 30 days from the date notice of such acceleration is provided to the holders of warrants in the event that the common shares of the company trade on the TSX Venture Exchange at a volume-weighted average price of $2.50 or more for a period of at least 10 consecutive trading days. In the second quarter a total of 6,088,500 common shares of the company were issued pursuant to the exercise of warrants, for total proceeds to the company of $10,377,375.

The Company is using the net proceeds of the offering to accelerate the development and expansion of the Company's mineral properties in Mexico including the 423-square-kilometer Royal Mines of Zacualpan Silver-Gold District and the development of the initial construction phase of the pilot plant at the Capire Project in the 200-square-kilometer Mamatla Mineral District. The Company has also accelerated its extensive exploration and drilling programs.

### Production Highlights

- With significantly higher metal prices in 2010 the Company revised cut off grades and thereby marginally lowered the average grade of ore mined. Doing so increased the total tonnes of ore

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[1] 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."

available to the Company. As the year 2010 and the nine months of 2011 progressed greater amounts of ore from the new Noche Buena Mine were delivered to the processing plant, and as expected ore grade increased in the nine months of 2011 over the comparative period.

- During the quarter the smelter receiving the lead-silver concentrate advised the Company that due to a lack of capacity they could not accept shipments for upwards of 30 days. The Company continued producing lead silver concentrates and stockpiled them. In mid October the Company recommenced concentrate shipments. As a result revenues for the quarter were lower than anticipated.

- Silver production in the quarter was 178,522 oz., bringing the total year to date to 663,853 oz. up 21 % from 547,000 oz. for the nine months of 2010.

- Lead production in the nine months was 589 tonnes, up 5% from 560 tonnes in the same period of 2010.

- Zinc production in the third quarter of 2011 was 314 tonnes, down from 316 tonnes in the second quarter of 2011 however production for the year to date was 1,000 tonnes or 18% higher than the comparative period in 2010.

- Average mill throughput in the third quarter was 427 tonnes per day (“tpd”), an increase over 416 tpd in the second quarter and a 10% increase from 387 tpd in the third quarter of 2010.

## Exploration Highlights

Oscar Project Drilling

- Subsequent to quarter end on October 20, IMPACT announced initial first phase drill results from the Oscar Project area including 291 g/t silver across 30.65m and including 6,730 g/t silver across 0.30m. Later on October 26, IMPACT announced additional drill results from Oscar including 1,007 g/t silver across 5.65m including 4,580 g/t silver across 1.05m and 1,128 g/t silver across 2.75m.

Huatecosco Gold-Silver Camp Drilling

- During the quarter IMPACT announced additional first phase drill results from the Huatecosco Pedro Zone including 5.22 g/t gold, 30 g/t silver, 0.69% lead and 1.78% zinc across 4.10m including 25.00 g/t gold, 50 g/t silver, 0.49% lead and 1.59% zinc across 0.75m.

Capire Expansion Drilling

- During the quarter IMPACT announced additional drill results from Capire including 83 g/t silver, 0.18 g/t gold, 0.50% lead and 1.25% zinc across 8.8 m, and 1,160 g/t silver, 3.74 g/t gold, 3.86% lead and 8.83% zinc across 0.5 m. These results may add to the current NI 43-101 compliant mineral resource estimates totaling 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope. The zone remains open for expansion.

## Corporate Overview

IMPACT is a natural resource mining and development company, primarily engaged in the acquisition, exploration, development and mining of mineral properties located in Mexico and the Dominican Republic. IMPACT currently produces concentrates containing silver, lead, zinc and gold at the Royal Mines of Zacualpan in the State of Mexico with a processing plant, the “Guadalupe mill”, rated at 500 tpd. The Company also owns a semi-portable 200 tpd processing plant, the “Capire mill”, which will be used as a pilot plant at its Capire Mine Development Project in the Mamatla Mining District.

In 2010 it acquired a third processing plant with a capacity of 200 tpd (the “Veta Grande mill”) at the “Veta Grande Silver Project” in Zacatecas, Mexico. During the quarter the Company optioned the Veta Grande Silver Project including interests in 10 mineral concessions in the Zacatecas Silver District, Mexico to Defiance Silver Corp. (”Defiance”).

IMPACT has grown from an exploration company into a significant silver producer. The Company controls almost two entire mineral districts in central Mexico; the 423 km² Royal Mines of Zacualpan

Silver District and the 200 km² Mamatla Mineral District immediately southwest of Zacualpan. IMPACT is currently undertaking a three-part process of exploration, development and mine production at the Royal Mines of Zacualpan Silver District and adjacent Mamatla Mineral District. The Company has three specific objectives aligned to each activity area. The first objective is to enhance immediate economically recoverable throughput until the current maximum rated capacity of 500 tpd at the Guadalupe Mill is achieved. In first nine months of 2011 the Guadalupe mill processed an average of 422 tpd, a record level of production. With the continuing high levels of production the Guadalupe Mill is expected to be processing close to its rated capacity in 2012. The second objective is to continue exploration and prepare new sources of ore for mine development which will justify expansion of our current facility or the construction of new processing plants within the Zacualpan and Mamatla Districts. The first step in this direction will be the commencement of the installation of the Capire mill at Capire project in 2012. The third objective is to continue the reconnaissance exploration program designed to evaluate the longer term potential of these 500-year-old mining districts. One push toward this objective is the start of a reconnaissance program in 2011 on the recently acquired Zacualpan SE concessions. With the completion of its financing and the substantial increase in cashflow from the higher silver prices IMPACT has accelerated this work in 2011 including drilling over 22,000m to date.

On March 4, 2010, IMPACT announced that mining had commenced at the Noche Buena Mine. By September 30, 2010 production had reached 77 tonnes per day and will increase in 2011 as additional mining faces are developed. The Guadalupe processing plant was upgraded in 2010 to accommodate the Noche Buena production.

The Noche Buena Mine is the third new mine that has been taken from discovery to production by the IMPACT team since 2006. From the time first assays were received from the discovery drill hole in January 2009 to production in March 2010, approximately fifteen months elapsed. This ability to fast track new mines into production is a cornerstone of IMPACT's plan to rapidly grow silver production in the Zacualpan and Mamatla Districts.

On February 1, 2011, IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit (formerly the Capire-Aurora 1 Zones) located in the Mamatla Mineral District. The Capire Deposit measured and indicated mineral resource estimates reported included 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope. Capire remains open for expansion and expansion drilling is in progress. Capire is located in the Mamatla Mineral District, 16 km southwest of IMPACT's active mining and processing operations at Zacualpan.

The Company's latest endeavour involves the Huatecosco district where current drilling has outlined significant gold/silver zones. Work will continue on this structure over the next six to nine months testing a number of targets while infill drilling is designed to provide the mining group with a potential development target on two of the targets currently being drilled off.

As a result of our work over the last four years, the Company's mines in Zacualpan have the flexibility to address fluctuating market prices for silver, lead and zinc. When commodity prices are lower the Company can quickly shift production to higher grade areas and when prices are higher the Company can profitably mine in lower grade areas. This flexibility helps the Company maintain positive cash flow from mine operations while commodity prices fluctuate. As a result of recent price increases for metals, the Company has reduced its definition of economic cut-off grade which may result in slightly lower grades of silver on a per tonne basis but expanding the available tonnage for mining.

IMPACT has an exceptional opportunity to continue to grow through the exploration and development of the Zacualpan and Mamatla Mineral Districts by the Company's expert teams of mining and exploration professionals as well as through new acquisitions to the Company's portfolio of projects.

The Veta Grande Silver Project, in the Zacatecas Silver District, includes a 200 tpd processing plant and interests in 10 mineral concessions. Under an option agreement Defiance has agreed to acquire IMPACT's processing plant and mineral property interests in the Zacatecas area of Mexico for an initial payment of

1,787,000 shares, and a second payment of $1,955,200 in cash upon the earlier of achieving commercial production at the mill or two years. The agreement remains subject to Defiance completing a financing for a minimum of $1.5-million prior to the final closing.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL. At September 30, 2011, the Company had cash and cash equivalents of $33.7 million held primarily with a Canadian Tier 1 Bank.

**Production and sales for the three months ended**

| | Three months ended | | | Three months ended | | |
|---|---|---|---|---|---|---|
| | **Sept. 30 2011** | Sept. 30 2010 | % Change | **Sept. 30 2011** | June 30 2011 | % Change |
| Total tonnes (t) produced | **39,262** | 35,618 | +10 | **39,262** | 37,899 | +4 |
| Tonnes produced per day | **427** | 387 | +10 | **427** | 416 | +3 |
| Silver production (oz) | **178,522** | 186233 | -4 | **178,522** | 224,361 | -20 |
| Lead production (t) | **194** | 180 | +8 | **194** | 201 | -4 |
| Zinc production (t) | **314** | 328 | -4 | **314** | 316 | -1 |
| Gold production (oz) | **170** | 150 | +13 | **170** | 174 | -2 |
| Silver sales (oz) | **118,867** | 149,992 | -21 | **118,867** | 249,851 | -52 |
| Lead sales (t) | **123** | 171 | -28 | **123** | 215 | -43 |
| Zinc sales (t) | **333** | 303 | +10 | **333** | 353 | -6 |
| Gold sales (oz) | **106** | 130 | -18 | **106** | 185 | -43 |
| Revenue per production tonne | **231.99** | 102.96 | +125 | **231.99** | 195.77 | +19 |
| Direct costs per production | **77.78** | 55.74 | +40 | **77.78** | 79.97 | -3 |

**Overview of the nine months ended September 30, 2011**

IMPACT completed an extremely successful first nine months. As detailed in the table below, production levels for the first nine months 2011 continued to increase primarily as a result of the addition of ore from the Noche Buena Mine. The dramatically higher prices for silver have allowed the Company to reduce cut-off grades although with the additional higher grade ore from Noche Buena mine, grades at the Guadalupe mill for the nine months have actually been higher for silver than in the comparable period in 2010. Reducing the grade marginally increases the cost per ounce, but with higher metal prices the Company produced a record profit for the nine months of $6.9 million or $0.11 per share. The mill throughput increased to 422 tpd from 359 tpd in the first nine months of 2010. During the period the company completed the installation of new and more efficient flotation cells for the lead-zinc circuit and new filters in the lead-zinc circuit which should improve throughput and recoveries in the future. Grades rose slightly due to the location of current mining activities and less development muck being delivered to the mill.

In Mamatla, the Company focused its efforts on developing the Capire deposit. This included condemnation drilling at the proposed plant site, tailings pond and waste dumps, as well as drill testing possible extensions to the Capire deposit itself. Surface rights have been secured and mine permitting is well advanced.

**Production and sales for the nine months ended**

| | Nine months ended **Sept. 30 2011** | Sept. 30 2010 | % Change |
|---|---|---|---|
| Total tonnes (t) produced | **114,913** | 97,745 | +18 |
| Tonnes produced per day | **422** | 359 | +18 |
| | | | |
| Silver production (oz) | **663,853** | 547,000 | +21 |
| Lead production (t) | **589** | 560 | +5 |
| Zinc production (t) | **1,000** | 849 | +18 |
| Gold production (oz) | **513** | 455 | +13 |
| | | | |
| Silver sales (oz) | **625,154** | 538,997 | +16 |
| Lead sales (t) | **527** | 611 | -14 |
| Zinc sales (t) | **1,003** | 853 | +18 |
| Gold sales (oz) | **450** | 470 | -4 |
| | | | |
| Revenue per production tonne sold | **207.70** | 103.97 | +100 |
| Direct costs per production tonne | **75.52** | 54.79 | +38 |

**Royal Mines of Zacualpan Silver Project (Zacualpan Mining District), Mexico**

IMPACT owns concessions covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including 423 square km of mineral concessions, operating mines, the Guadalupe processing plant rated at 500 tpd which services the nearby operating mines and the semi-portable Capire processing plant rated at 200 tpd. The project is located 100 km southwest of Mexico City and 25 km northwest of the famous Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

**Mining (Royal Mines of Zacualpan)**

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006 and the Company's first full day of production was January 18, 2006. The majority of the mineral mined at that time was from the high grade San Ramon Mine, with some feed stock supplied by the Guadalupe mine which at that time supplied lower grade material but with a significant credit for lead and zinc. Later in 2006, as underground mining and haulage costs rose at the San Ramon Mine, the Company started to principally source its ore supply from the Guadalupe Mine. In the fourth quarter of 2007 mining began at the new Chivo Mine which became the principal production center and mining was suspended at the lower grade Guadalupe Mine. In early 2008 the San Ramon Mine was brought back into production and since then has provided an increasing tonnage of mineral for processing. In early 2010 mining began at the Noche Buena Mine. These three mines, Chivo, San Ramon and Noche Buena, currently provide the mineral feed to the Guadalupe processing plant.

The Company continues to budget funds and manpower to continue to modernize operations and increase production. Since its acquisition in 2006, much of the mining equipment has been replaced or upgraded, including rebuilding and purchase of a number of the mine's scoop-trams and underground trucks. The

Company has largely completed upgrades to the Guadalupe processing plant which involved expenditures for extensive equipment replacements and expansion of the tailings dam (continuing). While plant and facilities may at times limit capacity, sourcing mill feed from the Company's mines remains the critical factor for increasing production further.

In prior years the Company had seen fluctuations in grades due to the limited number of working faces available for mining. As a result of the successful exploration and development done over the last four years, the Company now has a greater ability to balance the grade of mill feed by drawing from a larger number of mine stopes to achieve a more blended overall grade for optimum metal recovery. Further, as mineral prices have risen, the Company has taken the opportunity to maximize its accessible mineral by slightly lowering cut-off grades.

During the quarter on September 13, the Company announced that due to a lack of capacity at one of the smelters, shipment of lead-silver concentrates to that smelter was temporarily suspended. During this time, mining and processing of mineral at the Royal Mines of Zacualpan operations continued uninterrupted. On October 17, subsequent to quarter end, the Company announced resumption of lead-silver concentrate shipment to that smelter with plans to ship stockpiled concentrate on an accelerated schedule.

**Chivo Mine**

During the third quarter of 2011 Chivo provided 41% (2010 –56%) of mill feed. A second adit on the Chivo structure is now the main production adit for the Chivo Mine. As mining progresses deeper in the Chivo Mine, lead and zinc grades are increasing and silver grades decreasing. The Chivo Mine will continue to supply a significant amount of mineral feed to the mill in the coming year.

Chivo was discovered in 2005, first drilled in late 2006 and then quickly developed, commencing limited production from development muck in November 2007. Chivo is the second mine put into production by the IMPACT team at the Royal Mines of Zacualpan. The Chivo Mine is located in the La Virgen Valley Mining Camp in the central part of the Zacualpan District.

**San Ramon Mine**

During the third quarter of 2011 San Ramon provided 28% (2010 – 32%) of mill feed from the mining of high grade silver mineralization. Mining continues to expand at San Ramon as the Company also developed underground access to a parallel structure, the Chaparrita Vein and to new large zones of mineralized breccia at depth.

**Noche Buena Mine**

During the first quarter of 2010 mining began at the newest addition to IMPACT's production profile, the Noche Buena Mine located 4 km southwest of the Guadalupe processing plant. Noche Buena Mine contributes a silver-gold feed with low lead and zinc contents to the Guadalupe processing plant. This feed is mixed and balanced with the higher grade lead and zinc feed from the other mines to optimize the concentrate value.

During the quarter production from Noche Buena averaged 96 tonnes per day and provided 31% of total mill feed (2010 – 10%). Subsequent to quarter end, construction of an electric power line to the Noche Buena Mine was completed which is expected to lower electricity and production costs at the mine.

The Noche Buena Mine is the third new mine that has been taken from discovery to production by the IMPACT technical team. From the time first assays were received from the discovery drill hole (January 2009) to initial mining in March 2010, approximately 16 months elapsed. This ability to fast track new mines into production is a cornerstone of IMPACT's plans to rapidly grow silver production in the Zacualpan-Mamatla Districts.

### Guadalupe and Gallega Mines

There was no recent mining at the Guadalupe and nearby Gallega Mines but the mines remain dewatered and access is maintained for possible future mining. The remaining defined mineral at Guadalupe is mainly zinc rich with modest silver values. Guadalupe has traditionally been the lowest cost producer for the mines supplying the Guadalupe processing plant. IMPACT is planning to carry out an underground drill program on the Regenerador Vein System in the Guadalupe Mine to define potential higher grade silver zones for future mining.

### Guadalupe Mill

The program of upgrades designed to enhance recoveries and improve processing economics is largely complete at the Guadalupe processing plant. The flotation circuit capacity has been expanded and other modifications were made to incorporate the additional feed from the Noche Buena Mine. The Company also replaced the existing concentrate filters to decrease the water content of the concentrates being shipped to the smelters.

In 2009 engineering studies were completed to increase tailings capacity and enhance the current tailings dam. This upgrade program is currently ongoing and costs are expensed as incurred.

### Exploration (Royal Mines of Zacualpan)

IMPACT's exploration on the Royal Mines of Zacualpan Silver Project continues its success story. IMPACT's exploration team has discovered and placed three new mines (Chivo, San Ramon/Chaparrita, and Noche Buena) into production over the past four years along with various satellite deposits. The Capire Deposit in the Mamatla District is now in the mine permitting and development stage.

To date in 2011, exploration was active on several fronts. Surface and underground drilling continued without interruption. Field work included extensive mapping, trenching, sampling of old mines, and surface rock and soil sampling. A summary of exploration highlights during the quarter follows.

Oscar Silver Project

During the third quarter IMPACT began a first phase surface drilling program in the Oscar Silver Project areas located just 2.5 km east of the Company's Guadalupe processing plant. Initial drill results announced subsequent to quarter end, were as follows and included a number of very high grade silver assays:

| OSCAR SILVER PROJECT DRILL RESULTS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| DRILL HOLE | SECTION | FROM (m) | TO (m) | INTERSECTION (m) | SILVER (g/t) | GOLD (g/t) | LEAD (%) | ZINC (%) |
| | | | | | | | | |
| Z11-35 | 18+50N | 79.88 | 81.20 | 1.32 | 156 | 0.00 | 0.0 | 0.2 |
| And | | 145.90 | 146.25 | 0.35 | **2,860** | 0.35 | 1.6 | 4.6 |
| | | | | | | | | |
| Z11-36 | 18+50N | 203.30 | 205.63 | 2.33 | 109 | 0.11 | 1.0 | 1.6 |
| | | | | | | | | |
| Z11-37 | 18+50N | 183.95 | 189.20 | 5.25 | 108 | 0.19 | 0.2 | 0.4 |
| Including | | 183.95 | 186.08 | 2.13 | 178 | 0.40 | 0.4 | 0.8 |
| | | | | | | | | |
| Z11-38 | 18+50N | 97.72 | 103.70 | **5.98** | **197** | 0.02 | 0.2 | 0.5 |
| Including | | 100.47 | 100.92 | **0.45** | **1,310** | 0.11 | 1.3 | 4.0 |
| | | | | | | | | |
| Z11-39 | 19+00N | 62.15 | 63.70 | 1.55 | 285 | 0.01 | 0.2 | 0.3 |
| | | | | | | | | |
| Z11-40 | 19+00N | 59.45 | 61.45 | 2.00 | 165 | 0.01 | 0.1 | 0.4 |
| And | | 120.25 | 124.75 | 4.50 | 136 | 0.08 | 0.3 | 0.9 |
| Including | | 120.25 | 120.80 | 0.55 | **414** | 0.16 | 0.4 | 1.8 |
| | | | | | | | | |
| Z11-41 | 19+00N | 72.35 | 74.05 | 1.70 | 64 | 0.00 | 0.1 | 0.6 |
| Including | | 72.35 | 72.55 | 0.20 | 246 | 0.02 | 0.3 | 3.4 |
| | | | | | | | | |
| Z11-42 | 19+50N | 32.40 | 39.90 | 7.50 | 76 | 0.09 | 0.2 | 0.6 |
| Including | | 32.40 | 34.55 | 2.15 | 162 | 0.28 | 0.6 | 1.5 |
| | | | | | | | | |
| Z11-43 | 19+50N | 5.05 | 6.18 | 1.13 | 69 | 0.01 | 0.1 | 0.2 |
| | | | | | | | | |
| Z11-44 | 19+50N | 51.80 | 82.45 | **30.65** | **291** | 0.01 | 0.1 | 0.4 |
| Including | | 51.80 | 59.25 | **7.45** | **780** | 0.02 | 0.4 | 1.1 |
| Including | | 51.80 | 52.10 | 0.30 | **6,730** | 0.20 | 1.5 | 8.0 |
| Including | | 55.50 | 55.95 | 0.45 | **4,240** | 0.06 | 2.1 | 6.8 |
| Including | | 64.60 | 70.40 | **5.80** | **398** | 0.03 | 0.2 | 0.4 |
| Including | | 68.25 | 68.95 | 0.70 | **1,290** | 0.06 | 0.2 | 1.3 |
| And | | 139.45 | 146.80 | **7.35** | **244** | 0.07 | 0.5 | 0.9 |
| Including | | 140.45 | 144.45 | **4.00** | **380** | 0.08 | 0.7 | 1.3 |
| | | | | | | | | |
| Z11-45 | 18+00N | 118.30 | 118.60 | 0.30 | **530** | 0.02 | 0.2 | 0.2 |
| And | | 130.20 | 132.50 | 2.30 | 119 | 0.00 | 0.1 | 0.4 |
| Including | | 130.20 | 130.80 | 0.60 | 362 | 0.01 | 0.4 | 1.2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| Z11-46 | 17+50N | 92.10 | 97.75 | **5.65** | **1,007** | 0.07 | 0.5 | 1.1 |
| Including | | 96.70 | 97.75 | **1.05** | **4,580** | 0.26 | 1.7 | 4.0 |
| And | | 108.95 | 111.70 | **2.75** | **1,128** | 0.51 | 0.9 | 1.4 |
| Including | | 109.70 | 110.80 | **1.10** | **2,630** | 0.40 | 0.8 | 2.2 |
| And | | 135.65 | 137.60 | 1.95 | 111 | 0.01 | 0.1 | 0.5 |
| Including | | 135.65 | 135.95 | 0.30 | **537** | 0.05 | 0.5 | 3.1 |
| | | | | | | | | |
| Z11-47 | 17+50N | 116.60 | 122.40 | 5.80 | 122 | 0.01 | 0.1 | 0.2 |

These Oscar drill results are from multiple veins in a wide vein corridor (Oscar Vein Corridor) located on the southern extensions of the large Cuchara Mine, a former producer that last operated in 2004. Some of these Oscar area veins have historically been in production and are exposed in nearby old mine workings. Previous limited drilling by IMPACT on the Oscar Vein returned values of 2,820 g/t silver, 1.83 g/t gold, 3.48% lead, and 7.83% zinc over 0.30 meters (see IMPACT News Release dated January 25, 2007).

The 2011 Oscar Project drill plan was initially conceived to test an area of high potential, yet poorly known mineralization that if successful would provide a profitable underground mine access route to the Santa Lucia area located immediately to the southeast. Previous drilling at Santa Lucia included drill assays of 466g/t silver across 3.2m. Providing some initial confirmation for this concept are these recent drill results. Additional drilling is now in progress in the Oscar Vein Corridor to sort out the orientation and continuity of silver grades in these veins. If this additional drilling proves successful, it may lead to a more extensive and comprehensive mining plan for the combined Oscar-Santa Lucia area.

Huatecosco Gold-Silver Camp

During the first quarter IMPACT began a first phase surface drilling program at Huatecosco located 10 km southwest of the Guadalupe Processing Plant. Huatecosco is a large gold-silver vein system where in 2010 IMPACT field crews mapped many old mine workings and found significant gold and silver values in rock chip samples from surface and underground. During the second quarter, IMPACT announced the first drill results from Huatecosco including 6.96g/t gold across 4.24m. Subsequent to the third quarter on October 12, IMPACT announced further drill results as follows:

| HUATECOSCO PEDRO ZONE DRILL RESULTS | | | | | | | |
|---|---|---|---|---|---|---|---|
| DRILL HOLE | FROM (m) | TO (m) | INTERSECTION (m) | GOLD (g/t) | SILVER (g/t) | LEAD (%) | ZINC (%) |
| | | | | | | | |
| Z11-33 | 183.55 | 192.60 | **9.05** | 0.48 | **62.96** | 0.62 | 2.02 |
| Including | 186.35 | 187.80 | 1.45 | **1.40** | 61.69 | **1.40** | **4.75** |
| | | | | | | | |
| Z11-34 | 228.25 | 233.05 | **4.80** | 0.15 | 50.66 | **1.55** | **6.39** |
| Including | 231.95 | 232.40 | 0.45 | 0.16 | 123.00 | **4.01** | **23.60** |
| | | | | | | | |
| Z11-48 | 351.70 | 355.80 | **4.10** | **5.22** | 30.10 | 0.69 | 1.78 |
| Including | 353.75 | 354.50 | 0.75 | **25.00** | 50.10 | 0.49 | 1.59 |
| | | | | | | | |
| Z11-50 | 197.80 | 201.30 | 3.50 | 0.45 | 108.13 | 1.85 | 2.70 |
| Including | 200.45 | 201.30 | 0.85 | 1.25 | 220.00 | 3.58 | 6.45 |

The Huatecosco Vein is a northwest trending structure that is one of longest in the Zacualpan District, having a measured and inferred strike length in excess of 16 km. Currently this structure is thought to be a major regional fault, from which numerous north-northwest trending structures propagate including the Nochebuena Vein (where IMPACT is currently mining) and the gold-rich Carlos Pacheco Vein (see IMPACT news releases dated January 20, 2011 and December 4, 2008 respectively for exploration and mining results for these other structures).

The focus of this current drill program is the southeastern end of the Huatecosco Vein where IMPACT's exploration teams have recently outlined five en-echelon gold-silver-lead-zinc-copper soil anomalies of which only three have been drill tested resulting in the discovery of the Huatecosco Central and Huatecosco Pedro Zones. The soil anomaly over the Huatecosco Pedro Zone measures 250m by 150m and contains the historic Huatecosco, Pedro and Jocoyala underground workings from which rock samples collected by IMPACT field crews grade up to 1.6 g/t gold and 170 g/t silver along with values of 10.1% zinc and 10.3% lead. Drilling is continuing on the Huatecosco Pedro Zone as it remains open for expansion along strike in both directions. Additional drill results are pending.

### Zacualpan Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the District. These crews have been sampling some of the 2,000+ old mine workings and prospects in the project area, trenching areas of mineralization and carrying out extensive soil sampling on 100 m x 25 m grids. During the quarter this work included mapping and sampling of soils and rocks in the Noche Buena West, Zacualpan Southeast and Oscar areas with the objective of defining additional near-term drill targets.

### Capire Subdistrict Silver and Base Metals Exploration (Mamatla Mineral District)

The Mamatla Mineral District hosts epithermal silver and base metal veins as well as volcanogenic massive sulphide ("VMS") base and precious metal mineralization.

Capire Subdistrict VMS Prospects

VMS mineralization in the Capire VMS Subdistrict is predominantly silver-rich with zinc, lead, copper and gold credits. The subdistrict 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 km southwest of Capire.

Capire Mine Development Project

Capire is located in the Mamatla Mineral District, 16 km southwest of IMPACT's active mining and processing operations at Zacualpan. The Capire Deposit is in the mine permitting and development stage. The Company is still awaiting key development permits. Once these permits are received it expects that it will take six to nine months to commence its pilot plant production. Production plans at Capire are to first install a 200 tonne per day pilot plant (already purchased) to optimize mining and processing parameters toward planning for a larger operation in the future. Surface rights for all mining areas, tailings dam and the processing plant have been acquired. Condemnation drilling under the plant site, tailings dam and rock waste piles has been completed in preparation for mine and plant construction. When in production, Capire will be IMPACT's fourth active mining operation and represents a new production district. The orientation and shallow depth from surface of the mineralization will allow for open pit mining of a portion of the zone. Capire will be the fourth mine taken from discovery to production by the IMPACT technical team.

On February 1, 2011 IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit (formerly the Capire-Aurora 1 Zones). Measured and indicated mineral resource estimates included 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope. Capire remains open for expansion and expansion drilling is scheduled. The following is a summary of the Capire Deposit by zone, of the total classified Measured and Indicated Mineral Resources inventory and separately, Inferred Mineral Resources, based on a 3D geological model:

| Summary Table Classified Mineral Resources – Measured + Indicated and Separate Inferred | | | | | | | |
|---|---|---|---|---|---|---|---|
| Zone | Classification | Tonnes | Ag (g/t) | Au (g/t) | Cu (%) | Pb (%) | Zn (%) |
| | | | | | | | |
| Capire | Measured + Indicated | 3,104,944 | 46.46 | 0.19 | 0.06 | 0.33 | 0.93 |
| Aurora 1 | Measured + Indicated | 1,807,302 | 44.50 | 0.199 | 0.07 | 0.36 | 0.80 |
| Grand Total | Total Measured + Indicated | 4,912,246 | 45.74 | 0.193 | 0.06 | 0.34 | 0.88 |
| | | | | | | | |
| Capire | Inferred | 69,144 | 41.14 | 0.169 | 0.05 | 0.26 | 0.72 |
| Aurora 1 | Inferred | 301,922 | 35.49 | 0.159 | 0.06 | 0.28 | 0.71 |
| Grand Total | Total Inferred | 371,066 | 36.54 | 0.161 | 0.06 | 0.28 | 0.71 |

No adjustments have been made for mining or metallurgical recoveries and no economic cut off values were incorporated in this table.

Combined Measured and Indicated, and separately Inferred, In Ground Metal Contents are as follows:

| Total Measured + Indicated In Ground Metal Content | | | | | | |
|---|---|---|---|---|---|---|
| | | Ag (oz) | Au (oz) | Cu (lbs) | Pb (lbs) | Zn (lbs) |
| Capire +Aurora 1 | Measured | 3,529,969 | 14,146 | 3,389,275 | 18,234,678 | 46,140,820 |
| Capire +Aurora 1 | Indicated | 3,694,066 | 16,300 | 3,693,733 | 19,029,800 | 49,522,173 |
| Capire +Aurora 1 | Measured+Indicated | 7,224,035 | 30,446 | 7,083,007 | 37,264,478 | 95,662,993 |
| | | | | | | |
| Total Inferred In Ground Metal Content | | | | | | |
| Capire +Aurora 1 | Inferred | 435,959 | 1,919 | 475,594 | 2,260,089 | 5,823,490 |

Capire Expansion and Exploration

On May 24, 2011 subsequent to the NI43-101 mineral resource report, IMPACT announced additional results from continuing drilling at Capire including 304 g/t silver, 4.5 g/t gold, 1.52% lead and 3.05% zinc across 5.0 m and 121 g/t silver, 0.37 g/t gold, 1.24% lead and 2.79% zinc across 6.6 m. During the quarter on August 18, 2011, the Company announced further drill results from Capire including 83g/t silver, 0.18 g/t gold, 0.50% lead and 1.25% zinc across 8.8m, and 1,160 g/t silver, 3.74 g/t gold, 3.86% lead and 8.83% zinc across 0.5 m. These results may add to the NI43-101 compliant mineral resource estimates and IMPACT engineers are studying modest modifications to the open pit design to incorporate this expanded mineralization into the mine plan. The zone remains open for expansion.

A map of the drill grids and other information for Capire can be found on the company website at www.IMPACTSilver.com.

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007 IMPACT field crews have also identified many epithermal vein prospects and old mines primarily north of Capire. This work is continuing and new targets are being defined in preparation for future drilling.

### Veta Grande (Zacatecas) Silver Project, Mexico

On March 17, 2010 IMPACT completed the purchase, through its wholly-owned subsidiary MAP, of the 200 tpd Veta Grande processing plant in the Zacatecas Silver District of Mexico and acquired a number of mineral concessions (collectively the "Veta Grande Silver Project"). During the quarter IMPACT signed an option agreement with Defiance Silver Corp. under which Defiance may acquire IMPACT's Zacatecas assets for payment of 1,787,000 Defiance shares and $1,955,200 on the earlier of achieving commercial production at the processing plant or two years.

The project is located 500 km 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 four years intermittent exploration focused on some of the 13 mineral concessions located within the district, three of which are in a previous joint venture. IMPACT management feels that signing this option agreement will unlock the value of these non-core assets for IMPACT in the form of a major shareholding in Defiance, a junior company with excellent management and a purposeful plan to advance these assets along with plans for additional acquisitions. This arrangement will also allow IMPACT to focus its resources on expanding its flagship mining operations at the Royal Mines of Zacualpan Silver District and, in the immediate future, the Capire Mine Development Project scheduled for production in late 2011 as well as developing other projects and opportunities.

### Future Exploration Plans

IMPACT's exploration work in the Zacualpan and Mamatla Districts has resulted in the opening of three new mines - Chivo, San Ramon/Chaparrita and Noche Buena—over the past four years. The Capire Zone in the Mamatla District is now in the mine permitting stage and represents a pending fourth new mine.

During the quarter, field exploration continued generating near term drilling and production targets at a high level. Plans for the balance of 2011 are to continue accelerated exploration with a goal of putting some of the other 2,000+ compiled prospects in the Zacualpan and Mamatla Districts on a faster track to potential production and build mineral inventories for mining.

With a track record of successful exploration, rapid mine development and more than 2,000 old mine workings identified to date, IMPACT's long term vision sees potential for establishment of multiple processing plants throughout the two districts each fed by multiple mines.

*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 Mamatla 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. Details on sampling methods and other information on the projects can be found in the company's news releases and on the Company website at www.IMPACTSilver.com .*

### The Dominican Republic

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold, GlobeStar Mining and Xstrata, as well as a number of junior exploration companies. The exploration concessions in the Dominican Republic held by the Company constitute a block covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which the Company believes offers the opportunity for mineralization. IMPACT's block of concessions is located some 100 km east of Barrick's large Pueblo Viejo gold deposit with over 23.7 million ounces of proven and probable gold reserves reported and is hosted in the same rock formation.

*Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian NI 43-101, is responsible for the technical information described in this MD&A for the Dominican Republic Projects.*

**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.

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 must be kept informed of our activities and their concerns addressed. The Company retains a Community Relations Officer to ensure open communications. Wherever possible, the local community should participate in the benefits that may flow from the Company's activities. The use of local personnel and other workers fosters direct involvement in the operations conducted by the Company.

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 surrounding us. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program.

During the quarter the Company experienced a fatality at the Guadalupe mill. The Guadalupe mill was shut down for approximately four days while the cause of the accident was investigation by the Company and the appropriate authorities. IMPACT's management team expresses their sincere condolences to the family of the deceased and those affected by the incident. Although the mining operation has a fully qualified safety team, the Company has engaged two third party consulting firms to perform an independent audit of all safety procedures on site. Their recommendations are being addressed at this time.

**Investor Relations**

During the year, IMPACT attended a number of investor conferences in Canada, U.S.A. and Europe. In addition, the Company conducted numerous presentations to institutional and retail investors in various cities across Canada and in Europe. The Company plans to continue these activities on an ongoing basis. Energold (a significant shareholder) assists IMPACT with its day-to-day investor relations.

**FINANCIAL DISCUSSION**

**Mine Operating Earnings for the three months ended September 30, 2011 compared to the three months ended September 30, 2010**

Revenues (net smelter returns) in the third quarter ended September 30, 2011 were $4.2 million, up from $3.2 million in the third quarter of 2010. Revenues in the third quarter of 2011 were higher because of increased mill throughput and significantly higher silver prices.

Revenues per production tonne sold increased to $231.99 in the third quarter of 2011, up 125% from $102.96 in the third quarter of 2010 due to slightly higher mill feed grades and an increase in recovery rates. With the addition of the Noche Buena mine feed average mill throughput during the third quarter of 2011 was 427 tpd, up 10% from 387 tpd during the third quarter of 2010.

Mine operating expenses during the quarter were $1.4 million, down from $1.7 million in the third quarter of 2010, as silver lead concentrates mined and processed during September were inventoried at the plant site. Amortization and depletion in the quarter was $0.2 million, comparable to $0.2 million in the third quarter of 2010. Direct mine operating costs per tonne in the third quarter of 2011 were $77.78, up 40% from $55.74 in the third quarter of 2010. Efficiencies gained by the increased mill throughput more than offset increases in salaries and wages at the mine when comparing the third quarter of 2011 to the third quarter of 2010.

Mine operating earnings in the quarter were $2.5 million, up from $1.3 million in the third quarter of 2010. Net earnings in the third quarter of 2011 were $2.0 million, up from $0.4 million in the third quarter of 2010.

**General, Administrative and Other Expenses for the three months ended September 30, 2011 compared to the three months ended September 30, 2010**

General and administrative expenses in the third quarter of 2011 were $0.9 million, higher than the third quarter of 2010 primarily due to an increase in share based payments expense. Investor relations, promotion and travel in the quarter rose to $0.07 million compared to $0.02 million in the third quarter 2010 due to the broader dissemination of information on the Company. Office salaries and services expense increased to $0.22 million in the third quarter of 2011, up from $0.17 million in the third quarter of 2010. Non-cash share based payments expense was $0.4 million in the third quarter of 2011 compared to $0.1 million for the third quarter of 2010. All other categories of general and administrative expenses remained largely the same between quarters.

The Company recorded a foreign exchange gain of $1.2 million in the third quarter of 2011 compared to a foreign exchange loss of $0.05 million in the third quarter of 2010. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. Significant movements in the Mexican peso and U.S. dollar account for the gain in the third quarter of 2011. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

**Mine Operating Earnings for the three months ended September 30, 2011 compared to the three months ended June 30, 2011**

Revenues (net smelter returns) in the third quarter ended September 30, 2011 were $4.2 million, down from $8.0 million in the second quarter of 2011. Revenues in the third quarter of 2011 were down due to fewer ounces sold as a result of a temporary lack of capacity at the Company's principal refinery. Lead silver concentrates were inventoried for September and shipments resumed in October.

Revenues per production tonne sold increased to $231.99 in the third quarter of 2011, up 18.5% from $195.77 in the second quarter of 2011. The redefinition of ore grade resulted in mining slightly lower grades in the third quarter in the current workings. Average mill throughput during the third quarter of 2011 was 427 tpd, up marginally from 416 tpd during the second quarter of 2011.

Mine operating expenses in the third quarter of 2011 were $1.4 million, down from $3.2 million in the second quarter of 2011. Amortization and depletion in the third quarter of 2011 was $0.2 million, down from $0.3 million in the second quarter of 2011. Direct mine operating costs per tonne in the third quarter of 2011 were $77.78, down 3% from $79.97 in the second quarter of 2011.

Mine operating earnings in the third quarter of 2011 were $2.5 million, down from $4.5 million in the second quarter of 2011 due to decreased revenues as the result of the temporary lack of capacity at the Company's principal refinery during period. Net earnings in the third quarter of 2011 were $2.0 million, compared to $2.5 million in the second quarter of 2011. Finished goods concentrate inventories for the third quarter had an estimated net realizable value of $2.2 million in comparison to $0.5 million in the second quarter. These inventories, which are recorded at cost in the financial statements, are valued at $1.3 million in the current quarter and $0.2 million in the previous quarter.

**General, Administrative and Other Expenses for the three months ended September 30, 2011 compared to the three months ended June 30, 2011**

General and administrative expenses in the third quarter of 2011 were $0.9 million, an increase from $0.5 million in the second quarter of 2011, primarily due to an increase in share based payments expense. Accounting, audit and legal expenses were $0.04 million down from $0.11 million in the previous quarter, whereas investor relations, promotion and travel were up $0.01 million from the prior quarter. Office salaries and services expense was $0.2 million in the third quarter of 2011 compared to $0.13 million in the second quarter of 2011. Non-cash share-based payments were $0.4 million in the third quarter of 2011 up from $0.03 million in the second quarter 2011. All other categories of general and administrative expenses remained largely the same between quarters.

The Company recorded a foreign exchange gain of $1.2 million in the third quarter of 2011 compared to a foreign exchange loss of $0.06 million in the second quarter of 2011. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. Significant movements in the Mexican peso and U.S. dollar account for the gain in the third quarter of 2011. These foreign exchange gains and losses will continue and may have a significant impact on future net 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 (loss) per share.

| | **For the three months ended** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Sept 30 2011** | **Jun 30 2011** | Mar 31 2011 | Dec 31 2010 | Sept 30 2010 | Jun 30 2010 | Mar 31 2010 | Dec 31 2009 |
| Revenues | **4,164** | **7,997** | 7,258 | 6,820 | 3,209 | 2,948 | 3,702 | 2,333 |
| Net earnings (loss) | **1,994** | **2,471** | 2,474 | 2,087 | 414 | 302 | 631 | 116 |
| Earnings (loss) per share - Basic* | **0.03** | **0.04** | 0.04 | 0.04 | 0.01 | 0.01 | 0.01 | 0.00 |
| Earnings (loss) per share - Diluted* | **0.03** | **0.04** | 0.04 | 0.04 | 0.01 | 0.01 | 0.01 | 0.00 |
| Cash and cash equivalents | **33,746** | **32,633** | 19,968 | 18,690 | 2,939 | 3,973 | 4,157 | 5,295 |
| Total assets | **65,702** | **65,238** | 51,083 | 46,939 | 29,789 | 29,129 | 28,574 | 31,690 |
| Total liabilities | **8,302** | **7,747** | 6,768 | 5,643 | 4,879 | 4,462 | 4,552 | 5,551 |

* *Per share numbers have been rounded to two decimal places*

* *The financial results from January 31, 2010 have been restated in accordance with IFRS.*

### Liquidity and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at September 30, 2011 remained strong with $33.7 million in cash and cash equivalents (2010 - $2.9 million) and net working capital of $33.1 million (2010 - $5.5 million). The significant increase in cash and cash equivalents balances are primarily due to the $15.0 million private placement in December 2010 consisting of 12 million units at a price of $1.25 per unit. During the second quarter pursuant to the exercise of the warrants under the unit offering, 6,088,500 shares were issued for total proceeds to the company of $10,377,375. IMPACT generated positive cash flows from operations before changes in non-cash working capital[2] of $3.1 million during the third quarter of 2011 and $2.9 million during the second quarter of 2011. During the third quarter of 2011 these positive cash flows were invested in resource properties - $2.0 million - and property, plant and equipment - $0.6 million.

The Company's working capital position is expected to remain strong as planned resource property costs, exploration expenditures and acquisition of property, plant and equipment will be supported by positive cash flow from mining operations.

### Resource Property Expenditures

Exploration expenditures related to Zacualpan in the third quarter of 2011 were $0.7 million, down from $0.9 million in the same period of 2010. Expenditures on drilling and other exploration costs are budgeted to continue to be between $1.5 and $2.0 million per quarter as the Company continues to develop the Zacualpan and Mamatla Districts.

In the first quarter of 2010 IMPACT completed the acquisition of the 200 tonne-per-day Veta Grande processing plant in Zacatecas, Mexico with a $0.2 million cash payment and the issuance of 100,000 shares. Cash paid and IMPACT common shares issued as option payments in 2006 through 2009 were originally assigned to resource properties. With the completion of this purchase IMPACT reallocated a portion the costs originally assigned to resource properties to property, plant and equipment.

IMPACT has committed additional resources and has hired geological support staff to lead two separate teams to accelerate the exploration and mapping of its properties and prospective drill targets. The Company expects that its 2011 exploration expenditures in the Zacualpan and Mamatla Districts will continue at levels well in excess of 2010 as it proceeds to explore some of the more promising exploration targets. The Capire capital program is anticipated as costing approximately $7.0 million which will occur for the most part over the next nine months. However, the Company will continue to closely monitor its cash and cash equivalents balance and may adjust exploration expenditures as required.

### Outstanding Share Data

The following common shares and convertible securities were outstanding at November 24, 2011:

| | # of Shares | Exercise Price | Expiry Date |
|---|---|---|---|
| Issued and outstanding common | 68,009,710 | | |
| Stock options | 867,500 | $ 1.40 | September 5, 2012 |
| Stock options | 75,000 | $ 1.67 | October 22, 2012 |
| Stock options | 1,332,500 | $0.55 | January 6, 2014 |
| Stock options | 927,500 | $1.10 | June 6, 2015 |
| Stock options | 2,000,000 | $1.85 | September 26, 2016 |
| Fully diluted at November 24, 2011 | 73,212,210 | | |

Of the 5,202,500 options outstanding, 3,952,500 have vested at November 24, 2011.

[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."

## Related Party Transactions

Energold Drilling Corp. ("Energold") owns 6,980,001 shares of the Company and 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 quarter ended September 30, 2011, fees in the amount of $2.4 million (September 30, 2010 - $1.5 million) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan Mines and Concessions. At September 30, 2011, the balance owed to Energold was $1.2 million (September 30, 2010 - $0.7 million).

## Contingencies

The Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities SAT (Servicio de Administracio Tributaria) reassessing MPZ's tax return filings for the 2007 calendar year and requesting payment of an amount of $7.4 million pesos (approx $0.6 million Canadian funds) for taxes, profit sharing, interest and penalties. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT.

MPZ believes, based on discussions with tax advisors, that this matter may be satisfactorily contested and constructively resolved through the SAT tax assessment appeal formal litigation process.

## Financial Instruments and Management of Financial Risk

Financial assets and liabilities

For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties, carrying value is considered to be fair value due to the short-term nature of these instruments. The fair value of investments is determined by quoted prices in active markets for identical assets at the balance sheet date. At September 30, 2011 all equity investments held were classified as Level 1 and cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities were classified as Level 2 on the fair value hierarchy.

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 and cash equivalents, accounts receivable and investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. As is typical within the mining industry the Company deals with one refiner for the processing of all of its mineral concentrates. The Company has a significant concentration of credit risk exposure to its Mexican refining and smelting company Met-Mex Penoles, S.A. de C.V. at any one time but is satisfied that this company has an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents - $33.7 million, accounts receivable - $1.9 million, and investments - $0.05 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 in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At September 30, 2011 the Company did not have any significant future debt obligations.

Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents. 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 September 30, 2011 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at September 30, 2011, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $946,000 decrease or increase in the Company's net earnings for the three months ended September 30, 2011.

Commodity price risk

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include silver, lead, zinc, and gold. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. The Company has elected not to actively manage our exposure to metal prices at this time.

## Transition to International Financial Reporting Standards

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2011. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs. IASs, and interpretations issued by the IFRICs or the former SICs.

In addition, the conversion from Canadian GAAP to IFRS as a primary basis for preparing the Company's consolidated financial statements has resulted in changes in the Company's accounting policies and additional financial expertise and training requirements. The conversion did not have any significant impact on the Company's financial covenants, key financial performance ratios or compensation plans.

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS annual consolidated financial statements for the year ending December 31, 2011 may differ from the significant accounting policies used in the preparation of the Company's unaudited interim financial statements as at and for the three months ended September 30, 2011. As of the date of this document, the Company does not expect any of the IFRS standards to have a significant impact on its 2011 consolidated financial statements. The Company's unaudited interim consolidated financial statements as at and for the three months ended September 30, 2011 have been prepared in accordance with existing IFRS standards with restatements of comparative balance sheets as at December 31, 2010 and January 1, 2010 and statements of earnings and comprehensive income for the three months ended September 30, 2010 as previously reported and prepared in accordance with Canadian GAAP.

To transition from Canadian GAAP to IFRS the main adjustments include:

*Translation of non-monetary assets*

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated suing the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either "self-sustaining" or "integrated". Self-sustaining subsidiaries are translated using the current rate method. Integrated subsidiaries are translated using the temporal method.

As a result of the method used to translate non-monetary assets, the balances in the subsidiaries have been adjusted. Assets which are monetary in nature remain unchanged.

*Foreign currency translation adjustment*

In accordance with IFRS 1, First Time Adoption of IFRS, the Company has applied a one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as at January 1, 2010. The cumulative translation adjustment balance as of January 1, 2010 was recognized as an adjustment to retained earnings. The application of this exemption had no impact on net equity as at transition to IFRS.

*Mineral interest and property, plant and equipment reclassification*

Under IFRS, exploration and evaluation assets should be reclassified to property, plant and equipment when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Under Canadian GAAP, the Company presented its exploration assets and mineral assets in one schedule.

*Share based payments*

Under IFRS, the company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the company policy under Canadian GAAP.

*Deferred tax asset / liability*

Under IFRS, additions to mineral property that do not result in an equivalent increase in current or future tax deductible amounts are treated as a permanent difference. Under Canadian GAAP an increase in mineral property and deferred income tax liability was recorded to reflect the inherent tax cost to the company from the acquisition of an asset that was not deductible for tax purposes.

### Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management believes that the Company has designed, established and is operating reasonable overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

### Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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: Calculated as Cash flows from operations less the changes in non cash working capital (accounts receivable and prepaid expenses, inventories, accounts payable and accrued liabilities, income taxes payable, and due to related party).

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

November 24, 2011