IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2013

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and six months ended June 30, 2013 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at August 22, 2013 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2012 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 km² **Royal Mines of Zacualpan Silver District** and the 200 km² **Capire-Mamatla Mineral District** adjacent to and southwest of Zacualpan. In addition to its 500 tonnes per day ("tpd") Guadalupe Mill, IMPACT also owns and operates a 200 tpd mill which it has installed as a pilot plant at its Capire Mine and Production Centre in the Capire-Mamatla Mineral District.

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 **three key objectives** for the districts in 2013:

1. Improve optimization of the Capire pilot plant in 2013, to further define the parameters for the potential expansion of the mine and pilot plant.

2. Continued exploration across the entire 623 km² land package, focusing on discovery and definition of additional high grade mineral resources near the four producing mines.

3. Advance engineering work to develop the Mirasol Prospect for potential future mine production.

Refocusing in Times of Lower Metal Prices

On January 2, 2013, the first day of trading for the year, the London Fix silver price was US$30.87. On June 30, 2013, the silver price was US$18.86, a 40% decrease, and has since recovered slightly to average US$20 per ounce. In response to this significant drop in silver price, the Company is refocusing its mining and exploration work. Mining is now targeting the higher grade silver zones at the operating San Ramon, Noche Buena and Cuchara-Oscar mines. At the Capire Mine, higher grade material from the open pit is currently being processed while lower grade material is stockpiled for future processing. At the Mirasol Prospect, engineering studies for potential development of the project toward production have been accelerated. IMPACT is fortunate that its producing mines contain higher grade zones capable of generating positive cash flow in these times of lower metal prices. Exploration for the second half of 2013 will be largely focused on drilling high grade targets that can be quickly put into production through the low cost and rapid expansion of the current producing mines. These initiatives began during the first half of 2013 to improve cash flow in response to lower metal prices while keeping lower grade zones accessible for when metal prices recover. IMPACT's ability to react quickly to changing economics and maintaining a healthy treasury ensures that the Company will weather the downturn in the markets and lower metal prices, and will 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 QUARTER ENDED JUNE 30, 2013

Financial Overview

- Revenues for the second quarter of 2013 were $3.8 million, an increase from $3.6 million in the second quarter of 2012, despite a significantly lower silver price.
- Mine operating earnings for the second quarter of 2013 were $0.1 million, a decrease from $1.3 million in the second quarter of 2012.
- Losses before taxes for the second quarter of 2013 were $1.9 million compared to earnings before taxes of $0.7 million for the same period of 2012.
- Cash flows from operations[1] before changes in non-cash working capital for the second quarter of 2013 were $(0.2) million, a decrease from $1.2 million in the same period for 2012.
- Net working capital remained strong at $12.7 million on June 30, 2013, compared to $16.8 million on March 31, 2013 after spending $1.4 million on exploration and development of the Company's properties and $2.2 million on property, plant and equipment.

Production Overview

- Total tonnes milled during the second quarter of 2013 increased to 42,086 from 39,813 in the second quarter of 2012 and remained consistent with 42,009 tonnes from the first quarter of 2013.
- Silver production increased 20% to 185,998 ounces for the second quarter of 2013 from 154,406 ounces in the same period of 2012 and increased 12% from 165,651 ounces in the first quarter of 2013.
- Average mill feed grade for silver increased in the second quarter of 2013 to 163 grams per tonne (g/t) from 145 g/t in the second quarter of 2012 which was reflected in the higher production for the comparative periods.
- Silver sales increased 42% to 199,581 ounces for the second quarter of 2013 from 140,740 ounces in the second quarter of 2012 and increased 22% from 163,065 ounces in the first quarter of 2013. During the second quarter of 2013 there was a 21% decrease in the average price of silver compared to the second quarter of 2012, accordingly, revenue only increased slightly compared with the previous year even though silver sales increased.

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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."

- The Company started shipping concentrate during the start-up and testing phase of the Capire production centre during the quarter. The pilot plant has not yet entered into commercial production and its sales revenue is not included in reported sales results.

Looking Ahead: Transition to Growth

Management believes the Company has exceptional growth opportunities through the continued development of the Zacualpan and Capire-Mamatla Mineral Districts. 2013 will continue to be a year of progress as the Company brings the Capire Mine and pilot plant into production and shifts into full production at the Cuchara-Oscar Mine. These areas of new production are anticipated to form the basis for enhancing operations in the future.

PRODUCTION AND SALES*

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2013	2012	% Change	**2013**	2012	% Change
Total tonnes (t) produced	**42,086**	39,813	+6%	**84,095**	81,257	+3%
Tonnes produced per day	**462**	438	+5%	**467**	449	+4%
Silver production (oz)	**185,998**	154,406	+20%	**351,649**	319,164	+10%
Lead production (t)	**129**	139	-7%	**235**	288	-18%
Zinc production (t)	**149**	205	-27%	**291**	465	-37%
Gold production (oz)	**360**	159	+126%	**584**	293	+99%
Silver sales (oz)	**199,581**	140,740	+41%	**362,646**	303,027	+20%
Lead sales (t)	**140**	123	+14%	**255**	274	-7%
Zinc sales (t)	**135**	257	-47%	**255**	488	-48%
Gold sales (oz)	**365**	140	+161%	**570**	279	+104%
Average mill head grade –silver g/t	**163**	145	+12%	**155**	146	+6%
Revenue per production tonne	**$88.96**	$95.47	-7%	**$93.93**	$100.17	-6%
Direct costs per production tonne	**$70.09**	$64.66	+8%	**$67.19**	$63.54	6%

***** Table excludes Capire mine production

Production and Sales Highlights for the Three and Six Months Ended June 30

As the Company disclosed in its first quarter 2013 MD&A, mine production in 2012 was impacted by lower silver grades, particularly from the Chivo Mine, where silver grades decreasing with depth resulted in lower overall production. Further, Chivo also supplied higher grades of lead and zinc and therefore, the phasing down of Chivo also contributed to reduced overall lead and zinc production. To offset these production losses, the Company fast tracked the high grade Cuchara-Oscar Mine into production. Commencement of production at Cuchara-Oscar was announced in late February of 2013. Upon commencing initial production, the mining from Cuchara-Oscar was development muck, with the expectation of mining higher grade material later in 2013.

Within the second quarter of 2013, Cuchara-Oscar provided 22% of all mill feed, a steady increase of 13% from the previous quarter. This increase has provided higher grade ore for the Company's Guadalupe Production Centre increasing the average head grade for silver from 146 g/t in the first quarter of 2013 to

163 g/t in the second quarter of 2013. The higher grade ore also increased the year-to-date grade to 155 g/t for the current year compared with 146 g/t for the same period in 2012.

Average silver metal prices based upon the LME PM fix have decreased by 23% from the first quarter to the second quarter of 2013. Additionally, average silver prices have decreased 21% in the second quarter of 2013 from the same period in 2012. This decrease in silver price contributed to the decrease in revenue from the first quarter to the second quarter of 2013 even though the Company had increased silver sales in the second quarter. Silver sales were 199,581 ounces in the second quarter of 2013, an increase over the 140,740 ounces sold in the same period of 2012. In addition, silver sales also increased year-to-date for 2013 to 362,646 ounces compared with 303,027 ounces sold year to date in 2012.

The Company's lower revenues per tonne sold in the second quarter of 2013 of $88.96 per tonne, a decrease from $95.47 per tonne from the same period in 2012, is a result of lower realized metal prices and slightly higher smelting and refining charges. The lower silver price also affected the year-to-date revenue per tonne as it decreased to $93.93 per tonne for the year compared with $100.17 per tonne for same period in 2012.

The average mill head grade for silver has increased from the second quarter of 2012 to the same period of 2013 from 145 g/t to 163 g/t respectively. Year to date, there was an increase from 146 g/t silver to 155 g/t silver from 2012 to 2013 respectively. These increases are due in part to increased production of higher grade ore from the Cuchara-Oscar Mine. 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 and with the Capire Mine and pilot plant projected to commence commercial production in the last half of this year, the Company expects a steady increase in grades going forward in 2013.

MINE PRODUCTION

Mine Operations

The Company has been operating the Guadalupe Production Center in the Royal Mines of Zacualpan Silver District since 2006 and during the first quarter of 2013, IMPACT began the commissioning of a second production centre at Capire, located 16 kilometres to the south in the Capire-Mamatla Mineral District.

Royal Mines of Zacualpan District

The Royal Mines of Zacualpan Silver District was acquired by the Company in early January 2006 and since then an extensive program of upgrading the 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 Production Centre 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 plant and facilities limit processing capacity to 500 tpd at Guadalupe, sourcing superior grade mill 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 zones in the San Ramon, Noche Buena and Cuchara-Oscar Mines and carrying out surface and underground exploration for high grade mineralization with very near-term production potential in close proximity to these mines.

San Ramon Mine

During the second quarter of 2013, the San Ramon Mine provided 46% (Q2 2012 – 33%) of mill feed to the Guadalupe Mill. San Ramon has been a significant contributor to production since 2008 and continues to be a pillar of the Company's production profile. During 2012, a second access adit was constructed from the valley floor to access the lower San Ramon workings at Level 15 and is now the main production adit for the mine. This second access has reduced mining and hauling costs at San Ramon.

Noche Buena Mine

During the second quarter of 2013, the Noche Buena Mine provided 32% (Q2 2012 – 31%) of mill feed to the Guadalupe Mill. The mine is located 4 kilometers southwest of the Guadalupe Production Centre and commenced production in the first quarter of 2010. The mine is contributing a silver-gold feed to the Guadalupe mill.

Cuchara-Oscar Mine

On February 20, 2013, the Company announced initial production at the new Cuchara-Oscar Mine. During the second quarter Cuchara-Oscar produced 22% (Q2 2012 – 0%) of mill feed to the Guadalupe Mill. The Cuchara-Oscar Mine is another exploration success story taken from initial field exploration through drilling to mine construction and production by the IMPACT team. Within eight months of the production decision, the Cuchara-Oscar Mine was moved into production utilizing the historic infrastructure in the area.

Cuchara-Oscar encompasses a corridor of high-grade silver veins located 2.5 kilometers east of the Guadalupe mill. Initial production at Cuchara-Oscar is from development muck in the Marqueza and Oscar Veins with plans to develop the Resguardo and Maria de Jesus Veins in the second half of 2013. Accessible higher grade material is expected to increase in the second half as all these veins are developed.

Chivo and Gallega Mines

After a period of reduced production, the Chivo and Gallega Mines were put on care and maintenance during the first quarter and production shifted to the new higher grade Cuchara-Oscar Mine. During the second quarter of 2013, the Chivo and Gallega Mines provided 0% (Q2 2012 –36%) of mill feed to the Guadalupe Mill.

Capire Production Centre

On March 14, 2013, IMPACT announced that commissioning of the new Capire Mine and pilot plant had begun. Production at Capire is beginning with a 200 tpd pilot plant to optimize mining and processing parameters toward planning for a larger operation in the future. Capire represents a new silver production centre and the next significant phase of growth for the Company.

Capire is located 16 kilometers southwest of the active mining and processing operations at the Royal Mines of Zacualpan. Unlike the Zacualpan mines, Capire is a volcanogenic massive sulphide ("VMS") base and precious metal deposit. VMS mineralization in the Capire VMS District is predominantly silver-rich with zinc, lead and gold 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.

The NI 43-101 compliant measured and indicated mineral resource estimates for the Capire Mine based on information available through early 2011 include 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 45.74 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). The Company has completed the 200 tpd facility including infrastructure and tailing pond. Initial pre-stripping has been completed and initial concentrate shipments have been sent. The Company is currently reviewing the mining and metallurgical procedures to maximize recovery. Initial mining is focused on higher grade portions of the deposit with lower grade material being stockpiled for future processing.

Since 2011 exploration drilling has continued at Capire and nearby zones of mineralization with the aim of expanding mineral inventories for future production.

EXPLORATION

IMPACT's exploration on the Royal Mines of Zacualpan Silver Project continues its success story. IMPACT's team has explored and placed four mines (Chivo, Noche Buena, Cuchara-Oscar and Capire) into production over the past six years. During the second quarter, drilling continued on the Mirasol and El Gigante areas of the Zacualpan district, and the Aurora II and Capire South areas of the Capire VMS District. To July 31, the Company has completed 25,000 meters of drilling well ahead of the planned program.

IMPACT employs field crews dedicated to early stage exploration throughout the districts. These crews have been sampling some of the 3,000+ old mine workings and prospects in the project area. They are also trenching areas of mineralization and carrying out extensive soil sampling on 100 meter x 25 meter grids. During the quarter, fieldwork in the form of detailed geological mapping, rock sampling and soil sampling was carried out in the San Pablo Norte, La Osa and Zotzacola areas with favourable results.

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.

In 2011, the Company optioned most of its Zacatecas assets to Defiance Silver Corp. ("Defiance", DEF: TSX.V). The option agreement consisted of two staged payments to the Company, an initial payment of 2,680,500 common shares of Defiance (paid) for total consideration of $1,420,665 and $1,955,200 due as a final closing payment on the earlier of September 9, 2013 or the commencement of commercial production. Subsequent to the end of the period the Company amended the agreement to extend the final closing payment. Under the terms of the amended agreement Defiance may pay $10,000 or 150,000 common shares on or before September 9, 2013 to extend the term to September 9, 2014, and $25,000 or 350,000 common shares on or before September 9, 2014 to extend the term to September 9th 2015.

Prior and subsequent to the second quarter, the Company participated in several small private placements in Defiance. With this additional participation, the Company now has a 19.9% interest in Defiance. Defiance is in the final stages of re-permitting the plant and plans to commence commercial production with mineral feed from the Company concessions and the past producing San Acacio mine, which they optioned from a third party.

As at June 30, 2013, there was a prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company recorded a further non-cash write-down of $0.6 million.

Dominican Republic

The Dominican Republic is attracting interest from the industry with significant drill discoveries last year by Goldquest Mining, exploration work by other junior companies and the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc. Currently the Company is in the process of renewing its mineral concessions in the Dominican Republic, a process it has successfully done several times in the past. However, the new government is undertaking an extensive review of all applications for concession renewals and it is uncertain at this time whether such renewals will be granted. The Company's exploration concessions under renewal constitute a block of early stage exploration areas covering favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous structures which the Company believes offer the opportunity for mineralization. The Company's block of concessions is located some 100 km east of Barrick's large Pueblo Viejo Gold deposit which contains reported proven and probable gold reserves of over 23.7 million ounces. Pueblo Viejo is hosted in the same rock formation as the Company's concessions. The Company did not carry out any work in the Dominican Republic during the quarter.

FUTURE PLANS

Future plans for mining and exploration in the Zacualpan and Capire Districts are a balance between the 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

During the first quarter, IMPACT announced that both the new Cuchara-Oscar Mine and the Capire Mine had achieved initial operations. Near term plans are to ramp up production at both sites and focus on increasing production grade at all mines to continue operating on a cash flow positive basis. Long term plans are to grow the Company into a multimillion ounce silver producer.

Exploration Plans

Plans are to continue exploration with a goal of putting some of the other 3,000+ compiled old mine workings in the Zacualpan and Capire Districts on a faster track to potential production and build mineral inventories for mining. Field work and drilling has refocused on targets close to production areas. Near term drill targets include the northern extensions of the Noche Buena Mine and the Condesa South, Copal and Cuchara North targets in the Cuchara-Oscar Mine area of the Zacualpan District, and the Capire South and Aurora II area of the Capire-Mamatla District. Fieldwork in the form of geological mapping and detailed rock sampling is planned for the Noche Buena North, La Osa, Tapapchichi and San Pablo Norte areas.

With a track record of successful exploration, rapid mine development and more than 3,000 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. Construction of the Capire Mine and pilot plant is the first step in achieving this vision. With organic growth plans now in motion on the back of new mines at Capire and Cuchara-Oscar supported by a healthy treasury, the Company is also continuing to investigate accretive acquisition opportunities.

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.

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 and where possible effects reclamation on both current and historical 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 surrounding us. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program and a paramedic and onsite ambulance on standby in case of emergencies. The Company regularly employs an independent consultant to audit the safety program.

INVESTOR RELATIONS

During the second quarter of 2013, the Company continued to build investor awareness and shareholder value by conducting institutional presentations and attending investment and mining related conferences within Canada. Plans for the balance of 2013 include participation in investor conferences in North America and Europe, conducting institutional presentations, and leading mine tours for select invitees 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 June 30			
		2013		2012
Revenue	**$**	**3,779**	$	3,619
Net earnings (loss)	**$**	**(1,942)**	$	278
Earnings (loss) per share – basic	**$**	**(0.03)**	$	0.00
Earnings (loss) per share – diluted	**$**	**(0.03)**	$	0.00

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

For the three months ended June 30, 2013, the Company's mine operating earnings were $0.1 million compared to $1.3 million in 2012 on net smelter return revenues of $3.8 million compared to $3.6 million in 2012. The decrease in operating earnings was due to an increase in operating expenses from $1.9 million in the second quarter of 2012 to $3.2 million in the same period of 2013. Operating expenses in the quarter increased due to retroactive payments to union workers and higher mining costs at the Cuchara-Oscar mine as initial production consisted of development muck. The Company also deferred mining costs in ore which was stockpiled in the comparative second quarter of 2012. Amortization and depletion expenses remained relatively consistent at $0.5 million during the quarter ended June 30, 2013 and $0.4 million in the same period of 2012.

Net loss was $1.9 million for the second quarter in 2013 compared to net income of $0.3 million in 2012. The increase in loss was largely attributable to increased operating costs, increased non-cash share-based payments expense for the current quarter of 2013 including the revaluation of 1,310,000 stock options for which the expiry date was extended by five years and the non-cash write-down of the available for sale investment in Defiance. There was a further non-cash write down of $0.6 million for the shares of Defiance held by the Company as management determined there was a significant and prolonged decline in the value of these shares. General and administrative expenses excluding share based payments decreased to $0.6 million for the current quarter from $0.8 million in the same period of 2012.

Silver production was 185,998 ounces during the three months ended June 30, 2013, which was a 20% increase compared with 154,406 ounces produced within the same period of 2012. Lead and zinc production decreased over the same time period from 139 tonnes of lead and 205 tonnes of zinc in the second quarter of 2012 to 129 tonnes of lead and 149 tonnes of zinc in the same period of 2013. Gold production increased from 159 ounces to 360 ounces during the second quarter of 2012 and 2013 respectively.

Average silver prices declined 21% from the second quarter of 2012 in comparison to the same period in 2013. During this same period, lead prices increased by 4% while zinc prices decreased by 5%. As silver sales account for 85% of the Company's revenues, the increase and decrease in lead and zinc prices did not significantly affect mining operating earnings.

Summary of Year to Date Results

In thousands	Six months ended June 30			
		2013		2012
Revenue	**$**	**7,952**	$	8,086
Net earnings (loss)	**$**	**(2,597)**	$	131
Earnings (loss) per share – basic	**$**	**(0.04)**	$	0.00
Earnings (loss) per share – diluted	**$**	**(0.04)**	$	0.00

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

For the six months ended June 30, 2013, the Company's mine operating earnings were $1.2 million compared to $2.9 million in 2012 on net smelter return revenues of $8.0 million in 2013 compared to $8.1 million in 2012. Operating expenses, excluding amortization and depletion, were $5.8 million compared to $4.4 million in 2012. Amortization and depletion expenses increased slightly to $0.9 million in 2013 from $0.8 million in 2012.

Net loss was $2.6 million in 2013 compared to net income of $0.1 million in 2012. General and administrative expenses were $2.7 million in 2013 compared to $1.7 million in 2012. The largest increase in general and administrative expenses was from share-based payments due to new stock options issued in the first quarter of 2013 and the expense associated with the revaluation of stock options as a result of extending the exercise period by five years during the second quarter of 2013.

As of June 30, 2013, it was determined that there was a significant and prolonged decline in the value of the shares of Defiance held by the Company. To provide for this decline in value, the Company has recorded a non-cash partial write-down of $0.6 million. The Company still has legal ownership to these assets as the final payments on the option agreement are not yet due. If Defiance is unable to pay the final payments owing, then the assets will return back to the Company and the Company will retain the original payment.

The Company's net smelter revenues remained consistent during the first half of 2013 in comparison with the first half of 2012 as a result of increased sales offset with a decrease in the average silver price year to date. During the first half of 2013, 362,646 ounces of silver were sold. This is an increase over 303,027 ounces sold in the same period of 2012. However, during the same period, silver prices decreased by 14% offsetting this increase in sales.

There was a 10% increase in silver production during the first six months of 2013 from 2012 as a result of mining higher grade feed materials from the Company's mines in 2013. During this time period silver production increased to 351,649 ounces from 319,164 ounces in 2012. Additionally, gold production increased 99% from the first six months of 2012 to the first six months of 2013 from 293 ounces to 584 ounces respectively. This increase in production in the first half of 2013 is attributable to the mining of higher grade mineral from the Cuchara-Oscar Mine.

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							
	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011
Revenues	3,779	4,173	4,654	3,194	3,619	4,467	4,848	4,163
Net earnings (loss)	(1,942)	(655)	(839)	(436)	278	(147)	637	1,994
Earnings (loss) per share - Basic*	(0.03)	(0.01)	(0.01)	(0.01)	0.00	0.00	0.01	0.03
Earnings (loss) per share - Diluted*	(0.03)	(0.01)	(0.01)	(0.01)	0.00	0.00	0.01	0.03
Cash	9,973	13,340	16,013	19,566	23,057	28,065	30,775	33,746
Total assets	68,648	69,803	66,074	65,453	65,476	67,842	64,600	65,702
Total liabilities	8,481	8,167	7,131	6,705	6,896	8,191	6,823	8,302

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

The Company's financial position at June 30, 2013 remained strong with $10.0 million in cash and net working capital of $12.7 million. The Company had positive cash flows from operations before changes in non-cash working capital[2] of $0.6 million for the six months ended June 30, 2013. This compares to positive cash flow generated from operations before changes in non-cash working capital of $1.9 million in the same period of 2012.

The Company's working capital as at June 30, 2013 of $12.7 million decreased from $16.8 million at March 31, 2013 as the Company continued to invest its capital in the development of the Capire Mine and pilot plant as well as continued exploration in the Royal Mines of Zacualpan Silver District. Total investments in development and exploration were $3.6 million for the quarter and $7.6 million year to date. In addition, cash flow from operations decreased during the quarter due to higher operating expenses as well as the decrease in the silver price both, of which, also contributed to the overall decrease in working capital during the quarter.

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."

Capire Mine Development

Expenditures related to the development of the Capire Mine and pilot plant were $1.9 million in the second quarter of 2013 of which $0.7 million was invested in capital development of the mine and pilot plant with the remaining $1.2 million invested in exploration for additional mineral deposits at the Capire Mine. At June 30, 2013, $7.5 million has been invested in capital development at Capire.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 22, 2013:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares as of August 22, 2013	68,128,244		
Stock options	1,310,000	$0.55	January 6, 2019
Stock options	900,000	$1.10	December 6, 2015
Stock options	2,000,000	$1.85	September 26, 2016
Stock options	2,500,000	$1.20	January 23, 2018
Fully diluted at August 22, 2013	74,838,244		

Of the 6,710,000 options outstanding, 5,147,500 have vested at August 22, 2013.

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 six months ended June 30, 2o13, fees in the amount of $2.7 million (2012 – $1.7 million) were paid to Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. At June 30, 2013, the balance owed to Energold was $1.3 million (December 31, 2012 - $0.6 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 June 30, 2013 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. The principal contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles") and Consorcio Minero de Mexico Cormin Mex, S.A. de C.V. ("Cormin Mex"). The Company has a significant concentration of credit risk exposure to Penoles and Cormin Mex at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash ($10.0 million), trade and other receivables ($4.1 million) and investments ($0.2 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 June 30, 2013, 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 June 30, 2013, 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 June 30, 2013, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.5 million decrease or increase in the Company's net earnings (loss) for the period ended June 30, 2013.

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 period ended June 30 as follows:

		2013		2012
Silver price	$	**87,000**	$	126,000

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, and 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: Calculated as Cash flows from operations less the changes in non-cash working capital (trade and other receivables, inventories, trade payables, 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

August 22, 2013