IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2012

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and six months ended June 30, 2012 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at August 20, 2012 and should be read in conjunction with the Company's quarterly unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2012 and audited consolidated financial statements for the year ended December 31, 2011 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 grown from an exploration company into a significant silver producer with control of nearly two entire mineral districts in central Mexico—the 423 km² **Royal Mines of Zacualpan Silver District** and the 200 km² **Mamatla Mineral District** adjacent to and southwest of Zacualpan. In addition to its 500 tonnes per day ("tpd") processing plant, IMPACT also owns a semi-portable, 200 tpd processing plant which is used as a pilot plant at its Capire Mine in the Mamatla Mineral District. In the first quarter of 2011, the Company purchased a third processing plant, the Santa Gabriela (formerly Veta Grande) plant, with a 200 tpd capacity which was optioned to Defiance Silver Corp. ("Defiance") for cash and a major share position. IMPACT owns approximately 16.5% of the issued and outstanding shares of Defiance.

2012 is a year of transition for the Company. 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 Mamatla Mineral District. As part of this process, management has established **three key objectives** for the districts in 2012:

1. Complete the construction of the new Capire Mine and the 200 tpd pilot plant with first concentrate shipments anticipated this winter.
2. Shift production to the high grade Oscar Mine from Chivo Mine while maintaining high-grade silver production at the San Ramon and Noche Buena Mines.
3. Continue aggressive exploration and prepare new sources of mineral feed for mine development to justify expansion of the current facilities or construction of new processing plants, including Valle de Oro.

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, 2012

Financial Overview

- The net income for the second quarter was $0.3 million compared to a loss of $0.1 million in the first quarter of 2012.
- Revenues for the second quarter were $3.6 million, a decrease from $4.5 million in the first quarter of 2012.
- Mine operating earnings for the second quarter were $1.3 million, a decrease from $1.6 million in the first quarter of 2012.
- Foreign exchange for the second quarter was a gain of $0.3 million, compared to a loss of $0.7 million in the first quarter of 2012 as a result of recent favourable foreign exchange fluctuations with respect to the principal currencies in which the Company transacts business, namely the relative exchange values of the Canadian and US dollars and the Mexican peso.
- Cash flows from operations before changes in non-cash working capital in the quarter ended June 30, 2012 were $1.2 million, up from $0.7 million in the first quarter of 2012.
- Net working capital remains strong at $29.5 million on June 30, 2012 compared to $32.1 million on March 31, 2012.

Production Overview

- During the last six months, the Chivo Mine ("Chivo") encountered decreasing silver grades with depth leading to lower overall silver production. As such, the Company has begun the process of fast tracking the new high grade Oscar Silver Mine into production to replace production from Chivo.
- Silver production in the second quarter was 154,406 ounces, down 6% from 164,758 ounces in the first quarter of 2012.
- Lead production in the second quarter was 139 tonnes down 6% from the 149 tonnes in the first quarter of 2012.
- Zinc production in the second quarter was 205 tonnes down by 21% from the 260 tonnes in the first quarter of 2012.
- During this quarter, one of the plant's ball mills was inoperative, reducing mill throughput in the quarter to 39,813 or 4% lower than the first quarter of 2012. Average mill throughput in the second quarter was 438 tpd.

Mines Under Construction

IMPACT is simultaneously constructing two new mines: the Oscar Silver Mine in the Royal Mines of Zacualpan District and the Capire Mine in the Mamatla Mineral District.

Oscar Silver Mine

The Oscar Silver Project ("Oscar") encompasses a corridor of high-grade silver veins located 2.5 km east of IMPACT's Guadalupe Processing Plant. During the quarter, on April 23, 2012, IMPACT announced further drill results from Oscar including **1,875 g/t silver across 1.00 meter** and **115 g/t silver across 23.39 meters**. With successful completion of this second phase drill program, the IMPACT mine development team has begun the process of fast tracking Oscar-Santa Lucia into production by the end of the year to take advantage of its high grade silver zones utilizing the existing mining infrastructure at the adjacent historic Cuchara Mine.

Capire Mine

On January 11, 2012, IMPACT announced that construction of the new Capire Mine ("Capire") in the Mamatla Mineral District had begun. Capire represents a new production center in a new mining district and an opportunity that, upon successful completion of the proposed exploration and development programs, would propel IMPACT to become a multimillion ounce silver producer. On June 11, 2012, IMPACT provided an update on construction activities at Capire, announcing that construction of the mine and plant continues with the goal of first concentrate shipments this coming winter (see IMPACT News Release dated June 11, 2012). Plans include the current installation of a 200 tpd pilot plant, which will optimize mining and processing parameters used in planning for production of the larger operation in 2015.

The NI 43-101 compliant measured and indicated mineral resource estimates for the Capire Mine include 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 (see IMPACT News Release dated February 1, 2011). Subsequent to the mineral resource announcement, IMPACT announced completion of 6,698 meters of drilling to expand the Capire zone to the north, east and south. Highlights from this expansion drilling include **304 g/t silver, 4.51 g/t gold, 1.52% lead, 3.05% zinc and 0.49% copper over 5.00 meters** and **1,160 g/t silver, 3.74 g/t gold, 3.86% lead, 8.83% zinc and 0.65% copper over 0.50 meters**. The zone remains open for expansion and drilling is continuing.

Exploration Highlights

Carlos Pacheco Gold-Copper Zone

The Carlos Pacheco Zone was the first gold and copper discovery in the Valle de Oro Gold District. Subsequent to the second quarter, on July 11, 2012, IMPACT announced further drill results from Carlos Pacheco including **8.47 g/t gold and 1.12% copper across 2.75 meters**.

Intermediate Silver Veins

The Carlos Pacheco drilling also cut nearby silver veins including **337 g/t silver across 2.00 meters**.

The work of IMPACT's exploration team for this portion of the Carlos Pacheco and Intermediate Silver Veins is now complete and the data has been passed to the mine planning group for engineering studies and potential production. Additional drilling of the zones will be done from the underground workings of the nearby operating Noche Buena Silver Mine.

Other

- On February 29, 2012, IMPACT received 2,680,500 shares from Defiance valued at $1.4 million as a first payment under an option agreement for the acquisition of the Company's Zacatecas assets as described in Note 7c of our 2011 annual report. IMPACT now owns approximately 16.5% of the issued and outstanding shares of Defiance.

- During the first quarter of 2012, the Company successfully resolved in its favour the 2007 tax appeal assessment that it had launched against the Mexican tax authorities ("SAT"). As a result of this successful appeal, the Company will receive a refund of the $0.6 million of taxes that it had paid.

Production and Sales

	For the three months ended June 30			For the six months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Total tonnes (t) produced	**39,813**	37,899	+5%	**81,257**	75,651	+7%
Tonnes produced per day	**438**	416	+5%	**449**	418	+7%
Silver production (oz)	**154,406**	224,361	-31%	**319,164**	485,331	-34%
Lead production (t)	**139**	201	-31%	**288**	395	-27%
Zinc production (t)	**205**	316	-35%	**465**	686	-32%
Gold production (oz)	**159**	174	-8%	**293**	343	-15%
Silver sales (oz)	**140,740**	249,851	-44%	**303,027**	506,287	-40%
Lead sales (t)	**123**	215	-43%	**274**	404	-32%
Zinc sales (t)	**257**	353	-27%	**488**	670	-27%
Gold sales (oz)	**140**	185	-24%	**279**	343	-19%
Average mill head grade –silver g/t	**145**	208	-31%	**146**	229	-36%
Revenue per production tonne	**$95.47**	$195.77	-51%	**$100.17**	$201.93	-50%
Direct costs per production tonne	**$64.66**	$79.97	-19%	**$63.54**	$74.35	-15%

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

As the Company disclosed in its first quarter MD&A, mine production in 2012 has been impacted by lower silver grades particularly in Chivo Mine where decreasing silver grades with depth have lead to lower overall silver production in the quarter and for the year to date. Chivo has provided about 25% and 43% of the Company's mill feed in 2012 and 2011, respectively. Chivo had the highest grades of lead and zinc feed materials for IMPACT's mining operations; therefore, the phasing down of Chivo reduces the overall lead and zinc production. To offset these production losses, the Company has begun the process of fast tracking the new high grade Oscar Mine into production to replace production from Chivo. In addition, the Company is working to find additional new sources of lead and zinc feed to balance its concentrate production mix.

Silver production in the second quarter was 154,406 ounces, down 31% from 224,361 ounces in the second quarter of 2011. Year to date, silver production in 2012 is 319,164 ounces, down 34% from 485,331 ounces in the comparable period of 2011. In the first half of 2011, silver production was augmented by the processing of higher than average grade material from the San Ramon Mine.

Average silver metal prices based upon the LME PM fix have decreased by 24% in the second quarter of 2012 from the same period in 2011. Zinc and lead sale prices have also reduced in comparison with 2011 prices. The average LME cash price for lead in US dollar per lbs has decreased by approximately 22% in the second quarter of 2012 compared to the second quarter of 2011. LME zinc reference prices have also decreased by approximately 15% in the second quarter of 2012 compared to 2011.

The Company's lower revenues per production tonne sold in 2012 of $100.17 per tonne, a decrease from $201.93 per tonne in 2011, is a result of the combination of lower payable metal content per production tonne, lower average realized selling prices and higher smelting and refining charges. As indicated, production and revenues in the first half of 2011 benefited from significantly higher metal prices and higher grade material from the Company's mines. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. For the next few quarters, the Company expects its mill feed to be at the lower end of its expected average grade as Chivo Mine production is phased out and Cuchara-Oscar Mine production is brought onstream.

Despite lower revenues per production tonne sold, the Company is pleased to report that it has been able to maintain and lower direct costs per production tonne by 15% year to date to $63.54 per tonne in 2012 from $74.35 per tonne in 2011.

MINING AND EXPLORATION OVERVIEW – MEXICO

Royal Mines of Zacualpan Silver Project

IMPACT owns concessions covering most of the Royal Mines of Zacualpan Silver District in central Mexico. Assets include 423 km2 of mineral concessions, operating mines, a processing plant rated at 500 tpd. The project is located 100 kilometres southwest of Mexico City and 25 km northwest of the well-known Taxco Silver mine. Access is by paved highway 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.

Mine Operations

Background and Overview

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006 and since then an extensive program of upgrading the operations and expanding production and profitability has been carried out. Since acquiring the project the Company has expanded and upgraded most of the mining equipment including rebuilding and purchase of a number of scoop-trams and underground trucks. Upgrade expenditures also include new equipment in the processing plant 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 earlier years the Company had seen fluctuations in grades due to the limited number of working faces available for mining. As a result of successful exploration and development over the last six years, the Company now has a greater ability to balance mill feed grade by drawing from a larger number of mine stopes. This flexibility provides a more blended overall grade for optimum metal recovery.

Operating results for the quarter were materially impacted in comparison with the second quarter of 2011 by significantly lower realized metal prices, lower grades from the Chivo Mine and lower than expected mill throughput due to equipment repairs (now complete). The Company is moving to address the issue of mine grade by shifting production from the Chivo Mine to the higher grade Oscar Mine by year end.

San Ramon Mine

During the second quarter of 2012, San Ramon provided 34% (Q2 2011 – 42%) of mill feed from the mining of high grade mineral. IMPACT recommenced mining at San Ramon in early 2008 on a selective basis with an emphasis on higher grade mineral. Mining continued to expand as underground access to a parallel structure, the Chaparrita Vein, was developed. During the fourth quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on level 5.5. This zone is now a major contributor to production at San Ramon. During the first quarter of 2012, a second access adit was begun from the valley floor and is anticipated to reach the San Ramon workings at about Level 15 later in 2012. This second access will reduce mining and hauling costs at San Ramon.

Noche Buena Silver Mine

During the second quarter of 2012, the Noche Buena mine provided 30% (Q2 2011 – 15%) of mill feed. The mine is located four kilometres southwest of the Guadalupe processing plant and opened in the first quarter of 2010. The mine is contributing a silver-gold feed with low lead and zinc contents to the

Guadalupe plant. This feed is being mixed and balanced with the higher grade lead from other mines to optimize the concentrate value.

The Noche Buena mine is located in the Valle de Oro area where IMPACT has also discovered and drilled several gold and copper rich veins including the Carlos Pacheco Vein which is located only 200 meters east of the Noche Buena mine workings. With surface exploration drilling on Carlos Pacheco completed subsequent to quarter end, IMPACT mine engineers have begun to drive a cross cut from the Noche Buena mine workings across to the Carlos Pacheco gold zone for additional underground drilling and test mining.

Chivo Mine

During the second quarter of 2012 the Chivo Mine provided 25% (Q2 2011 – 43%) of mill feed. In 2012, silver grades declined as the mine transitioned from higher grade silver to higher grade lead and zinc at depth. The Chivo Mine continued to supply a significant amount of material to the mill in the first half of 2012; however, with lower silver grades it impacted the average mill head grade. Over the next six months, the Company is shifting production from the Chivo Mine to the Oscar Mine to take advantage of Oscar's high silver grades.

Gallega and Guadalupe Mines

The Gallega mine was restarted in late 2011 and during the second quarter of 2012 provided 11% (Q2 2011 - 0%) of mill feed. Gallega will continue to supplement modest silver rich feed to the mill through 2012.
There was no mining in 2012 at the nearby Guadalupe mine. The Guadalupe mine remains dewatered and access is maintained for possible future mining. The remaining mineral at Guadalupe is mainly zinc-rich with modest silver values

The program of upgrades designed to enhance recoveries and improve processing economics is largely complete at the 500 tpd Guadalupe plant. In June 2012, the main shaft on one of the ball mills broke which reduced tonnage throughput for the month and the quarter. The shaft was repaired by mid-July and the plant is again operating normally. Expansion of the tailing dam continues in order to provide additional capacity in future years. Subsequent to quarter end, IMPACT completed purchase of land for a new tailings dam to be built in the future when the current dam is full.

Exploration (Royal Mines of Zacualpan)

IMPACT's exploration on the Royal Mines of Zacualpan Silver Project continues to be a success story. IMPACT's team has discovered and placed three new mines (Chivo, San Ramon/Chaparrita, and Noche Buena) into production over the past five years along with various satellite deposits. The Capire Mine and Oscar Mine are both scheduled for initial near term production.

During the quarter, exploration continued at several locations including the Oscar, Capire, Noche Buena West, San Pablo Norte and Condesa areas. Surface and underground drilling continued without interruption. Field work included extensive mapping, trenching, sampling of old mines and surface rock, and soil sampling.

Drilling

Oscar Silver Project

The Oscar Silver project, located 2.5 km east of the Guadalupe processing plant, is a series of high-grade silver veins linking the past producing Cuchara Silver mine and the Santa Lucia silver zone. Earlier drill results for Santa Lucia included **466 g/t silver across 3.2 meters** (see IMPACT News Release dated December 16, 2009). Drill results announced from Oscar in 2011 include many high grade and wide intersections including **1,007 g/t silver across 5.65 m** and **291 g/t Silver across 30.65 meters** (see IMPACT news release dated October 26, 2011 and October 20, 2011 respectively). On April 23, 2012, further drill results from Oscar were announced as follows:

OSCAR AREA DRILL RESULTS								
DRILL HOLE	SECTION	FROM (m)	TO (m)	INTERVAL (m)	Ag (g/t)	Au (g/t)	Pb (%)	Zn (%)
Z11-55	19+50N	21.80	22.85	1.05	**435**	0.01	0.15	0.24
Z11-61	19+50N	256.20	257.16	0.96	**216**	**1.71**	**11.03**	**19.73**
Z11-64	20+00N	36.60	43.20	**6.60**	**223**	0.08	0.18	0.52
Including		36.60	37.40	0.80	**1,270**	0.23	0.86	1.66
And		137.25	138.25	1.00	**468**	0.13	1.67	1.28
Z11-69	20+00N	0.70	3.35	**2.65**	**408**	0.62	0.73	1.12
And		71.05	72.10	1.05	**536**	0.17	**1.67**	**3.20**
Z11-71	20+00N	97.60	98.60	1.00	**234**	**0.74**	**11.25**	**13.55**
Z11-74	20+50N	21.35	22.35	1.00	**1,875**	**0.74**	**2.65**	**6.88**
And		90.00	91.24	1.24	**835**	**0.12**	**1.28**	**1.78**
Z11-76	20+50N	42.53	56.45	**13.92**	**80**	**0.98**	**1.03**	**1.44**
Including		42.53	44.24	1.71	220	0.41	1.76	1.57
Including		46.79	48.29	1.50	299	0.35	3.22	5.72
Including		53.96	56.45	2.49	71	**4.79**	1.84	1.66
Z11-78	20+50N	102.15	103.70	1.55	250	0.02	0.01	0.03
Z12-05	17+00N	92.50	97.60	**5.10**	**234**	0.05	0.14	0.49
Including		95.55	96.55	1.00	444	0.12	0.26	0.92
Z12-06	18+00N	86.25	87.15	0.90	**564**	0.01	0.16	1.22
Z12-08	19+00N	45.75	23.39	**23.39**	**115**	0.02	0.12	0.36
Including		22.36	23.85	1.49	**510**	0.06	0.36	1.27
Including		44.50	45.75	1.25	**297**	0.08	0.36	0.87
Z12-09	19+00N	118.15	121.15	3.00	272	0.20	0.90	2.44
Z12-12	18+50N	153.45	153.95	0.50	**346**	0.03	0.242	0.88

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. With the successful completion of this second phase drill program, the IMPACT mine development team has begun the process of fast tracking Oscar-Santa Lucia into production to take advantage of its high grade silver zones. Initial mining plans envision utilization of the existing infrastructure of the Cuchara mine which includes a nearby modern mine access ramp located close to the drill intersections reported here.

This pre-existing nearby mining infrastructure, its relative position at elevations below the Oscar and Santa Lucia drill intersections, and the short transport distance to the Guadalupe processing plant should result in a low cost structure for mining operations in this area.

Carlos Pacheco Gold-Copper Project

The Carlos Pacheco Gold-Copper project is located six km southwest of the Guadalupe processing plant and 200 meters east of IMPACT's producing Noche Buena silver mine. Fieldwork in the area began in 2007 with a systematic mapping and rock sampling program followed by an initial drill program that cut high grade gold intersections up to **19.6 g/t gold across 2.9 meters** including **49.7 g/t gold across 1.0 meter**. Subsequent to the quarter, on July 11, 2012, IMPACT announced additional drill results from Carlos Pacheco as follows:

CARLOS PACHECO VEIN DRILL RESULTS - HIGHLIGHTS							
DRILL HOLE	SECTION	FROM (m)	TO (m)	INTERVAL (m)	Au (g/t)	Ag (g/t)	Cu (%)
Z12-13	12+50 N	192.30	199.00	**6.70**	**3.84**	28	**0.54**
Including		192.30	195.05	**2.75**	**8.47**	56	**1.12**
Z12-17	12+75 N	198.25	200.99	**2.74**	1.83	56	**0.54**
Z12-21	12+25 N	190.65	195.3	**4.65**	**0.96**	43	**0.60**
Including		190.65	191	0.35	0.53	**265**	**5.12**
Z12-23	12+25 N	229.85	230.95	1.10	**3.82**	84	**0.54**
Z12-27	13+50 N	156.65	158.6	**1.95**	0.84	88	**1.52**
Including		156.65	157.4	0.75	0.67	204	**3.47**

Both the Noche Buena and Carlos Pacheco Veins have strike lengths in excess of eight km with numerous zones of enriched metal content, as outlined by regional mapping and prospecting. To date, drilling has tested 500 meters of strike length on these veins. This current drill program was focused at depths of 120 to 250 meters, which is below an inclined shaft on the Carlos Pacheco Vein that IMPACT's mining group re-opened and sampled. This work indicated good continuity to the gold-copper grades for the Carlos Pacheco Vein and provided the impetus for this drill program.

Intermediate Veins at Noche Buena

In addition to the gold-copper mineralization in the Carlos Pacheco Vein described above, other drill holes in the program intersected silver-lead-zinc mineralization in the Intermediate Veins. The Intermediate Veins are a newly discovered vein cluster located midway between the Carlos Pacheco and Noche Buena Veins, which include numerous wider and lower grade intersections in addition to those reported in the table below.

INTERMEDIATE VEINS DRILL RESULTS - HIGHLIGHTS									
DRILL HOLE	SECTION	FROM (m)	TO (m)	INTERVAL (m)	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)
Z12-11	12+50 N	113.65	114.70	**1.05**	159	0.29	0.01	0.15	0.27
Z12-16	12+50 N	100.00	114.30	**14.30**	**82**	0.04	0.01	0.09	0.19
Including		100.00	106.50	**6.50**	**119**	0.06	0.01	0.06	0.14
Including		101.45	101.95	**0.50**	**560**	0.16	0.01	0.03	0.07
Z12-18	12+75 N	57.00	59.00	**2.00**	**337**	0.20	0.01	0.23	0.43
Including		58.45	59.00	**0.55**	**1,010**	0.61	0.02	0.64	1.19
And		205.60	213.60	**8.00**	23	**2.09**	0.25	0.02	0.03
Including		212.15	213.60	**1.45**	29	**9.67**	0.29	0.03	0.03
Z12-19	12+75 N	74.90	75.10	0.20	**858**	0.64	0.05	**7.57**	**10.10**
Z12-20	12+75 N	28.20	63.85	**35.65**	**50**	0.05	0.01	0.13	0.23
And		149.50	152.75	**3.25**	153	0.33	0.01	0.24	0.69
Including		151.30	152.75	**1.45**	**319**	0.69	0.02	0.41	1.32
And		174.00	174.55	**0.55**	97	0.91	0.17	0.36	**16.45**
Z12-23	12+25 N	26.10	28.10	**2.00**	**207**	0.22	0.01	0.10	0.15
And		84.75	90.40	**5.65**	75	0.09	0.01	0.05	0.14

Any anticipated mining operations at Carlos Pacheco will be accessed with a crosscut from the workings of the operating Noche Buena mine, providing low cost mine access to the Intermediate Veins. Additional drilling of the Carlos Pacheco and Intermediate Veins will be done from the underground workings of the Noche Buena mine. The work of IMPACT's exploration team for this portion of the Carlos Pacheco and Intermediate Veins is now complete and the data has been passed to the mine planning group for engineering studies, underground drilling and potential production.

Zacualpan Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the district. These crews have been sampling some of the 2,700+ 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 this work included mapping and sampling of soils and rocks mainly in the Noche Buena West and San Pablo Norte areas with the objective of defining additional near-term drill targets.

Capire Subdistrict Silver and Base Metals Mine Development and Exploration

Capire is located in the Mamatla Mineral District, 16 km southwest of IMPACT's active mining and processing operations at Zacualpan. The Capire area hosts epithermal silver and base metal veins as well as volcanogenic massive sulphide ("VMS") base and precious metal mineralization. The new Capire Mine is now under construction.

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

On January 11, 2012, IMPACT announced that construction of the Capire Mine and pilot plant had begun and IMPACT provided an update on construction activities on June 11, 2012. The open-pit Capire Mine represents a new production center in a new mining district and an opportunity that, upon successful completion of the exploration and development program, could propel IMPACT to become a multimillion ounce silver producer.

In February 2011, the updated NI 43-101 compliant Measured and Indicated Mineral Resources was announced and totalled **7.2 million ounces silver, 30,446 ounces gold, 95.6 million lbs zinc and 37.2 million lbs lead** (see IMPACT News Release dated February 1, 2011). 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.

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

See IMPACT news release dated February 1, 2011 and posted on www.sedar.com for full details.

Subsequent to the mineral resource announcement, IMPACT completed 6,698 meters of drilling to expand the Capire zone to the north, east and southeast (see IMPACT News Releases dated May 24, 2011 and August 17, 2011). Highlights from this expansion drilling included **304 g/t silver and 4.51 g/t gold across 5.00m** and **212 g/t silver and 0.37 g/t gold across 6.60 meters**.

The zone remains open for expansion. Drilling is continuing.

Construction of the Capire Mine continues with the goal of first concentrate shipments this coming winter. Plans are to first install a 200 tpd pilot plant this year to optimize mining and processing parameters toward planning for a larger operation in about 2015. Other exploration targets in the Capire area are also being prepared for drilling as potential additional feed for the expanded processing plant.

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 in the northeast area of the concession. This work is continuing and new targets are being outlined in preparation for drilling.

Veta Grande (Zacatecas) Silver Project, Mexico

In 2010, IMPACT completed the purchase of a 200 tpd processing plant in the Zacatecas Silver District and previously purchased 13 mineral concessions with no underlying royalties. 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 five years intermittent exploration has focused on several of the 13 mineral concessions located within the district, three of which are in a joint venture.

In 2011, IMPACT optioned its Zacatecas assets to Defiance Silver Corp. (DEF: TSX.V) in return for a major share position (paid) and cash (to come) (see IMPACT News Release dated September 12, 2011). Defiance Silver plans to refurbish the plant and commence commercial production with mineral feed from the IMPACT concessions and the past producing San Acacio mine, which they optioned from a third party.

Future Exploration Plans

In 2012, IMPACT is fast tracking two new mines into production at Capire and Oscar.

During the quarter, exploration continued with the objective of generating drilling and production targets. Plans for 2012 are to continue aggressive exploration with a goal of putting some of the other 2,700+ compiled old mine workings 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 2,700 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. Construction of the Capire Mine is the first step in achieving this vision.

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, an independent professional engineer. Other information on the Company's projects can be found on the Company website at www.IMPACTSilver.com .

EXPLORATION OVERVIEW – DOMINICAN REPUBLIC

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc, as well as several junior companies including recent drill discoveries by Goldquest Mining. IMPACT's exploration concessions in the Dominican Republic 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 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 IMPACT's concessions. No work was carried out by the Company on its concessions during the quarter.

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 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.

Investor Relations

During the quarter, IMPACT continued to generate investor awareness and build shareholder value by marketing to institutional and retail investors in North America and Europe. IMPACT presented in Munich, Zurich, Frankfurt and Geneva in Europe, Toronto and Montreal in Canada and in New York, U.S.A. Plans for the remainder of the year are to continue participating in investor conferences and conduct institutional presentations in the North American and European markets with the intent to increase IMPACT's visibility. Beyond these traditional marketing channels, IMPACT also grew its online presence via social media, video interviews and print magazine articles.

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			
		2012		2011
Revenue	**$**	**3,619**	$	7,997
Net earnings	**$**	**278**	$	2,471
Earnings per share – basic ($)	**$**	**0.00**	$	0.04
Earnings per share – diluted ($)	**$**	**0.00**	$	0.04
Cash and cash equivalents	**$**	**23,057**	$	32,633
Total assets	**$**	**65,476**	$	65,238

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

Revenues (net smelter returns) in the second quarter ended June 30, 2012 were $3.6 million, down from $8.0 million in the second quarter of 2011. Revenue per production tonne sold decreased to $95.47 in the second quarter of 2012, down 51 % from $195.77 in the second quarter of 2011. Revenues in the second quarter of 2012 were lower due principally to lower metal concentrate production available for sale as a result of lower mill feed grades as well as significantly lower realized selling prices for silver, lead and zinc. Increased smelter refining charges implemented in July 2011 and May 2012 played a role in reducing net smelter returns in the second quarter of 2012 when compared to the second quarter of 2011.

Mine operating expenses during the quarter were $1.9 million, a significant decrease from $3.2 million in the second quarter of 2011. Amortization and depletion in the quarter was $0.4 million, compared to $0.3 million in the second quarter of 2011. Direct costs per production tonne in the second quarter of 2012 were $64.66 compared to $79.97 in the second quarter of 2011. Efficiencies gained by mill improvements and upgrades have helped to offset increases in salaries, wages, and other operating costs at the mine. Operating expenses were also reduced by the decline in value of the Mexican peso relative to the Canadian dollar from the second quarter of 2012 when compared to the second quarter of 2011.

Mine operating earnings in the quarter were $1.3 million, a decrease from $4.5 million in the second quarter of 2011.

General and administrative expenses in the second quarter of 2012 were $1.0 million and $0.5 million in the second quarter of 2011. Investor relations, promotion and travel in the quarter were $0.09 million, an increase of $0.03 million from $0.06 million in the second quarter 2011. Office salaries and services expense increased to $0.3 million in the second quarter of 2012, up from $0.13 million in the second quarter of 2011. Office, rent, insurance and sundry expense was $0.2 million in the second quarter up from $0.1 million in the second quarter of 2011. Non-cash share based payments expense was $0.2 million in the second quarter of 2012 compared to $0.03 million in the second quarter of 2011 as a result of the Company's September 27, 2011 grant of stock options exercisable at a price of $1.85 per share. All other categories of general and administrative expenses remained relatively similar between quarters.

The Company incurred a foreign exchange gain of $0.3 million in the second quarter of 2012 compared to a foreign exchange loss of $0.06 million in the same period of 2011. The Company earns revenues in US dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its US dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

Summary of Year to Date Results

In thousands	Six months ended June 30 **2012**		2011
Revenue	**$**	**8,086**	$ 15,255
Net earnings	**$**	**131**	$ 4,945
Earnings per share – basic ($)	**$**	**0.00**	$ 0.08
Earnings per share – diluted ($)	**$**	**0.00**	$ 0.08
Cash and cash equivalents	**$**	**23,057**	$ 32,633
Total assets	**$**	**65,476**	$ 65,238

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

For the period ended June 30, 2012, the Company's mine operating earnings were $2.9 million compared to $9.1 million in 2011 on net smelter return revenues of $8.1 million compared to $15.3 million in 2011. Operating expenses, excluding amortization and depletion, were $4.4 million compared to $5.6 million in 2011. Amortization and depletion expenses increased to $0.8 million in 2012 from $0.5 million in 2011.

Net income was $0.1 million in 2012 compared to $4.9 million in 2011. General and administrative expenses were $1.7 million in 2012 compared to $0.9 million in 2011. The two largest components of the general and administrative expenses increase in 2012 over 2011 was due to $0.4 million for share based payment expense and an increase of $0.2 million in office salaries and services costs. Other expenses all relate to foreign exchange losses incurred in both 2012 and 2011.

The Company's net smelter revenues were reduced during the first half of 2012 in comparison with the first half of 2011 as a result of a combination of several factors. These included lower contained metals concentrate production; lower sales volumes of metals produced and lower realized metal prices as well as some reduction of net revenues from higher smelting and refining charges.

There was a 34% reduction in silver production during the first six months of 2012 from 2011 as a result of mining lower grade feed materials from the Company's mines in 2012. Silver production was decreased from 485,331 ounces to 319,164 ounces. Lead production was reduced by 27% from 395 tonnes to 288 tonnes and zinc production was decreased by 32% from 686 tonnes to 465 tonnes. In the first half of 2011 production was enhanced from the mining of higher than average grade mineral from the San Ramon mine.

Silver sales in 2012 were reduced by 40% compared to 2011 from 506,287 ounces to 303,027 ounces as a result of physical concentrate shipment timing issues and changes in ending period inventories. Silver sales were 16,137 ounces lower than production in the first half of 2012. In contrast, sales were 20,956 ounces higher than production in the first half of 2011. Lead and zinc sales volumes decreased by 27% and 32% from 2011 to 2012, respectively, as a result of reduced production and inventory changes.

Silver, lead and zinc metal prices have also declined to 12% from 21% in the first half of 2012 in comparison to the first half of 2011. For the first six months of 2012, the average LME PM price fix for silver was $31 US per ounce compared to $35 US per ounce in 2011. Year to date, average LME lead reference prices have decreased by about 21%. Average zinc reference prices on the same basis have been reduced by about 14%.

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 2012	March 31 2012	Dec 31 2011	Sept 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010
Revenues	3,619	4,467	4,848	4,163	7,997	7,258	6,820	3,209
Net earnings (loss)	278	(147)	637	1,994	2,471	2,474	2,087	414
Earnings (loss) per share - Basic*	0.00	0.00	0.01	0.03	0.04	0.04	0.04	0.01
Earnings (loss) per share - Diluted*	0.00	0.00	0.01	0.03	0.04	0.04	0.04	0.01
Cash and cash equivalents	23,057	28,065	30,775	33,746	32,633	19,968	18,690	2,939
Total assets	65,476	67,842	64,600	65,702	65,238	51,083	46,939	29,789
Total liabilities	6,896	8,191	6,823	8,302	7,747	6,768	5,643	4,879

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

* *The financial results from January 1, 2010 have been restated in accordance with IFRS.*

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at June 30, 2012 remained strong with $23.1 million in cash (2011 - $32.6 million) and net working capital of $29.5 million (2011 - $33.2 million). IMPACT generated negative cash flows from operations of $1.6 million in the quarter and $1.9 million for the six months ended June 30, 2012 compared to positive cash flows from operations of $4.2 million in the second quarter of 2011 and $6.9 million for the first six months of 2011. The Company had positive cash flows from operations before changes in non-cash working capital[1] of $1.2 million during the second quarter of 2012 and $1.9 million for the year to date. This compares to positive cash flow generated from operations before changes in non-cash working capital of $2.9 million in the second quarter of 2011 and $6.0 million for the first six months of 2011.

Total investment activities for the six months ended June 30, 2012 were $5.8 million, which represents a significant increase of approximately $2.0 million in investment activity expenditures in comparison to $3.8 million expenditures over the first half of 2011. The majority of the increase in investment activity was due to acceleration of drilling exploration activity at the Capire Mine as well as certain near term drill targets of interest in the Zacualpan district.

There were no capital markets financing activities carried out in the first half of 2012. In contrast, in the second quarter of 2011, the Company raised $10.4 million through the issuance of 6,088,500 common shares of the Company and through the exercise of share purchase warrants which were exercisable at $1.75 per share.

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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's financial condition as at June 30, 2012 continues to be strong with working capital of $29.5 million compared to working capital of $31.9 million at December 31, 2011. The Company continues to have no bank borrowings or long term debt.

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.

Resource Property Expenditures and Capire Mine Development

Exploration expenditures related to Zacualpan in the second quarter of 2012 were $0.7 million, compared to $0.6 million in the second quarter of 2011. Year to date exploration property expenditures are $2.5 million compared to $2.2 million in the same time period in 2011. Expenditures related to the development of the Capire Mine of $1.4 million in the second quarter and $1.0 million in the first quarter are being capitalized to property, plant and equipment. Development expenditures of the Capire Mine are budgeted to continue to be approximately $2.0 million per quarter.

The Capire Mine project is anticipated to cost approximately $7.0 million. To date approximately $4.0 million has been advanced towards the Capire Mine. The Company will continue to closely monitor its cash balance and will adjust exploration expenditures as required.

Zacatecas Assets

On February 28, 2012, IMPACT received 2,680,500 shares from Defiance valued at $1.4 million as a first payment towards the acquisition of the Company's Zacatecas assets as described in note 7c to our 2011 annual report. The Company credited these net proceeds against its Zacatecas asset costs and included on its balance sheet the shares acquired as an investment. In accordance with the Company's accounting policies, the Company has not recognized or made any provision for the future receipt of the $1.9 million cash payment which Defiance is obligated to pay to IMPACT to acquire the optioned assets from the Company. Upon receipt, most of this payment will be recognized by IMPACT as a gain on sale. Defiance remains responsible under the terms of the Operating Licence Agreement to operate the Santa Gabriela Processing Mill in accordance with an operating permit granted by the Mexican Federal Government agency, PROFEPA, which includes a schedule of obligatory repairs and upgrades to the Mill and work site which Defiance will be responsible for.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 20, 2012:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common	68,029,710		
Stock options	867,500	$ 1.40	September 5, 2012
Stock options	75,000	$ 1.67	October 22, 2012
Stock options	1,310,000	$0.55	January 6, 2014
Stock options	900,000	$1.10	Dec. 6, 2015
Stock options	2,000,000	$1.85	September 26, 2016
Fully diluted at August 20, 2012	73,182,210		

Of the 5,152,500 options outstanding, 4,402,500 have vested at August 20, 2012.

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 June 30, 2012, fees in the amount of $0.8 million (June 30, 2011 - $0.8 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 June 30, 2012, the balance owed to Energold was $1.3 million (June 30, 2011 - $1.2 million).

Tax Reassessment

In 2010, the Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities SAT Servicio de Administracio Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. 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. The total reassessment was for $0.6 million.

On November 30, 2010, MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount was transferred to SAT pending the outcome of the Company's appeal. As management believed that the Company has a strong case to win this appeal, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense was recognized in that year.

In December 2011, the appeal went forward to the Superior Court where a favourable judgement was attained for MPZ. No further appeal was launched by SAT against this judgement, and as of the final court decision on March 1, 2012 MPZ has successfully won its appeal of the reassessment. As MPZ is now in the process of having the tax reassessment deposit funds refunded, the balance is now classified as a current asset.

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, 2012 investments were classified as Level 1 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, 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 two 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 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") with both accounting for 100% of the sales of the Company for the fiscal year. 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 ($23.1 million), trade and other receivable ($5.8 million) and investments ($0.7 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 June 30, 2012 the Company did not have any 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 US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At June 30, 2012 the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in US dollars and Mexican pesos. Based on these foreign currency exposures at June 30, 2012, 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 for the three months ended June 30, 2012.

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 its exposure to metal prices at this time.

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. In addition, 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.

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 June 30, 2012 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 (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 20, 2012