

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

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected IMPACT Silver Corp. and its subsidiaries' ("IMPACT" or the "Company") performance and such factors that may affect future performance. For a comprehensive understanding of IMPACT's financial condition and results of operations, this MD&A should be read in conjunction with the Company's consolidated financial statements for the six months ended June 30, 2011 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts referred to herein are in Canadian dollars unless otherwise specified. The Company's accounting policies have changed and the presentation, financial statement captions and the terminology used in this MD&A and the accompanying unaudited consolidated interim financial statements differ from those used in financial statements and quarterly and annual reports issued prior to 2011. Additional information relating to the Company including material change notices, certifications of annual and interim filings, and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

HIGHLIGHTS FOR THE SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2011

Financial Highlights

Due to dramatically increasing prices for silver and record mill throughput over the last six months, the Company had two record quarters in a row for both sales and earnings. With the completion of a \$15.0 million financing late last year and the subsequent exercise of the related warrants for a further \$10.4 million in the second quarter this year, IMPACT is now able to rapidly accelerate its exploration and development programs to respond to the improved market.

Key events for the Quarter

- Revenues for the second quarter ended June 30, 2011 were a record \$8.0 million, up from \$2.9 million in the comparable period of 2010. Year to date revenues were \$15.3 million up from \$6.6 million for the first half of 2010.
- Mine operating earnings for the quarter ended June 30, 2011 were \$4.5 million, up 307% from \$1.1 million in the comparable period of 2010. For the six months ended June 30, 2011 mine operating earnings were \$9.1 million up 248% from \$2.6 million in the same period in 2010.
- Net earnings the quarter ended June 30, 2011 were \$2.5 million, up 718% from \$0.3 million in the comparable period of 2010. Net earnings year to date were \$4.9 million in 2011 up from \$0.9 million in 2010, and earnings per share for six months were \$0.08 compared to \$0.02 in the comparative period.

- Cash flows from operations before changes in non-cash working capital¹ in the three months ended June 30, 2011 were \$2.9 million, up from \$0.9 million in the comparable period of 2010.
- At the end of the quarter Company had cash and cash equivalents of \$32.6 million.

Private Placement Financing

- On December 15, 2010 the Company closed a \$15.0 million private placement consisting of 12 million units at a price of \$1.25 per unit, of which 8.75 million units were sold pursuant to a brokered portion of the private placement and 3.25 million units were sold pursuant to a non-brokered portion of the private placement. Each unit consists of one common share of the company and one-half of a non-transferable common share purchase warrant, each whole warrant was exercisable at \$1.75 to purchase one common share of the company until December 14, 2012.
- Under the private placement the Company was entitled to accelerate the expiry date of the warrants to a date which is at least 30 days from the date notice of such acceleration is provided to the holders of warrants in the event that the common shares of the company trade on the TSX Venture Exchange at a volume-weighted average price of \$2.50 or more for a period of at least 10 consecutive trading days. During the quarter the Company gave such notice and the period to exercise expired June 10, 2011. A total of 6,088,500 common shares of the company have been issued pursuant to the exercise of warrants, for total proceeds to the company of \$10,377,375.

The Company is using the net proceeds of the offering to accelerate the development and expansion of the Company's mineral properties in Mexico including the 423-square-kilometer ("km²") Royal Mines of Zacualpan Silver-Gold District and the development of the initial construction phase of the pilot plant at the Capire Project in the 200-square-kilometer Mamatla Mineral District. The Company also intends to accelerate its extensive exploration and drilling programs.

Production Highlights

- With significantly higher metal prices in 2010 the Company revised cut off grades and thereby lowered the average grade of ore mined. Doing so increased the total tonnes of economic ore available to the Company. As the year 2010 and the first half 2011 progressed, greater amounts of ore from the new Noche Buena Mine were delivered to the processing plant, and as expected ore grade increased in the first half of 2011 over the comparative period.
- Silver production in the quarter was 224,361 oz., bringing the total year to date to 485,331 oz. up 35 % from 360,767 oz. for the first half of 2010.
- Lead production in the first half was 395 tonnes, up 4% from 380 tonnes in the same period of 2010.
- Zinc production in the second quarter of 2011 was 316 tonnes, down from 370 tonnes in the first quarter of 2011 however production for the year to date was 686 tonnes or 32% higher than the comparative period in 2010.
- Average mill throughput in the second quarter was 416 tonnes per day ("tpd"), marginally lower than the first quarter but up 15% from 363 tpd in the second quarter of 2010. At June 30, 2011 the Company held finished goods concentrate inventories with an estimated net realizable value of \$0.5 million. These inventories are valued on the balance sheet at cost which was \$0.2 million.

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."

Exploration Highlights

Capire Expansion Drilling

- During the quarter IMPACT announced additional results from continuing drilling at Capire including 304 g/t silver, 4.5 g/t gold, 1.52% lead and 3.05% zinc across 5.0 meters (“m.”) and 121 g/t silver, 0.37 g/t gold, 1.24% lead and 2.79% zinc across 6.6 m. Subsequent to quarter end, on August 17, 2011, the Company announced additional drill results from Capire including 83 g/t silver, 0.18 g/t gold, 0.50% lead and 1.25% zinc across 8.8 m, and 1,160 g/t silver, 3.74 g/t gold, 3.86% lead and 8.83% zinc across 0.5 m. These results may add to the current NI 43-101 compliant Mineral Resource estimates totaling 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US\$20/tonne in ground metal value envelope. The zone remains open for expansion.

Huatecosco Gold-Silver Camp Drilling

- During the quarter IMPACT announced initial first phase drill results from the Huatecosco Gold-Silver Camp including 6.96 g/t gold, 84 g/t silver, 2.89% lead and 5.11% zinc across a true width of 4.24m.

Chontalpan Vein Drilling

- During the quarter IMPACT announced additional second phase drill results from the Chontalpan Vein drilling including 200 g/t silver across a true width of 1.3m.

Golondrinas Area Drilling

- During the quarter IMPACT announced additional second phase drill results from the Golondrinas area drilling including 377 g/t silver across a true width of 0.64m.

Corporate Overview

IMPACT is a natural resource mining and development company, primarily engaged in the acquisition, exploration, development and mining of mineral properties located in Mexico and the Dominican Republic. IMPACT currently produces concentrates containing silver, lead, zinc and gold at the Royal Mines of Zacualpan in the State of Mexico with a processing plant the “Guadalupe mill” rated at 500 tpd. The Company also owns a semi-portable 200 tpd processing plant the “Capire mill” which will be used as a pilot plant at its Capire Mine Development Project in the Mamatla Mining District and in 2010 it completed the acquisition of a third processing plant with a capacity of 200 tpd (the “Veta Grande mill”) at the “Veta Grande Silver Project” in Zacatecas, Mexico.

IMPACT has grown from an exploration company into a significant silver producer. The Company controls almost two entire mineral districts in central Mexico; the 423 km² Royal Mines of Zacualpan Silver District and the 200 km² Mamatla Mineral District immediately southwest of Zacualpan. Subsequent to the end of the quarter, the Company signed an agreement with Defiance Silver Corp. for the Veta Grande Silver Project in Zacatecas Silver District (see subsequent event below and IMPACT’s August 25, 2011 news release for details).

IMPACT is currently undertaking a three-part process of exploration, development and mine production at the Royal Mines of Zacualpan Silver District and adjacent Mamatla Mineral District. The Company has three specific objectives aligned to each activity area. The first objective is to enhance immediate economically recoverable throughput until the current maximum rated capacity of 500 tpd at the Guadalupe Mill is achieved. In the first half of 2011 the Guadalupe mill processed an average of 416 tpd, a record level of production. With the addition of ore from the Noche Buena Mine the Guadalupe Mill is expected to be processing close to its rated capacity in the latter part of 2011. The second objective is to continue exploration and prepare new sources of ore for mine development which will justify expansion of our current facility or the construction of new processing plants within the Zacualpan and Mamatla Districts. The first step in this direction will be the installation of the Capire mill at the Capire project in the near term. The third objective is to continue the reconnaissance exploration program designed to evaluate the longer term potential of these 500-year-old mining districts. One push toward this objective is the start of a large reconnaissance program in the first half of 2011 on the recently acquired Zacualpan

SE concessions. IMPACT continued to make progress towards each of these three objectives in 2010 and with the completion of its recent financing has accelerated this work in 2011.

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

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

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

On March 17, 2010, the Company completed the purchase, through its wholly-owned subsidiary Minera Aguila Plateada SA de CV ("MAP"), of the 200 tpd Veta Grande processing plant in the Zacatecas Silver District of Mexico and acquired a number of mineral concessions (collectively the "Veta Grande Silver Project"). Subsequent to the end of the quarter, the Company signed an option agreement with Defiance Silver Corp. for the Veta Grande Silver Project (see subsequent event below and IMPACT's August 25, 2011 news release for details).

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

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

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL. At June 30, 2011, the Company had cash and cash equivalents of \$32.6 million held primarily with a Canadian Tier 1 Bank.

Production and sales for the three months ended

	Three months ended			Three months ended		
	June 30 2011	June 30 2010	% Change	June 30 2011	Mar. 31 2011	% Change
Total tonnes (t) produced	37,899	33,033	+15%	37,899	37,752	+0%
Tonnes produced per day	416	363	+15%	416	419	-1%
Silver production (oz)	224,361	186,890	+20%	224,361	260,970	-14%
Lead production (t)	201	173	+17%	201	193	+4%
Zinc production (t)	316	249	+27%	316	370	-14%
Gold production (oz)	174	153	+13%	174	170	+2%
Silver sales (oz)	249,851	172,039	+45%	249,851	256,436	-3%
Lead sales (t)	215	164	+31%	215	189	+14%
Zinc sales (t)	353	265	+33%	353	317	+11%
Gold sales (oz)	185	146	+27%	185	158	+17%
Revenue per production tonne sold	195.77	96.21	+103%	195.77	209.16	-6%
Direct costs per production tonne	79.97	53.60	+49%	79.97	68.71	+16%

Overview of the first half ended June 30, 2011

IMPACT completed an extremely successful first six months. As detailed in the table below, production levels for the first six months 2011 continued to increase primarily as a result of the addition of ore from the Noche Buena Mine. The dramatically higher prices for silver have allowed the Company to revise cut-off grades, which reduces slightly the average ounces per tonne, although with the additional ore from Noche Buena mine, grades at the Guadalupe mill for the six months have actually been higher for silver than in the comparable period in 2010. Reducing the grade marginally increases the cost per ounce, but with those prices the Company produced a record profit for the six months of \$4.9 million or \$0.08 per share. The mill throughput increased to 418 tpd from 343 tpd in the first six months of 2010. During the period the company completed the installation of new and more efficient flotation cells for the lead-zinc circuit and new filters in the lead-zinc circuit which should improve throughput and recoveries in the future. The mill was shut down for four days in the second quarter of 2011. Grades rose slightly due to the location of current mining activities and less development muck being delivered to the mill.

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

Production and sales for the six months ended

	Six months ended		
	June 30 2011	June 30 2010	% Change
Total tonnes (t) produced	75,651	62,127	+22%
Tonnes produced per day	418	343	+22%
Silver production (oz)	485,331	360,767	+35%
Lead production (t)	395	380	+4%
Zinc production (t)	686	521	+32%
Gold production (oz)	343	305	+13%
Silver sales (oz)	506,287	389,005	+30%
Lead sales (t)	404	440	-8%
Zinc sales (t)	670	550	+22%
Gold sales (oz)	343	340	+1%
Revenue per production tonne sold	201.93	104.46	+93%
Direct costs per production tonne	74.35	54.25	+37%

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

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

Mining (Royal Mines of Zacualpan)

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006 and the Company's first full day of production was January 18, 2006. The majority of the ore mined at that time was from the high grade San Ramon Mine, with some feed stock supplied by the Guadalupe mine which at that time supplied lower grade material but with a significant credit for lead and zinc. Later in 2006, as underground mining and haulage costs rose at the San Ramon Mine, the Company started to principally source its ore supply from the Guadalupe Mine. In the fourth quarter of 2007 mining began at the new Chivo Mine which became the principal production center and mining was suspended at the lower grade Guadalupe Mine. In early 2008 the San Ramon Mine was brought back into production and since then has provided an increasing tonnage of ore for processing. On March 4, 2010 IMPACT announced that mining had begun at the new Noche Buena Mine.

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

Company is increasing throughput at its current Guadalupe mill to reach its rated capacity of 500 tpd with the addition of ore from the Noche Buena Mine. This has involved expenditures for the replacement of certain equipment, upgrades in the processing plant and expansion of the tailings dam (in progress). While plant and facilities may at times limit capacity, sourcing mill feed from the Company's mines remains the critical factor for increasing production further.

In prior years the Company had seen fluctuations in grades due to the limited number of working faces available for mining. As a result of the successful exploration and development done over the last four years, the Company now has a greater ability to balance the grade of mill feed by drawing from a larger number of mine stopes to achieve a more blended overall grade for optimum metal recovery. Further as mineral prices have risen, the Company has taken the opportunity to maximize its accessible ore by slightly lower cut-off grades. Average grades for the quarter were approximately 8% lower than the previous quarter.

Chivo Mine

During the second quarter of 2011 Chivo provided 44% (2010 – 52%) of mill feed. A second adit on the Chivo structure is now the main production adit for the Chivo Mine. The ore in the immediate mining area was slightly lower grade. Further production at depth will come from internal declines. The Chivo Mine will continue to supply a significant amount of higher grade material to the mill in 2011.

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

San Ramon Mine

During the second quarter of 2011 San Ramon provided 43% (2010 – 37%) of mill feed from the mining of high grade mineral. In 2006, San Ramon, located in the Virgen Valley Mining Camp and 1.3 km south of the Chivo Mine, generated the majority of the high grade feed for the Guadalupe mill; however, operating costs were substantially rising and ore delineation became increasingly more complex due to the nature of the mine access, causing the Company to temporarily cease mining in 2007. After redesigning the mining plan, the Company recommenced mining at San Ramon in early 2008 on a selective basis with an emphasis on higher grade ores. Mining continues to expand at San Ramon as the Company also developed underground access to a parallel structure, the Chaparrita Vein and to a new large zone of mineralized breccia.

Noche Buena Mine

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

First half production from Noche Buena was approximately 80 tonnes per day with plans to increase to 100 - 120 tonnes per day as mining faces are developed. Noche Buena provided 15% of mill feed during the second quarter of 2011 (2010 – 12%). Production was lower than budgeted as the failure of a compressor resulted in the loss of seven days production.

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

Noche Buena mining operations began on the Noche Buena vein however at least two other mineralized parallel structures appear capable of providing feed. Further drilling and underground development is planned to expand the zone and develop the adjacent veins.

Guadalupe and Gallega Mines

There was no mining during the last two years at the Guadalupe and nearby Gallega Mines but the mines remain dewatered and access is maintained for possible future mining. The remaining defined mineral at Guadalupe is mainly zinc rich with modest silver values. It traditionally has been the lowest cost producer for the mines supplying the Guadalupe processing plant. IMPACT is planning to carry out an underground drill program on the Regenerador Vein System in the Guadalupe Mine in late 2011 to define potential higher grade silver zones for future mining.

Guadalupe Mill

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

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

Exploration (Royal Mines of Zacualpan)

IMPACT's exploration on the Royal Mines of Zacualpan Silver Project continues its success story. IMPACT's team have discovered and placed three new mines (Chivo, San Ramon/Chaparrita, and Noche Buena) into production over the past four years along with various satellite deposits. The Capire Deposit in the Mamatla District is now in the mine permitting and development stage with plans to commence initial mining in late 2011 subject to timely receipt of permits.

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

Huategosco Gold-Silver Camp

During the first quarter IMPACT began a first phase surface drilling program at Huategosco located 10 km southwest of the Guadalupe Processing Plant. Huategosco is a large gold-silver vein system where in 2010 IMPACT field crews mapped many old mine workings and found significant gold and silver values in rock chip samples from surface and underground. During the second quarter, IMPACT announced the first drill results from Huategosco. Highlights include the following:

SUMMARY OF FIRST PHASE DRILL INTERSECTIONS - HUATECOSCO AREA									
DRILL HOLE	DRILL SECTION	FROM (m)	TO (m)	INTERVAL (m)	TRUE WIDTH (m)	GOLD (g/t)	SILVER (g/t)	LEAD (%)	ZINC (%)
Z11-15	26+50 SE	92.55	98.00	5.45	4.00	1.19	58.5	1.42	1.95
	including	92.55	94.05	1.50	0.75	3.82	149.0	4.10	3.80
Z11-16	26+50 SE	156.95	159.20	2.25	1.95	0.98	82.6	0.14	0.26
Z11-17	27+00 SE	54.51	59.25	4.74	3.23	3.44	117.6	0.59	0.81
	including	55.08	57.40	2.32	1.64	2.29	217.2	0.97	1.19
Z11-18	27+00 SE	91.05	96.17	5.12	2.55	0.72	53.3	0.81	0.71
Z11-19	26+00 SE	110.55	117.4	6.85	4.41	1.60	159.2	0.22	0.30
	including	114.65	117.4	2.75	1.76	3.53	320.8	0.43	0.57
Z11-20	26+00 SE	167.90	178.20	10.30	9.48	3.97	48.7	1.69	2.62
	including	167.90	172.50	4.60	4.24	6.96	84.3	2.89	5.11
Z11-23	26+50 SE	344.90	347.23	3.15	2.72	0.96	25.7	0.28	1.52

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

The focus of this current drill program is the southeastern end of the Huatecosco Vein where IMPACT's exploration staff has recently outlined three en-echelon gold-silver-lead-zinc-copper soil anomalies that host a number of old mine workings. Drill results in this table are from the central anomaly (the Main Huatecosco Zone) which is the largest (measuring 400 by 300 m.) with individual soil values up to 6.36 g/t gold and 337 g/t silver. This anomaly hosts the historic Hueyetcosco and San Ron Mines, which produced rock samples grading up to 189 g/t gold and 1,240 g/t silver. Other drill holes not reported in the table include Z11-21 and 22 which intersected a thinner, lower grade portion of the Huatecosco Vein at the southeastern margin (L27+50 SE). Additional drill results are pending.

Chontalpan Vein

The Chontalpan Vein is located five km southeast of IMPACT'S 500 tpd Guadalupe processing plant. During the quarter the final holes from a second phase drill program were reported. These results represent step-out holes at 50 m centers that tested down-dip and strike extensions for two drilling areas (Loma Largo and Chontalpan Mine Northwest) located 500 m apart (see news release dated August 3, 2010). Previously it was announced that Z10-10 encountered 402.6 g/t silver over 2.14 m (see news release dated September 6, 2010). This second phase of drilling has successfully added potential tonnage

to both these drilling areas, such that this project will now be handed over to IMPACT's mine development group for a preliminary economic evaluation. Recent drill results include the following:

SECOND PHASE DRILL INTERSECTIONS - CHONTALPAN VEIN									
DRILL HOLE	DRILL SECTION	FROM (m)	TO (m)	INTERVAL (m)	TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
Loma Largo Sector									
Z10-30	00+50 N	32.2	34.1	1.9	1.87	111.3	0.027	0.11	0.16
Z10-31	00+50 N	101.52	102.9	1.4	1.05	77.8	0.024	0.05	0.19
Z10-32	00+00 N	119.95	122.4	2.45	1.87	85.3	0.074	0.11	0.6
Z11-33	00+50 S including	133.8 134.85	137.3 137.3	3.53 2.48	2.62 1.84	140.1 175.6	0.262 0.369	0.81 1.14	1.92 2.71
Z10-36	00+50 S	185.1	187	1.93	1.87	16.2	0.036	0.72	0.99
Chontalpan Mine Northwest Sector									
Z11-37	05+00 S including	90.79 90.79	96.6 92.52	5.81 1.73	4.38 1.3	116.5 200.5	0.022 0.017	0.17 0.15	0.76 0.32
Z11-38	05+00 S	90.82	91.5	0.68	0.48	345.8	0.03	0.07	0.33
Z11-39	05+50 S	147.9	149.1	1.2	0.84	113	0.01	0.07	0.18

Golondrinas Area

The Golondrinas area is located 3 km southeast of IMPACT'S 500 tpd Guadalupe processing plant. During the quarter the final holes from a first phase drill program were reported. This program tested a variety of targets with three holes each which were summarized when drilling commenced (see news release dated August 19, 2010). Previous drilling results released by IMPACT include 402.6 g/t silver over 2.14 m in drill hole Z10-10 (see news release dated September 15, 2010) and 1,045 g/t silver over 1.03 meters in drill hole Z10-14 (see news release dated October 19, 2010). Now that all the results for this first phase program have been received it is the intention of IMPACT to return to the Golondrinas Area for a second phase drill program on selected targets in order to expand the limits of mineralization, and further define some higher grade portions. Recent drill results include the following:

SUMMARY OF SECOND PHASE DRILL INTERSECTIONS - GOLONDRINAS AREA										
DRILL HOLE	VEIN NAME	DRILL SECTION	FROM (m)	TO (m)	INTERVAL (m)	TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
Z10-41	LA OBRA	11+00 N	110	112	1.8	1.27	88.9	0.06	0.11	0.5
Z10-42	GOLONDRINAS GOLONDRINAS	10+00 N including	271 272	275 273	4.03 0.91	2.84 0.64	132.3 377	0.06 0.11	0.78 1.38	2.1 4.7
Z10-43	LA OBRA	06+00 N	73.6	76	2.8	2.04	129.9	0.03	0.15	0.3
Z11-04	GOLONDRINAS	04+50 N	59	60	1.3	0.83	34.4	0.4	2.1	7.1

Oscar and Marquesa Silver Veins

The Oscar and Marquesa Veins are located 2.5 km east of the Guadalupe processing plant. They occur within a cluster of high-grade silver veins, many of which have historically been in production. During and subsequent to the second quarter, IMPACT drilled 13 holes in this area. Assays are pending. Previous drilling by IMPACT on the Oscar Vein returned values of 1.83 g/t gold, 2,820 g/t silver, 3.48% lead, and 7.83% zinc over 0.30 m (see IMPACT News Release dated January 25, 2007). The Oscar Vein strategically trends into the Santa Lucia Veins where IMPACT previously drilled a series of silver rich holes (see IMPACT News Releases dated December 16, 2009 and October 9, 2009). It is hoped that this recent Oscar area drilling will build high grade mineral tonnages along a potential mine access to the Santa Lucia area.

Zacualpan Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the District. These crews have been sampling some of the 2,000+ old mine workings and prospects in the project area, trenching areas of mineralization and carrying out extensive soil sampling on 100 m x 25 m grids. During the second quarter of 2011 this work included mapping and sampling of soils and rocks in the Huatecosco and Noche Buena West areas with the objective of defining additional near-term drill targets.

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

The Mamatla Mineral District hosts epithermal silver and base metal veins as well as volcanogenic massive sulphide ("VMS") base and precious metal mineralization. The Capire Deposit in the Mamatla District is now in the mine permitting and development stages.

Capire Subdistrict VMS Prospects

VMS mineralization in the Capire VMS Subdistrict is predominantly silver-rich with zinc, lead, copper and gold credits. The subdistrict covers the same stratigraphy as the Campo Morado VMS belt, where Nyrstar NV (formerly Farallon Resources) is in commercial production on the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186 g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend, 45 km southwest of Capire.

Capire Mine Development Project

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

The following is a summary of the Capire Deposit by zone of the total classified Measured and Indicated Mineral Resources inventory and separately, Inferred Mineral Resources, based on a 3D geological model:

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

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

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

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

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

On February 1, 2011 and March 3, 2011, IMPACT provided updates on development of a new mine at Capire. The project is in the mine permitting and development stage with mining to begin in the near term subject to timely receipt of permits. Initial plans are to first install a 200 tpd pilot plant (already purchased) to optimize mining and processing parameters toward planning for a larger operation in the future. Surface rights for all mining areas, tailings dam and the processing plant have been acquired. Condemnation drilling under the plant site, tailing dam and rock waste piles was completed in February 2011 in preparation for mine and plant construction. Capire will be the fourth mine taken from discovery to production by the IMPACT technical team.

Capire Expansion and Exploration

During the quarter on May 24, 2011, IMPACT announced additional results from continuing drilling at Capire including 304 g/t silver, 4.5 g/t gold, 1.52% lead and 3.05% zinc across 5.0 m and 121 g/t silver, 0.37 g/t gold, 1.24% lead and 2.79% zinc across 6.6 m. Subsequent to quarter end, on August 18, 2011, the Company announced additional drill results from Capire including 83 g/t silver, 0.18 g/t gold, 0.50% lead and 1.25% zinc across 8.8m, and 1,160 g/t silver, 3.74 g/t gold, 3.86% lead and 8.83% zinc across 0.5 m. These results may add to the NI 43-101 compliant Mineral Resource estimates and IMPACT engineers are studying modest modifications to the open pit design to incorporate this expanded mineralization into the mine plan. The zone remains open for expansion.

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

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007 IMPACT field crews have also identified many epithermal vein prospects and old mines primarily 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

On March 17, 2010 the Company completed the purchase, through its wholly-owned subsidiary MAP, of the 200 tpd Veta Grande processing plant in the Zacatecas Silver District of Mexico and acquired a number of mineral concessions (collectively the “Veta Grande Silver Project”). Subsequent to the end of the quarter, the Company signed an option agreement with Defiance Silver Corp. for the Veta Grande Silver Project (see subsequent event below and IMPACT’s August 25, 2011 news release for details).

The project is located 500 km northwest of Mexico City. Access is by paved highways which run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force. Over the past four years intermittent exploration focused on some of the 13 mineral concessions located within the district, three of which are in a joint venture.

Future Exploration Plans

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

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

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

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

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

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

Safety, Social and Environmental Policy

Exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts.

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

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

The Company has formulated specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities surrounding us. The Company has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program.

Working in developing countries sometimes entails certain personal/physical risks that are not encountered in more developed countries. The Company conducts an active program of risk mitigation on an ongoing basis with the assistance of independent advisors.

Subsequent to the end of the quarter, the Company experienced a fatality at the Guadalupe mill. The Guadalupe mill was shut down for approximately four days while the cause of the accident was investigated by the Company and the appropriate authorities. IMPACT's management team expresses

their sincere condolences to the family of the deceased and those affected by the incident. Although the mining operation has a fully qualified safety team, the Company has engaged a third party consultant to perform an independent audit of all safety procedures on site.

Subsequent event

Subsequent to the end of the quarter the Company signed an agreement with Defiance Silver Corp. (“Defiance”) (TSX.V:DEF) to option its Veta Grande Project assets in Zacatecas, Mexico in exchange for a major shareholding in Defiance (see IMPACT’s August 25, 2011 news release for details).

The Zacatecas Veta Grande Project assets include the 200 tpd Santa Gabriela processing plant, surface rights, 10 mineral concessions owned 100% by IMPACT and three mineral concessions owned 27% by IMPACT but subject to a right of first refusal for acquisition by joint venture partner Silver Sun Resource Corp. (collectively the “Veta Grande Project”).

The option agreement consists of two staged payments to IMPACT totalling 6,675,000 common shares of Defiance which will represent a major shareholding in Defiance. The initial payment of 1,668,750 common shares of Defiance is to occur on or before 90 days from the signing of the option agreement. The second and final payment of 5,006,250 common shares of Defiance is to occur on the final closing defined as on or before the earlier of two (2) years from signing of the option agreement or on achieving commercial production at the Santa Gabriela mill. Commercial production is defined as production of 160 tonnes in a 30 consecutive day period. During the term of the option, Defiance will be the operator responsible for carrying out work programs and maintaining the assets in good standing under terms of an operating licence with IMPACT. This includes an existing operating permit for the processing plant that requires a schedule of upgrades to be completed to keep it current. Defiance is also required to complete a financing for a minimum of \$1,500,000 prior to the final closing. This agreement is subject to approval by the TSX Venture Exchange.

IMPACT management feels that signing this option agreement will unlock the value of these non-core assets for IMPACT in the form of a major shareholding in Defiance, a junior company with excellent management and a purposeful plan to advance these assets along with plans for additional acquisitions. This arrangement will also allow IMPACT to focus its resources on expanding its flagship mining operations at the Royal Mines of Zacualpan Silver District and, in the immediate future, the Capire Mine Development Project scheduled for production in late 2011 as well as developing other projects and opportunities.

Investor Relations

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

FINANCIAL DISCUSSION

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

Revenues (net smelter returns) in the second quarter ended June 30, 2011 were \$8.0 million, up from \$2.9 million in the second quarter of 2010. Revenues in the second quarter of 2011 were higher because of both a 20% increase in silver production and significantly higher silver prices.

Revenues per production tonne sold increased to \$195.77 in the second quarter of 2011, up 103% from \$96.21 in the second quarter of 2010. Additional feed from Noche Buena and improved grades at San Ramon resulted in slightly higher grade mill feed. With the addition of the Noche Buena mine feed average mill throughput during the second quarter of 2011 was 416 tpd, up 15% from 363 tpd during the second quarter of 2010.

Mine operating expenses during the quarter were \$3.2 million, up from \$1.6 million in the second quarter of 2010. Amortization and depletion in the quarter was \$0.3 million, up from \$0.2 million in the second quarter of 2010. Direct mine operating costs per tonne in the second quarter of 2011 were \$79.97, up 49% from \$53.60 in the second quarter of 2010. Efficiencies gained by the increased mill throughput more than offset increases in salaries and wages at the mine when comparing the second quarter of 2011 to the second quarter of 2010. The cost per tonne in 2011 rose in part due to the inflationary impact on certain inputs, including a revised union agreement. During the quarter, the Company incurred seven days lost production when the Noche Buena compressor failed and a further four days when the mill shut down to upgrade the thickeners and filters. In addition, the Company accelerated underground mine development in producing areas which increased the cost per tonne in 2011.

Mine operating earnings in the quarter were \$4.5 million, up from \$1.1 million in the second quarter of 2010. Net earnings in the second quarter of 2011 were \$2.5 million, up from \$0.3 million in the second quarter of 2010.

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

General and administrative expenses in the second quarter of 2011 were \$0.5 million, down from \$0.6 million in the second quarter of 2010. Investor relations, promotion and travel in the quarter rose to \$0.06 million compared to \$0.03 million in the second quarter 2010 due to the broader dissemination of information on the Company. Office salaries and services expense increased to \$0.13 million in the second quarter of 2011, up from \$0.1 million in the second quarter of 2010. Non-cash share-based payments was \$0.03 million in the second quarter of 2011 compared to \$.2 million for the second quarter of 2010. In 2010 the Company incurred a further \$0.05 million expenditure on business development whereas there was no similar expenditure in 2011. All other categories of general and administrative expenses remained largely the same between quarters.

The Company incurred a foreign exchange loss of \$0.06 million in the second quarter of 2011 compared to a foreign exchange gain of \$0.1 million in the second quarter of 2010. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

Mine Operating Earnings for the three months ended June 30, 2011 compared to the three months ended March 31, 2011

Revenues (net smelter returns) in the second quarter ended June 30, 2011 were \$8.0 million, up from \$7.3 million in the first quarter of 2011. Revenues in the second quarter of 2011, in spite of lower ounces sold were higher primarily due to increased silver prices.

Revenues per production tonne sold decreased to \$195.77 in the second quarter of 2011, down 6% from \$209.16 in the first quarter of 2011. The redefinition of ore grade resulted in mining slightly lower grades in the second quarter in the current workings. Average mill throughput during the second quarter of 2011 was 416 tpd, down marginally from 419 tpd during the first quarter of 2011.

Mine operating expenses in the second quarter of 2011 were \$3.2 million, up from \$2.4 million in the first quarter of 2011. Amortization and depletion in the second quarter of 2011 was \$0.3 million, up from \$0.25 million in the first quarter of 2011. Direct mine operating costs per tonne in the second quarter of 2011 were \$79.97, up 16% from \$68.71 in the first quarter of 2011.

Mine operating earnings in the second quarter of 2011 were \$4.5 million, down marginally from \$4.6 million in the first quarter of 2011 due to higher amortization and depletion. Net earnings in the second quarter of 2011 were \$2.5 million, no change from the first quarter of 2011.

General, Administrative and Other Expenses for the three months ended June 30, 2011 compared to the three months ended March 31, 2011

General and administrative expenses in the second quarter of 2011 were \$0.5 million, virtually unchanged from the first quarter of 2011. Accounting, audit and legal expenses were \$0.11 million up from \$0.05 million in the previous quarter, whereas investor relations, promotion and travel were up \$0.02 million from the prior quarter. Office salaries and services expense was \$0.13 million in the second quarter of 2011 compared to \$0.11 million in the first quarter of 2011. Non-cash share-based payments were \$0.03 million in the second quarter of 2011 down from \$0.04 million in the first quarter 2011. All other categories of general and administrative expenses remained largely the same between quarters.

The Company incurred a foreign exchange loss of \$0.06 million in the second quarter of 2011 compared to a foreign exchange loss of \$0.2 million in the first quarter of 2011. The Company earns revenues in U.S. dollars and incurs costs in Mexican pesos and Canadian dollars. Foreign currency fluctuations create foreign exchange gains and losses as the Company translates its U.S. dollar and Mexican peso assets and liabilities into Canadian dollars for financial reporting purposes. These foreign exchange gains and losses will continue and may have a significant impact on future net earnings.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

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

	For the three months ended							
	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	Jun 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009
Revenues	7,997	7,258	6,820	3,209	2,948	3,702	2,333	4,983
Net earnings (loss)	2,471	2,474	2,087	414	302	631	116	785
Earnings (loss) per share - Basic*	0.04	0.04	0.04	0.01	0.01	0.01	0.00	0.02
Earnings (loss) per share - Diluted*	0.04	0.04	0.04	0.01	0.01	0.01	0.00	0.02
Cash and cash equivalents	32,633	19,968	18,690	2,939	3,973	4,157	5,295	5,494
Total assets	65,238	51,083	46,939	29,789	29,129	28,574	31,690	31,415
Total liabilities	7,747	6,768	5,643	4,879	4,462	4,552	5,551	5,570

* Per share numbers have been rounded to two decimal places

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

Liquidity and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at June 30, 2011 remained strong with \$32.6 million in cash and cash equivalents (March 31, 2011 - \$20.0 million) and net working capital of \$33.2 million (March 31, 2011 - \$21.9 million). The significant increase in cash and cash equivalents balances are primarily due to the \$15.0 million private placement in December 2010 consisting of 12 million units at a price of \$1.25 per unit. During the quarter pursuant to the exercise of the warrants under the unit offering, 6,088,500 shares were issued for total proceeds to the Company of \$10,377.375. IMPACT generated positive cash flows from operations of \$4.2 million during the second quarter of 2011 and positive cash flows from

operations before changes in non-cash working capital² were \$2.7 million during the first quarter of 2011. During the second quarter of 2011 these positive cash flows were invested in resource properties (\$1.8 million) and property, plant and equipment (\$0.2 million).

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

Resource Property Expenditures

Exploration expenditures related to Zacualpan in the second quarter of 2011 were \$1.1 million, down from \$1.3 million before the reclassification to property, plant and equipment in the same period of 2010. Expenditures on drilling and other exploration costs are budgeted to continue to be between \$1.5 and \$2.0 million per quarter as the Company continues to develop the Zacualpan and Mamatla Districts.

In the first quarter of 2010 IMPACT completed the acquisition of the 200 tpd Veta Grande processing plant in Zacatecas, Mexico with a \$0.2 million cash payment and the issuance of 100,000 shares. Cash paid and IMPACT common shares issued as option payments in 2006 through 2009 were originally assigned to resource properties. With the completion of this purchase IMPACT reallocated a portion of the costs originally assigned to resource properties to property, plant and equipment. These assets have now been optioned to Defiance Silver Corp (see IMPACT's August 25, 2011 news release for further details).

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

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 29, 2011:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common	67,979,710		
Stock options	892,500	\$ 1.40	September 5, 2012
Stock options	75,000	\$ 1.67	October 22, 2012
Stock options	1,337,500	\$0.55	January 6, 2014
Stock options	927,500	\$1.10	June 6, 2015
Fully diluted at August 29, 2011	<u>71,212,210</u>		

Of the 3,232,500 options outstanding, 2,988,125 have vested at August 29, 2011.

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

Related Party Transactions

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

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

During the quarter ended June 30, 2011, fees in the amount of \$1.5 million (June 30, 2010 - \$1.0 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, 2011, the balance owed to Energold was \$1.2 million (June 30, 2010 - \$0.4 million).

Contingencies

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

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

Financial Instruments and Management of Financial Risk

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, accounts receivable and investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. As is typical within the mining industry, the Company deals with two refiners for the processing of all of its mineral concentrates. The

Company has a significant concentration of credit risk exposure to its Mexican refining and smelting companies at any one time but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents (\$32.6 million), accounts receivable (\$4.1 million) and investments (\$0.1 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, 2011 the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At June 30, 2011 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at June 30, 2011, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$705,000 decrease or increase in the Company's net earnings for the three months ended June 30, 2011.

Commodity price risk

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

Transition to International Financial Reporting Standards

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

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

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS

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

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

Translation of non-monetary assets

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

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

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

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

Foreign currency translation adjustment

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

Mineral interest and property, plant and equipment reclassification

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

Share based payments

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

Deferred tax asset / liability

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

Management's Report on Internal Control over Financial Reporting

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

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

Changes in Internal Control over Financial Reporting

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

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements before the financial statements are approved by the board of directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

NON-IFRS MEASURES

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

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

The Company's method of calculating these non-IFRS measures may differ from other entities, and accordingly, may not be comparable to measures used by other entities. Investors are cautioned, however, that these measures should not be construed as an alternative to measures determined in accordance with IFRS as an indicator of the Company's performance.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the ability to

properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

Additional information relating to IMPACT is on SEDAR at www.sedar.com.

On behalf of the Board of Directors,

"Frederick W. Davidson"

President and Chief Executive Officer

August 29, 2011