IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three Months and Six Months Ended June 30, 2014

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the three and six months ended June 30, 2014 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at August 25, 2014 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2013 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company, including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

CORPORATE OVERVIEW

IMPACT has control of nearly two entire mineral districts in central Mexico—the **Royal Mines of Zacualpan Silver District** and the **Capire-Mamatla Mineral District** adjacent to and southwest of Zacualpan. The Company currently produces silver and gold in lead and zinc concentrate at its 500 tonne per day ("tpd") Guadalupe processing plant in the Royal Mines of Zacualpan District.

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

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

2. Process new gold and copper mineral mined from the Carlos Pacheco/San Juan vein of the Noche Buena mine.

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

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

Refocusing in Times of Lower Metal Prices

Over the last eighteen months the London Fix silver price has fallen from US$30.87 to US$20.87 at June 30, 2014, representing a 32% decrease. In response to this significant drop in silver price, the Company has been refocusing its mining and exploration work and has made significant progress in its strategy to refocus mining on higher grade zones in these times of lower silver prices. In early 2013, IMPACT brought the Cuchara-Oscar Mine into production (*see IMPACT news release dated February 20, 2013*). Recent drilling from the bottom of the San Ramon Mine discovered new high grade silver zones at depth (*see IMPACT news release dated May 21, 2014*) which began to contribute production tonnes subsequent to quarter end. At the San Juan Zone of the Noche Buena Mine, a new access ramp is being constructed to mine higher grade gold and silver mineralization later this year (*see IMPACT news release dated March 3, 2014*). Construction of the new Mirasol Silver Mine began during the quarter (*see IMPACT news releases dated November 26, 2012 and January 28, 2013 for drill results*) and when permits are in place, plans are to construct a new mine at San Patricio to access additional higher grade silver mineralization (*see IMPACT news release dated September 25, 2007 for drill results*). Although production may be lower during these transitions, the new and revised operations are planned to enhance production in the longer term. IMPACT is fortunate to have these higher grade zones to offset the decrease in metal prices and declining grades at older mines. In addition, exploration work has been substantially curtailed in 2014 to reduce expenditures and will largely focus on near term production targets in the vicinity of the current producing mines.

After processing approximately 33,000 tonnes of material from the test mining at the Capire open pit the project was stopped. The Capire pilot plant was being modified to handle the gold/copper material from the Carlos Pacheco mine, however it will not be re-activated until metal prices recover. As a result, other than approximately 3,000 ounces produced early in the first quarter prior to the shutdown of the Capire open pit, the plant is not expected to contribute to sales for the remainder of 2014.

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

OVERVIEW FOR THE THREE MONTHS ENDED JUNE 30, 2014

Financial Overview:

- Revenues for the second quarter of 2014 were $2.6 million, an approximately 32% decrease from $3.8 million in the second quarter of 2013, resulting primarily from a decline in the silver grade and price.
- Net loss of $1.0 million for the quarter, of which non-cash items included $0.7 million in depreciation and amortization and $0.05 million in share based payments (stock option grants).
- Mine operating loss before amortization and depreciation of $0.4 million compared to $0.6 million in earnings in the comparative period.
- A sale of 3,600,000 Defiance shares at $0.09 per share resulted in net proceeds of $321,550 and a gain of $213,550 during the quarter. There was a write-down of $624,263 on available-for-sale investments in Q2 of 2013.
- Capital expenditures during the quarter included mineral property expenditures of $0.7 million which reduced cash to $1.7 million. The Company continues to be free of long term debt.

Production Overview:

- Silver production decreased 18% to 152,595 ounces for the second quarter of 2014, down from 185,998 ounces in the same period of 2013 but up 3% from the first quarter of 2014.
- Average mill feed grade for silver in the second quarter of 2014 decreased to 142 grams per tonne (g/t) compared to 163 g/t in the second quarter of 2013, but up slightly from 137 g/t in the first quarter of 2014.
- Total tonnes milled during the second quarter of 2014 decreased to 39,015 from 42,086 in the second quarter of 2013.
- The shutdown of the Capire open pit was completed during the first quarter of 2014. Work was initiated on modifications of the Capire plant to process higher value gold and copper mineralization from the Carlos Pacheco/San Juan area later in the year, however this has now been deferred until metal prices recover.

- The Cuchara-Oscar mine was put into production in February 2013. During 2013, the mine contributed 23% of total mill feed; by Q2 of 2014 it provided 46%.

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2014	2013	% Change	**2014**	2013	% Change
Total tonnes (t) milled	**39,015**	42,086	-7%	**78,790**	84,095	-6%
Tonnes produced per day	**429**	462	-7%	**435**	465	-6%
Silver production (oz)	**152,595**	185,998	-18%	**301,292**	351,649	-14%
Lead production (t)	**160**	129	+24%	**308**	235	+31%
Zinc production (t)	**189**	149	+27%	**330**	291	+13%
Gold production (oz)	**343**	360	-5%	**577**	584	-1%
Silver sales (oz)	**131,102**	199,581	-34%	**269,496**	362,646	-26%
Lead sales (t)	**144**	140	+3%	**284**	255	+11%
Zinc sales (t)	**127**	135	-6%	**255**	255	+0%
Gold sales (oz)	**356**	365	-2%	**569**	570	-0%
Average mill head grade –silver g/t	**142**	163	-13%	**139**	155	-10%
Revenue per tonne sold[1]	**$70.14**	$81.78	-14%	**71.37**	$91.69	-22%
Direct costs per production tonne[1]	**$76.34**	$70.09	9%	**71.16**	$67.19	6%

*Table excludes Capire mine production

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

The Company increased tonnes produced for the first half of 2014 to 78,790 over the last half of 2013 of 75,175. This increase has been a result of additional feed from the Cuchara-Oscar mine as it becomes the Company's principal producer as well as strong contributions from the San Ramon and Noche Buena mines. Silver grades were lower in the first half at 139 g/t compared with 155 g/t for the same period in 2013. With production materials being drawn from several mines with different feed grades, mine production can vary from quarter to quarter. However, with the San Ramon and Mirasol mines developing into higher grade mineral, the Company expects an increase in average grades going forward in 2014.

In light of lower silver prices, recent Mexican mining tax changes, increased hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economic at its present small scale. Thus open pit operations were suspended in February 2014. The Capire plant was being reconfigured to process the gold-copper mineralization at Carlos Pacheco. However, the plant will not be reactivated at current metal prices and further work has been deferred. Prior to the shutdown, there was a small contribution from this mill with 840 tonnes milled and silver sales of approximately 3,000 ounces in the first quarter.

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

Silver sales were 131,102 ounces in the second quarter of 2014, a decrease from the 199,581 ounces sold in the same period of 2013 but down only marginally from the first quarter of 2014. The Company's lower revenue in the second quarter of 2014 of $70.14 per tonne, a decrease from $81.78 per tonne from the same period in 2013, is primarily a result of lower realized silver prices and grade.

MINE PRODUCTION

Mine Operations

The Company has been operating the 500-tpd Guadalupe Production Center in the Royal Mines of Zacualpan Silver District since 2006 and operated the 200-tpd Capire Pilot Plant, located 16 kilometers to the southwest, as a test processing plant between mid-2013 and early 2014.

Royal Mines of Zacualpan District

The Royal Mines of Zacualpan silver district was acquired by the Company in January 2006. Since acquisition, an extensive program of upgrading operations and expanding production is continuing. IMPACT expanded and upgraded the majority of the mining equipment including new equipment in the Guadalupe mill. Generally expansion of the tailings capacity, which is continuing, is written off as an operating cost and not capitalized during the period. The Company has also purchased additional surface lands near the Guadalupe mill to address the need for additional tailings capacity in the future and is in the process of design and permitting.

While mill and facilities limit processing capacity to 500-tpd at Guadalupe, sourcing superior grade feed from the Company's mines remains the critical factor for economic production. This is especially true in the current environment of lower silver prices. To address this issue, the Company is shifting the focus of mining operations to the higher grade silver zones in the San Ramon, Cuchara-Oscar and Mirasol Mines. In addition, the Company began to produce gold from the Carlos Pacheco South Zone last year.

Noche Buena-Carlos Pacheco Mine

During the second quarter of 2014, the Noche Buena-Carlos Pacheco mine provided 28% (Q2 2013 – 32%) of feed to the Guadalupe mill. The mine is located 4 kilometers southwest of the Guadalupe mill and commenced production in the first quarter of 2010. The mine has been producing from three different sets of veins – silver veins in the Noche Buena portion of the mine to the west, gold (+copper) veins in the Carlos Pacheco portion of the mine 170 meters to the east and lead-zinc-silver veins from the Upper San Juan Zone to the north.

A crosscut was excavated from the Noche Buena workings to the nearby Carlos Pacheco South gold (+copper) vein, where mining began in August 2013. New production from the Carlos Pacheco South zone is adding more gold (and in the future, potentially copper) to IMPACT's production profile. Carlos Pacheco South and San Juan are accessed through the Noche Buena silver mine workings, so no additional mining permits were needed to begin mining Carlos Pacheco. Current production is from the Carlos Pacheco South Zone (gold) and the Upper San Juan Zone (lead-zinc-silver). Mining on the western veins (Noche Buena and Abulon) is nearly finished and mine access is being constructed to new nearby zones. Construction of mine access into the large Lower San Juan gold-copper zone further north on the Carlos Pacheco vein has begun and should reach the zone later this year. Construction of mine access to the nearby San Francisco Veins (lead-zinc-silver) to the east has also begun.

Cuchara-Oscar Silver Mine

During the second quarter of 2014, the Cuchara-Oscar mine provided 46% (Q2 2013 – 22%) of feed to the Guadalupe mill. The mine is located 2.5 kilometers east of the Guadalupe mill and commenced production in the first quarter of 2013. During the first quarter of 2014, a decision was made to expand production and make Cuchara-Oscar the principal producing mine by increasing the number of working faces; this expansion was achieved in the second quarter. The mine is contributing a silver-lead-zinc feed to the Guadalupe mill from a corridor of veins. Current production is from the Marqueza, Santa Lucia Footwall and Oscar veins with plans to mine other nearby veins as the mine develops.

San Ramon Silver Mine

During the second quarter of 2014, the San Ramon mine provided 11% (Q2 2013 – 46%) of feed to the Guadalupe mill, located 5 kilometers to the northwest. San Ramon has been a significant contributor to production since 2008, but in early 2014 grades were dropping with depth and production was decreasing. During the quarter, underground drilling from the bottom levels of the mine discovered new high grade silver zones which began to increase production and mine grade at San Ramon subsequent to quarter end (see EXPLORATION below for details).

New Mirasol Silver Mine

During the quarter construction of the new Mirasol Silver Mine began. Mirasol is located 5.5 kilometers southeast of the processing plant in the Royal Mines of Zacualpan Silver-Gold District of central Mexico.

The Mirasol Zone was drilled in 2012-2013 (*for details see IMPACT news releases dated November 26, 2012 and January 28, 2013*). Highlights from that drilling included 216 g/t silver over 7.1 meters, 985 g/t silver over 1.8 meters and 288 g/t silver over 3.2 meters. It is expected that Mirasol will significantly contribute to overall production before year end.

Mirasol is located east of and beyond IMPACT's other areas of mining and drilling, and represents the opening of a new sector for exploration on the property. Regional studies indicate a northeast tilt to the silver-gold district whereby the Mirasol area is marked by low grade veins at surface that develop into high grade, fully preserved silver veins at depth. Exploration on other veins in the area is planned.

Gallega Mine

The Gallega mine is located less than one kilometer from the Guadalupe mill and is periodically restarted to provide modest tonnages of supplementary silver feed to the plant. During the second quarter of 2014, the Gallega mine provided 15% (Q2 2013 – 0%) of mill feed to the Guadalupe mill.

Capire Processing Plant

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

On March 14, 2013, IMPACT announced that commissioning of the new Capire mine and 200-tpd pilot plant had begun. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potential larger operation in the future. Most of this test work has been completed. However, in light of lower silver prices, recent Mexican mining tax changes and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economic at its present small scale. Thus open pit operations were suspended in February 2014. During the test mining and processing, processing methods were optimized and production costs and cut-off grades at 200-tpd in the open pit were determined. Additional studies with respect to open pit optimal strip ratios, grade control and projections toward scaling up the operation have yet to be completed. Together, these measures will provide the foundation for planning of a potentially larger, lower grade open pit operation in the future. Production from the Capire open pit may be restarted in the future with higher metal prices and/or lower unit production costs associated with a potential larger operation.

After open pit operations were shut down, the Capire plant was reconfigured as a test processing facility for gold and copper mineralization from the Carlos Pacheco South Zone in the Noche Buena mine. During the second quarter, test operations at the Capire plant were suspended due to rising costs and continued low precious metal prices. Mine muck from the Carlos Pacheco South Zone is currently being processed with Zacualpan silver feed at the Guadalupe mill with very good gold recoveries.

Capire Mineral Resources

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

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

EXPLORATION

IMPACT's team has explored and placed five mines (Noche Buena, Carlos Pacheco, Cuchara-Oscar, Chivo and Capire) into production over the past seven years with another new mine under construction at Mirasol and mine development plans for the San Patricio Silver Project. Recent exploration drill results are as follows:

Carlos Pacheco / San Juan Drill Results

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

San Ramon Deep Drilling Results

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

Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the districts. These crews have been sampling some of the 3,500+ old mine workings and prospects in the district. They have also trenched areas of mineralization and carried out extensive soil sampling on 100 meter x 25 meter grids.

During the quarter, fieldwork in the form of detailed geological mapping and rock sampling was mainly focussed on areas close to current mines and infrastructure at Noche Buena-Carlos Pacheco, Cuchara-Oscar, Alacran North and Guadalupe.

Veta Grande (Zacatecas) Silver Project, Mexico

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

In 2011, the Company optioned most of its Zacatecas assets to Defiance Silver Corp. ("Defiance", DEF: TSX.V) in return for a major share position (paid) and a final payment of $1,955,200 (not paid). Defiance advanced the project to the final stages of re-permitting the plant. In January 2014 Defiance returned the Zacatecas project to IMPACT to focus on its exploration project.

After 2011 the Company participated in several small private placement financings in Defiance and then during the second quarter the Company sold 3,600,000 Defiance shares at $0.09 per share which resulted in proceeds of $324,000 and a gain of $213,550. At the end of the second quarter the Company still held 467,000 shares in Defiance.

IMPACT under a letter of intent has offered the project to a private company.

Dominican Republic

For several years the Company has been trying to renew its mineral concessions in the Dominican Republic, a process it has successfully done several times in the past. However, as the result of an extensive review of all applications for concession renewals, during the last six months the government has challenged the right of the Company to re-apply for its mineral concessions in the Dominican Republic.

FUTURE PLANS

Near term plans for mining and exploration in the Zacualpan and Capire Districts are mainly focused on higher grade zones of silver and gold close to the active mining operations in response to the current lower metal price environment.

Mining Plans

Recently IMPACT implemented some significant changes to its mining activities. Silver production is partly shifting to new mines to take advantage of their higher grades in response to lower metal prices. The Cuchara-Oscar silver mine has been ramped up to become IMPACT's principal silver producer. The new Mirasol and San Ramon Deep silver zones are being developed to provide higher grade silver feed to the Guadalupe mill. The new Carlos Pacheco South project has begun mining gold. In the future gold will be mined from the San Juan Zone as well as potential copper mining at depth. Although production may be weaker in the short-term during this transition, management believes these new higher grade operations will enhance the Company's operations in silver as well as gold and potentially copper production in the longer term.

Exploration Plans

Plans are to continue exploration with a goal of putting some of the other 3,500+ compiled old mine workings in the Zacualpan and Capire districts on a faster track to potential production and build mineral inventories for mining. Current exploration work is mainly focused on targets close to current production areas.

With a track record of successful exploration, rapid mine development and more than 3,500 old mine workings identified to date, the Company's long term vision sees potential for establishment of multiple mills throughout the two districts, each fed by multiple mines producing silver as well as gold and copper. *George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project, the Capire Mineral District and the Veta Grande (Zacatecas) Silver Project. The Capire mineral resource estimates in this MD&A were taken from a technical report (posted on www.sedar.com) by Claus G. Wiese. P. Eng. of I-Cubed LLC, a Qualified Person under the meaning of Canadian National Instrument 43-101 and an independent professional engineer. Other information on the Company's projects can be found on the Company website at www.IMPACTSilver.com .*

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

Exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and effects reclamation on sites disturbed by its activities.

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

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

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

INVESTOR RELATIONS

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

FINANCIAL DISCUSSION

Summary of Quarterly Results

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

In thousands		Three months ended June 30				
		2014		2013		2012
Revenue	$	**2,552**	$	3,779	$	3,619
Net earnings (loss)	$	**(1,024)**	$	(1,942)	$	278
Earnings (loss) per share – basic	$	**(0.02)**	$	(0.03)	$	0.00
Earnings (loss) per share – diluted	$	**(0.02)**	$	(0.03)	$	0.00
Total assets	$	**61,634**	$	68,648	$	65,476

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

For the three months ended June 30, 2014, the Company's mine operating losses were $1.1 million compared to earnings of $0.1 million in 2013, with revenues of $2.6 million in 2014 compared to $3.8 million in 2013. Revenue per tonne sold decreased 14% from $81.78 in the second quarter of 2013 to $70.14 in 2014. The decrease in revenue and revenue per tonne is a result of the 15% decrease in silver price and the 34% decrease in silver ounces sold, offset by the U.S. dollar appreciating 7% to the Canadian dollar in the second quarter of 2014 compared to the second quarter of 2013. Direct costs per tonne at the Guadalupe mill for the three months ended June 30, 2014 were $76.34 compared to $70.09 in 2013. This is due to increased development costs for the Mirasol mine, retroactive pay and severance, and a decrease in the tonnes produced. Operating expenses decreased from $3.2 million in the second quarter of 2013 to $2.9 million in the same period of 2014. Amortization and depletion expenses increased to $0.7 million during the quarter ended June 30, 2014 from $0.5 million in the same period of 2013. This is attributable to increased depreciation on the completed Capire plant as well as some increase to depletion based on the make-up of mine feed.

The net loss was $1.0 million for the second quarter in 2014 compared to a net loss of $1.9 million in 2013. The decrease in loss was a result of decreased general and administrative costs, as well as other expenses. General and administrative expenses decreased by $0.9 million in the quarter compared to the same period in the previous year. This was mainly due to share based payments decreasing from $0.7 million in the three months ended June 30, 2013 to $0.05 million in 2014, as well as overall lower administration costs as the company implements cost saving measures. In other income and expenses, the Company had a gain of $0.2 million in the second quarter of 2014 from the sale of Defiance shares, compared to a $0.6 million write-down on shares in the same period of the previous year. Income taxes in the quarter ended June 30, 2014 were a recovery of $0.3 million compared to an expense of $0.06 million in the comparable quarter of 2013.

Silver production was 152,595 ounces during the three months ended June 30, 2014, representing an 18% decrease compared with 185,998 ounces produced within the same period of 2013. Lead production increased in the second quarter of 2014 over the same time period in 2013, from 129 tonnes to 160 tonnes. Zinc production increased in the second quarter of 2014 to 189 tonnes from 149 tonnes in the same period in 2013. Gold production decreased from 360 ounces to 343 ounces during the second quarter of 2013 and 2014 respectively.

Average silver prices declined 15% from the first quarter of 2013 in comparison to the same period in 2014. During this same period, lead prices increased by 2% and zinc prices increased by 13%. As silver sales account for the majority of the Company's revenues, the increase in lead and zinc prices did not significantly affect mining operating earnings.

Summary of Year to Date Results

In thousands	Six months ended June 30 **2014**	2013	2012
Revenue	$ **5,514**	$ 7,952	$ 8,086
Net earnings (loss)	$ **(2,288)**	$ (2,597)	$ 131
Earnings (loss) per share – basic	$ **(0.03)**	$ (0.04)	$ 0.00
Earnings (loss) per share – diluted	$ **(0.03)**	$ (0.04)	$ 0.00

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

For the six months ended June 30, 2014, the Company's mine operating losses were $1.9 million compared to earnings of $1.2 million in 2013 on net smelter return revenues of $5.5 million in 2014 compared to $8.0 million in 2013. Operating expenses, excluding amortization and depletion, were $6.0 million compared to $5.8 million in 2013. Amortization and depletion expenses increased to $1.4 million in 2014 from $0.9 million in 2013.

Net loss was $2.3 million in 2014 compared to $2.6 million in 2013. General and administrative expenses decreased by $1.7 million from $2.7 million in 2013 to $1.0 million in 2014. $1.3 million of this decrease was from share-based payments. New stock options issued in the first quarter of 2013 and the expense associated with the revaluation of stock options as a result of extending the exercise period by five years during the second quarter of 2013 resulted in higher costs in that year. There was also an overall reduction in other general and administrative costs as the Company made efforts to control expenses.

During the second quarter of 2014, a large portion of the shares of Defiance Silver Corp. held by the Company were sold, resulting in a $0.2 million gain. In the corresponding period of 2013 the Company recorded a non-cash partial write-down of $0.6 million on shares available for sale to provide for a significant and prolonged decline in the value of the shares.

The Company's net smelter revenues declined during the first half of 2014 in comparison with the first half of 2013 as a result of lower silver prices and decreased silver ounces sold. During the first half of 2014, 269,496 ounces of silver were sold. This is a decrease from 362,646 ounces sold in the first half of 2013. During the same period, silver prices decreased by 25%.

There was a 14% decrease in silver production during the first six months of 2014 from 2013 as a result of mining lower grade feed materials from the Company's mines in 2014. During this time period silver production decreased from 351,649 ounces in 2013 to 301,292 ounces in 2014. Gold production remained steady from the first six months of 2013 to the first six months of 2014 from 584 ounces to 577 ounces respectively.

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 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012
Revenues	2,552	2,962	3,035	3,119	3,779	4,173	4,654	3,194
Net (loss) earnings	(1,024)	(1,264)	(4,699)	(1,223)	(1,942)	(655)	(839)	(436)
Loss per share - Basic*	(0.02)	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)
Loss per share - Diluted*	(0.02)	(0.02)	(0.07)	(0.02)	(0.03)	(0.01)	(0.01)	(0.01)
Cash	1,680	2,538	3,485	6,741	9,973	13,340	16,013	19,563
Total assets	61,634	64,536	63,119	65,860	68,648	69,803	66,074	64,972
Total liabilities	9,045	9,200	8,997	8,191	8,481	8,167	7,131	6,224

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

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

The Company had $1.7 million in cash and net working capital of $4.3 million at June 30, 2014. The Company used cash flows from operations before changes in non-cash working capital[2] of $1.3 million for the six months ended June 30, 2014. This compares to cash flows generated from operations before changes in non-cash working capital of $0.6 million in the same period of 2013.

The Company's working capital at June 30, 2014 of $4.3 million decreased from $6.9 million at December 31, 2013. The Company has significantly reduced its investing and exploration activities as it aims to be cash flow positive with only $1.9 million invested year to date in development and exploration and capital additions compared to $7.6 million in the same period of 2013.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 25, 2014:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares as of August 25, 2014	68,128,244		
Stock options	867,500	$1.10	December 6, 2015
Stock options	1,920,000	$1.85	September 26, 2016
Stock options	2,220,000	$1.20	January 23, 2018
Stock options	1,310,000	$0.55	January 6, 2019
Fully diluted at August 25, 2014	74,445,744		

[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".

All of the 6,317,500 options outstanding have vested at August 25, 2014.

Related Party Transactions

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

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

During the six months ended June 30, 2o14, fees in the amount of $0.2 million (2013 – $2.7 million) were incurred by Energold Drilling Corp., a significant shareholder of the Company, for contract drilling services performed in Mexico at the Zacualpan and Capire concessions. At June 30, 2014, the balance owed to Energold was $1.3 million (December 31, 2013 - $0.9 million).

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company's financial instruments consist of cash, trade and other receivables, investments, and trade payables. The Company has designated cash and trade receivables as loans and receivables, which are measured at amortized cost. Investments are designated as available for sale and measured at fair value as determined by reference to quoted market prices. Trade payables are designated as other liabilities which are measured at amortized cost. At June 30, 2014 investments were classified as Level 1 on the fair value hierarchy of IFRS 7 - Financial Instruments - Disclosures.

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are with Met-Mex Penoles, S.A. de C.V. ("Penoles"), Trafigura Mexico, S.A. De C.V. ("Trafigura"), MRI Trading AG ("MRI") and Metagri, S.A. De C.V. ("Glencore"). As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time, but is satisfied that these companies have an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date of June 30, 2014 is the carrying value of its cash ($1.7 million), trade and other receivables ($4.0 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At June 30, 2014, the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At June 30, 2014, the Company is exposed to currency risk through the cash, trade and other receivables, trade payables and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at June 30, 2014, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.04 million decrease or increase in the Company's net loss for the period ended June 30, 2014.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at June 30, 2014 as follows:

		2014		2013
Silver price	$	**69,000**	$	87,000

OPERATIONAL RISK

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and still other factors such as commodity prices and foreign exchange rates which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. Conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been the capital markets and project financing. The

Company has been and will continue to be dependent upon adequate financing and investor support to meet its long term growth objectives.

POLITICAL, REGULATORY AND SECURITY ISSUES

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining regulations. Permission must also sometimes be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, the Company in carrying out its mining and exploration activities may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. Furthermore, social and political unrest may exist within a region covered by the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the operating activities of the Company. From time-to-time, government regulatory agencies may review the books and records of the Company which may result in changes in the Company's operating results.

APPROVAL

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

NON-IFRS MEASURES

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

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

	2014	2013
Cash flows from operating activities	**$ (306,310)**	$ 1,372,678
Add (deduct) changes in non-cash working capital:		
Trade and other receivables	**(883,728)**	(148,014)
Income taxes receivable	**109,160**	(85,410)
Inventories	**110,016**	(213,866)
Value added taxes receivable	**22,718**	821,911
Trade payables	**2,780**	(337,831)
Due to related party	**(342,115)**	(781,012)
Cash flows from operations before changes in non-cash working capital	**$ (1,287,479)**	$ 628,456

Revenue per tonne sold and direct costs per tonne produced are measures which the Company believes are key indicators of performance and allow for more direct comparison of revenue and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2014	2013	**2014**	2013
Operating expenses	**$ 2,924,909**	$ 3,170,092	**$ 6,029,710**	$ 5,834,145
(Deduct): operating expenses for Capire	**(198,860)**	-	**(767,580)**	-
Add (deduct): inventory	**252,412**	(220,162)	**344,629**	(183,677)
Direct costs	**$ 2,978,461**	$ 2,950,128	**$ 5,606,759**	$ 5,650,468
Tonnes produced	**39,015**	42,086	**78,790**	84,095
Direct costs per tonne	**$ 76.34**	$ 70.09	**$ 71.16**	$ 67.19
Revenue	**$ 2,551,710**	$ 3,779,290	**$ 5,513,977**	$ 7,952,132
(Deduct): revenue for Capire	**-**	-	**(195,606)**	-
Revenue for Guadalupe	**$ 2,551,710**	$ 3,779,290	**$ 5,318,371**	$ 7,952,132
Tonnes sold	**36,379**	46,212	**74,522**	86,725
Revenue per tonne sold	**$ 70.14**	$ 81.78	**$ 71.37**	$ 91.69

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 25, 2014