

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2010

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of IMPACT Silver Corp. ("IMPACT" or "the Company") is dated August 24, 2010. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the three and six months ended June 30, 2010, which has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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."

Highlights for the Second Quarter and Six Months Ended June 30, 2010

Financial Highlights

- Revenues for the six months ended June 30, 2010 were \$6.6 million, up 37% from \$4.9 million in the same period of 2009.
- Revenues for the second quarter were \$2.9 million, down from \$3.4 million in the second quarter of 2009. Revenues in the second quarter of 2009 included a significant amount of production from the first quarter of 2009 due to a strike at the refinery of our largest customer, Penoles which delayed the sale of concentrates. Therefore revenues in the second quarter of 2009 were higher than they would otherwise have been and current quarterly revenue comparisons are not as meaningful.
- Mine operating earnings for the six months ended June 30, 2010 were \$2.6 million, up 40% from \$1.9 million in the same period of 2009. Mine operating earnings for the second quarter were \$1.1 million, unchanged from \$1.1 million in the second quarter of 2009.
- Net earnings for the six months ended June 30, 2010 were \$0.96 million, up 270% from \$0.26 million in the same period of 2009. Net earnings for the second quarter were \$0.32 million, up 67% from \$0.19 million in the second quarter of 2009.
- Cash flows from operations before changes in non-cash working capital in the six months ended June 30, 2010 were \$2.2 million, up 86% from \$1.2 million in the same period of 2009. Cash flows from operations before changes in non-cash working capital¹ in the second quarter were \$0.82 million, up 24% from \$0.66 million in the second quarter of 2009.
- After investing \$2.5 million in property, plant and equipment, resource properties and exploration during the first six months of 2010, the Company had cash and cash equivalents of \$4.0 million at June 30, 2010.

¹ Cash flows from operations before changes in non-cash working capital is a non-GAAP measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. See "NON-GAAP MEASURES."

Production Highlights

- With significantly higher metal prices in 2010 the Company revised cutoff grades and thereby lowered the average grade of ore mined. Doing so increased the total tonnes of economic ore available to the Company. However, in the short term it has meant that contained metal production has decreased. As the year progresses and greater amounts of ore from the new Noche Buena Mine are delivered to the processing plant, contained metal production is expected to increase.
- Silver production in the second quarter was 186,890 oz., down 14% from 217,691 oz. in the second quarter of 2009 and up 7% from 173,877 oz. in the first quarter of 2010.
- Lead production in the second quarter was 173 tonnes, down 33% from 258 tonnes in the second quarter of 2009.
- Zinc production in the second quarter was 249 tonnes, down 7% from 269 tonnes in the second quarter of 2009.
- Silver equivalent production in the second quarter was 242,825 oz., down 16% from 289,297 oz. in the second quarter of 2009.
- Average mill throughput in the second quarter was 363 tonnes per day ("tpd"), up 20% from 303 tpd in the second quarter of 2009 despite some production delays caused by heavy rainfall in the second quarter of 2010.

Exploration Highlights

Capire and Aurora 1

- On May 25, 2010, IMPACT announced further drill results from Phase 2 drilling on the Capire-Aurora 1 Zone in the Mamatla Mineral District. Highlights from this 5,610 meter drill program include 2.99 meters grading 639 g/t silver and 2.6 g/t gold including 1.16 meters grading 1,516 g/t silver and 6.4 g/t gold and significant lead and zinc values. Drilling of the 200 meter gap between the Capire and Aurora 1 zones has shown that mineralization is continuous between them. The Capire-Aurora 1 Zone remains open to further expansion to the north, south and east. The orientation and shallow depth of the mineralization indicates potential for open pit mining.

San Ramon

- Subsequent to quarter end on July 27, 2010, IMPACT announced drill results from extensions of the San Ramon Mine zones including 331 g/t silver across 2.4 meters.

Santa Lucia

- Subsequent to quarter end on July 27, 2010, IMPACT also announced drill results from Santa Lucia including 588 g/t silver across 1.1 meters.

Chontalpan North

- Subsequent to quarter end on August 3, 2010, IMPACT announced commencement of drilling on the Chontalpan Project Area to test the north extension of the large old Chontalpan Mine.

Expansion of Mineral Concessions

- Subsequent to quarter end on August 10, 2010, IMPACT announced the acquisition of large new mineral concessions totalling 150 square kilometers on the southeast and northwest extensions of the Zacualpan vein systems bringing the total area held by IMPACT in the Zacualpan and Mamatla Mining Districts to 623 square kilometers.

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 rated at 500 tonnes per day ("tpd"). The Company also owns a semi-portable 200 tpd processing plant for potential use at its projects in the Zacualpan and Mamatla Mineral Districts. In the first quarter of 2010 the Company completed the purchase of a third processing plant with a capacity of 200 tpd at the "Veta Grande Silver Project" in Zacatecas, Mexico.

IMPACT has grown from an exploration company into a significant silver producer with production levels increasing year-over-year. The Company has acquired control of 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. The Company also controls the Veta Grande Silver Project in the Zacatecas Silver District, Mexico.

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 second quarter of 2010 the Guadalupe mill processed an average of 363 tpd. With the addition of ore from the Noche Buena Mine the Guadalupe Mill is expected to be processing 400 tpd in the third quarter of 2010. 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 third objective is to continue the reconnaissance exploration program designed to evaluate the longer term potential of this 500-year-old mining district. IMPACT continued to make progress towards each of these three objectives in the second quarter of 2010.

On March 4, 2010, IMPACT announced that mining had commenced at the Noche Buena Mine. Second quarter production from Noche Buena was 45 tonnes per day. Noche Buena production is planned to increase to 80 – 120 tonnes per day during the year as multiple mining faces are developed. The Guadalupe processing plant was upgraded in the first quarter of 2010 to accommodate the additional Noche Buena production and will be modified further with additional flotation cells to enhance recoveries.

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.

At the Veta Grande Silver Project, the Company plans to leverage itself with the recently purchased 200 tpd processing plant to become a significant participant in the Zacatecas Silver District. The Company is upgrading the processing plant and plans to operate it as a toll mill to generate revenue processing ore for local miners as well as ore from its own concessions in the Zacatecas District.

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.

IMPACT has an exceptional opportunity to continue to grow through the 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, 2010, the Company had cash and cash equivalents of \$4.0 million held primarily with a Canadian Tier 1 Bank.

Metal prices for the three and six months ended June 30

	Three months ended			Six months ended		
	Jun 30 2010	Jun 30 2009	% Change	Jun 30 2010	Jun 30 2009	% Change
Average silver price (US\$/oz)	18.33	13.76	+33%	17.62	13.17	+34%
Average lead price (US\$/t)	1,950	1,499	+30%	2,086	1,328	+57%
Average zinc price (US\$/t)	2,026	1,473	+38%	2,157	1,323	+63%
Average silver price (CAD\$/oz)	18.83	16.00	+18%	18.22	15.89	+15%
Average lead price (CAD\$/t)	2,004	1,744	+15%	2,157	1,602	+35%
Average zinc price (CAD\$/t)	2,082	1,713	+22%	2,231	1,595	+40%

Production and sales for the three months ended

	Three months ended			Three months ended		
	Jun 30 2010	Jun 30 2009	% Change	Jun 30 2010	Mar 31 2010	% Change
Total tonnes (t) produced	33,033	27,618	+20%	33,033	29,094	+14%
Tonnes produced per day	363	303		363	323	
Silver production (oz)	186,890	217,691	-14%	186,890	173,877	+7%
Lead production (t)	173	258	-33%	173	207	-16%
Zinc production (t)	249	269	-7%	249	272	-8%
Gold production (oz)	153	219	-30%	153	151	+1%
Silver equivalent production * (oz)	242,825	289,297	-16%	242,825	247,717	-2%
Silver sales (oz)	172,039	388,475	-56%	172,039	216,966	-21%
Lead sales (t)	164	446	-63%	164	275	-40%
Zinc sales (t)	265	98	+170%	265	285	-7%
Gold sales (oz)	146	408	-64%	146	194	-25%
Silver equivalent sales * (oz)	228,315	474,977	-52%	228,315	304,389	-25%
Revenue per production tonne sold	96.21	102.01	-6%	96.21	112.13	-14%
Direct costs per production tonne	53.60	61.56	-13%	53.60	54.98	-3%

(* Silver equivalent production and silver equivalent sales are calculated using the average metal prices in US\$ for the period.)

Overview of the second quarter ended June 30, 2010

IMPACT completed another successful quarter from a financial, production and exploration perspective. As detailed in the table above, production levels in the second quarter of 2010 increased in comparison to the second quarter of 2009, primarily as a result of the addition of ore from the new Noche Buena Mine. However, contained metals

(silver, lead, zinc and gold) decreased as the Company was mining in areas with medium grades of silver, lead and zinc in the second quarter of 2010 as compared to higher grades in the second quarter of 2009. Higher prices for silver, lead and zinc allowed the Company to revise cutoff grades and mine in these medium grade areas and produce \$0.8 million in positive cash flows from operations before changes in non-cash working capital, an increase of \$0.2 million from the second quarter of 2009. Additionally, margin per production tonne also increased as direct costs per production tonne decreased as a result of efficiencies gained with increased mill throughput. The increased mill throughput was achieved in spite of heavy rains in the second quarter of 2010. The heavy rains meant that much of the ore processed was wet which can slow the milling process. Additionally, once the ore has been processed into concentrate form, it is dried on uncovered patios. The heavy rains thereby reduced the time available for drying concentrates and thus there was a build in inventories at the end of the second quarter of 2010. The Company expects to be mining similar grade ore for the remainder of 2010 and production is planned to increase further as greater amounts of ore from the Noche Buena Mine are added to mill throughput.

Production and sales for the six months ended

	Six months ended		% Change
	Jun 30 2010	Jun 30 2009	
Total tonnes (t) produced	62,127	57,187	+9%
Tonnes produced per day	343	316	
Silver production (oz)	360,767	447,400	-19%
Lead production (t)	380	534	-29%
Zinc production (t)	521	612	-15%
Gold production (oz)	305	419	-27%
Silver equivalent production * (oz)	490,542	590,676	-17%
Silver sales (oz)	389,005	489,952	-21%
Lead sales (t)	440	566	-22%
Zinc sales (t)	550	98	+461%
Gold sales (oz)	340	498	-32%
Silver equivalent sales * (oz)	532,704	593,934	-10%
Revenue per production tonne sold	104.46	108.98	-4%
Direct costs per production tonne	54.25	57.23	-5%

(* Silver equivalent production and silver equivalent sales are calculated using the average metal prices in US\$ for the period.)

Overview of the six months ended June 30, 2010

As detailed in the table above, production levels in the first half of 2010 increased in comparison to the second quarter of 2009, primarily as a result of the addition of ore from the new Noche Buena Mine. However, contained metals (silver, lead, zinc and gold) decreased as the Company was mining in areas with medium grades of silver, lead and zinc in the first half of 2010 as compared to higher grades in the first half of 2009. Average grades have also been impacted by the addition of development muck, which includes some dilution, from both the Noche Buena and Chivo Mines. Higher prices for silver, lead and zinc allowed the Company to revise cutoff grades and mine in these medium grade areas and produce \$2.2 million in positive cash flows from operations before changes in non-cash working capital, an increase of \$1.0 million from the comparable period of 2009. Additionally, direct costs per production tonne decreased as a result of efficiencies gained with increased mill throughput. The Company expects to be mining similar grade ore for the remainder of 2010 and production is planned to increase further as greater amounts of ore from the Noche Buena Mine are added to mill throughput.

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 kilometers of mineral concessions, operating mines, a processing plant rated at 500 tpd and a semi-portable processing plant rated at 200 tpd. The project is located 100 kilometers southwest of Mexico City and 25 kilometers northwest of the well-known 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. 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 is now the principle 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 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 processing plant to reach its rated capacity of 500 tpd with ore from the new Noche Buena Mine. This involved expenditures for underground equipment, 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.

During the first quarter of 2010, mining at the new Noche Buena Mine began and is contributing a silver-gold feed with low lead and zinc contents to the Guadalupe processing plant. This feed is being mixed and balanced with the higher lead and zinc feed from the other mines to optimize the concentrate value.

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.

Chivo Mine

During the second quarter of 2010 Chivo provided 51% (Q2 2009 – 92%) of mill feed. A second adit approximately 60 meters vertically lower on the structure reached the main vein in the fourth quarter of 2008 and is now the main production adit for the Chivo Mine. The first full production stope from the lower level came on stream during the second quarter of 2009. The Chivo Mine will continue to supply a significant amount of higher grade material to the mill.

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 2010 San Ramon provided 37% (Q2 2009 – 8%) of mill feed from the mining of high grade mineral. In 2006, San Ramon, located in the La Virgen Valley Mining Camp and 1.3 kilometers 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. 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. During the third quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on level 5.5 and is helping to increase production at San Ramon.

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 four kilometers southwest of the Guadalupe processing plant. Second quarter production from Noche Buena was approximately 45 tonnes per day with plans to increase to 80 - 120 tonnes per day as mining faces are developed. Noche Buena provided 12% (Q2 2009 – nil) of mill feed during the second quarter of 2010.

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 15 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.

To date drilling has defined the upper levels of the Noche Buena Zone over a strike length of 400 meters, a depth of 100 meters and an average width of 3 meters. The zone remains open for expansion. Exploration on this northerly trending, west dipping silver-gold breccia zone has consisted of holes drilled on a 50 meter by 50 meter drill pattern designed to systematically explore and build tonnage. A compilation of drill results to date as reported in news releases is as follows:

NOCHE BUENA ZONE UPPER LEVEL DRILL INTERSECTIONS TO DATE					
DRILL HOLE	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)
SECTION 1100N					
Z09-06	134.3	135.6	1.3	332	0.7
Including	134.3	134.7	0.4	872	1.2
Z09-05	125.0	126.5	1.5	123	0.1
SECTION 1150N					
Z08-70	21.8	30.4	8.6	204	0.2
Z08-71	108.3	112.6	4.3	233	0.7
Z09-10	119.9	121.9	2.0	167	0.4
SECTION 1200N					
Z09-72	118.7	119.5	0.8	243	0.5
SECTION 1250N					
Z09-12	52.0	55.9	4.0	319	2.0
Including	54.5	54.8	0.3	3,600	15.5
Z09-19	125.4	127.9	2.5	146	0.8
SECTION 1300N					
Z09-27	28.4	32.4	4.0	368	0.3
Including	30.6	32.4	1.8	691	0.5
Z09-20	73.9	78.5	4.6	280	0.3
Z09-21	129.0	130.3	1.4	151	0.5
SECTION 1350N					
Z09-28	75.2	88.8	13.5	158	0.3
Including	75.2	75.6	0.4	651	0.8
Including	78.4	81.2	2.8	233	0.5
Including	87.5	88.8	1.3	563	0.9
Including	88.2	88.8	0.6	766	1.4

DRILL HOLE	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)
SECTION 1400N					
Z09-39	52.75	55.83	3.08	589	0.2
Including	52.75	54.15	1.4	940	0.1
Z09-40	91.50	95.55	4.05	116	0.1
Z09-41	101.91	105.44	3.53	154	0.2
SECTION 1450N					
Z09-42	68.90	72.90	4.00	124	0.1
Z09-43	74.46	77.43	2.97	240	0.1

Noche Buena mining operations began in the vicinity of drill hole Z08-70. Other veins intersected in the drilling above and below the Noche Buena Vein returned high grade values including 499 g/t silver over 3.8 meters in drill hole Z09-39 and 1,078 g/t silver over 3.3 meters in drill hole Z09-43 and will be incorporated into the mining plan. Further drilling and underground development is planned to expand the zone.

Guadalupe and Gallega Mines

There was no mining during the quarter at the Guadalupe and nearby Gallega Mines but the mines remain dewatered and access is maintained for possible future mining. The remaining mineral at Guadalupe is mainly zinc rich with modest silver values. Material from the Guadalupe Mine was brought to surface on a skip and transported by truck approximately 100 meters to the plant. It was the lowest cost producer for the mines supplying the Guadalupe processing plant. The nearby Gallega Mine is accessed by a surface adit and intermittently supplemented production from Guadalupe.

Processing Plant

The program of upgrades designed to enhance recoveries and improve processing economics is largely complete at the Guadalupe processing plant. The flotation circuit capacity is being expanded and other modifications are being made to incorporate the additional feed from the new Noche Buena Mine.

Engineering studies have been completed and construction is in progress to increase tailings capacity and enhance the current tailings dam.

Exploration (Royal Mines of Zacualpan)

IMPACT's exploration work at the Royal Mines of Zacualpan Silver Project has been very successful. IMPACT staff has 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-Aurora 1 Zone in the Mamatla District is now in the mine planning and metallurgical testing stages.

During the quarter exploration was active on multiple targets. Surface drilling continued without interruption. Field work included extensive mapping, trenching, sampling of old mines and soil sampling. Highlights of exploration work carried out during the quarter are described below.

Data Compilation

Since 2004 IMPACT has been reporting results from a large number of old mines and prospects in the Zacualpan and Mamatla Districts. To organize the results of this extensive field work, historical information and assays, IMPACT is compiling a computer Geographic Information System ("GIS") database encompassing all past mining and exploration data in the districts. To date over 1,800 old mine workings and prospects representing almost 500 years of mining history in the districts, have been located in the field and entered into the GIS database. In 2009 the GIS database reached a critical mass of information and is now the main engine for generating and prioritizing drill targets.

Drilling

During the quarter, surface drilling at the Capire-Aurora 1 Zone in the Mamatla Mineral District was completed (for details see below) and the surface drill returned to the Royal Mines of Zacualpan Silver District to test targets at San Ramon, Santa Lucia, Chontalpan North and Golondrinas as described below. In total approximately 20,000 meters of surface and underground drilling are planned for 2010.

The geological staff at Zacualpan has been carrying out geological mapping and geochemical sampling as well as a re-interpretation of the vein structures for a 3.5 square kilometer area designated the GCC (Golondrinas-Chontalpan-Cuchara) Sector. The area is located three kilometers southeast of IMPACT's Guadalupe processing plant. The GCC Sector encompasses many old mining camps and mapping areas including Santa Lucia, Chontalpan, Golondrinas, Principe, San Antonio, Ojo de Agua, Cuchara and Santa Efigenia. As a result of this work 25 distinct drill targets were defined. It is the intention of this drill program to complete several holes in each of the higher priority targets to determine the width, grade and orientation of the veins. A second phase drill program will then be undertaken to provide detailed definition drilling on the most promising zones identified in the first pass program.

This 5,000 meter drill program targeting numerous prime exploration targets in the GCC Sector has the potential to rapidly build significant mineral resources very close to IMPACT's operating Guadalupe processing plant and enhance current production from the Chivo, San Ramon and Noche Buena Mines.

San Ramon Drilling

Subsequent to quarter end on July 27, 2010, IMPACT announced drill results from extensions of the San Ramon Mine zones. Two holes were drilled to test extensions of the San Ramon Mine, located 4.8 kilometers southeast of IMPACT's Guadalupe processing plant. Drill hole Z10-01 was targeted to an area 70 meters northwest of current mine workings and Z10-02 targeted 140 meters below the southeastern limit of the mine workings. Both holes intersected a variety of veins as described in the following table:

SUMMARY OF SAN RAMON EXTENSIONS DRILL INTERSECTIONS								
DRILL HOLE	VEIN NAME	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
Z10-01	Inmaculada	136.8	137.8	1.0	203.0	0.93	0.25	0.61
		and						
Z10-01	20 th de Noviembre	145.3	146.5	1.2	249.00	1.17	0.20	0.58
Z10-02	Chaparrita	227.4	229.8	2.4	331.1	0.14	0.31	1.14
		and						
Z10-02	Chaparrita Splay	241.5	242.7	1.2	226.00	0.05	0.06	0.25
		and						
Z10-02	Intermediate	275.5	275.9	0.4	560.00	0.08	0.17	0.36

Santa Lucia Drilling

Subsequent to quarter end on July 27, 2010, IMPACT also announced drill results from Santa Lucia. Two holes were drilled at the Santa Lucia prospect, located three kilometers east of IMPACT's Guadalupe processing plant as follow-up to the 2009 Phase One drill program. Highlights from the 2009 drilling include **278 g/t silver across 6.3 meters** (DH Z09-47), **1,905 g/t silver across 0.6 meters** (DH Z09-37) and **419 g/t silver across 2.4 meters** (DH Z09-53). Both of the 2010 holes were intended to test the continuity of the southwest dipping Caguilote Vein at depth but instead intersected a previously unrecognized northeast dipping vein set. Further drilling is planned for Santa Lucia upon completion of additional structural interpretation work. A summary of the recent drill results from the new veins at Santa Lucia is in the following table:

SUMMARY OF SANTA LUCIA DRILL INTERSECTIONS								
DRILL HOLE	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)	
SECTION 15+00 N								
Z10-03	260.7	261.8	1.1	588.0	0.05	0.37	2.00	
	and							
Z10-03	266.1	267.1	1.7	394.2	0.07	1.05	1.57	
	and							
Z10-03	269.4	270.0	0.7	154.0	0.32	2.00	2.06	
SECTION 14+50 N								
Z10-04	300.3	300.8	0.5	187.0	0.01	1.41	3.24	

Chontalpan North Drilling

Subsequent to quarter end on August 3, 2010, IMPACT announced commencement of drilling on the Chontalpan Project Area to test the north extension of the large old Chontalpan Mine. Historically, the silver-rich Chontalpan Vein has accounted for a significant portion of the Zacualpan District's past production dating back to the 1760s.

According to historians, production from the Chontalpan mine is estimated to be responsible for a considerable amount of the wealth accumulated by Jose de la Borda, who at the time was one of the richest mine owners in Mexico.

Recent geological mapping and a comprehensive interpretation of the Chontalpan Vein by IMPACT's exploration team indicates that this northeasterly dipping structure is both one of the dominant, and longest in the district, with a defined strike length of 3.5 kilometers and a projected strike length of 12 kilometers. Within the Chontalpan Project Area, the Chontalpan Vein and associated structures have been traced through soil geochemistry and geological mapping for 1.6 kilometers. Initially this drill program will focus on two southernmost target areas.

The first Chontalpan target to be drill tested will be the northwestern extension of the veins from the old Chontalpan Mine workings. In the past, a very old claim boundary separating different claim owners prevented the exploitation of both the Chontalpan Vein (the main producer for the Chontalpan Mine), and the Poblana Vein (a parallel structure 75 meters to the southwest). The proposed drilling will test both of these veins immediately to the northwest of this claim boundary. Sampling of the Chontalpan Vein by IMPACT in the old underground workings returned values of 1,305 g/t and 675 g/t silver in grab samples from old mine pillars.

The second target is the Loma Larga area located 750 meters to the northwest of the Chontalpan Mine. Loma Larga is marked by a prominent 400 meter long soil geochemical anomaly for gold-silver-lead-zinc and five old mine workings with rock sample values up to 324 g/t silver over a sample width of 2.0 meters.

Acquisition of Additional 150 square kilometres of mineral concessions

Subsequent to quarter end, on August 10, 2010, IMPACT announced the acquisition of large new mineral concessions on the southeast and northwest extensions of the Zacualpan vein systems through a grant from the Mines Directorate of Mexico. These important new claim holdings add an additional 150 square kilometers to IMPACT's property portfolio, bringing the total claim holdings in the Zacualpan-Mamatla Districts under IMPACT's control to 623 square kilometers. These new claims are a big step in the consolidation of the region bringing most of the major historic mines under the control of one company for the first time in the 480 year history of the districts.

The recently granted Zacualpan Southeast mineral concessions cover large (125km²) key positions on the southeastern extensions of the Royal Mines of Zacualpan Silver District and connect it with the historic Taxco Silver District, located 25 kilometers to the southeast. Based on historic information compiled in IMPACT's GIS Database, a number of important veins and vein extensions crosscut these new concessions. In addition, nine old mineral processing mills dating back to Spanish Colonial times are located in the general area of the new concessions indicating extensive historic mining activity. Six of these old mills are within the historic Precones Mineral District situated midway between the Taxco and Zacualpan Districts.

The recently granted Los Joyas mineral concession along with the Zacualpan Northwest concessions granted previously cover large positions on the northwestern extensions of the Royal Mines of Zacualpan Silver District. Reconnaissance prospecting has already identified a number of old Spanish Colonial mine workings in the area.

To evaluate these large new claim holdings, IMPACT intends to conduct a thorough review of the historical data along with prospecting to define areas for detailed exploration work and drilling.

Early Stage Exploration

IMPACT employs well trained technical crews dedicated to field exploration throughout the District. These crews have been sampling some of the 1,800+ old mine workings and prospects in the Zacualpan and Mamatla Districts, trenching areas of mineralization and carrying out extensive soil sampling on 100 meter x 25 meter grids. This work has been successful in defining high priority drill targets in several new areas.

Mamatla Silver and Base Metals Project (Mamatla Mineral District), Mexico

IMPACT won the 200-square-kilometer Mamatla Mineral District in a government auction in February 2007 and field crews have been working there since then developing drill targets. The District is located immediately adjacent to and southwest of the Royal Mines of Zacualpan District. Mamatla is host to both volcanogenic massive sulphide (“VMS”) base and precious metal mineralization, and epithermal silver-gold and base metal veins which are similar to those found in Zacualpan.

Mamatla VMS Prospects

The Mamatla VMS mineralization varies from copper and gold-rich systems to zinc, lead, gold and silver-rich systems. The Mamatla project covers the same stratigraphy as the Campo Morado VMS belt, where Farallon Resources Ltd. (TSE: FAN) is in 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 2.8 g/t Gold). The G-9 VMS deposit is located along trend, 45 kilometers southwest of Mamatla.

Capire-Aurora VMS Project

The most advanced exploration targets at Mamatla are the adjacent Capire and Aurora 1 VMS deposits which have subsequently been shown through drilling to be the same zone. The zone is located 16 kilometers southwest of IMPACT’s active mining and processing operations at Zacualpan. In November 2009 IMPACT announced the first NI43-101 compliant mineral resource estimates for Capire and Aurora 1. Both zones remain open for expansion.

A summary by zone announced in November 2009 of the total classified Measured and Indicated Mineral Resources inventory and separately, Inferred Mineral Resources, based on a US\$20/tonne In Ground Metal Value envelope is as follows:

Summary Table Classified Mineral Resources – Measured + Indicated and Separate Inferred							
Domain	Classification	Tonnes	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)
Capire	Measured + Indicated	3,114,488	52.31	0.202	0.07	0.39	1.02
Aurora 1	Measured + Indicated	<u>1,215,798</u>	<u>52.07</u>	<u>0.201</u>	<u>0.08</u>	<u>0.46</u>	<u>0.92</u>
Grand Total	Measured + Indicated	4,330,286	52.24	0.201	0.07	0.41	0.99
Capire	Inferred	218,617	49.41	0.188	0.06	0.35	0.94
Aurora 1	Inferred	<u>85,836</u>	<u>46.89</u>	<u>0.166</u>	<u>0.07</u>	<u>0.38</u>	<u>0.88</u>
Grand Total	Total Inferred	304,453	48.7	0.182	0.07	0.36	0.92

These combined Capire and Aurora 1 measured and indicated mineral resource estimates total 7.2 million ounces silver, 94.3 million lbs zinc and 38.8 million lbs lead as follows:

Total Measured + Indicated In Ground Metal Content						
		Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Capire +Aurora 1	Measured	3,225,633	12,256	2,972,731	17,020,021	40,950,998
Capire +Aurora 1	Indicated	4,047,211	15,773	3,523,296	21,862,477	53,428,372
Capire +Aurora 1	Measured+Indicated	7,272,844	28,029	6,496,027	38,882,498	94,379,370
Total Inferred In Ground Metal Content						
Capire +Aurora 1	Inferred	476,688	1,779	421,645	2,405,978	6,157,909

During the first half of 2010, Phase 2 infill and expansion drilling at Capire-Aurora 1 totalling 5,610 meters in 53 drill holes was carried out. Results of this drilling will be used to update the NI 43-101 mineral resource estimates for the zone.

Summarized below are Phase 2 drill results reported during the first half 2010 for the Capire-Aurora 1 Zone. On March 17, IMPACT announced drill results from the Aurora 1 portion as follows:

AURORA 1 DRILL RESULTS							
HOLE ID	FROM	TO	INTERVAL	Ag g/t	Au g/t	Pb wt. %	Zn wt. %
M09-10	15.45	19.78	4.33	98.3	0.28	1.22	1.98
M09-11	19.90	22.20	2.30	75.5	0.33	1.10	1.83
M09-11	31.56	33.90	2.34	137.6	0.30	1.34	3.76
M09-11	44.50	46.50	2.00	116.5	0.20	1.49	3.28
M10-01	40.05	47.60	7.55	60.4	0.20	1.08	3.05
M10-01	50.93	54.40	3.47	62.6	0.57	1.21	2.11
M10-02	18.22	24.77	6.55	101.8	1.41	2.75	5.07
including	20.55	24.77	4.22	172.0	2.33	0.98	1.95
M10-04	30.55	34.53	3.98	87.7	0.42	0.72	1.61
M10-06	33.80	35.44	1.64	454.6	2.06	1.87	3.84
M10-06	53.54	55.57	2.03	446.3	7.71	3.80	7.54
M10-06	65.54	70.25	4.71	73.7	0.22	0.54	1.27
M10-07	50.50	53.55	3.05	61.7	0.34	0.20	0.76
M10-07	62.20	65.73	3.53	64.3	0.22	0.37	0.94
M10-12	19.41	25.17	5.76	51.3	0.35	0.36	1.09
M10-12	27.30	30.68	3.38	141.3	0.72	2.39	4.79
M10-14	21.00	28.65	7.65	50.9	0.25	0.40	0.82
M10-15	38.05	40.95	2.90	57.6	0.20	0.42	1.11
M10-16	28.50	34.00	5.50	46.1	0.20	0.55	1.72
M10-18	25.25	28.66	3.41	74.0	0.18	0.56	1.31
M10-18	57.00	63.02	6.02	46.0	0.21	0.27	0.75
M10-18	76.90	80.40	3.50	84.7	0.28	0.75	1.55
M10-20	82.17	84.93	2.76	81.7	0.25	0.53	1.78
M10-20	116.95	119.15	2.20	160.9	0.28	2.93	6.91
M10-21	106.66	108.55	1.89	93.5	0.31	0.99	2.61
M10-22	47.43	49.55	2.12	125.3	0.14	0.08	0.16
M10-22	87.56	90.38	2.82	589.3	0.84	1.67	3.36
including	89.00	90.38	1.38	1,139.7	1.60	3.27	6.40
M10-23	117.60	125.20	7.60	73.5	0.75	0.79	2.12
M10-24	15.25	21.35	6.10	92.5	0.19	0.30	0.17
M10-24	64.30	70.30	6.00	44.1	0.16	0.61	1.19

During the second quarter 2010, IMPACT announced further drill results from Capire-Aurora 1 as follows:

CAPIRE (WEST SECTION) DRILL RESULTS							
HOLE ID	FROM (m)	TO (m)	INTERVAL (m)	Ag g/t	Au g/t	Pb %	Zn %
M10-26	67.99	69.70	1.71	82.0	0.21	0.7	1.3
M10-26	79.72	85.19	5.47	57.0	0.32	0.3	0.9
M10-26	118.17	121.87	3.70	85.0	0.22	0.6	1.5
M10-27	76.60	79.30	2.70	133.0	0.19	1.2	3.1
M10-28	55.42	59.68	4.26	287.0	0.23	0.3	0.8
including	55.42	56.63	1.21	878.0	0.49	0.5	1.2
M10-29	57.80	60.42	2.62	133.0	0.23	0.9	2.1
M10-29	70.45	72.55	2.10	60.0	0.12	0.7	1.7
M10-30	65.83	69.30	3.47	127.0	0.76	0.6	1.5
M10-31	9.10	11.50	2.40	62.0	0.51	0.3	0.6
M10-32	30.50	32.33	1.83	167.0	0.61	1.8	4.0
M10-33	4.75	7.81	3.06	119.0	0.36	0.9	2.6
M10-34	73.54	78.24	4.70	102.0	0.19	0.7	1.8
M10-34	98.00	100.00	2.00	188.0	0.25	0.7	1.8
M10-35	46.40	52.00	5.60	82.0	0.74	0.3	1.0
M10-35	65.45	70.52	5.07	211.0	1.01	2.4	4.7
M10-36	70.95	79.85	8.90	115.0	0.31	0.7	2.2
including	70.95	78.45	7.50	123.0	0.32	0.7	2.4
M10-37	53.87	58.62	4.75	131.0	0.36	0.6	1.7
including	56.75	58.62	1.87	230.0	0.61	1.2	2.3
M10-37	66.50	68.82	2.32	147.0	0.84	1.3	2.7
M10-38	63.40	68.90	5.50	49.0	0.31	0.4	1.0
M10-39	9.33	13.10	3.77	57.0	0.25	0.4	1.3
M10-40	10.60	13.19	2.59	93.0	0.80	0.7	2.6
M10-41	10.80	14.40	3.60	43.0	0.23	0.3	0.9
M10-41	31.52	32.76	1.24	78.0	0.25	1.6	6.1

AURORA 1 (EAST SECTION) DRILL RESULTS							
HOLE ID	FROM (m)	TO (m)	INTERVAL (m)	Ag g/t	Au g/t	Pb %	Zn %
M10-42	18.00	20.27	2.27	39.0	0.20	1.9	3.4
M10-42	32.44	35.57	3.13	44.0	0.21	1.1	1.9
M10-43	17.60	19.80	2.20	78.0	0.19	0.9	1.7
M10-45	95.40	97.15	1.75	222.0	2.12	2.5	5.0
M10-48	18.60	20.60	2.00	114.0	0.41	1.8	2.9
M10-48	36.66	39.65	2.99	639.0	2.63	1.2	2.5
including	38.10	39.26	1.16	1,516.0	6.40	1.6	3.0

Mine planning, metallurgical studies and economic studies are now underway to evaluate the production potential of the Capire-Aurora 1 Zone. The orientation and shallow depth from surface of the mineralization indicates potential for open pit mining of at least a portion of the zones. Should a production decision be made on Capire-Aurora 1, it is anticipated that a new processing plant would be built on site to create a second production centre on IMPACT's 623-square-kilometer mineral holdings in the region.

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla Mineral District in February 2007 field crews have discovered over 70 epithermal vein prospects and old mines. During the quarter field work continued on some of these prospects with the aim to develop drill targets.

Veta Grande (Zacatecas) Silver Project, Mexico

On September 28, 2006 IMPACT announced the signing of a Comprehensive Agreement to purchase the Veta Grande Silver Project in the historic Zacatecas Silver District of Mexico over a maximum of four years for US\$1,110,000 and 500,000 shares. During the first quarter 2010, IMPACT announced completion of the purchase and is now 100% owner of the 200 tonne-per-day processing plant and 10 mineral concessions with no underlying royalties. The Company is now upgrading the plant and plans to operate it as a toll mill to generate revenue processing ore for local miners as well as ore from its own concessions in the Zacatecas District.

The project is located 500 kilometers northwest of Mexico City. Access is by paved highways that run through the District. Infrastructure is good throughout the District with road networks, electric power and a trained work force. During 2007 exploration focused on some of the 13 mineral concessions located within this District, three of which are in a joint venture with Silver Sun Resources. During the first quarter 2010, IMPACT carried out an assessment of the old surface mine dumps on one of the concessions; final results are pending.

Future Exploration Plans

IMPACT's exploration work in the Zacualpan and Mamatla Districts has been very successful in recent years. IMPACT staff has put three new mines (Chivo, San Ramon/Chaparrita and Noche Buena) into production over the past four years. The Capire-Aurora 1 Zone in the Mamatla District is now in the economic assessment stage leading toward a decision on production.

During the quarter field exploration continued generating near term drilling and production targets at a high level. Plans for 2010 are to expand the exploration program in order to put some of the other 1,800+ 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 1,800 old mine workings identified to date, IMPACT's long term vision sees the 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, 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 and Aurora 1 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.

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 juniors. 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 kilometers east of Barrick's large Pueblo Viejo Gold deposit with over 12 million ounces of proven and probable gold reserves reported and is hosted in the same rock formation. No work was carried out by the Company on these concessions during the quarter.

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

Safety, Social and Environmental Policy

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

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

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

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

Investor Relations

During the quarter, IMPACT hosted a mine tour for institutional and retail investors to visit the Company's operations in Mexico. In addition, the Company conducted numerous presentations to institutional and retail investors in various cities across Canada and the United Kingdom. The Company plans to continue these activities on an ongoing basis. Energold (a significant shareholder) assists IMPACT with its day-to-day investor relations.

FINANCIAL DISCUSSION

Mine Operating Earnings for the three months ended June 30, 2010 compared to the three months ended June 30, 2009

Revenues (net smelter returns) in the second quarter ended June 30, 2010 were \$2.9 million, down 13% from \$3.4 million in the second quarter of 2009. Revenues in the second quarter of 2009 were higher because a significant portion of production from the first quarter of 2009 was sold in the second quarter of 2009. In the first quarter of 2009 there were no sales of zinc concentrate and limited sales of lead concentrate as a result of a strike at the refinery of our largest customer, Penoles. The disruption in sales in the first quarter of 2009 makes comparison between the quarters less meaningful. Revenue comparisons for the six month periods ending June 30, 2009 and 2010 are more meaningful. Average metal prices in the second quarter in Canadian dollars were higher by approximately 18% for silver, 15% for lead and 22% for zinc as compared to average prices in the second quarter of 2009.

Revenues per production tonne sold decreased to \$96.21 in the second quarter of 2010, down 6% from \$102.01 in the second quarter of 2009. With the significant increase in metal prices, the Company shifted production to lower grade areas. The Company was able to mine these areas profitably, however, the resulting value of each tonne mined decreased because of the lower grades. Average mill throughput during the second quarter of 2010 was 363 tpd, up 20% from 303 tpd during the second quarter of 2009.

Mine operating expenses in second quarter of 2010 were \$1.6 million, down from \$1.9 million in the second quarter of 2009. Amortization and depletion in the second quarter of 2010 was \$0.2 million, down from \$0.4 million in the second quarter of 2009. Direct mine operating costs per tonne in the second quarter of 2010 were \$53.60, down 13% from \$61.56 in the second quarter of 2009. A stronger Canadian dollar in comparison to the Mexican peso and efficiencies gained by the increased mill throughput more than offset increases in salaries and wages at the mine when comparing the second quarter of 2010 to the second quarter of 2009.

Mine operating earnings in the second quarter of 2010 were \$1.1 million, unchanged from \$1.1 million in the second quarter of 2009. Net earnings in the second quarter of 2010 were \$0.32 million, up 68% from \$0.19 million in the second quarter of 2009.

General, Administrative and Other Expenses for the three months ended June 30, 2010 compared to the three months ended June 30, 2009

General and administrative expenses in the second quarter of 2010 were \$0.5 million, up from \$0.3 million in the second quarter of 2009. Non-cash stock-based compensation expense increased to \$0.2 million in the second quarter of 2010 from \$0.07 million in the second quarter of 2009. The Company incurred \$0.05 million in business development investigation costs in the second quarter of 2010. There were no such costs in the second quarter of 2009. All other categories of general and administrative expenses remained largely the same between quarters.

The Company incurred a foreign exchange gain of \$0.08 million in the second quarter of 2010 compared to a foreign exchange gain of \$0.00 million in the second quarter of 2009. 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 six months ended June 30, 2010 compared to the six months ended June 30, 2009

Revenues (net smelter returns) in the first six months of 2010 were \$6.6 million, up 37% from \$4.9 million in the same period of 2009. These higher revenues were due to higher prices for silver, lead, zinc and gold. The Company sold a greater amount of zinc concentrate in the first half of 2010 as compared to the first half of 2009 as sales of zinc concentrate were halted from November 2008 to May 2009 because of low zinc prices. Average metal prices in the first half of 2010 in Canadian dollars were higher by approximately 15% for silver, 35% for lead and 40% for zinc as compared to average prices in the first half of 2009.

Mine operating expenses in the first six months of 2010 were \$3.5 million, up from \$2.5 million in the same period of 2009. The increase in operating expenses is a result of the timing of sales of concentrate. In the first six months of 2010 levels of finished goods inventory decreased by \$0.2 million. This amount was realized as a mine operating expense as the concentrates were sold in the first half of 2010. In the first half of 2009 the Company's levels of finished goods inventory increased from \$0.2 million at December 31, 2008 to \$1.3 million at June 30, 2009. The costs of these inventories were realized in mine operating expenses as the inventories were sold in the last half of 2009. Amortization and depletion in the first six months of 2010 was \$0.5 million, unchanged from \$0.5 million in the same period of 2009. Mine operating costs per tonne in the first six months of 2010 were \$54.25, down 5% from \$57.23 in the same period of 2009. Average mill throughput during the first six months of 2010 was 343 tpd, up 9% from 316 tpd during the same period of 2009.

Mine operating earnings in the first six months of 2010 were \$2.6 million, up 40% from \$1.9 million in the same period of 2009. Net earnings in the first six months of 2010 were \$1.0 million, up 270% from \$0.3 million in the same period of 2009.

General, Administrative and Other Expenses for the six months ended June 30, 2010 compared to the six months ended June 30, 2009

General and administrative expenses for the first six months of 2010 were \$1.0 million, up 24% from \$0.8 million in the first six months of 2009. Non-cash stock-based compensation expense was \$0.3 million in the first six months of 2010, unchanged from \$0.3 million in the same period of 2009. Office, rent, insurance and sundry was \$0.2 million in the first six months of 2010, up from \$0.1 million in the same period of 2009. The Company incurred \$0.05 million in business development investigation costs in the first six months of 2010. There were no such costs in the first six months of 2009. All other categories of general and administrative expenses remained largely the same between the first half of 2010 and 2009.

The Company incurred a foreign exchange gain of \$0.01 million in the first six months of 2010 compared to a foreign exchange loss of \$0.1 million in the same period of 2009. Foreign exchange fluctuations in the translation of the Company's Mexican-owned assets into Canadian dollars will continue each quarter 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 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009	June 30 2009	Mar 31 2009	Dec 31 2008	Sept 30 2008
Revenues	2,948	3,702	2,333	4,983	3,404	1,457	2,221	2,244
Net earnings (loss)	320	638	116	785	191	68	(256)	(233)
Earnings (loss) per share - Basic*	0.01	0.01	0.00	0.02	0.00	0.00	(0.01)	(0.00)
Earnings (loss) per share - Diluted*	0.01	0.01	0.00	0.02	0.00	0.00	(0.01)	(0.00)
Cash and cash equivalents	3,973	4,157	5,295	5,494	4,050	5,357	5,433	7,091
Total assets	33,948	33,268	31,690	31,415	31,492	30,065	29,274	30,058
Total liabilities	6,280	6,286	5,551	5,570	6,590	5,460	4,958	5,561

* Per share numbers have been rounded to two decimal places

Liquidity and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at June 30, 2010 remained strong with \$4.0 million in cash and cash equivalents (December 31, 2009 - \$5.3 million) and net working capital of \$6.1 million (December 31, 2009 - \$6.3 million). The decrease in cash and cash equivalents is primarily due to timing of collection of accounts receivable as accounts receivable increased by \$1.3 million during the first half of 2010. IMPACT generated positive cash flows from operations of \$0.6 million during the second quarter of 2010 and positive cash flows from operations before changes in non-cash working capital² were \$0.8 million during the second quarter of 2010. IMPACT generated positive cash flows from operations of \$0.9 million during the first half of 2010 and positive cash flows from operations before changes in non-cash working capital were \$2.2 million during the first half of 2010. These positive cash flows were invested in resource properties (\$2.2 million) and property, plant and equipment (\$0.3 million) in the first half of 2010.

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 and property acquisition costs related to Zacualpan in the first half of 2010 were \$2.2 million unchanged from \$2.2 million in the first half of 2009. Expenditures on drilling and other exploration costs are budgeted to continue to be between \$1.0 and \$1.6 million per quarter as the Company continues to develop the Zacualpan and Mamatla Districts.

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

IMPACT has committed additional resources and has hired geological support staff to lead two separate teams to accelerate the exploration and mapping of its properties and prospective drill targets. The Company expects that its remaining 2010 exploration expenditures in the Zacualpan and Mamatla Districts will continue at levels similar to 2009 as it proceeds to explore some of the more promising exploration targets. However, the Company will continue to closely monitor its cash and cash equivalents balance and may adjust exploration expenditures as required.

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

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 24, 2010:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at August 24, 2010	49,052,585		
Stock options	985,000	\$ 1.40	September 5, 2012
	75,000	\$ 1.67	October 22, 2012
	2,022,375	\$0.55	January 6, 2014
	1,012,500	\$1.10	June 6, 2015
Fully diluted at August 24, 2010	53,147,460		

Of the 4,094,875 options outstanding, 3,335,500 have vested at August 24, 2010.

Related Party Transactions

Energold Drilling Corp. ("Energold") owns 6,650,001 shares of the Company and due to management and directors in common, it is considered a related party.

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

During the six months ended June 30, 2010, fees in the amount of \$1.0 million (June 30, 2009 - \$1.2 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, 2010, the balance owed to Energold was \$0.4 million (December 31, 2009 - \$0.3 million).

Financial Instruments and Management of Financial Risk

Financial Assets and Liabilities

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and due to related parties. 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, 2010 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 of Handbook Section 3862 – *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 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. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents, accounts receivable and investments.

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, 2010 the Company did not have any significant future debt obligations.

Currency Risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, zinc, lead, and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars.

Interest Rate Risk

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents. The floating rate deposits expose the Company to cash flow interest rate risk. The Company does not currently have any short or long term interest borrowings.

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.

Changes in Accounting Policies – Adoption of New Accounting Policies

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582 – *Business Combinations* to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of the business combination.

The CICA concurrently issued Section 1601 – *Consolidated Financial Statements* and Section 1602 – *Non-Controlling Interests*, which replace Section 1600 – *Consolidated Financial Statements*. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 – *Business Combinations*. We have chosen to early adopt Sections 1582, 1601 and 1602 effective January 1, 2010. There is no effect on previous business combinations.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace current Canadian GAAP for publicly-accountable, profit-oriented enterprises effective January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported for the year ended December 31, 2010.

In 2009 the Company began the process of identifying the differences between Canadian GAAP and IFRS and identifying how these differences may affect the reporting of the Company's financial results. The detailed assessment is ongoing and to date the Company has identified presentation and disclosure, property, plant and equipment, and future income taxes as areas where the adoption of IFRS may have a material effect on the Company's financial reporting, processes and controls. The Company is also assessing the available elections under IFRS to determine the effect of each election to the Company. This detailed assessment is expected to be completed in 2010.

The transition from Canadian GAAP to IFRS may materially affect reported financial position and results of operations. The Company has not yet determined the full accounting effects of adopting IFRS, since some key accounting policy alternatives and implementation decisions are still being evaluated.

In 2010 the Company will:

- complete a detailed evaluation and selection of the available IFRS exemptions
- complete the selection of accounting policies under IFRS
- prepare draft financial statements and notes under IFRS
- prepare a January 1, 2010 opening balance sheet and 2010 comparative data under IFRS
- identify and implement any changes required to information technology systems and data collection processes

Other important considerations during the IFRS transition include:

Internal control over financial reporting (“ICFR”) – for all accounting policy changes identified, the Company will assess the impact on the ICFR design and effectiveness implications and will ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures (“DC&P”) – for all accounting policy changes identified an assessment of DC&P design and effectiveness implication will be analyzed to address any issues with respect to DC&P during IFRS transition.

Updates on the progress of the conversion process will be provided to the Company’s audit committee and disclosed in the Company’s MD&A on a quarterly basis throughout 2010.

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 three months ended June 30, 2010 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-GAAP MEASURES

The Company uses both GAAP and non-GAAP measures to assess performance and believes the non-GAAP measures provide useful information to investors. Following are the non-GAAP 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-GAAP 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 GAAP 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 24, 2010