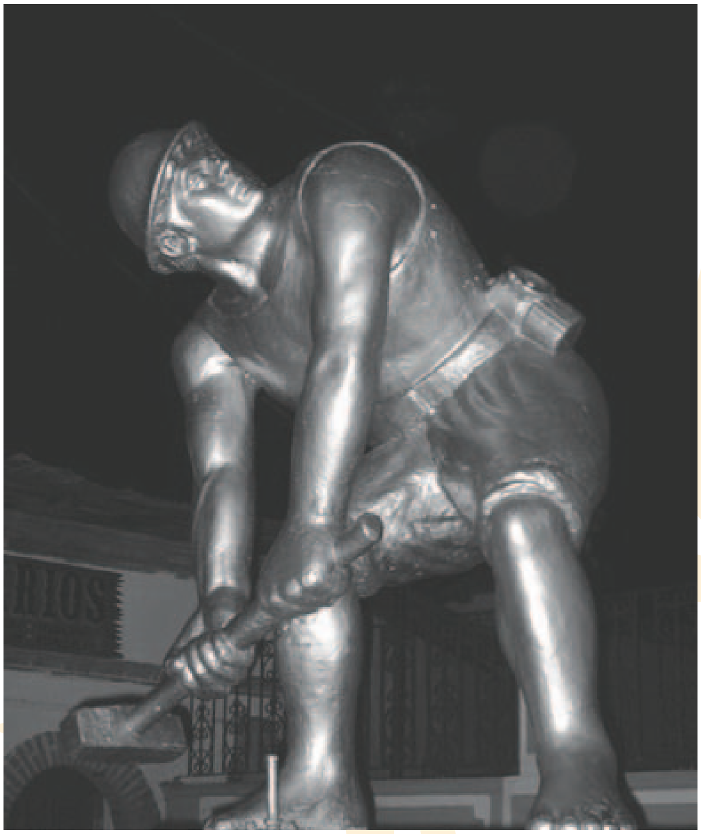
ZACUALPAN MEXICO

ANNUAL REPORT 2010



IMPACT SILVER CORP

ANNUAL REPORT 2010

MEXICO

ROYAL MINES
OF ZACUALPAN

Impact Silver Corp. currently produces silver at the Royal Mines of Zacualpan, while advancing the 200 km^2 Mamatla district toward production.

IMPACT runs an extensive ongoing drill program which has yielded several mines to date, all funded 100% from cashflow. The Company has 12 mineral concessions as well as a recently purchased 200-tpd mill in the Zacatecas Silver District (Mexico).

IMPACT trades on the TSX Venture Exchange under the symbol IPT.

IMPACT Silver Corp. is a low-cost silver producer that controls two large mineral districts in southern Mexico– Zacualpan and Mamatla.

LETTER TO SHAREHOLDERS

TO OUR SHAREHOLDERS

An Exceptional Year

IMPACT Silver enjoyed an exceptional year in 2010, reaching important milestones in finance, production, development and exploration. Like all silver miners, we continued to benefit from a robust silver market that brought unusually high spot prices and keen interest in the mining equity market. As a result, we enter the coming year well-funded, generating increasing revenues and earnings, and expecting continued strong growth in 2011.

Record Revenues and Earnings

This Company has always focused on profitability, and with the higher metal prices in general and silver prices in particular, we achieved record revenues and earnings in 2010. Our fourth quarter performance was the leader with $6.8 million in revenues and $2.1 million in net earnings. Revenues for the year totaled $16.7 million, up 37% from 2009, with mine operating earnings reaching $7.4 million for the year or 79% higher than 2009. The Company's fourth quarter revenues equated to more than $200.00 per tonne. As a result the average value per tonne for the year rose to $126.97, up from $106.49 in 2009.

Fourth Quarter Financing Adds $15 million

With our improving performance and the equity markets responding very positively to silver prices, management took the opportunity to raise $15 million through a private placement financing in the fourth quarter. These funds will be dedicated to substantially expanding exploration in Mexico and bringing the Company's Capire Mine into production.

Noche Buena Achieves Full Production

In the Zacualpan District of Mexico we achieved full production at Noche Buena, our latest mine. Combined with feed from the San Ramon and Chivo mines, throughput at the Guadalupe plant increased to approximately 400 tonnes per day (tpd) and brought us closer to achieving full production of 500 tpd.

Production Costs Remain Low

Despite inflation and the associated costs of starting up the Noche Buena, the Company continued to operate with one of the lowest production costs for comparable mines in Mexico at $63 per tonne, up marginally from $60 in 2009.

Lowered Cut-Off Grades Will Provide More Ore

While mining costs per tonne did not increase significantly, the mine prudently reduced its cut-off grades in response to higher metal prices. As a result, direct costs per ounce mined less by-product credits rose approximately $1.30 to $5.76. Cut-off grades represent the lowest grade material that can be mined at a profit. As the price of metals has risen dramatically over the last year, the Company has been able to mine lower grades and still generate a profit. Reducing the cut-off grade means the mine will ultimately recover more ore, although at a slightly lower average grade.

Capire Mine to Open in Late 2011

Our key development achievement in 2010 was at the Capire Silver-Lead-Zinc Volcanogenic Massive Sulphide ("VMS") project located 16 kilometers southwest of the Guadalupe processing plant. Open pit production at Capire is expected to start in late 2011. We are presently constructing a 200 tpd pilot plant with expansion planned once production parameters are established. During the year the Company produced a revised 43-101 compliant report on the Capire deposit which included revised resource calculations. Measured and Indicated resources at Capire totaled 4.9 million tonnes with an average grade of 45.74 grams per tonne silver and 0.19 grams per tonne gold. With the

recent financing, we ramped up development at the project with the acquisition of surface rights, permitting and condemnation drilling on the proposed sites for the plant, low grade dumps and tailings pond locations. Exploration drilling continues to test the possible extension of the Capire deposit to the west, south and east. We will subsequently begin testing a number of other VMS targets in the general area.

Another Year of Successful Exploration

Mine exploration continues to expand on a number of targets adjacent to our mining operations, while field exploration is evaluating targets identified by reconnaissance work. We completed more than 15,000 meters of surface exploration and resource drilling during the year, up from 11,600 meters in 2009. For 2011, we plan to drill over 20,000 meters in Mexico with a goal of putting some of the other 2,000 compiled prospects in both the Zacualpan and Mamatla Districts on a faster track to potential production.

Well-Funded with $18.7 Million

We closed out the year well funded. Subsequent to the fourth quarter financing, the Company treasury held $18.7 million in cash. With the anticipated positive cash flow from operations, IMPACT has adequate funds for both the Capire development and the extensive exploration planned for 2011.

Looking Ahead

A key goal for 2011 is to bring the 500 tpd Guadalupe Mill to near or full capacity operation. Mill feed will be sourced from the Ramon, El Chivo and Noche Buena mines. Exploration in the Zacualpan district will accelerate and include silver targets near the current mill as well as prospecting on a number of other precious metal targets in the district. At the Capire project we plan to bring the 200 tpd pilot plant and start-up pit into production by mid winter. Coincidental with development of the Capire mine, we expanding exploration on surrounding ground to test a number of other targets. At least 10,000 meters of drilling is planned for Capire alone.

Our Thanks to Everyone

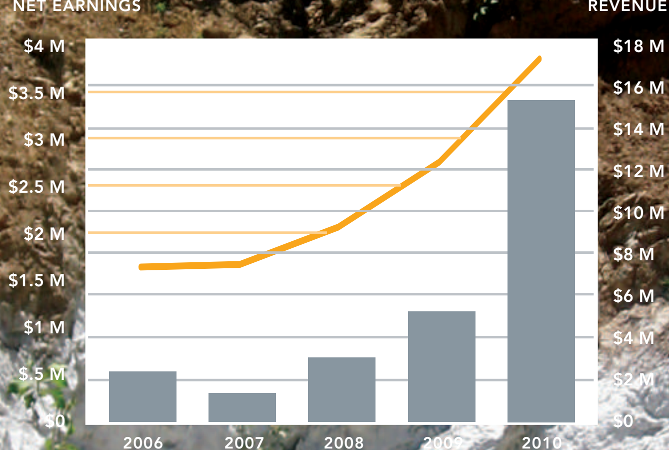
An outstanding year such as 2010 would not be possible without an outstanding team. On behalf of the Board of Directors I would like to thank our over 200 employees and consultants, both in Canada and Mexico, for their tireless work and dedication. I'm also most grateful to our loyal shareholders for their continuing support. We look forward to another exceptional year in 2011.

Frederick W. Davidson
President and CEO

April 14, 2011

5 YEAR SILVER
HIGH $39.28 LOW $8.92

IMPACT SILVER
5 YEAR REVENUE & PROFIT



IMPACT SILVER CORP ACHIEVEMENTS

- Record Revenues up 37% to $16.7 million
- Net Earnings up 196% to $3.4 million
- Generated EPS $0.07, up 250%
- Operating cash flow increased to $5.6 million, up 49%
- Completed $15 million financing increasing cash position to $18.7 million
- Commenced mining at Noche Buena, third mine discovered by IMPACT team
- Completed first NI 43-101 Mineral Resource Estimate on Capire Project totaling 7 million ounces Silver, 95 million lbs Zinc, 37 million lbs Lead, with further drilling planned in 2011 to expand zones and commence production in late 2011
- Acquired large new mineral concessions totaling 150 km^2
- Expanded GIS database to over 2,000 old mine workings, up 25%

SILVER: INDUSTRIAL AND INVESTMENT DEMAND DRIVE A BULL MARKET

An Industrial and Precious Metal

- Over the past year, the industrial and investment forces driving silver's meteoric rise have converged and there is an unprecedented rush to find monetary safe havens

Silver Price Nears Record Territory

- Silver prices averaged $20.31 in 2010, a 38.4% increase over 2009 and second only to 1980's average of $20.65 (the year silver hit its all time high of $50)

Record Supply

- The high price of silver is resulting in record silver production. Silver supplies in 2010 increased 9.3% to a record 1.03 billion ounces, and new mines in 2011 will likely fuel even higher supplies.

Recovering Economies Drive Fabrication Demand

- The resurgence in world industry and higher demand for consumer electronics have generated a 9.5% increase in overall fabrication demand, from 864.8 million ounces in 2009 to 946.6 million ounces in 2010. Solar panel fabrication is rapidly emerging as a key consumer of silver. Panel manufacturers are estimated to have consumed 64 million ounces of silver in 2010, a 205% increase over 2009, with much higher numbers expected in 2011.

Looking Ahead

- Looking ahead in 2011, none of the current market dynamics show any signs of changing dramatically.
- Inflation remains a key concern, and statistics released in the second quarter of 2011 strongly support an inflationary direction for at least the next two years.
- Combined with a rapidly recovering world economy, the demand for silver should remain strong over the next 12 months.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2010

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected IMPACT Silver Corp. and its subsidiaries' ("IMPACT" or the "Company") performance and such factors that may affect future performance. For a comprehensive understanding of IMPACT's financial condition and results of operations, this MD&A should be read in conjunction with the Company's audited consolidated financial statements for the Three Months and Year ended December 31, 2010 and the related notes contained therein, which have 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."

Business of the Company

IMPACT Silver Corp. is a natural resource mining and development company engaged primarily in the acquisition, exploration, development and mining of mineral properties in Mexico and the Dominican Republic. IMPACT's key assets are the 423 km^2 Royal Mines of Zacualpan Silver District ("Zacualpan") and the adjacent 200 km^2 Mamatla Mineral District ("Mamatla") in central Mexico. The Zacualpan and Mamatla Districts contain a large package of 100%-owned mineral concessions with wholly-owned operating mines, a 500-tonnes-per-day (tpd) processing plant and the new Capire Mine Development Project scheduled for production in late 2011.

HIGHLIGHTS FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2010

Financial Highlights

Increasing silver prices helped IMPACT achieve record sales and earnings for the fourth quarter and year-end. With the completion of a $15.0 million financing in December 2010, IMPACT is rapidly accelerating its exploration and development programs to respond to improving market conditions.

Key events for the Quarter and Year

- Revenues for the year ended December 31, 2010 reached a record $16.7 million, up 37% from $12.2 million in 2009.
- Fourth quarter revenues totalled $6.8 million, also a record and 192% higher than fourth quarter 2009 ($2.3 million).
- Mine operating earnings for 2010 totalled $7.4 million, up 79% from 2009 ($4.2 million). Fourth quarter mine operating earnings of $3.5 million increased 745% over fourth quarter 2009 ($0.4 million).
- Net earnings for the year of $3.4 million were 196% higher than 2009 ($1.2 million). Fourth quarter net earnings of $2.1 million increased 1,726% over fourth quarter 2009.
- Cash flows from operations before changes in non-cash working capital of $5.6 million were 49% higher than 2009 ($3.7 million). Fourth quarter cash flows from operations before changes in non-cash working capital[1] were $2.3 million, up 1,327% from $0.2 million in the comparative quarter in 2009.
- After investing $5.1 million in property, plant and equipment, resource properties and exploration during the year, the Company held cash and cash equivalents of $18.7 million at December 31, 2010.

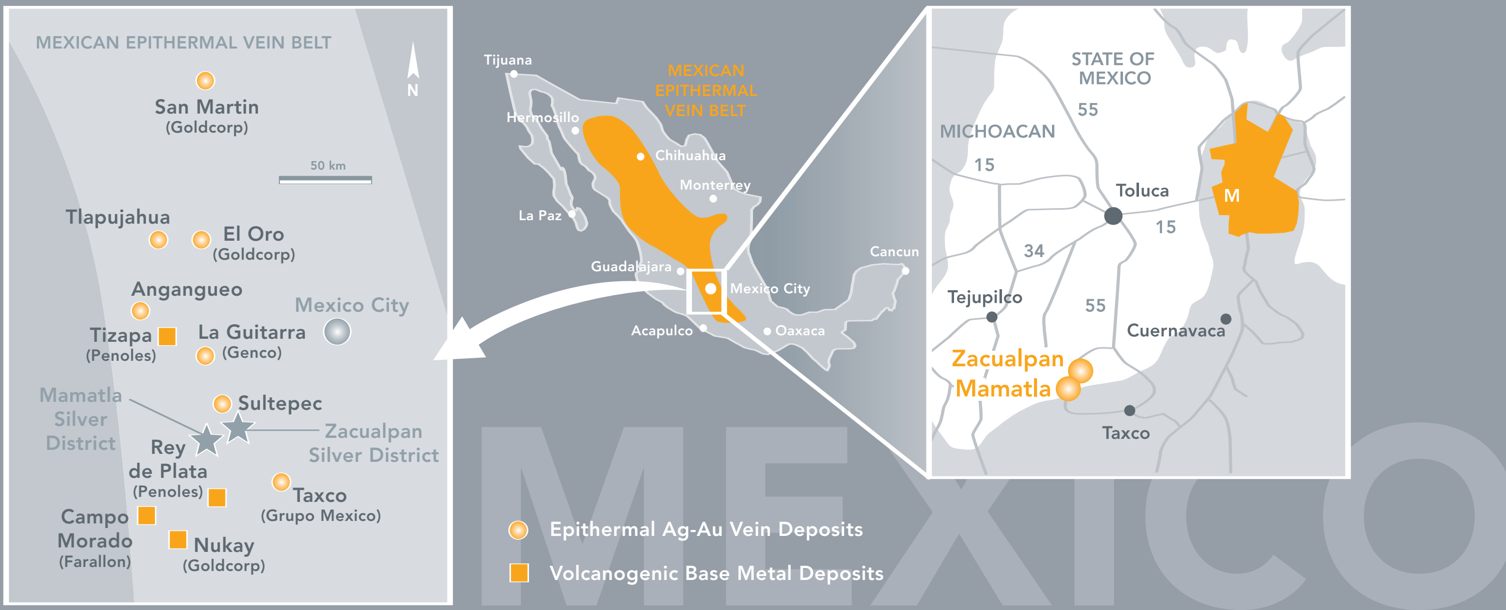
1. Cash flows from operations before changes in non-cash working capital is a non-GAAP measure, which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining oerations. See "NON-GAAP MEASURES".

Private Placement Financing

- On December 15th the Company announced the closing of a $15.0 million private placement financing consisting of 12 million units at a price of $1.25 per unit, of which 8.75 million units were sold pursuant to a brokered portion of the private placement and 3.25 million units were sold pursuant to a non-brokered portion of the private placement. Each unit consisted of one common share of the Company and one-half of a non-transferable common share purchase warrant. Each whole warrant is exercisable at $1.75 to purchase one common share of the Company until December 14, 2012. If the common shares of the Company trade on the TSX Venture Exchange at a volume-weighted average price of $2.50 or more for a period of at least 10 consecutive trading days, the Company may accelerate the expiry date of the warrants to a date which is at least 30 days from the date that notice of such acceleration is provided to the holders of warrants.
- Fraser Mackenzie Ltd. acted as agent for the brokered portion of the private placement, for which it was paid a cash commission of $693,750 and issued an agent's warrant exercisable for 555,000 agent's units entitling the agent to subscribe for the agent's units at a price of $1.25 per agent's unit until December 14, 2012. These agent's warrants are subject to the same acceleration provisions applicable to the unit warrants. Each agent's unit consists of one common share of the Company and one-half of a non-transferable common share purchase warrant. Each such whole warrant is exercisable at $1.75 to purchase one common share of the Company until December 14, 2012, subject to the acceleration provisions applicable to the warrants. All of the securities issued and issuable pursuant to the private placement are subject to a hold period in Canada and may not be traded therein, unless otherwise permitted under securities legislation, until April 15, 2011.
- IMPACT intends to use the net proceeds of the offering to develop and expand the Royal Mines of Zacualpan Silver-Gold District and launch construction of the Capire Project pilot plant in the Mamatla Mineral District. The Company also intends to accelerate exploration and drilling on its various exploration-stage projects in Mexico.

Production Highlights 2010

- Significantly higher metal prices in 2010 allowed IMPACT to revise cut-off grades and lower the average grade of ore mined. As a result, the total tonnes of economic ore available to the Company increased. In the short term, this action has decreased contained metal production due to lower average grades being mined. However, with greater amounts of ore delivered to the processing plant from the new Noche Buena Mine, contained metal production is expected to increase in 2011 and a further increase is projected in 2012 when the new Capire Mine is fully operational.
- Fourth quarter silver production of 203,259 ounces was up 27% from 2009 (160,613 ounces). For the year, silver production of 750,259 was 9% lower than 2009 (823,571 ounces).
- Fourth quarter lead production of 174 tonnes was 15% lower than fourth quarter 2009 (206 tonnes). For the year, lead production of 734 tonnes decreased by 24% compared to 2009 (969 tonnes).
- Fourth quarter zinc production of 363 tonnes was 30% higher than fourth quarter 2009 (279 tonnes). For the year, zinc production of 1,212 tonnes increased 10% over 2009 (1,098 tonnes).
- Average mill throughput in the fourth quarter of 365 tpd was 16% higher than fourth quarter 2009 (314 tpd). This increase was achieved despite production delays caused by heavy rainfall in the unusually wet season for 2010. Heavy rainfall washed out roads between the Noche Buena Mine and the processing plant, limiting the amount of ore that could be delivered from Noche Buena. Concentrate drying time was also longer than normal. At December 31, 2010, the Company held finished goods concentrate inventories with an estimated net realizable value of $0.6 million. These inventories are valued on the balance sheet at cost, at $0.2 million.



Exploration Highlights 2010

Capire Deposit, Mamatla District

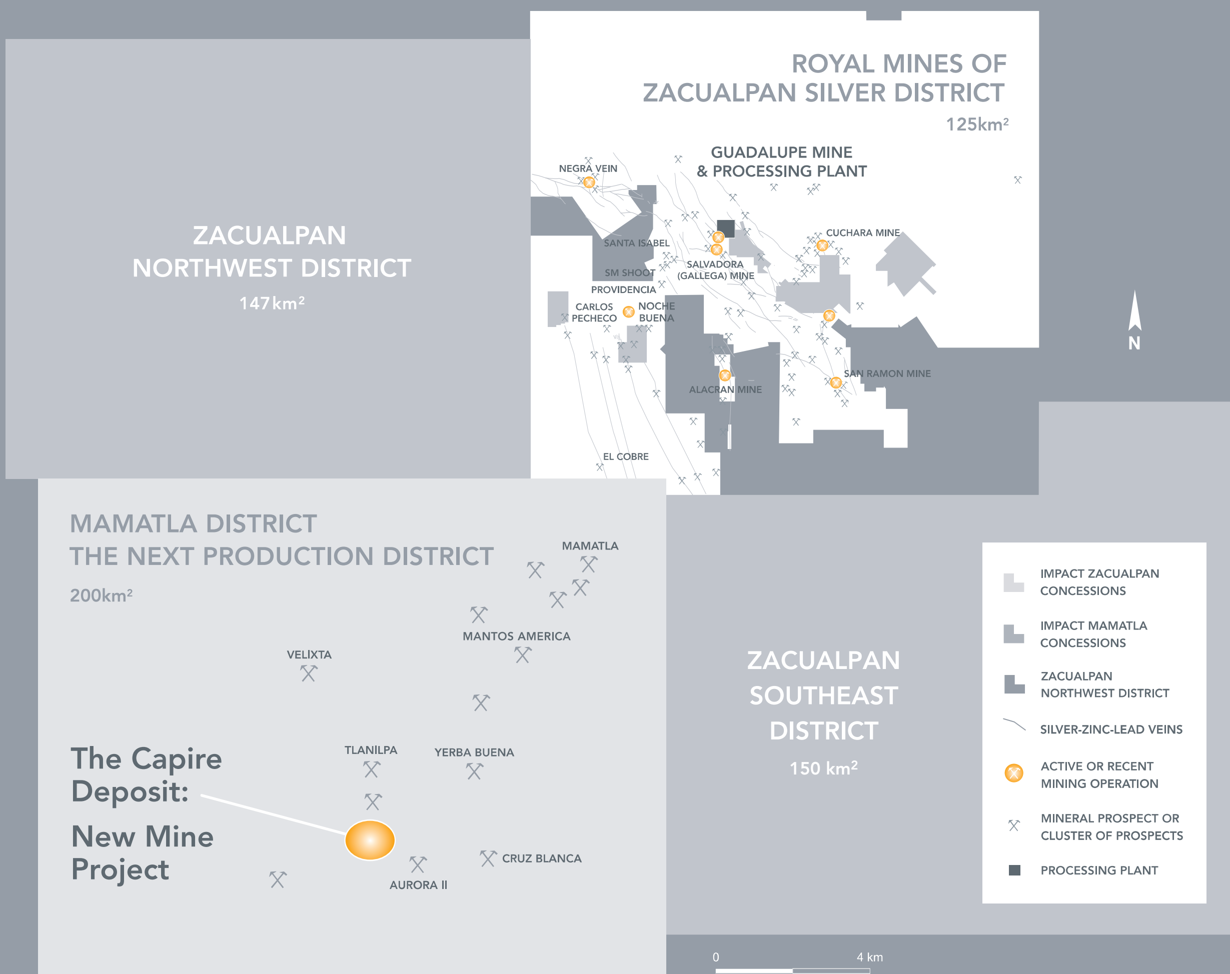
- On February 1, 2011, subsequent to 2010 year end, IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit (formerly the Capire-Aurora 1 Zones) located in the Mamatla Mineral District. The estimated measured and indicated mineral resource at Capire included 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope.
- Subsequent to year end on February 1, 2011 and March 3, 2011, IMPACT provided updates on development of the new mine at Capire.
- The project has progressed to the mine permitting and development stage.
- Plans are to first install a 200-tpd pilot plant (already purchased) to optimize mining and processing parameters toward planning for a larger operation in the future.
- Surface rights for all mining areas, tailings dam and the processing plant have been acquired.
- Condemnation drilling under the plant site, tailings dam and rock waste piles has been completed in preparation for mine and plant construction.
- Exploration program includes a planned two-year 20,000 meter drilling program on the Capire project and surrounding target areas.
- When it comes on stream, Capire will be the fourth mine taken from discovery to production by the IMPACT technical team.

On March 17, 2010 and May 25, 2010, IMPACT announced results from the 5,610m second phase of drilling at Capire. Results were factored into the updated NI 43-101 compliant Mineral Resource estimates and included 1,139 g/t silver across 1.38 meters, 589 g/t silver across 2.82 meters and 639 g/t silver, 2.63 g/t gold, 1.2% lead and 2.5% zinc across 2.99m. The zone remains open for expansion.

San Ramon Camp

- 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.

IMPACT Silver – Land Package 623 km²



TOTAL MEASURED & INDICATED, INFERRED IN GROUND METAL CONTENT

The Capire Project – Measured & Indicated

Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
7,224,035	30,446	7,083,007	37,264,478	95,662,993

Tonnes	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)
4,912,246	45.74	0.193	0.06	0.34	0.88

The Capire Project – Inferred

Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
435,959	1,919	475,594	2,260,089	5,823,490

Tonnes	Ag (g/t)	Au (g/t)	Cu (%)	Pb (%)	Zn (%)
371,066	36.54	0.161	0.06	0.28	0.71

Golondrinas-Chontalpan-Cuchara Sector

Santa Lucia

- On July 27, 2010, IMPACT announced drill results from Santa Lucia including 588 g/t silver across 1.1 meters.

Chontalpan

- On August 3, 2010, IMPACT announced commencement of drilling on the Chontalpan Project Area to test the north extension of the large historic Chontalpan Mine. On September 15, 2010, IMPACT announced the first drill results from two targets in the Chontalpan North area including 331.5 g/t silver across 2.00 meters on the Chontalpan Mine – Northwest target and 402.6 g/t silver across 2.14 meters on the Loma Larga target.

Golondrinas Project

- On August 19, 2010, IMPACT announced commencement of drilling on the Golondrinas Project Area to test multiple closely spaced vein systems. Sample results from old mine workings on these veins included 4,800 g/t silver across 1.25m. On October 19, 2010, IMPACT announced drill results from the first 12 holes at Golondrinas including 1,045 g/t silver across 1.03 meters, 2,120 g/t silver across 0.46 meters and 289.5 g/t silver across 4.45 meters. On November 10, 2010, IMPACT announced drill results from an additional six holes at Golondrinas including 277 g/t silver across 3.15 meters and 3,010 g/t silver across 0.25 meters.

2,000 Old Workings Compiled to Date

- On November 10, 2010, IMPACT announced that over 2,000 old mine workings and prospects in the Zacualpan and Mamatla Districts have now been compiled in the GIS database representing almost 500 years of mining history in the districts. In 2009 the GIS database reached a critical mass of information and is now the main engine for generating and prioritizing drill targets.

Expansion of Mineral Concessions

- On August 10, 2010, IMPACT announced the acquisition of large new mineral concessions totalling 150 km^2 on the southeast and northwest extensions of the Zacualpan vein systems. IMPACT's holdings in the Zacualpan and Mamatla Mining Districts now total 623 km^2.

CORPORATE OVERVIEW

IMPACT has grown from an exploration company into a significant silver producer with control of two entire mineral districts in central Mexico – the 423 km^2 Royal Mines of Zacualpan Silver District and the adjacent, 200 km^2 Mamatla Mineral District adjacent to and southwest of Zacualpan. In addition to its 500-tpd plant, IMPACT also owns a semi-portable, 200-tpd processing plant for use as a pilot plant at its Capire Mine Development Project in the Mamatla Mineral District. Additionally, the Company controls the Veta Grande Silver Project in the Zacatecas Silver District, Mexico. In the first quarter of 2010 the Company purchased a third processing plant for Veta Grande with a 200-tpd capacity.

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.

The Company is carrying out a three-part program of exploration, development and mine production at both the Royal Mines of Zacualpan Silver District and Mamatla Mineral District. As part of this process, Management has established three key objectives for the districts in 2011:

1 At the Guadalupe Mill, increase economically recoverable throughput until the current maximum rated capacity of 500 tpd is achieved. The Guadalupe mill processed an average of 365 tpd in fourth quarter 2010. With the addition of ore from the Noche Buena Mine, the mill is expected to process close to its rated capacity in 2011.

2 Continue exploration and prepare new sources of ore for mine development to justify expansion of the current facility or construction of new processing plants. The first step in this direction will be construction of the new 200-tpd plant at Capire in late 2011.

3 Continue reconnaissance exploration to evaluate the longer term potential of both districts. Toward this objective, the Company in launching a large reconnaissance program on the recently acquired Zacualpan SE concessions.

IMPACT continued to make progress towards each of these objectives in 2010. With completion of the recent financing, this work will accelerate in 2011.

Noche Buena Mine Opens

On March 4, 2010, IMPACT announced that mining had commenced at the Noche Buena Mine. By the end of 2010, production had reached 66 tpd. Production will increase in 2011 as additional mining faces are developed. The Guadalupe processing plant was upgraded in 2010 to accommodate the Noche Buena production.

Fast-Tracking Aspect of Growth Strategy

The Noche Buena Mine represents the third operation taken from discovery to production by the IMPACT team since 2006. Noche Buena was put into production just 15 months after the discovery drill hole. IMPACT's ability to fast track new mines from exploration to production is a cornerstone of the Company's strategy for rapid growth in the Zacualpan and Mamatla Districts.

New NI 43-101 Resource at Capire

On February 1, 2011, subsequent to 2010 year end, IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit (formerly the Capire-Aurora 1 Zones) located in the Mamatla Mineral District. Measured and Indicated mineral resource estimates for the Capire Deposit included 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope. Capire remains open for expansion, and expansion drilling is in progress. Capire is located in the Mamatla Mineral District, 16 kilometers southwest of IMPACT's active mining and processing operations at Zacualpan.

New Plant at Veta Grande

At the Veta Grande Silver Project, Zacatecas Silver District, IMPACT's recently-purchased 200-tpd processing plant will provide the leverage to become an active participant in the district. The Company is upgrading the plant, and plans include the alternative of operating it as a toll mill to generate revenue by processing ore for local miners as well as ore from IMPACT's own concessions in the Zacatecas District.

Production Diversity Provides Flexibility

IMPACT's operations in Zacualpan now have the diversity and flexibility to weather fluctuating prices for silver, lead and zinc. With lower prices, production can shift quickly to higher grade areas. Conversely, higher prices allow lower grade ore to be mined. Current strong metal markets have allowed IMPACT to lower its economic cut-off grades, generating slightly lower grades on a per-tonne basis but expanding the available tonnage for mining.

Looking Ahead: Growth Through Development and Acquisitions

Going forward, management believes the Company has an exceptional opportunity to continue its rapid growth, both through continued development of the Zacualpan and Mamatla Mineral Districts and through new acquisitions.

 IMPACT SILVER CORP IMPACT SILVER CORP

Cash Position

At December 31, 2010, the Company had cash and cash equivalents of $18.7 million held primarily with a Canadian Tier 1 Bank.

Production and Sales for the Three Months Ended December 31, 2010

	Three months ended			Three months ended		
	Dec. 31 2010	Dec. 31 2009	% Change	**Dec. 31 2010**	Sept. 30 2010	% Change
Total tonnes (t) produced	**33,603**	28,921	+16%	**33,603**	35,618	-6%
Tonnes produced per day	**365**	314	+16%	**365**	387	-6%
Silver production (oz)	**203,259**	160,613	+27%	**203,259**	186,233	9%
Lead production (t)	**174**	206	-15%	**174**	180	-3%
Zinc production (t)	**363**	279	+ 30%	**363**	328	11%
Gold production (oz)	**146**	171	-15%	**146**	150	-3%
Silver sales (oz)	**249,632**	140,615	+78%	**249,632**	149,992	+66%
Lead sales (t)	**218**	168	+30%	**218**	171	+27%
Zinc sales (t)	**367**	255	+44%	**367**	303	+21%
Gold sales (oz)	**173**	164	+6%	**173**	130	+32%
Revenue per production tonne sold	**168.39**	91.08	+85%	**168.39**	102.96	+64%
Direct costs per production tonne	**78.26**	65.02	+20%	**78.26**	55.74	+40%

Fourth Quarter 2010 Overview

IMPACT completed another successful quarter with important developments in finance, production and exploration. The above table shows fourth quarter 2010 production increasing over fourth quarter 2009, due primarily to the Noche Buena Mine start-up. However, contained silver, lead, and gold decreased while contained zinc increased. This shift resulted from a decrease in silver and lead grades compared to 2009. Higher prices for silver, lead and zinc allowed the Company to revise cut-off grades and mine medium grade areas, resulting in $2.3 million in positive cash flows from operations before changes in non-cash working capital. The mill throughput declined slightly as the Company continued to experience heavy rainfall into the fourth quarter of 2010. Storms washed out roads between the Noche Buena Mine and the processing plant, limiting the amount of ore delivered from Noche Buena. During the latter part of the quarter, the Company installed new and more efficient flotation cells for the lead circuit to improve throughput and recoveries. The installation caused several days of downtime. The Company expects to be mining similar grade ore for 2011. Production is expected to increase further, however, as greater amounts of ore from the Noche Buena Mine are added to mill throughput.

Production and Sales for the Year Ended December 31, 2010

			Year ended
	Dec. 31 2010	Dec. 31 2009	% Change
Total tonnes (t) produced	**131,348**	114,340	+15%
Tonnes produced per day	**360**	313	15%
Silver production (oz)	**750,259**	823,571	-9%
Lead production (t)	**734**	969	-24%
Zinc production (t)	**1,212**	1,098	+10%
Gold production (oz)	**600**	810	-26%
Silver sales (oz)	**788,630**	942,513	-16%
Lead sales (t)	**828**	1,016	-18%
Zinc sales (t)	**1,221**	1,266	-4%
Gold sales (oz)	**643**	938	-31%
Revenue per production tonne sold	**123.25**	109.51	+13%
Direct costs per production tonne	**63.29**	60.39	+5%

Overview of the Year Ended December 31, 2010

The table above shows increasing tonnage production levels in 2010, due primarily to the addition of ore from the Noche Buena Mine. However, contained silver, lead, and gold decreased while contained zinc increased. This shift resulted from a decrease in silver and lead grades compared with 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 cut-off grades and mine these medium grade areas, resulting in $5.6 million in positive cash flows from operations before changes in non-cash working capital. Additionally, direct costs per production tonne increased only marginally as a result of efficiencies gained with increased mill throughput. The Company expects to mine similar grade ore for 2011. Production is expected to increase further as greater amounts of ore from the Noche Buena Mine are added to mill throughput.

MINING AND EXPLORATION OVERVIEW – MEXICO

Royal Mines of Zacualpan Silver Project (Zacualpan Mining District)

IMPACT owns concessions covering most of the Royal Mines of Zacualpan Silver District in central Mexico. Assets include 423 km^2 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 through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

Mine Operations

Background and Overview

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006. Full production began just two days later. Most of the initial ore came from the high grade San Ramon Mine. Later in 2006, as underground mining and haulage costs rose at San Ramon, the Company began to source most its ore from the Guadalupe Mine. In the fourth quarter of 2007, mining began at the new Chivo Mine which is now the principal production center. Mining was suspended at the lower grade Guadalupe Mine. The San Ramon Mine was brought back into production in early 2008. The mine has since provided increasing ore tonnage. On March 4, 2010 IMPACT announced opening of the new Noche Buena Mine.

IMPACT continues to modernize its operations and increase production. Since acquiring the project in 2006, the Company has upgraded most of the mining equipment including rebuilding and purchase of a number of the mine's scoop-trams and underground trucks. At the Guadalupe processing plant, ore from the Noche Buena Mine continues to raise throughput towards the plant's rated capacity of 500 tpd. Upgrade expenditures include new underground 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.

Mining began at the Noche Buena Mine during the first quarter of 2010. The mine 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 grade lead and zinc from 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 successful exploration and development over the last four years, the Company now has a greater ability to balance mill feed grade by drawing from a larger number of mine stopes. This flexibility provides a more blended overall grade for optimum metal recovery.

Chivo Mine

During the fourth quarter of 2010 the Chivo Mine provided 55% (Q4 2009 – 65%) of mill feed. In late 2007 the Company drove the first development adit on this target. 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 material to the mill in 2011.

The Chivo Mine, located in the La Virgen Valley Mining Camp in the central part of the Zacualpan District, is the second mine put into production in the district by the IMPACT team. The mine was discovered in 2005, first drilled in late 2006, and then quickly put into initial production in November 2007.

San Ramon Mine

During the fourth quarter of 2010 San Ramon provided 27% (Q4 2009 – 35%) of mill feed from the mining of high grade mineral. Located in the Virgen Valley Mining Camp and 1.3 kilometers south of the Chivo Mine, San Ramon generated the majority of the high grade feed for the Guadalupe mill in 2006. Rising operating costs and complex ore delineation forced mining to stop temporarily in 2007. After redesigning the mining plan, the Company recommenced mining at San Ramon in early 2008 on a selective basis with an emphasis on higher grade ores. Mining continues to expand as the Company also developed underground access to a parallel structure, the Chaparrita Vein. During the fourth quarter of 2009, a new wide zone of silver-rich stockwork breccia style mineralization was discovered on level 5.5. This new zone is currently contributing to production at San Ramon.

Noche Buena Mine

The new Noche Buena Mine opened in the first quarter of 2010. The mine is located four kilometers southwest of the Guadalupe processing plant. Noche Buena produced approximately 67 tpd in fourth quarter 2010 with plans to increase production as additional mining faces are developed. Noche Buena provided 18% (Q4 2009 – nil) of mill feed during the fourth quarter.

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 are being incorporated into the mining plan. Further drilling and underground development is planned to expand the zone and develop the adjacent veins.

Guadalupe and Gallega Mines

There was no mining during the quarter at the Guadalupe and nearby Gallega Mines. However 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. Guadalupe was originally the lowest cost producer of the mines supplying the Guadalupe plant.

Guadalupe Processing Plant

The program of upgrades designed to enhance recoveries and improve processing economics is well advanced at the Guadalupe plant. The flotation circuit capacity is being expanded and other modifications are underway to incorporate additional feed from the new Noche Buena Mine. The Company will be upgrading existing concentrate filters to more efficiently decrease the water content of the concentrates being shipped to the smelters.

In 2009 engineering studies were completed to increase tailings capacity and enhance the current tailings dam. This program is currently underway.

Exploration (Royal Mines of Zacualpan)

Exploration was active on several fronts in 2010. Surface and underground drilling continued without interruption. Field work included extensive mapping, trenching and sampling of old mines, surface rock and soils. A summary of 2010 exploration work follows.

Drilling

Exploration drilling in 2010 tested extensions of the San Ramon Mine and a 3.5-km^2 area known as the Golondrinas-Chontalpan-Cuchara Sector (GCC Sector). The program was designed to increase current production at the Guadalupe processing plant located three kilometers to the northwest. The GCC Sector encompasses many old mining camps and mapping areas including Santa Lucia, Chontalpan, Golondrinas, Principe, San Antonio, Ojo de Agua, Cuchara, Condesa and Santa Efigenia. In 2010 the main drill targets were Santa Lucia, Chontalpan North and Golondrinas as described below.

Santa Lucia Drilling

IMPACT announced results from two additional drill holes at Santa Lucia in 2010 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). The 2010 drill results at Santa Lucia are as follows:

SUMMARY OF 2010 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

Currently IMPACT mine staff are assessing the possibility of an underground mine at Santa Lucia.

Chontalpan North Drilling

Drilling began on the Chontalpan Project Area in 2010 to test two targets on 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. Phase One drill results from the Chontalpan targets are as follows:

SUMMARY OF 2010 CHONTALPAN AREA DRILL INTERSECTIONS

DRILL HOLE	DRILL SECTION	VEIN NAME	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
CHONTALPAN MINE - NORTHWEST ("CMN") DRILLING AREA									
Z10-05	L 6+00 S	Chontalpan	144.5	144.9	0.35	322.0	0.140	0.03	0.01
and									
Z10-05	L 6+00 S	Chontalpan	156.00	158.00	2.00	331.5	0.151	0.56	1.36
Z10-06	L 6+00 S	Chontalpan	165.9	167.75	1.85	109.8	0.073	0.12	0.36
and									
Z10-06	L 6+00 S	Poblana	216.10	217.30	1.20	232.0	0.020	0.15	0.37
Z10-07	L 5+50 S	Chontalpan	80.25	82.52	2.27	280.5	0.007	0.06	0.18
including									
Z10-07	L 5+50 S	Chontalpan	80.87	81.2	0.33	1,900.0	0.050	0.40	1.15

SUMMARY OF 2010 CHONTALPAN AREA DRILL INTERSECTIONS

DRILL HOLE	DRILL SECTION	VEIN NAME	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
LOMA LARGA DRILLING AREA									
Z10-08	L 0+50 S	Chontalpan	87.45	89.15	1.70	167.1	0.047	0.14	0.54
including									
Z10-08	L 0+50 S	Chontalpan	87.9	88.29	0.39	708.0	1.800	0.57	2.27
and									
Z10-08	L 0+50 S	Chontalpan Splay #1	96.35	96.9	0.55	139.0	0.490	0.57	1.08
Z10-09	L 0+50 S	Chontalpan	97.18	97.95	0.77	260.4	0.299	0.75	2.86
Z10-10	L 0+00 S	Chontalpan	55.70	60.40	4.70	239.6	0.016	0.24	0.69
including									
Z10-10	L 0+00 S	Chontalpan	55.70	57.84	2.14	402.6	0.023	0.35	1.26
and									
Z10-10	L 0+00 S	Chontalpan Splay #2	65.27	65.46	0.19	310	0.13	3.52	11.60

Golondrinas Drilling

Drilling on the Golondrinas Project Area in 2010 tested numerous closely spaced vein systems. Sample results from old mine workings on these veins included 4,800 g/t silver across 1.25m. In 2010, the first phase drill program at Golondrinas produced many significant results:

GOLONDRINAS 2010 FIRST PHASE DRILL PROGRAM RESULTS

DRILL HOLE	DRILL SECTION	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)
Z10-11	L 07 + 50 N	101.25	102.08	0.83	78.2	0.047
Z10-14	L 08 + 00 N	127.97	129.47	1.5	759.2	0.061
Including	L 08 + 00 N	127.97	129	1.03	1,045.00	0.08
Z10-15	L 08 + 50 N	61	65.45	4.45	289.5	0.075
Including	L 08 + 50 N	63.5	64.25	0.75	848	0.35
Z10-17	L 08 + 50 N	172.6	173.3	0.7	312	0.01
And	L 08 + 50 N	179.95	181	1.05	271	0.01
Z10-20	L 09 + 50 N	48.4	56.55	8.15	172.4	0.02
Including	L 09 + 50 N	52.27	56.55	4.28	224.9	0.025
Z10-22	L 10 + 00 N	107.67	108.13	0.46	2120	0.03
And	L 10 + 00 N	111.3	112.35	1.05	114	0.05
And	L 10 + 00 N	143.64	144.32	0.68	657	0.06
Z10-24	10+50N	18.22	19.35	1.13	213	0.02
And	10+50N	161.00	163.80	2.80	277	0.03
Including	10+50N	161.00	162.15	1.15	613	0.07

SUMMARY OF 2010 CHONTALPAN AREA DRILL INTERSECTIONS

DRILL HOLE	DRILL SECTION	VEIN NAME	FROM (m)	TO (m)	INTERVAL (m)	SILVER (g/t)	GOLD (g/t)	LEAD (%)	ZINC (%)
Z10-25	11+00N		89.70	90.70	1.00	263	0.08		
And	11+00N		160.00	160.60	0.60	230	0.04		
And	11+00N		167.85	168.10	0.25	691	0.08		
And	11+00N		173.00	179.00	6.00	113	0.01		
Including	11+00N		173.00	175.90	2.90	174	0.01		
Z10-27	12+00N		152.05	155.20	3.15	277	0.00		
Including	12+00N		152.05	152.30	0.25	3,010	0.02		
Z10-28	12+00N		171.77	175.26	3.49	104	0.00		
Including	12+00N		171.77	172.55	0.78	402	0.01		
Z10-29	10+50N		210.59	214.37	3.78	95	0.01		
Including	10+50N		214.18	214.37	0.19	1,245	0.14		

These first phase holes for Golondrinas Area intersected five different closely spaced veins of interest (Golondrinas, La Obra I, La Obra II, La Blanca and El Colorin II).

San Ramon Drilling

Two holes drilled at San Ramon in 2010 tested extensions of the San Ramon Mine vein system. Drill hole Z10-01 was targeted to an area 70 meters northwest of current mine workings and Z10-02 targeted 140 meters below the south eastern 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 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

Zacualpan Early Stage Exploration

IMPACT employs field crews dedicated to early stage exploration throughout the District. These crews have been sampling some of the 2,000+ old mine workings and prospects known in the project area. They are also trenching areas of mineralization and carrying out extensive soil sampling on 100 meter x 25 meter grids. During 2010 this work included mapping and sampling of soils and rocks in the Golondrinas, Santa Lucia, Chontalpan North, Santa Teresa, Huatecosco and Noche Buena West areas with the objective of defining additional near-term drill targets.

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

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

Capire Subdistrict VMS Prospects

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

Capire Mine Development Project

Capire is located in the Mamatla Mineral District, 16 kilometers southwest of IMPACT's active mining and processing operations at Zacualpan. Subsequent to 2010 year end on February 1, 2011 IMPACT announced updated NI 43-101 compliant mineral resource estimates for the Capire Deposit (formerly the Capire-Aurora 1 Zones). Measured and indicated mineral resource estimates included 7.2 million ounces silver, 95.6 million lbs zinc and 37.2 million lbs lead based on a US$20/tonne in ground metal value envelope. Capire remains open for expansion and expansion drilling is in progress.

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

Summary Table Classified Mineral Resources – Measured + Indicated and Separate Inferred

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

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

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

Total Measured + Indicated In Ground Metal Content

		Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Capire +Aurora 1	Measured	3,529,969	14,146	3,389,275	18,234,678	46,140,820
Capire +Aurora 1	Indicated	3,694,066	16,300	3,693,733	19,029,800	49,522,17
Capire +Aurora 1	Measured+Indicated	7,224,035	30,446	7,083,007	37,264,478	95,662,993

Total Inferred In Ground Metal Content

		Ag (oz)	Au (oz)	Cu (lbs)	Pb (lbs)	Zn (lbs)
Capire +Aurora 1	Inferred	435,959	1,919	475,594	2,260,089	5,823,490

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

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

On March 17, 2010 and May 25, 2010, IMPACT announced results from the 5,610m second phase of drilling at Capire. These results were factored into the updated NI43-101 compliant Mineral Resource estimates and included 1,139 g/t silver across 1.38 meters, 589 g/t silver across 2.82 meters and 639 g/t silver, 2.63 g/t gold, 1.2% lead and 2.5% zinc across 2.99m. The zone remains open for expansion where drilling continues.

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

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007, IMPACT field crews have also discovered many epithermal vein prospects and old mines primarily in the northeast area of the concession. This work is continuing and new targets, such as Huatecosco, will be drilled in 2011.

Veta Grande (Zacatecas) Silver Project, Mexico

On March 17, 2010 IMPACT completed the purchase, through its wholly-owned subsidiary MAP, of the 200-tpd Veta Grande processing plant in the Zacatecas Silver District of Mexico. The Company is upgrading and modernizing the plant and will use it to increase IMPACT's presence in the Zacatecas Silver District through joint ventures or other business arrangements.

The project is 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 four years intermittent exploration has focused on several of the 13 mineral concessions located within the district, three of which are in a joint venture.

Future Exploration Plans

IMPACT's exploration work in the Zacualpan and Mamatla Districts has resulted in the opening of three new mines – Chivo, San Ramon/Chaparrita and Noche Buena—over the past four years. The Capire Zone in the Mamatla District is now in the mine planning and economic assessment stage and will likely represent a fourth new mine.

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

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

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

EXPLORATION OVERVIEW – DOMINICAN REPUBLIC

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc, as well as junior companies. IMPACT's exploration concessions in the Dominican Republic constitute a block covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults which the Company believes offer the opportunity for mineralization. The Company's block of concessions is located some 100 kilometers east of Barrick's large Pueblo Viejo Gold deposit which contains reported proven and probable reserves of over 23.7 million ounces gold. Pueblo Viejo is hosted in the same rock formation as IMPACT's concessions. No work was carried out by the Company on its concessions in 2010.

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 RESPONSIBILITY

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 of and are continually reminded that environmental issues and safety are a high priority. The Company has social, environmental and other policies related to its operations.

We work as part of a community, whose members must be 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 concerns and has established a culture and environment of safe working practices. Work conducted by or on behalf of the Company is well planned, safe and with a concern for the surrounding environment and communities. IMPACT has established a Mine Safety Committee and employs a Safety Officer to implement and supervise our safety program.

INVESTOR RELATIONS

During the year IMPACT attended a number of investor conferences in Canada, the U.S. and Europe. 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 Drilling Corp. ("Energold"), a significant shareholder, assists IMPACT with its day-to-day investor relations.

FINANCIAL DISCUSSION

Mine Operating Earnings for the three months ended December 31, 2010 compared to the three months ended December 31, 2009

Revenues (net smelter returns) in the fourth quarter ended December 31, 2010 of $6.8 million were 192% higher than fourth quarter 2009 ($2.3 million). The increase was due partially to the sale of inventories built up over previous quarters as a result of difficult drying conditions and road conditions during the rainy season. Higher metal prices also contributed to the increase. Average metal prices in the fourth quarter in Canadian dollars were higher by approximately 25% for silver, 2% for lead and 11% for zinc as compared to average prices in the fourth quarter of 2009.

Revenues per production tonne sold increased to $168.39 in fourth quarter 2010, up 85% from $91.08 in the fourth quarter of 2009. This increase can be attributed to the significant rise in commodity prices as well as higher grade ore. Average mill throughput during the fourth quarter of 2010 was 365 tpd, up 16% from 314 tpd during the fourth quarter of 2009.

Mine operating expenses in fourth quarter 2010 were $3.0 million, up 79% from $1.7 million in fourth quarter 2009. Direct mine operating costs per tonne before profit sharing and other accruals in the fourth quarter of 2010 were $63.35, down 3% from $65.02 in the fourth quarter of 2009. Efficiencies gained by the increased mill throughput more than offset increases in salaries and wages at the mine when comparing the fourth quarter of 2010 to the fourth quarter of 2009.

Mine operating earnings in the fourth quarter were $3.5 million, up 745% from $0.4 million in fourth quarter 2009. Fourth quarter net earnings of $2.1 million were up from $0.1 million in the fourth quarter of 2009.

General, Administrative and Other Expenses for the three months ended December 31, 2010 compared to the three months ended December 31, 2009

General and administrative expenses in the fourth quarter were $0.4 million, unchanged from $0.4 million in fourth quarter 2009. Office salaries and services expense for the quarter decreased to $0.11 million compared with $0.15 million in fourth quarter 2009. Non-cash stock-based compensation expense decreased to $0.06 million in the quarter compared with $0.08 million in fourth quarter 2009. Management fees and consulting expense increased to $0.1 million from $0.08 million in fourth quarter 2009. All other categories of general and administrative expenses remained largely the same between quarters.

The Company incurred a foreign exchange loss of $0.12 million in the fourth quarter compared to a foreign exchange gain of $0.02 million in fourth quarter 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 Year ended December 31, 2010 compared to the Year ended December 31, 2009

Revenues (net smelter returns) in 2010 were $16.7 million, up 37% from $12.2 million in the same period for 2009. The higher revenues were due to higher prices for silver, lead, zinc and gold. Higher metal prices enabled the Company to mine in lower grade areas and still maintain strong margins. As a result the Company sold lower amounts of lead and zinc concentrate in 2010 as compared to the same period in 2009. Average metal prices in 2010 in Canadian dollars were higher by approximately 17% for silver, 21% for lead and 28% for zinc as compared to average prices in 2009.

Mine operating expenses in 2010 were $8.2 million, up 23% from $6.7 million in the same period for 2009. Mine operating expenses increased 23% however tonnes sold increased 22% and tonnes produced increased 15%. Mine operating costs per tonne in 2010 were $63.29, up 5% from $60.39 in the same period of 2009. Average mill throughput during 2010 was 360 tpd, up 15% from 313 tpd during the same period of 2009. Amortization and depletion in 2010 was $1.0 million, down from $1.3 million in the same period of 2009.

Mine operating earnings in 2010 were $7.4 million, up 79% from $4.1 million in the same period of 2009. Net earnings in 2010 were $3.4 million, up 196% from $1.2 million in the same period of 2009.

General, Administrative and Other Expenses for the Year ended December 31, 2010 compared to the Year ended December 31, 2009

General and administrative expenses for the 2010 were $1.8 million, up 21% from $1.5 million in 2009. Non-cash stock-based compensation expense was a large component at $0.45 million in 2010, unchanged from the same period of 2009. Management fees and consulting expense increased to $0.20 million in 2010, up from $0.12 million in the same period of 2009. Office salaries and services expense increased to $0.48 million in 2010, up from $0.45 million in the same period of 2009. Office, rent, insurance and sundry was $0.30 million in 2010, up from $0.21 million in the same period of 2009. The Company incurred $0.08 million in business development investigation costs in 2010. There were no such costs in 2009. All other categories of general and administrative expenses remained largely the same between 2010 and 2009.

The Company incurred a foreign exchange loss of $0.2 million in 2010 compared to a foreign exchange loss of $0.3 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

	Dec 31 2010	Sept 30 2010	Jun 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009	June 30 2009	Mar 31 2009
Revenues	**6,820**	3,209	2,948	3,702	2,333	4,983	3,404	1,457
Net earnings	**2,109**	370	320	638	116	785	191	68
Earnings per share – Basic*	**0.04**	0.01	0.01	0.01	0.00	0.02	0.00	0.00
Earnings per share – Diluted*	**0.04**	0.01	0.01	0.01	0.00	0.02	0.00	0.00
Cash and cash equivalents	**18,690**	2,939	3,973	4,157	5,295	5,494	4,050	5,357
Total assets	**52,551**	34,965	33,948	33,268	31,690	31,415	31,492	30,065
Total liabilities	**7,847**	6,777	6,280	6,286	5,551	5,570	6,590	5,460

* Per share numbers have been rounded to two decimal places

Liquidity and Capital Resources

Working Capital and Cash Flow

IMPACT's financial position at December 31, 2010 remained strong with $18.7 million in cash and cash equivalents (December 31, 2009 – $5.3 million) and net working capital of 20.4 million (December 31, 2009 – $6.3 million). The increase in cash and cash equivalents is primarily due to the December 14th $15.0 million private placement consisting of 12 million units at a price of $1.25 per unit. IMPACT generated positive cash flows from operations of $2.7 million during the fourth quarter of 2010. Positive cash flows from operations before changes in non-cash working capital[2] were $2.3 million during fourth quarter 2010. IMPACT generated positive cash flows from operations of $4.2 million during 2010 and positive cash flows from operations before changes in non-cash working capital were $5.6 million during 2010. These positive cash flows were invested in resource properties ($4.0 million) and property, plant and equipment ($1.2 million) in 2010.

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 oerations. See "NON-GAAP MEASURES".

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 in 2010 were $4.0 million, down from $4.1 million in the same period 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 tpd Veta Grande processing plant in Zacatecas, Mexico with a $0.2 million cash payment and the issuance of 100,000 shares. Cash paid and IMPACT common shares issued as option payments in 2006 through 2009 were originally assigned to resource properties. With the completion of this purchase IMPACT reallocated a portion 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 2011 exploration expenditures in the Zacualpan and Mamatla Districts will continue at levels well in excess of 2010 as it proceeds to explore some of the more promising exploration targets. However, the Company will continue to closely monitor its cash and cash equivalents balance and may adjust exploration expenditures as required.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 14, 2011:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at April 14, 2011	61,761,210		
Stock options	892,500	$ 1.40	September 5, 2012
Stock options	75,000	$ 1.67	October 22, 2012
Stock options	1,467,500	$0.55	January 6, 2014
Stock options	927,500	$1.10	June 6, 2015
Warrants	6,000,000	$1.75	December 14, 2012
Agent's Units (Note 1)	555,000	$1.25	December 14, 2012
Fully diluted at April 14, 2011	**71,678,710**		

Of the 3,362,500 options outstanding, 2,995,938 have vested at April 14, 2011.

(Note 1) Each unit is comprised of one common share and one-half of a non-transferrable common share purchase warrant. Each whole warrant is exercisable at $1.75 to purchase one common share of the Company.

Related Party Transactions

Energold owns 6,870,001 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 year ended December 31, 2010, fees in the amount of $1.9 million (December 31, 2009 - $2.1 million) were paid to Energold for contract drilling services performed in Mexico at the Zacualpan Mines and Concessions. At December 31, 2010, the balance owed to Energold was $0.4 million (December 31, 2009 - $0.3 million).

Contingencies

The Company's Mexican subsidiary, Minera El Porvenir de Zacualpan ("MPZ"), received a letter from the Mexican federal tax authorities Servicio de Administracion Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT. The total reassessment was for $0.6 million.

MPZ believes, based on discussions with tax advisors, that this matter may be satisfactorily contested and constructively resolved through the SAT tax assessment appeal formal litigation process. On November 30, 2010 MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount has been transferred to SAT pending the outcome of the Company's appeal. Management believes that the Company has a strong case to win this appeal. Therefore, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense has been recognized in the current year. No decision on this matter is expected prior to mid 2012.

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 December 31, 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 December 31, 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. Accordingly, the Company will apply accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended March 31, 2011, with restatement of comparative information presented. The conversion to IFRS from Canadian GAAP will affect the Company's reported financial position and results of operations and will affect the Company's accounting policies, internal control over financial reporting and disclosure controls and procedures.

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 reported financial position and results of operations. The Company also assessed the available elections under IFRS 1, First-time adoption of International Financial Reporting Standards ("IFRS 1") to determine the effect of each election on the Company. The Company has commenced quantifying the effects of the anticipated changes to the financial reporting on the Company's IFRS opening balance sheet and is concurrently preparing draft IFRS-compliant model financial statements and making appropriate changes to business, reporting and system processes and training to support the preparation and maintenance of IFRS compliant financial data for the IFRS opening balance sheet at January 1, 2010 and going forward. The Company believes that it is in a position to ensure an efficient and effective transition to IFRS reporting by the first IFRS reporting date.

First-time Adoption of IFRS

The adoption of IFRS requires the application of IFRS 1 which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS, effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has identified the following optional exemptions that it expects to apply in its preparation of an opening IFRS statement of financial position as at January 1, 2010, the Company's "Transition Date":

- To apply IFRS 2 Share-based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 Business Combinations prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date will be consistent with those made under Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

The Company has not yet determined the full effects of adopting IFRS on its financial statements. Included below are highlights of the areas that are expected to result in a change to significant accounting policies. The list is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas identified to have the most potential for significant changes.

Property, Plant and Equipment

IFRS requires entities to componentize all assets and record amortization on a component-by-component basis. The Company is currently completing an assessment on all long-lived assets for their major components in order to determine if a difference will exist between current Canadian GAAP values and IFRS values. The Company does not anticipate a significant difference between Canadian GAAP and IFRS on transition as a result of this difference.

Asset Retirement Obligations (Decommissioning Liabilities)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. The Company's accounting policies related to decommissioning liabilities will be changed to reflect these differences. However, the Company does not expect this change will have an immediate impact on the carrying value of its assets.

Deferred Income Taxes

There are a number of potential differences in the calculation of deferred income taxes under IFRS compared with Canadian GAAP. The Company is currently completing the assessment of the deferred income taxes under IFRS.

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 year ended December 31, 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

April 14, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of IMPACT Silver Corp. ("the Company") have been prepared by management in accordance with accounting principles generally accepted in Canada, and within the framework of the summary of significant accounting policies in these consolidated financial statements, and reflect management's best estimate and judgment based on currently available information.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors meets periodically with management and with the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

F.W. Davidson
President and Chief Executive Officer

R. S. Younker
Chief Financial Officer

April 14, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IMPACT Silver Corp.

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of income and deficit, comprehensive income and cash flows for the years then ended, and the related notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IMPACT Silver Corp. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

April 14, 2011

Vancouver, British Columbia

CONSOLIDATED BALANCE SHEETS

STATEMENT 1

As at December 31 *Canadian Dollars*		2010		2009
ASSETS				
Current				
Cash and cash equivalents	$	18,690,023	$	5,294,881
Accounts receivable and prepaid expenses		3,190,820		1,289,672
Inventories *(Note 4)*		788,342		919,808
Investments		150,000		82,500
Future income taxes *(Note 10)*		231,807		44,648
		23,050,992		7,631,509
Tax reassessment deposit *(Note 14)*		636,604		–
Property, plant and equipment *(Note 5)*		5,613,723		3,252,154
Resource properties *(Schedule and Note 6)*		23,249,513		20,805,894
	$	52,550,832	$	31,689,557
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	1,234,740	$	843,942
Income taxes payable		981,840		236,063
Due to related party *(Note 7)*		415,665		274,560
		2,632,245		1,354,565
Future income taxes (Note 10)		5,214,287		4,196,399
		7,846,532		5,550,964
SHAREHOLDERS' EQUITY				
Share capital *(Note 9a)*		39,569,550		27,648,195
Warrants *(Note 9b)*		2,541,663		–
Contributed surplus *(Note 9c)*		1,793,149		1,187,198
Accumulated other comprehensive income *(Note 9d)*		87,500		28,437
Retained Earnings *(Deficit)*		712,438		(2,725,237)
		44,704,300		26,138,593
	$	52,550,832	$	31,689,557

Contingencies *(Note 14)*

ON BEHALF OF THE BOARD:

"F.W. Davidson", Director "G.A. Gorzynski", Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

STATEMENT 2

For the Years Ended December 31 *Canadian Dollars*	2010	2009
Revenues	$ 16,677,710	$ 12,176,115
Expenses		
Operating expenses	8,210,040	6,673,166
Amortization and depletion	1,032,186	1,338,230
	9,242,226	8,011,396
Mine operating earnings	7,435,484	4,164,719
General and administrative expenses		
Accounting, audit and legal	189,560	160,091
Amortization	23,846	29,134
Business development investigations	82,582	–
Investor relations, promotion and travel	118,548	107,951
Management fees and consulting	204,801	122,504
Office, rent, insurance and sundry	297,358	212,344
Office salaries and services	481,369	452,301
Stock-based compensation expense *(Note 9e)*	448,174	446,092
	1,846,238	1,530,417
Earnings before the following	5,589,246	2,634,302
Other income (expenses)		
Foreign exchange loss	(195,753)	(293,770)
Interest income	10,790	1,449
Other income (expense)	1,540	(322,555)
	(183,423)	(614,876)
Earnings before taxes	5,405,823	2,019,426
Current income tax expense	(1,555,409)	(243,345)
Future income tax expense	(412,739)	(616,420)
Net earnings	3,437,675	1,159,661
Deficit - Beginning of year	(2,725,237)	(3,884,898)
Retained Earnings (Deficit) – End of year	$ 712,438	$ (2,725,237)
Earnings per share – Basic	0.07	0.02
– Diluted	0.07	0.02
Weighted average number of shares outstanding – Basic	49,438,822	48,172,403
Weighted average number of shares outstanding – Diluted	50,434,322	48,818,963

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

STATEMENT 3

For the Years Ended December 31 *Canadian Dollars*		2010		2009
Net earnings	$	3,437,675	$	1,159,661
Other comprehensive income				
Unrealized gain (loss) on investments held as available-for-sale		59,063		58,437
Comprehensive income		3,496,738		1,218,098

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

STATEMENT 4

For the Years Ended December 31 *Canadian Dollars*	2010	2009
Cash resources provided by (used in)		
Operating activities		
Net earnings	$ 3,437,675	$ 1,159,661
Items not affecting cash		
Amortization and depletion	1,056,031	1,367,364
Stock-based compensation expense	448,174	446,092
Future income taxes	412,739	616,420
Unrealized loss (gain) on foreign exchange	195,792	145,443
Changes in non-cash working capital		
Accounts receivable and prepaid expenses	(2,615,723)	774,675
Inventories	67,059	(181,361)
Accounts payable and accrued liabilities	323,037	263,277
Income taxes payable	745,777	236,063
Due to related party	93,773	(461,312)
	4,188,334	4,366,322
Investing activities		
Acquisition of property, plant and equipment	(1,177,613)	(372,901)
Resource property costs	(3,968,151)	(4,141,872)
	(5,145,764)	(4,514,773)
Financing activities		
Share capital issued, net	14,477,295	82,656
	14,477,295	82,656
Effect of exchange rate changes on cash and cash equivalents	(100,723)	(72,804)
Net increase (decrease) in cash and cash equivalents	13,395,142	(138,599)
Cash and cash equivalents – Beginning of year	5,294,881	5,433,480
Cash and cash equivalents – End of year	$ 18,690,023	$ 5,294,881
Income taxes paid	$ 804,191	$ –

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED SCHEDULES OF RESOURCE PROPERTIES

SCHEDULE

For the Years Ended December 31 *Canadian Dollars*	2010	2009
Zacualpan mine and concessions, Mexico *(Note 6b)*		
Acquisition costs	$ –	$ 12,720
Deferred exploration costs		
Assaying	318,886	220,128
Development	3,465	21,336
Drilling	1,937,798	2,141,823
Field administration, travel and other	530,000	432,751
Future income taxes	405,092	338,983
Wages and consulting	1,132,124	1,069,397
	4,327,365	4,224,418
Amortization and depletion	(669,795)	(1,169,814)
	3,657,570	3,067,324
Zacatecas properties, Mexico *(Note 6c)*		
Acquisition costs	9,283	260,968
Deferred exploration costs		
Assaying	–	4,994
Field administration, travel and other	56,851	31,784
Future income taxes	4,462	5,935
Wages and consulting	62,952	11,748
	124,265	54,461
Recoveries	–	(2,842)
Amount allocated to purchase of property, plant and equipment	(1,356,496)	–
	(1,222,948)	312,587
Other properties, Dominican Republic *(Notes 6d)*		
Deferred exploration costs		
Field administration, travel and other	7,328	9,580
Wages and consulting	1,669	2,484
	8,997	12,064
Costs for the year, net	2,443,619	3,391,975
Balance – Beginning of year	20,805,894	17,413,919
Balance – End of year	$ 23,249,513	$ 20,805,894

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 CANADIAN DOLLARS

1. Nature of Operations

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and the Dominican Republic. The Company operates the Royal Mines of Zacualpan in the State of Mexico and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The Company is also active in the exploration of silver, precious metalsand other mineral resources on its properties located in Mexico and the Dominican Republic.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Therecovery of the Company's investment in these resource properties and the attainment of profitable operations are dependent upon the discovery and development of economic ore reserves on these properties and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. Significant accounting policies

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") using the following significant accounting policies.

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, including:

- Jade Oil Corporation ("Jade") and Chalco Services Inc., both located in Canada;
- Minera Aguila Plateada S.A. de C.V. ("MAP"), Minera Porvenir de Zacualpan S.A. de C.V. ("MPZ") and its wholly owned subsidiary Minera Laureles, S.A. de C.V. each located in Mexico; and
- Proyectos Mineros, S.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP"), both located in the Dominican Republic.

All intercompany transactions and balances have been eliminated.

b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires that the Company's management make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. These estimates are limited by the availability of reliable comparable data, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates as described above are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated amounts could change by a material amount.

Significant areas requiring the use of management estimates include, but are not limited to, assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values used to establish the purchase price allocation, fair values for purposes of impairment analysis, reclamation obligation, non-cash stock-based compensation, valuation allowances for future income tax assets, future income tax liabilities, estimated net realizable value of inventories, and the recoverability of accounts receivable.

c) Revenue recognition

Revenue fromthe sale ofmetals contained in concentrates is recognized when title and the significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. These differences create an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales. Refining charges are netted against revenue for sales ofmetal concentrates.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid money-market investments with an original term to maturity of three months or less and which are readily convertible to known amounts of cash.

e) Inventories

Materials and supplies are valued at the lower of average cost and net realizable value. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at the lower of average production cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization ofmining interests.

f) Investments

Investments in equity securities are classified as available-for-sale current assets because the Company does not hold these securities for the purpose of trading. Equity securities are valued at market value, using quoted market prices, and

unrealized holding gains and losses are excluded from net income and are included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred.

g) Resource properties

All costs related to resource property acquisition, exploration and development are capitalized by project. These costs are amortized against revenue from production, using the units of production basis, or written off if the interest is deemed impaired, abandoned or sold. The amounts shown for resource property costs incurred to date, less recoveries, do not necessarily reflect present or future values. The recoverability of amounts shown for resource property costs are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects as well as future profitable production or proceeds from the disposition thereof.

Mineral property titles

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, except for certain exploration concessions in the Dominican Republic where exploration concessions have been reapplied for in the normal course of business.

Property option payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its resource property costs in good standing.

h) Property, plant and equipment

Plant and equipment is recorded at cost and is amortized using a straight-line method over the assets expected useful life. All vehicles, including mine mobile equipment as well as office furniture and equipment are amortized on a declining balance at rates varying from 10% to 30% annually.

i) Asset impairment

Management reviews the carrying value of its mineral properties and mining assets on an annual basis or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and if their carrying values are appropriate.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as resource properties represent costs incurred to date and do not necessarily reflect present or future values.

j) Asset retirement obligations

The Company accounts for asset retirement obligations ("ARO") by recognizing the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset. The Company has determined that it has no ARO's at December 31, 2010 and 2009.

k) Earnings per share

Basic earnings per share are calculated by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net earnings available to common shareholders by the weighted average number of diluted common shares outstanding during the year. Diluted common shares reflect the potential dilutive effect of stock options and warrants based on the treasury stock method.

l) Stock options

The Company accounts for stock options at fair value pursuant to CICA Handbook Section 3870, which establishes standards for the recognition,measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricingmodel.

m) Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

n) Foreign currency translation

All amounts are presented in Canadian dollars. The Company's functional and reporting currency is the Canadian dollar. The Company has determined that all of its foreign subsidiaries are integrated operations; therefore local currencies are translated into Canadian dollars under the temporalmethod as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and

- Revenue and expense and exploration and development items at the average rate of exchange prevailing during the period. Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

o) Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale.

p) Financial instruments

The Company's financial instruments comprise primarily cash and cash equivalents, accounts receivable, short-term investments, accounts payable and accrued liabilities, and due to related parties. The Company has designated cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are designated as loans and receivables, which are measured at amortized cost. Short-term investments are designated as available-forsale and measured at fair value as determined by reference to quoted market prices. Accounts payable and accrued liabilities and due to related parties are designated as other liabilities, which are measured at amortized cost.

3. 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.

4 Inventories

The following table details the composition of inventories at December 31:

	2010	2009
Materials and supplies	$ 591,528	$ 410,720
Finished goods – lead and zinc concentrates	196,814	509,088
Total inventories	$ 788,342	$ 919,808

The amount of inventories recognized as an expense during 2010 is $9,242,226 (2009 – $8,011,396).

5. Property, plant and equipment

	December 31, 2010			December 31, 2009		
	Cost $	Accumulated amortization $	Net Book Value $	Cost $	Accumulated amortization $	Net Book Value $
Mine equipment	1,976,389	464,126	1,512,263	1,579,727	316,446	1,263,281
Mobile equipment	532,913	481,927	50,986	532,913	467,226	65,687
Office furniture and equipment	106,627	79,318	27,309	102,775	71,318	31,457
Plant equipment	2,895,679	308,838	2,586,841	1,145,289	211,550	933,739
Land	1,266,622	–	1,266,622	734,128	–	734,128
Vehicles	390,206	220,504	169,702	390,206	166,344	223,862
	7,168,436	1,554,713	5,613,723	4,485,038	1,232,884	3,252,154

6. Resource properties

a) Details are as follows:

		December 31 2010		December 31 2009
Zacualpan mines and concessions – Mexico				
Acquisition costs	$	5,973,794	$	5,973,794
Exploration		17,407,416		13,485,143
Future income taxes		2,005,385		1,600,293
Amortization and depletion		(4,012,567)		(3,342,772)
Recoveries		(67,990)		(67,990)
		21,306,038		17,648,468
Zacatecas properties – Mexico				
Acquisition costs		1,721,196		1,711,913
Exploration		921,811		802,008
Future income taxes		54,071		49,609
Allocated to property, plant and equipment (Note 6c)		(1,356,496)		–
Recoveries		(523,949)		(523,949)
		816,633		2,039,581
PMSA and MMP concessions – Dominican Republic				
Acquisition		582,000		582,000
Exploration and development		544,842		535,845
		1,126,842		1,117,845
	$	23,249,513	$	20,805,894

b) Zacualpan agreements

On June 14, 2004, the Company signed two option agreements with third parties in the Royal Mines of Zacualpan Silver District in Central Mexico. These agreements were later amended and in January 2006 the Company, through its 100% Mexican subsidiaryMAP, exercised its purchase options and as a result acquired a 100% interest to mineral concessions, surface rights and equipment with no underlying royalties.

In February 2007, the Company acquired the right to purchase a concession known as the Mamatla Mining District adjacent to the Company's Royal Mines of Zacualpan Silver Project in Central Mexico. The purchase price for the Mamatla Mining District was approximately $215,700, of which $91,690 was paid in 2007 and the balance of $124,010 was paid in February 2008. TheMamatla concession is subject to a 1% NSR.

In February 2008, the Company acquired six concessions directly from theMexican government through normal staking procedures. These concessions, named the Zacualpan Northwest concessions, cover 140 square kilometers. In June 2009, the Company acquired the Cadena concession and the Zapote concession from private Mexican vendors. The Company spent $307,236 in concession acquisition costs in the Zacualpan Silver Mining District in the year ended December 31, 2008.

In 2009, the Company acquired four concessions from a private Mexican vendor. The Company spent $12,720 in concession acquisition costs in the year ended December 31, 2009.

c) Zacatecas agreements

Under an agreement dated July 10, 2006, the Company, through its wholly owned subsidiary MAP, acquired a four-year option from a third party to purchase a 200-tonne-per-day processing plant and associated surface rights in the Zacatecas Mining District of Mexico. Under the agreement, MAP could purchase the assets for US$1,110,000 and 500,000 shares in stages, plus commit to US$700,000 in work expenditures.

On March 17, 2010 the Company exercised its option to purchase the 200 tonne-per-day Veta Grande processing plant in Zacatecas, Mexico. The total consideration paid was US$1,080,000 and 500,000 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 the costs originally assigned to resource properties to property, plant and equipment as follows:

Land	$	532,494
Plant equipment		824,002
Resource properties	$	(1,356,496)

Under separate purchase agreements, the Company acquired eleven mineral concessions in the Zacatecas area during 2006 and two concessions in 2007. The Company now holds a total of twelve concessions, three of which are under an option agreement with a third party. No further payments or commitments exist for these concessions.

During 2006, the Company entered into an option agreement with a third party in which the third party was given the right to earn a 65% interest in four concessions at Zacatecas. To earn its interest the third party was required to reimburse the Company US$15,000 per concession, pay for all acquisition costs and incur a minimum expenditure of US$100,000 in exploration per concession. In May 2008 the third party fulfilled its obligations to earn its 65% interest in the four concessions. In June 2008, the Company sold its remaining 35% interest in one of the concessions for US$325,000 plus a 1% NSR Royalty interest. The Company realized a gain of $328,249 on the sale of this concession. The Company retained its 35% interest in the other three concessions. In August 2008 the Company entered into a formal joint venture agreement with respect to these three property concessions. Since the signing of the agreement the joint venture partner has incurred expenditures and thereby diluted the Company's interest in these three concessions to 28% at December 31, 2010.

d) Dominican Republic agreements

By various agreements dated October 22, 1996 to July 15, 1999 and effective August 20, 1999, the Company acquired 100% of the shares of the Dominican Republic registered company PMSA. PMSA has exploration concessions located in various parts of the Cordillera Oriental in the Dominican Republic, including the El Brujo concession. The concessions are subject to a 1% NSR to amaximum of US$1,000,000.

By agreement dated July 15, 1999, the Company acquired 100% of the shares of the Canadian company, Jade, which owns 100% of the shares of the Dominican Republic registered company, Minera Monte Plata, S.A. ("MMP"). MMP holds the Baritina exploration concession located in the Cordillera Oriental in the Dominican Republic. The concessions are subject to a 1% NSR to amaximum of US$1,000,000.

7. Due to related party

At December 31, 2010, an amount of $415,665 (December 31, 2009 - $274,560) was due to Energold Drilling Corp., a significant shareholder of the Company. Monies owed to Energold Drilling Corp. are unsecured, non-interest bearing and without specific repayment terms. Management anticipates that the amount will be repaid within one year and accordingly it has been classified as current.

8. Related party transactions

Related party transactions are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions are as follows:

a) During the year ended December 31, 2010, the Company paid directors fees in the amount of $32,045 (2009 – $49,866) and accrued directors fees of $31,500 (2009 - $nil)

b) During the year ended December 31, 2010 fees in the amount of $1,937,798 (2009 – $2,137,289) 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.

9. Share capital

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited common shares without par value			
Issued and outstanding:			
Balance – December 31, 2008	48,000,210	$	27,436,653
Shares issued for resource properties	100,000		75,000
Stock options exercised	289,375		82,656
Value assigned to options exercised	–		53,886
Balance – December 31, 2009	48,389,585	$	27,648,195
Shares issued for resource properties	100,000		106,000
Stock options exercised	755,500		358,645
Value assigned to options exercised	–		241,515
Fair value of warrants issued (i)	–		(2,541,663)
Shares issued in relation to private placement (i)	12,000,000		15,000,000
Share issue costs	–		(1,243,142)
Balance – December 31, 2010	**61,245,085**	**$**	**39,569,550**

i) On December 15, 2010, the Company completed a private placement and issued 12,000,000 units at a price of $1.25 per unit (each a "Unit"), of which 8,750,000 Units were sold pursuant to a brokered portion of the private placement and 3,250,000 Units were sold pursuant to a non-brokered portion of the private placement. Each Unit is comprised of one common share of the Company and one-half of a non-transferrable common share purchase warrant, each whole warrant (a "Warrant") is exercisable at $1.75 to purchase one common share of the Company until December 14, 2012. The Company is entitled to accelerate the expiry date of the Warrants to a date which is at least thirty days from the date notice of such acceleration is provided to the holders of Warrants in the event that the common shares of the Company trade on the TSX Venture Exchange at a volume weighted average price of $2.50 or more for a period of at least ten consecutive trading days.

The Company paid a cash commission of $693,750 and issued the agent for the brokered portion of the private placement warrants exercisable for 555,000 agent's units (each an "Agent's Unit"), entitling the agent to subscribe for the Agent's Units at a price of $1.25 per Agent's Unit until December 14, 2012, subject to the acceleration provisions applicable to the Warrants. Each Agent's Unit is comprised of one common share of the Company and one-half of a non-transferrable common share purchase warrant, each such whole warrant is exercisable at $1.75 to purchase one common share of the Company until December 14, 2012, subject to the acceleration provisions applicable to theWarrants.

The estimated fair value of the Unit Warrants totalled $2,541,663 and this amount has been allocated to the warrant component of the Units. The fair value of the warrants was determined using the Black- Scholes Option Pricing model using the following assumption: risk-free interest rate of 1.69%; expected dividend yield of $0; expected stock price volatility of 54.17%; expected option life in years of 2.

The estimated fair value of the Agent's Units totalled $399,292. This amount has been allocated to contributed surplus and share issues costs. The fair value of the warrants was determined using the Black-Scholes Option Pricing model using the following assumption: risk-free interest rate of 1.69%; expected dividend yield of $0; expected stock price volatility of 54.17%; expected option life in years of 2.

b) Warrants

Balance – December 31, 2009 and 2008	$	–
Private placement (i)		2,541,663
Balance – December 31, 2010	**$**	**2,541,663**

c) Contributed surplus

Balance – December 31, 2008	$	794,992
Fair value of stock options granted		446,092
Value assigned to options exercised		(53,886)
Balance – December 31, 2009	$	1,187,198
Fair value of stock options granted		448,174
Value assigned to options exercised		(241,515)
Fair value of agent compensation options (i)		399,292
Balance – December 31, 2010	**$**	**1,793,149**

d) Accumulated other comprehensive income (loss)

Balance – December 31, 2008	$	(30,000)
Unrealized loss on available-for-sale short-term investments		58,437
Balance – December 31, 2009	$	28,437
Unrealized gain on available-for-sale short term investments		59,063
Balance – December 31, 2010	**$**	**87,500**

e) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grantoptions to directors, officers, employees or consultants. Under the stock option plan 9,725,117 options have been authorized for issuance, of which 3,898,625 have been allocated as at December 31, 2010. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. Options vest 25% on the date granted and 12.5% every quarter thereafter.

A summary of the Company's stock options as at December 31, 2010 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price
At December 31, 2008	1,891,000	1.01
Granted	2,235,000	0.55
Exercised	(289,375)	0.29
Forfeited	(83,750)	0.85
At December 31, 2009	3,752,875	0.80
Granted	1,012,500	1.10
Exercised	(755,500)	0.47
Forfeited	(76,250)	1.00
Expired	(35,000)	1.44
At December 31, 2010	**3,898,625**	**0.93**

The following table summarizes information about the stock options outstanding at December 31, 2010:

Exercise Price Per Share	Expiry Date	Options Outstanding	Outstanding Exercisable
$1.40	September 5, 2012	985,000	985,000
$1.67	October 22, 2012	75,000	75,000
$0.55	January 6, 2014	1,841,125	1,841,125
$1.10	June 6, 2015	997,500	491,250
		3,898,625	3,392,375

On June 6, 2010, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for up to 1,012,500 shares of the Company, with an estimated value of $418,000 on the grant date. The options are exercisable on or before June 6, 2015 at a price of $1.10 per share.

The Black Scholes Option Pricing Model is used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the assumptions as follows:

Date Granted June 6, 2010	
Number of options granted	1,012,500
Risk-free interest rate	1.75%
Expected dividend yield	NIL
Expected stock price volatility	57%
Expected option life in years	3

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

		2010		2009
Earnings before income taxes	$	5,405,823	$	2,019,426
Canadian federal and provincial income tax rates		28.5%		30.0%
Income tax expense based on the above rates	$	1,540,660	$	605,828
Increase (decrease) due to:				
Non-deductible expenses		155,564		237,559
Losses and temporary differences for which an income tax asset has not been recognized		263,798		136,615
Difference between foreign and Canadian tax rates		102,238		(60,065)
Change in long term Mexican tax rates		(75,774)		54,004
Foreign exchange and other		(18,338)		(114,176)
Income tax expense	$	1,968,148	$	859,765

The components of future income taxes are as follows:

		2010		2009
Future income tax assets				
Non-capital losses	$	983,140	$	629,086
Capital losses		2,432		10,065
Property, plant and equipment		10,130		9,054
Resource properties		676,443		677,741
Other		664,071		137,154
Total future tax assets		2,336,216		1,463,100
Valuation allowance		(2,063,214)		(1,373,686)
Net future income tax assets		273,002		89,414
Future income tax liabilities				
Property, plant and equipment		160,001		157,027
Resource properties		5,082,982		4,069,315
Other		12,499		14,823
Future income tax liabilities		5,255,482		4,241,165
Future income tax liability, net	$	4,982,480	$	4,151,751

This is represented on the balance sheet as:

	2010	2009
Current future income tax assets	$ 231,807	$ 44,648
Long-term future income tax liabilities	(5,214,287)	(4,196,399)
	$ (4,982,480)	$ (4,151,751)

The Company has non-capital loss carry-forwards of approximately $3,920,263 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Mexican operations and expire as follows:

Expiry Year	Canada	Mexico	Total
2013	–	6,768	6,768
2014	169,820	25,126 1	94,946
2015	235,727	29,294	265,021
2016	–	12,159	12,159
2017	–	12,172	12,172
2018	–	3,966	3,966
2019	–	10,233	10,233
2026	828,544	2,765	831,309
2027	541,044	–	541,044
2028	141,907	–	141,907
2029	415,894	–	415,894
2030	1,484,844	–	1,484,844
	$ 3,817,780	$ 102,483	$ 3,920,263

A full valuation allowance has been recorded against the net potential future income tax assets associated with the Canadian loss carry-forwards of $3,817,780 and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

11. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on credit facilities and to support any growth plans.

The capital of the Company consists of the items included in shareholders' equity and cash and cash equivalents net of debt obligations. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders' equity which includes accumulated other comprehensive income (loss), share capital, contributed surplus and retained earnings or deficit.

The Company's policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle and the business opportunities outlook foreseen by the Company. As a general guideline, the Company's policy will be to keep its debt to debt-plus-equity ratio to a minimal level, except in unusual circumstances such as a major acquisition. Currently the Company has no long-term debt and is in full compliance with its capital risk management policies. The Company's Board of Director's approves management's annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company's management.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient cash and cash equivalents to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

12. Financial instruments

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 December 31, 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. As is typical within the mining industry the Company deals with one refiner for the processing of all of its mineral concentrates. The Company has a significant concentration of credit risk exposure to its Mexican refining and smelting company Met-Mex Penoles, S.A. de C.V. at any one time but is satisfied that this company has an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents ($18.7 million), accounts receivable ($3.8 million) and investments ($0.2 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short-term and long-term obligations. The Company has 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 December 31, 2010 the Company did not have any significant future debt obligations.

Interest rate risk

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

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2010 the Company is exposed to currency risk through the cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related party held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2010, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $270,000 decrease or increase in the Company's net earnings for the year ended December 31, 2010.

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.

Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's net earnings in the year ended December 31, 2010 as follows:

		2010		2009
Silver price	$	1,107,000	$	855,000
Lead price	$	105,000	$	88,000
Zinc price	$	136,000	$	117,000
Gold price	$	44,000	$	43,000

13. Segmented information

Details at December 31 are as follows:

		2010		2009
Revenues by geographic area				
Mexico	$	16,677,710	$	12,176,115
Net earnings (loss) by geographic area				
Mexico	$	4,847,923	$	2,298,278
Canada		(1,410,248)		(1,138,617)
	$	3,437,675	$	1,159,661
Assets by geographic area				
Mexico	$	33,870,282	$	25,401,617
Canada		17,553,708		5,170,095
Caribbean		1,126,842		1,117,845
	$	52,550,832	$	31,689,557
Property, plant and equipment by geographic area				
Mexico	$	5,600,954	$	3,237,742
Canada		12,769		14,412
	$	5,613,723	$	3,252,154

14. Contingencies

The Company's Mexican subsidiary, MPZ, received a letter from the Mexican federal tax authorities Servicio de Administracion Tributaria (SAT) reassessing MPZ's tax return filings for the 2007 calendar year. This reassessment was based principally on SAT's disallowance of certain expenses charged by IMPACT to MPZ for services rendered by it and reimbursed by MPZ to IMPACT. The total reassessment was for $0.6 million.

MPZ believes, based on discussions with tax advisors, that this matter may be satisfactorily contested and constructively resolved through the SAT tax assessment appeal formal litigation process. On November 30, 2010 MPZ launched an official appeal of this assessment with the Mexican tax authorities. The total assessed funds amount has been transferred to SAT pending the outcome of the Company's appeal. Management believes that the Company has a strong case to win this appeal. Therefore, payments made in respect to this have been presented on the balance sheet as a tax reassessment deposit and no expense has been recognized in the current year. No decision on this matter is expected prior to mid 2012.

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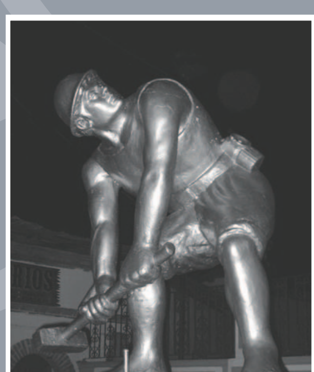

The Town of Zacualpan honours the mining community.

This statue has been dedicated to the miners of the Zacualpan Silver District and graces the Town Square.

ZACUALPAN MEXICO

PHOTOGRAPHY – THE IMPACT SILVER TEAM, SHUTTERSTOCK   DESIGN AND LAYOUT – SPEAK DESIGN INC TORONTO VANCOUVER

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