

**IMPACT Silver Corp.**  
**Form 51-102F1**  
**Management Discussion & Analysis**  
**For the Period Ended March 31, 2007**

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## **INTRODUCTION**

This Management Discussion and Analysis (“MD&A”) of IMPACT Silver Corp. (“IMPACT” or “the Company”) is dated May 25, 2007. This MD&A should be read in conjunction with the unaudited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the year ended March 31, 2007 which have been prepared in accordance with Canadian generally accepted accounting principles. 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](http://www.sedar.com).

## **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 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. The Company disclaims any intention and assumes no obligation to update any forward-looking statement contained in this document, even if new information becomes available, as a result of future events or for any other reason.

The Company is a natural resource development stage company, primarily engaged in the acquisition, exploration and development of natural resource properties since its inception. The Company’s principal business activities for the past ten years have been the exploration and development of certain mineral properties located in the Dominican Republic and Mexico. The Company currently operates the Royal Mines of Zacualpan in the State of Mexico producing at a rate of approximately 240 tonnes-per-day (“tpd”). It holds an option on a second 200tpd mill the “Veta Grande Project” in Zacatecas.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol IPT and on Frankfurt as IKL.

## **HIGHLIGHTS**

Very few companies our size have accomplished as much as we have in such a short time. 2006 was an extremely busy and successful year for the Company, during which time it has grown from an exploration company into a profitable silver producer with one operational facility at the Royal Mines of Zacualpan and a second one under option in the Zacatecas Silver District. We have set some very ambitious goals for ourselves for 2007 including:

- Continued upgrading and expansion of the Royal Mines of Zacualpan Silver Project with a focus on operations, and carrying out extensive exploration to build mineral inventories for mining.

- At the Veta Grande Silver Project IMPACT plans to leverage itself with the option on the processing plant to become the Zacatecas Silver District's dominant player. IMPACT has begun due diligence, exploration and engineering work to evaluate the production potential of the properties purchased in 2006 and upgrading of the processing plant.
- IMPACT plans to grow into a premier producer of silver through internal growth at the Royal Mines of Zacualpan Silver District, its newly acquired Veta Grande (Zacatecas) Silver Project and the Mamatla District as well as through additional external acquisitions.

#### Operational Highlights for the Quarter:

In the first quarter of 2007, IMPACT achieved higher levels of throughput at the Zacualpan mine averaging 253tpd for the quarter (2006 - 145tpd) as part of its program to bring production up to the current mill's capacity of approximately 500tpd. In February it announced the acquisition by government auction of the 200 km<sup>2</sup> Mamatla VMS district adjacent to its Royal Mines of Zacualpan Silver District. In the north, at the Veta Grande project in Zacatecas the Company has expanded its involvement to 17 mineral concessions.

#### Exploration Highlights

- In January IMPACT announced the last results from the 2006 drill program. These results included 2,820g/t silver, 7.83g/t gold, 7.83% zinc and 3.48% lead over 0.3mTW at Oscar Vein.
- In January IMPACT announced new gold and copper discoveries at the Royal Mines of Zacualpan Project including 14.6g/t gold and 0.46% copper across 2.7mTW at the Pecheco Prospect. These discoveries point to the potential for a copper gold district lying at depth below the silver district.
- In March IMPACT announced the discovery of high grade gold zones at Mamatla including 14.9g/t gold over 0.5mTW at the Zapote Prospect.
- In March a 10,000m drill program at its projects at Zacualpan and Zacatecas was announced.
- Subsequent to quarter end, a 1,815m drill program was completed on the Zacatecas Joint Venture concessions with Yale Resources. Assays are pending.

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

#### Introduction

IMPACT owns assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5k km<sup>2</sup> land position, two operating mines and a mill rated at 500 tonnes-per-day. The project is located 100km southwest of Mexico City and 25km northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force. The Company has acquired the mine and dominant land position through staking activities and staged purchases from private Mexican interests in 2006.

#### History

Zacualpan is one of the oldest mining districts in North America with Spanish Colonial mining dating back to at least 1527. In 1531, it was the first mining district in the Americas to be bestowed the title of 'Royal Mines' of Zacualpan by proclamation under the Spanish Crown. Zacualpan is a classic Mexican epithermal silver district with an abundance of veins that have seen historic production. Statistics for the early centuries of production are sporadic, but in modern times recorded production between 1975 and 2004 was about 17 million ounces of silver (26 million ounces silver equivalent with by-product gold, lead and zinc credits). Veins presently being mined on the property typically vary from 2m to 5m in width. Individual production shoots are often 30m to 150m long and predominantly steeply dipping.

## Production and Development

Three Months Ended	March 31, 2007	March 31, 2006
Total Tonnes (t) Produced (mill throughput)	22,845	13,069
Tonnes Produced per Day	253	145
Silver Production (Oz.)	85,606	98,950
Lead (t)	135.68	69.55
Zinc (t)	243.58	139.86
Cdn. \$ direct costs per tonne	\$50.97	\$49.76

Note: all measurements (other than silver) are in metric and are subject to smelter settlements

### Mining

The Royal Mines of Zacualpan Silver Project was purchased by IMPACT on January 16, 2006 and IMPACT's first full day of production was January 18, 2006. In the beginning ore was sourced from Guadalupe Mine and from the high grade San Ramon mine. Later in 2006 as underground mining and haulage costs rose at the San Ramon Mine the Company started to source ore from La Gallega (Salvadora) Mine until the underground development at San Ramon could be completed.

On site operating costs remain at approximately CAD\$50.00 per tonne. We expect these to rise marginally on a per tonne basis with recent union settlements and higher costs for electricity and fuel but will decline later in the year as throughput continues to increase.

### Guadalupe Mine

During the first quarter, mining of medium grade mineral at the Guadalupe Mine continued principally on the 195m Level exploiting the Lipton, Lipton del Bajo Paulina, Intermediate and Liptonia Veins as well as exploiting the Liptonia Vein on the 140m level. With the addition of a mine geologist and mine surveyor, the Guadalupe Mine is being extensively remapped and explored. Material from the Guadalupe Mine is brought to surface on a skip and transported approximately 100m to the plant.

### La Gallega (Salvadora) Mine

Success in exploration drilling in 2006 led to the commencement of mining in late 2006 from La Gallega adit. Mining began on the high grade Salvadora stopes and in the first quarter also commenced on the Lipton Vein and the recently discovered San David Vein. Material is transported by truck from La Gallega approximately 1/2 kilometer to the mill and is forming an increasingly important source of mill feed.

### San Ramon Mine

The San Ramon has over the last two years generated the majority of the high grade feed for the Zacualpan mill however the operating costs were substantially rising and ore delineation becoming increasing more complex due to the nature of the mine access. Further mining at the San Ramon will be deferred until a lower adit (a second access) is completed that will significantly reduce mining complexity and underground and surface hauling costs.

Over the next six months to a year, the Company anticipates that fluctuating mill grades will continue due to dilution from development muck, as it emphasizes an underground development program in order to increase production. Moreover because the value of lead and zinc have risen dramatically since this time last year, approximately 54% and 34% respectively, increased emphasis has been put on improving recoveries of the production areas including previously mined stopes by redefining cut-off grades.

Upon acquisition of the project in January 2006, IMPACT ear-marked sufficient funds and manpower to undertake an aggressive two year plan to modernize operations and increase production. Since then much of the mining equipment has been upgraded including rebuilding five of the six scoop-trams. Requirements for expanding the current active mine areas as well as developing a number of new mining areas will require additional scoops and underground trucks. Two new surface light trucks were purchased to replace unsafe vehicles inherited from the previous operator.

A new mine geologist and surveyor were hired and the refurbishment of the wholly owned underground drill has expanded underground exploration efforts and has led to the discovery of several intermediate high grade veins in the Guadalupe, and La Gallega Mines that are now being mined. New computerized equipment has been installed and additional staff hired, to map and monitor exploration, mining and processing operations. The mine now communicates with the Vancouver head office via new telephone links and a DSL high-speed internet connection.

In the plant metallurgical studies have led to significantly increased metal recoveries. Last year the 7ft by 10ft ball mill was refurbished and rebalanced, and both ball mills have been outfitted with new liners. Conveyor belts have been replaced throughout the plant. Both the zinc concentrate and the lead-silver concentrate filters have been refurbished. The head grade, concentrates and tailings samplers have been replaced. A full inventory of spare parts for the mining equipment and mill has been purchased. Engineering studies are continuing for increasing tailings capacity.

The laboratory at the mine has been retrofitted and upgraded. A new assay furnace has been installed. Laboratory workers have been trained and now operate under new quality control standards. Blind tests on standard samples have demonstrated the high quality of assays now being reported by the mine laboratory. While assays will still be processed through commercial laboratories for the purposes of public disclosure and ongoing performance checks, the availability of next-day accurate onsite assays enables IMPACT to schedule and optimize mining, development and exploration programs in significantly shorter time frames.

IMPACT has instituted a safety program including the addition of a safety officer who is conducting an ongoing safety audit of all operations and runs regular safety courses that are required for all mine employees. Safety equipment has now been installed throughout the mine and plant. Safety protocols are now clearly marked and new safety procedures have been implemented. All employees have been outfitted with modern safety equipment. The Company is pleased to report that over the past year there have been no lost time accidents. A community relations officer has been added to the mine staff. IMPACT has made an ongoing dialogue with locals a fundamental pillar of its operations. The mine has budgeted for assistance destined for local community projects and schools.

In aggregate, the Royal Mines of Zacualpan now employs a proactive approach to operations and maintenance. Immediate results from the changes include improved worker morale, stronger community support, a significant decrease in operating downtime as well as overall improvements in operating costs and metal recoveries. For 2007, approximately US\$1 million has been budgeted to be used towards further upgrades, new equipment purchases and expansion of the operations.

#### Exploration

IMPACT began a 10,000m surface drill program in March 2007 designed to test both extensions of known areas of mineralization and new early stage exploration targets. Underground IMPACT has refurbished its wholly owned underground core drill to the point where it now operates almost continuously testing targets close to active mining areas. Fieldwork continued with mapping and sampling on surface and in historic underground workings.

#### Early Stage Silver Targets

In January 2007, IMPACT announced assays from the last early stage drill targets tested in 2006. These results included 2,820g/t silver, 7.83g/t gold, 7.83% zinc and 3.48% lead over 0.3mTW at Oscar Vein and anomalous values at the Pino Prospect, both of which are scheduled for follow up drilling in 2007.

During 2007, surface drilling will test early stage targets at San Antonio, San Patricio, Oscar Vein, Condesa and Los Reyes Prospects for the first time. Several other early stage prospects are also being prepared for drilling later in the year.

#### Advanced Exploration - Chivo Silver Shoot

The Chivo Silver Shoot is scheduled to go into production in late 2007 based on 2006 drill results. Chivo is located in the southern part of the Zacualpan silver district and represents a new zone of high grade silver mineralization at the Zacualpan Project. Following up on previous high grade underground sampling (1,095g/t silver over 1.25m TW) and surface sampling (2,640 g/t silver over 0.85m TW), IMPACT drilled an initial eight holes on the Chivo Shoot in 2006. The holes tested the Chivo zone over a length of 60m and a downdip depth of 190m. Results from the 2006 drilling included 937g/t silver, 1.88% zinc and 0.75% lead across 2.7m TW and 249g/t silver, 2.27% zinc and 0.93% lead across 3.5m TW. The boundaries of the Shoot

are not known and the 2007 drill program is designed to further expand the zone with 13 additional drill holes completed subsequent to quarter end.

#### Copper-Gold District

In January 2007 IMPACT announced new gold and copper discoveries at the Pecheco Prospect and Cobre Prospect.

The Pecheco Prospect is located 5km southwest of the Zacualpan processing plant. It is marked by a cluster of old mine adits and shafts, most of which are collapsed or blocked. Sampling at the end of one short adit recently opened by IMPACT field workers returned the following values near the end of the adit:

#### PECHECO ADIT SAMPLES

LOCATION	ESTIMATED TRUE WIDTH (m)	GOLD (g/t)	COPPER (%)	SILVER (g/t)	GOLD EQUIVALENT (g/t)
End of adit	2.7	14.6	0.46	58	17.0
Including:	1.2	32.4	0.80	106	36.8
8m from end of adit	2.4	5.9	0.70	80	9.4
Including:	0.9	10.9	1.27	134	17.1

The Cobre Prospect is an adit located on the Pecheco Vein System 3.5km southeast of the Pecheco Prospect. Samples were collected in five places over the 25m exposed length of the vein in the adit and returned the following values:

#### COBRE ADIT SAMPLES

LOCATION	ESTIMATED TRUE WIDTH (m)	GOLD (g/t)	COPPER (%)	SILVER (g/t)	GOLD EQUIVALENT (g/t)
Average of 5 samples along 25m exposed length of vein	1.0	1.2	2.34	181	11.3
Including:	0.7	7.0	0.47	475	18.1
and including	1.2	0.2	7.81	88	23.4

IMPACT geologists have been working on an exploration model that suggests there may be a gold and copper district lying underneath the silver district at the Royal Mines of Zacualpan. Historically Zacualpan has been a silver district with secondary zinc and lead mineralization. However, small pockets of copper mineralization have been observed in the deeper levels of some of the mines for many years. The gold and copper mineralization reported here was found in deeply eroded river valleys at lower elevations than the silver mineralization found elsewhere in the Southwest Sector of the district.

These observations generated a model which suggests a gold and copper district may lie at depth below the Royal Mines of Zacualpan Silver District opening a large new area of potential for future exploration.

#### **Mamatla Mining District - Precious and Base Metals Project, Mexico**

In February 2007, the Company acquired a 100% interest in the 200 km<sup>2</sup> Mamatla mining district through an auction held by the Mexican Geological Survey. IMPACT's winning bid was US\$200,000 payable over two years plus a 1% NSR production royalty payable to the Mexican Geological Survey. Mamatla is IMPACT's third district-scale project. It is located immediately southwest of and adjacent to IMPACT's Royal Mines of Zacualpan Silver Project and production facilities in central Mexico. This acquisition increases IMPACT's mineral concession holdings in the region by 160% to a total of 325 km<sup>2</sup>.

The Mamatla Project is host to both epithermal vein systems and volcanogenic massive sulphide (VMS) deposits. IMPACT's initial interest lies in the silver and gold epithermal vein systems which were not the primary focus of past exploration work. The VMS mineralization varies from copper and gold rich systems to zinc, lead, gold and silver rich systems. The Mamatla project covers the same stratigraphy as the Campo Morado VMS belt where Farallon Resources has announced a production decision on the G-9 VMS deposit

(5.57 million tonnes grading 7.3%Zn, 1.0%Pb, 1.3%Cu, 186g/t Ag and 2.8g/t Au). The G-9 VMS deposit is located along trend 45km southwest of Mamatla.

In the 1990s, Valerie Gold Resources carried out extensive VMS exploration on the eastern half of the Mamatla district. Later, TVX Gold Inc. carried out a small exploration program on a limited part of the area for bulk tonnage epithermal precious metal deposits. This exploration identified over 70 VMS and epithermal prospects including many old mine workings. Some of the main prospects identified are Aurora I, Aurora II, Capire, Sara Ridge, Velixta, Yerba Buena, Tlanipla, Los Mantos, and Cruz Blanca.

A major difference between IMPACT's plans for the Mamatla Project and those of Valerie Gold in the 1990s is that IMPACT owns and operates the 500tpd Zacualpan processing plant within trucking distance of several of the Mamatla deposits and prospects, which significantly lowers the economic threshold for potential future production decisions.

#### Historic Exploration Results – VMS Zones

Among the 70 mineral prospects known on the Mamatla concession, the most significant identified to date are the Aurora I and the nearby Capire Prospects.

Aurora I is a VMS deposit that in part appears to have been overprinted by epithermal silver mineralization. In the auction bid document publicly released by the Mexican Geological Survey, the Aurora deposit is described with an indicated resource of 194,000 tonnes grading 1.28g/t gold, 180g/t silver, 2.13% lead and 4.45% zinc.

The Capire mine workings are located less than 1km west of Aurora I. The workings consist of six old adits and more than 20 old shafts found over an area measuring 1000m by 200m. In the auction bid document publicly released by the Mexican Geological Survey, the Capire deposit is described with an indicated resource of 1,154,500 tonnes grading 0.22g/t gold, 73g/t silver, 0.45% lead and 1.13% zinc in a near surface zone with potential for open pit mining and open for expansion.

IMPACT has not independently verified the resource estimates noted above for the Mamatla project and the estimates are not compliant with NI 43-101 requirements, therefore they should not be relied upon. However IMPACT believes the historical resource estimates provide an indication of the potential of the Mamatla Project, are clearly relevant to IMPACT's decision to purchase the project and relevant to IMPACT's plans for further exploration work.

### **Veta Grande Silver Project, Zacatecas Mining District, Mexico**

#### Introduction

On September 28, 2006, IMPACT announced the signing of a comprehensive agreement to purchase the Veta Grande Silver processing plant and certain surface rights over a maximum of four years for US\$1,120,000 (US\$469,300 paid) and 500,000 shares (100,000 issued) in stages, plus commit to US\$700,000 in work expenditures (US\$350,000 in each of the first two years). The option includes a 200tpd processing plant and certain surface rights, and an application for one mineral concession. The project is located 500 km northwest of Mexico City. Access is by paved highways that run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force.

#### The Project

The Veta Grande Project now consists of 17 mining concessions, together with the purchase option on the 200tpd processing plant now being operated by the Optionor. We will continue to add new mining concessions to the project as favourable purchase opportunities arise.

Most of the 17 concessions have medium to high grade rock dumps beside old mine workings that have not seen any modern exploration or drilling. These include the Cristian Mine where samples from surface dumps returned 310g/t silver, 24.2% lead and 8.0% zinc from a high grade stockpile and 93g/t silver, 0.43% lead and 1.4% zinc from a low grade waste dump. At the San Pascual Mine a representative sample of the dump around the shaft assayed 875g/t silver. A representative sample from the dump beside the nearby Pirul shaft assayed 525g/t silver.

During the quarter two concessions were acquired covering most of the Nueva Granada Vein which is part of the Veta Grande Vein system, the major silver producer in the district. Old plans indicate the Nueva Granada Vein system was mined over a length of 700m and to a depth of 150-200m on the new IMPACT concessions.

Planned work at these and other sites controlled by IMPACT will consist of mapping and evaluation, followed by drilling.

#### Zacatecas Joint Venture

In October 2006, IMPACT announced a new joint venture with Yale Resources Ltd. ("Yale") for three projects (San Sabino, Salvador and San Jose) in the Zacatecas district. In December 2006 the Zacatecas concession (immediately adjacent to the Salvador concession) was purchased and added to the joint venture. This agreement allows Yale to acquire a 65% interest in the properties by reimbursing to IMPACT the property purchase costs and spending a minimum of US\$100,000 on exploration including a 500m drill program on each property within 18 months. Yale will then have an option to increase its interest to 80% in each property by paying IMPACT US\$125,000 in either cash or shares, at IMPACT's discretion. IMPACT is the operator and retains a 20% working interest in each project.

During the quarter drilling of the San Jose and Salvador/Zacatecas concessions commenced and was completed subsequent to quarter end. In total four holes (501m) were drilled at San Jose and 12 holes (1,314m) were drilled at Salvador/Zacatecas. Assays are pending.

IMPACT is currently developing a base of operations around the Veta Grande processing plant in Zacatecas. By partnering with others to take on work commitments, IMPACT is significantly accelerating its growth strategy in Zacatecas while still retaining significant interests in a continuously growing portfolio of projects.

#### The Processing Plant

The 200tpd processing plant last operated in 2003 and recommenced operations during the third quarter 2006. It is now operating on a custom milling basis processing mineral for local small scale miners. IMPACT engineers are carrying out an assessment of the plant and associated facilities as part of IMPACT's due diligence work.

#### Future Plans

The Zacatecas Silver District is one of the largest historic silver districts in the world with past production estimated at 1.2 billion ounces. The Veta Grande Silver Project and other Zacatecas property acquisitions represent an initial foothold in the core of the district from which IMPACT plans to leverage itself to become the district's dominant player. IMPACT has begun due diligence, exploration and engineering work to evaluate the production potential of the properties and the processing plant. IMPACT is continuing to evaluate and acquire other concessions in the district.

Management is pleased to have acquired a foothold position in one of the great historic silver mining districts of Mexico. We anticipate that the Zacatecas Silver District will grow to become an important part of IMPACT's silver profile that in time may add significantly to the Company's ongoing silver production from the Royal Mines of Zacualpan Silver Project in central Mexico.

George Gorzynski, P.Eng., a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information described in this Management Discussion and Analysis for the Royal Mines of Zacualpan Silver Project and the Veta Grande (Zacatecas) Silver Project. Details on sampling methods and other information on the projects can be found in IMPACT's news releases.

#### **Los Ranchos Projects, Dominican Republic**

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick, and Falconbridge as well as a number of juniors including Unigold, Globestar, Linear, Energold and Everton. The exploration concessions in the Dominican Republic held by IMPACT constitute a block of applications for exploration concessions and one granted concession 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 IMPACT believes offers the opportunity for mineralization. IMPACT's block of concessions is located some 100km east of Barrick's Pueblo Viejo gold deposit and hosted in the same rock formation.

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information described in this Management Discussion and Analysis for the Dominican Republic Projects.

## **INVESTOR RELATIONS**

IMPACT has regularly attended a number of investors' conferences in Canada along with engaging the services of an investor relations representative to assist in developing the Company's profile. In October, the Company provided its first analysts tour of operations of the Zacualpan project, a program it repeated in early 2007 and again in May. We believe that the magnitude of the project can best be demonstrated by having investor's representatives having a total and completely candid exposure to the ongoing activities both at the mines in Zacualpan and the exploration potential there and elsewhere. IMPACT intends to repeat these tours over the course of the next year. Energold Drilling Corp. a significant shareholder in the Company provided additional services including personnel to assist in the investor relations activities.

## **FINANCIAL DISCUSSION**

### Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and the actual results may differ from results based upon these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Management's critical accounting estimates apply to the assessment for the impairment of resource properties and property, plant and equipment, as well as the valuation of other assets and liabilities such as inventories and future income tax liabilities as well as accounting for income and resource taxes, depletion and amortization of mineral reserves and employee social benefit costs.

### Risk Factors

Mineral exploration is a speculative venture. There is no certainty that the money spent on exploration and development on the Company's mineral projects will result in any discoveries of commercial bodies of ore. The long-term profitability of IMPACT's operations will in part be related to the success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

IMPACT is also dependent upon the personal efforts and commitment of its existing management who devote only a portion of their time to the Company's affairs. To the extent that management's services would be unavailable for any reason, a disruption to the operations of IMPACT could result, and other persons would be required to manage and operate the Company.

The mineral industry is intensely competitive in all its phases. IMPACT competes with many other mineral exploration companies who have greater financial resources and experience.

The market price of precious metals and other minerals is volatile and cannot be controlled.

IMPACT only has a short history of profitable operations. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

The consolidated financial statements for the period ended March 31, 2007 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that IMPACT will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

IMPACT's financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes that the recent private placement financings

completed by the Company, together with the anticipated exercise of “in the money” share purchase warrants in 2007, mitigate any adverse conditions and events that might raise doubt about the validity of the going concern assumption used for these financial statements. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used.

The Company has transformed itself during the past year. It has done so, through its capital finance raising activities and its purchase of the Royal Mine of Zacualpan assets. The Company has progressed from being an early stage exploration and development company into being a full mining development company with an active mining operation and a substantial resource property asset base centered around two key silver mining areas in Mexico. The Company is also well financed for its current stage of operations and expects to be able to raise all the funds that it requires in the short term to support its existing operations from the exercise of “in the money” share purchase warrants that expire later this year.

#### Accounting for the Zacualpan Acquisition

On January 16, 2006, the Company completed the acquisition, through its wholly owned subsidiary Monera Aguila Plateada S.A. de C.V. (“MAP”), of all the issued and outstanding shares of MPZ. The total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and the payment of US\$1,741,778, as well as the assumption of certain liabilities in MPZ. These liabilities included approximately US\$465,000 pertaining to forward sales contract losses realized to December 31, 2005, under a smelter contract commitment obligation entered into in April 2004 by MPZ. Under this contract obligation, MPZ had entered into monthly forward sales commitments with a Mexican smelter through to the end of July 2006 calling for monthly deliveries of 20,000 ounces of silver, 200 ounces of gold, 50 tonnes of lead and 100 tonnes of zinc which had been sold forward at US\$ prices established in 2004 of \$7.00 per ounce silver, \$400.00 per ounce gold, \$720.00 per ton lead, and \$1,100.00 per ton zinc. Indirectly, MAP also assumed both the real and the contingent liability for the forward sales commitments through to July 31, 2006 that had been entered into by MPZ, including the obligation to settle for any physical shortfall in deliveries against the forward sales contract obligations.

The purchase method of accounting must be used to account for all business combinations and the acquirer, in a business combination, must recognize the assets acquired and liabilities assumed from the date of acquisition, including any assets and liabilities that may not have been recognized on the balance sheet of the acquired enterprise. As applied to the acquisition of MPZ the Company is required to recognize the opportunity loss in MPZ of the difference between the spot price of current metal markets at the date of our acquisition of MPZ to the date of final closure of the forward sales commitment obligations (July 31, 2006) and the agreed selling prices entered into under the 2004 forward sales contract arrangement. While this lost opportunity cost was significant at January 16, 2006 it became even more significant after that date because of the substantial increase in metal prices that occurred in the early months of 2006. The Company’s best estimate was that had MPZ not entered into forward sales commitments in 2004 for the seven months from January 1, 2006 to July 31, 2006, in the delivery quantities and prices that it had agreed to and had been able to mine and to sell the same quantity at the spot market prices in effect at January 16, 2006, the date of acquisition, it would have realized approximately US\$1.294 million more than it will do under its forward sales delivery contractual commitments. This foregone revenue and MPZ’s obligation to make good on the delivery obligation represent contingent consideration which the Company took into account as part of the purchase consideration.

The CICA handbook 1581.22 indicates that the cost of the purchase to the acquirer should be determined by the fair value of the consideration given or the acquirer’s share of the fair value of the net assets or equity interests acquired, whichever is more reliably measurable. The acquirer’s share of the fair value of the net assets or equity interest acquired and the consideration paid are assumed to be equal, unless there is evidence to the contrary.

The acquisition of MPZ was accounted for using the purchase method with MAP being identified as the acquirer. The results of operations of MPZ, and its wholly owned subsidiary Minera Laureles, from January 17, 2006 forward are included in these financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired is summarized in the table below, and the residual purchase price of \$4,858,212 has been allocated to Zacualpan resource property acquisition costs.

Canadian \$

<b>Purchase Price</b>		
Net share consideration at market value at date of issue (300,000 shares)	\$	179,500
Cash payment to vendors		2,260,200
<b>Total Purchase Price</b>		<u>2,439,700</u>
<b>Identifiable Net Assets Acquired</b>		
Accounts receivable and prepaid expenses		126,676
Inventory		174,701
Property, plant and equipment		240,087
Resource properties		180,093
		<u>721,557</u>
Current liabilities		(374,356)
Forward sales contract liability		(2,164,773)
		<u>(2,539,129)</u>
Net Identifiable Assets and Liabilities		<u>(1,817,572)</u>
<b>Future Income Taxes</b>		<u>(600,940)</u>
<b>Residual Purchase Price Allocated to Resource Properties</b>	\$	<u>4,858,212</u>

#### Results of Operations

Summary of Quarterly Results (CDN \$ 000's except income (loss) per share)

Quarter	Revenues	Net Income (loss)	Net Income (Loss) per Share *	Diluted Net Income (Loss) Per Share *	Total Assets	Total Long-term Liabilities
1 <sup>st</sup> 2007	1,859	266	0.01	0.01	18,395	1,117
4 <sup>th</sup> 2006	2,025	142	0.00	0.00	17,723	1,075
3 <sup>rd</sup>	1,873	215	0.01	0.00	16,738	470
2 <sup>nd</sup>	1,965	428	0.01	0.01	17,793	363
1 <sup>st</sup> (Note 1)	1,146	178	0.01	0.01	9,681	870
4 <sup>th</sup> 2005	Nil	(131)	(0.01)	(0.01)	3,767	270
3 <sup>rd</sup>	Nil	(66)	(0.00)	(0.00)	2,349	Nil
2 <sup>nd</sup>	Nil	(182)	(0.01)	(0.01)	2,439	Nil

\* These numbers have been rounded to two decimal places.

Note 1 – restated – see Note 15 to March 31, 2007 financial statements

The Company's income statement includes the consolidation of operations of the Zacualpan mine in Mexico since January 16, 2006.

The Company completed the acquisition of the Zacualpan mine in January 2006, the details of which are described more completely above. In addition to the cash and share outlays, MPZ had a smelter contract that included fixed pricing for the delivery of specific quantities of certain metals for a period expiring July 31, 2006. Under Canadian Generally Accepted Accounting Principles ("GAAP") in an acquisition the difference between the fixed prices and the market price as well as any projected shortfalls in delivery are deemed part of the acquisition price and are to be capitalized. This resulted in a write-up of the initial purchase price by \$1,817,572 together with a provision for future income taxes of \$600,940 attributed to resource assets, and the set-up of a forward sales contract liability for \$2,164,773. A portion of the acquisition cost will be amortized over the expected life of the mine, whereas the liability will be amortized over the remaining contract life resulting in a timing differential. Because this acquisition was made with the primary purpose of acquiring unrestricted access to the total exploration potential of the MPZ properties and the entire

Zacualpan silver mining district, the Company plans to allocate half of its acquisition cost to deferred mineral exploration and development costs to recognize its investment made in the over 300 potential exploration targets that it has identified on the properties that it acquired with the purchase of the shares of MPZ.

The results of this treatment meant the Company enjoyed a small profit in each quarter of 2006 despite the extensive restructuring of the underground and surface workings. The current programs underway are designed to develop immediate mining targets and to enhance future production. This means incurring significant expenditures at present and experiencing lower grades as development muck is put through the mill for future benefit.

#### Mine Operating Earnings for the Quarter ended March 31, 2007

Average mill throughput during the quarter was 253tpd. Revenues (net smelter returns) for the quarter were \$1,858,831. The Company incurred operating costs of \$1,164,493 for the quarter before amortization and depletion expenses of \$193,965. Mine operating earnings for the quarter were \$500,373 an increase of \$81,823 from the first quarter results in 2006. Direct on site operating costs for the quarter were \$51 per tonne of ore processed through the mill, before depletion and amortization costs. This represents an increase of about 3.3 % from the average direct costs of \$49.34 achieved in the first quarter of 2006. Silver production decreased during the quarter from 98,950 ounces in 2006 to 85,606 ounces in 2007. Offsetting this decline was a significant increase in first quarter production of both lead and zinc. Total lead production almost doubled in the first quarter from the prior year's first quarter to 135 tonnes from 69 tonnes. Zinc production also increased by 74% from 140 tonnes to 240 tonnes in the first quarter of 2007. General and administrative expenses for the quarter were \$295,169 which included a foreign exchange loss of \$46,000. Overall, management is pleased to report that the Company continues to be profitable as it enters its second year of operations. The Company earned a net income of \$266,555 for the quarter compared to a restated income of \$178,186 earned in its first quarter operations in 2006.

#### General, Administrative and Other Expenses

Administrative expenses for the first quarter were \$295,169 compared to \$155,376 for the similar period in 2006. During the quarter, the Company incurred a foreign exchange loss of \$46,172 compared to a gain of \$34,242 in 2006. 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 quarterly reported general and administrative expenses. Some comments with respect to specific items of costs for the quarter are as follows:

Accounting and audit costs charged to general and administrative expenses increased by \$15,860 from 2006. As previously indicated we expect higher overall audit costs related to changing audit regulations and governance practices.

Insurance costs of \$28,901 were incurred for the period whereas premiums on coverage were not accrued until later in 2006.

The cost related to maintaining investor relations increased to \$38,763 compared to \$22,298 in 2006. Costs in 2007 included the services of one consultant and expenditures related to investor conventions and mail-outs and newsletter writers' tours of the mine. We expect that our costs will continue at this level or higher, for the balance of the year as we highlight our achievements to the investment community.

Legal costs charged to general and administrative expenses for the quarter were \$23,516 compared to \$20,730 in 2006. These costs include costs associated with the acquisition of the Mamatla concession. Ongoing costs are associated with the purchase acquisitions that the Company has carried out in exercising its various options on its lease to purchase agreements and legal costs associated with our Zacatecas option Agreement and property title reviews.

Office salaries and services costs increased by \$43,976 and management fees by \$7,191 in the first quarter of 2007 compared to 2006 as a result of the increased level of staff and services support required in connection with our acquisition and operation of the Zacualpan silver property and our other exploration efforts in Mexico around the Zacatecas area. We expect that these expenses will continue to increase during the balance of the year as we continue to increase the scale of our operations of mining and mineral exploration activities in Mexico.

In the first quarter of 2006 the Company recognized the value of the stock options granted to officers, directors and employees for the period using the Black-Scholes Option Pricing Model. During the first quarter for 2007 there was no comparable grant thus resulting in a decrease in related expenses of \$36,956.

Transfer agent and filing fees decreased by \$29,332 during the quarter compared to the prior year. This was primarily due to higher activity levels in private placement financings in the prior year. These costs will likely continue at the current levels as outstanding share options and warrants are exercised over the next six to eight months.

Travel and accommodation increased to \$13,499 from \$9,787 representing increased supervision and involvement with ongoing activities in Mexico. These costs are expected to continue at this level or even increase over the balance of the year.

With the increase in activity related to the Zacualpan operations including meeting financial regulatory reporting requirements, other administrative costs including office and sundry, and rent were \$19,935 for the quarter or \$8,545 more than the comparable quarter. These costs are anticipated to continue to rise over the year.

#### Resource Property Expenditures

##### Zacualpan

Exploration expenditures related to Zacualpan for the first quarter were \$241,794 compared to \$281,945 in the first quarter of 2006. The Company has announced plans for a minimum 10,000m drilling program in 2007, much of which will be focused on various advanced to early stage targets in the Zacualpan area. The Company capitalizes surface exploration and amortizes it on a mine by mine basis. Underground exploration primarily in active mining areas is expensed as incurred.

The Company has recorded as part of its deferred exploration costs a provision for future income taxes of \$20,010 for the first quarter of 2007 compared to a recovery provision of \$1,378 recorded in the same period in the prior year. The Company expects that its 2007 exploration expenditures on the Zacualpan property will continue at their current rate exceeding its 2006 expenditures as it proceeds to explore some of its initial more promising exploration targets.

##### Zacatecas

During 2007, the Company also recorded \$173,655 in deferred exploration and acquisition costs with respect to its newly acquired Zacatecas properties. As of the time of writing this MD&A the Company has announced that it has acquired 100% interests in 17 property concessions in the Zacatecas Silver District. These acquisitions are part of the Company's strategy of building its property portfolio of mineral concessions in the Zacatecas area to provide future mineral supplies to feed the Veta Grande processing mill plant which the Company has the option to purchase. In mid March 2007, the Company commenced an initial exploration drilling program on several of these properties. Assay results from this drilling have not yet been received.

#### Liquidity and Capital Resources

At March 31, 2007, the Company had working capital of \$5,418,999 compared to \$4,830,268 at December 31, 2006. During the quarter year the Company received \$574,740 in share subscriptions from the exercise of warrants and shares and funded \$449,199 in resource property acquisitions and exploration expenditures.

During the first and second quarters of 2006 the Company had completed two private placements involving the issuance of share purchase units with warrants attached which expire in July and October 2007. The initial subscriptions raised a total of approximately \$10,300,000, net of expenses, of which \$1,046,000 was recorded in 2005. The funds from the first private placement were used as part of the purchase of the Zacualpan mines and the leasehold interests. The funds from the second placement were used to acquire the leased mill facility, certain mining and mobile equipment, to upgrade current operations, to conduct exploration and to increase the Company's overall working capital position. Funds raised from the private placements were augmented by the exercise of options and share purchase warrants by Company shareholders. During 2006, the Company also raised \$103,800 on the exercise of 620,000 share purchase options and \$1,110,250 on the exercise of 2,900,000 share purchase warrants. As shown in the table below, there remain outstanding as at May 25, 2007 a little over 2.0 million share purchase warrants exercisable at \$0.50 per share not later than July 5, 2007 to acquire shares in IMPACT as well as approximately 4.2 million

warrants exercisable at prices from \$1.20 to \$1.30 per share which expire on October 6, 2007. The Company expects that if its shares continue to trade at, or above, recent market price levels almost all outstanding share purchase warrants will be exercised over the next seven months prior to their expiry thereby raising additional equity capital for the Company of approximately \$6.4 million to fund its future mine development and exploration activities.

#### Outstanding Share Data

The following common shares and convertible securities were outstanding at May 25, 2007.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at May 25, 2007	41,057,464		
Employee stock options	365,000	\$ 0.13	October 20, 2008
	375,000	\$ 0.15	May 12, 2009
	626,750	\$ 0.42	April 13, 2010
	35,000	\$ 1.45	February 6, 2008
Warrants		\$ 0.50	July 05, 2007
	2,024,750		
	584,000	\$ 1.20	October 6, 2007
	3,629,974	\$ 1.30	October 6, 2007
Fully Diluted at May 25, 2007	48,697,938		

#### Transactions with Related Parties

Energold Drilling Corp. owns 6,610,001 shares of IMPACT and due to management and directors in common, it is considered a related party.

Under a management services agreement dated October 2004, Energold recovers direct labour costs like mineral exploration or public relations at specified daily charge-out rates plus 15% overheads. Energold also recovers miscellaneous charges plus 15%, on the basis of IMPACT's actual usage. 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. Administrative services fees of \$1,564 (2006 - \$2,425) were charged by Energold for the quarter ended March 31<sup>st</sup>. As at March 31, 2007, the balance owed to Energold with respect to its recoverable management service costs was \$24,908 (2006 - \$762).

During the quarter IMPACT signed an agreement with Energold, for the latter to provide diamond drilling services to IMPACT. Energold received fees in the amount of \$221,653 during the quarter (2006 - \$ nil) for contract drilling services performed in Mexico in the Zacatecas district. These services were provided in the normal course of business operations at similar rates that would be offered to any other mining company.

During the quarter, fees in the amount of \$33,133 (2006 - \$33,400) were paid or accrued to two directors and one officer of the Company, of which \$20,050 is shown in various administrative expenditures on the income statement, and \$13,063 is shown in resource properties.

#### Changes in Accounting Policies

The consolidated financial statements for the period ended March 31, 2007 followed the same accounting policies and methods of application as in the prior year's annual financial statements.

#### Off-balance Sheet Arrangements

The Company had no off-balance sheet arrangements in place as at March 31, 2007.

#### Financial Instruments and Other Instruments

The Company's financial assets consist of cash and term deposits, accounts receivable and prepaid expenses, accounts payable and amounts due to parent company. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial

instruments. The carrying value of these financial instruments approximates their fair value due to their short-term maturity or capacity of prompt liquidation.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined by the Canadian Securities Administrators (CSA), as of March 31, 2007. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

### 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.

After reviewing our overall Company's internal controls and financial reporting and disclosure systems, management is satisfied that as at March 31, 2007 the Company has designed, established and is operating reasonable overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

### Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the period ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting except for the extension and imposition by the Company of its internal control system on its newly acquired Mexican subsidiaries.

### 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 the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters 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 year end financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

### Additional Information

Additional information relating to IMPACT is on SEDAR at [www.sedar.com](http://www.sedar.com).

On Behalf of the Board of Directors,

"Frederick W. Davidson"  
President, CEO

May 25, 2007