

**IMPACT Silver Corp.**  
**Form 51-102F1**  
**Management's Discussion & Analysis**  
**For the Period Ended March 31, 2008**

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## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") of IMPACT Silver Corp. ("IMPACT" or "the Company") is dated May 15, 2008. This MD&A should be read in conjunction with the audited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the period ended March 31, 2008, 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](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**

The Company is a natural resource mining and development company, primarily engaged in the acquisition, exploration and development of natural resource properties. 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 with a mill capacity of approximately 500 tonnes per day ("tpd"). It recently acquired a semi-portable 200 tpd mill for potential use at its projects in the Mamatla and Zacualpan mining districts. It also holds an option on a third mill with a capacity of 200 tpd at 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 I Issuer under the symbol IPT and on Frankfurt as IKL.

Over the last 27 months, the Company has grown from an exploration company into a significant silver producer with levels of production continuing to rise. As importantly, the Company has managed to acquire control of almost two entire mineral districts in Central Mexico including the Royal Mines of Zacualpan Silver District and its newly-acquired concession covering the majority of the Mamatla mineral district southwest of Zacualpan. It also continues to develop its Veta Grande Silver Project in the Zacatecas Silver District.

The Company's objective for the next two to three years at the Zacualpan mining district includes a three-stage program of exploration and exploitation. The first stage is designed to enhance immediate throughput until we achieve our current maximum rated capacity of 500 tpd at the Guadalupe mill. The second stage is to continue exploration and to prepare for developing new sources of ore that will justify expansion of our current facility or the construction of new processing plants within the overall district, and finally continue a

reconnaissance program designed to evaluate the longer term potential of this almost 500-year-old mining district.

At the Veta Grande Silver Project, the Company plans to leverage itself with the option on the 200 tpd processing plant to become a significant participant in the Zacatecas Silver District. The Company is continuing due diligence, exploration and engineering work to evaluate the production potential of the purchased properties and upgrading of the processing plant.

Over the next year, the Company will be vetting the immense quantity of information available on its recent Mamatla mining district acquisition with the objective of establishing the immediate potential as well as the necessary reconnaissance work on this exciting new district. In late fall of 2007, the Company commenced its first drill program on two of the Mamatla targets. The company also recently announced it acquired access to additional technical data for the Mamatla district which should accelerate our knowledge of this highly prospective area.

We have a unique opportunity to continue to grow through increases in current production capacity with the potential to develop two of the historic mineral districts in Central Mexico.

### Operational Highlights for the Quarter

Quarterly silver production reached a record of 131,859 ounces from the Company's three operating mines at Zacualpan, surpassing the 85,606 ounces of silver produced in the first quarter of 2007. The Company also produced record quantities of lead, zinc and gold, as shown in the table below:

Production and Development for the Three Months ended March 31:

	<b>Three Months Ended March 31, 2008</b>	Three Months Ended March 31, 2007
Total tonnes (t) Produced	24,247	22,843
Tonnes Produced per Day	266	253
Silver Production (Oz)	131,859	85,606
Lead (t)	161.65	135.68
Zinc (t)	275.02	243.58
Direct costs per tonne	\$50.63	\$50.97

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

With rising grades, gross revenues exceeded \$2.6 million and quarterly profits were \$845,457 or \$0.02 per share. IMPACT continues to demonstrate positive earnings and cash flow from its Zacualpan mining operations. The Chivo mine is an increasing contributor to silver production as the mine commences production from non-development muck.

During the quarter, the Company announced the acquisition of a second semi-portable 200 tpd mill to increase its capacity and flexibility for processing ore in the Zacualpan/Mamatla mining districts. That mill is presently being disassembled and transported from its existing location to storage in Zacualpan, where it will be available for any one of a number of advanced projects in the district.

The Company also conducted extensive reconnaissance and drilling as part of an almost 15,000-meter diamond drilling program in the Mamatla, Zacualpan and Zacatecas Mining Districts. Some of the exploration highlights for the first quarter included:

- A new discovery, the Los Reyes Zone near the Chivo Mine, where initial drill intercepts included 2.05% zinc, 0.64% lead and 262g/t silver over a true width ("TW") of 4.5 meters.
- Initial results from drilling extensions to the producing Chivo zone. Subsequent to the end of the quarter, the Company announced wide drill intercepts on the north extension of the Chivo Mine including 6.03% zinc, 2.05% lead and 105 g/t silver over a TW of 12.3 meters.
- Commencement of an additional 3,500-meter drill program at the Aurora/Capire VMS target in Mamatla.
- The addition of a further 200-square-kilometre concession by staking north and west of Zacualpan covering the extension of the Zacualpan epithermal vein swarm.

- The Company is continuing its program of equipment replacement and upgrades to the plant and mill to increase mining and processing capacity. The Company has made plans to purchase a new ore crusher and to acquire additional scoop trams and underground tracks to increase its mining capacity.
- The Company has instituted a safety program including the addition of a safety officer who was responsible for conducting an ongoing safety review of all operations and to run regular safety courses that are required for all mine employees. Safety equipment was 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 and the Company has commenced training a mine rescue team, which will be the first for the immediate region.

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

#### Introduction

The Company owns concessions covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5-square-kilometer land position, two operating mines and a mill rated at 500 tpd. The project is located 100 kilometers southwest of Mexico City and 25 kilometers northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

#### 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 2006 was about 17 million ounces of silver (31 million ounces silver equivalent with by-product gold, lead and zinc credits). Veins presently being mined on the property typically vary from two to five meters in width. Individual production shoots are often 30 to 150 meters long and predominantly steeply dipping.

#### Mining

##### Royal Mines of Zacualpan

The Royal Mines of Zacualpan Silver Project was purchased by the Company on January 16, 2006 and the Company's first full day of production was January 18, 2006. The majority of the ore produced at that time came from the high grade San Ramon mine. Later in 2006, as underground mining and haulage costs rose at the San Ramon Mine, the Company started to principally source its ore supply from ore at the Guadalupe mine, where base metal grades are higher and silver grades lower. In the fourth quarter of 2007, development at the Chivo mine has raised silver grades resulting in a higher contribution margin for the 1<sup>st</sup> quarter 2008.

The Company continues to budget funds and manpower to undertake an aggressive plan to modernize operations and increase production. Since its acquisition of the mine in 2006, much of the mining equipment has been upgraded, including rebuilding a number of the mine's scoop-trams and underground trucks. 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. These are currently being sourced and with their addition mine production should increase further over the next two quarters.

The Company intends to further increase throughput at its current Guadalupe mill to reach its rated capacity over the next twelve months. This will involve additional expenditures for underground equipment and certain equipment replacements and upgrades in the plant and mill. The budget for 2008 has approved the necessary capital additions. While plant and facilities may at times limit capacity, sourcing mill feed from the Company's mines remains the critical factor in increased throughput. The process of locating, permitting, developing mines and production stopes takes an intensive contribution of resources both in men and equipment and requires time.

While 2007 saw fluctuations in grades due to the limited number of working faces available for mining, as a result of the exploration and development done we expect over the next two years to be able to balance the grade of mill feed by drawing from a number of locations, and achieving a more blended overall grade.

### Guadalupe Mine

As in 2007, the majority of the mill feed for the first quarter was from mining of lower grade mineral at the Guadalupe Mine. The ore was sourced principally from the Lipton, Lipton del Bajo, Paulina, Intermediate and Liptonia Veins. As a result of intensive underground exploration over the last six months, planning is currently underway to improve a track access to a new possible production area; the Kena-Dolores zone and a number of smaller veins in the general area that could be providing feed as late this year. Material from the Guadalupe Mine is brought to surface on a skip and transported by truck approximately 100 meters to the plant and it remains the lowest cost producer for the mines supplying the mill.

### San Ramon Mine

In 2006, the San Ramon, located in the La Virgen Valley, generated the majority of the high grade feed for the Zacualpan mill; however, operating costs were substantially rising and ore delineation became increasingly more complex due to the nature of the mine access and the Company temporarily ceased mining here. After redesigning the mining plan, the Company recommenced mining at the San Ramon during the first quarter of 2008 on a selective basis.

### Chivo

The Chivo Mine, discovered in 2005, was first drilled in late 2006 and was quickly developed, first commencing limited production from development muck in November of the same year. During the quarter, the Company continued to drift along the vein while opening up two smaller stopes for mining. The Chivo vein itself appears to have higher grades of lead and zinc towards the north and silver towards the south. Material mined from El Chivo is a mixture of ore from both areas as well as development muck; however, as larger production stopes are opened up, the lower grade ore from development will represent a smaller percentage and average grades will rise. Ore from El Chivo continues to be the principal reason that silver production reached a record for the quarter. A second adit approximately 60 meters vertically lower on the structure is currently being planned and will likely be contracted out to an independent contractor to reduce pressure on our mining team and available equipment.

Chivo is the third producing mine at the Royal Mines of Zacualpan Silver Project and the second put into production by the Company's team. The Chivo Mine is also located in the La Virgen Valley in the central part of the district and as exploration and development continues, it is anticipated as providing a significant amount of higher grade feed to the existing Guadalupe mill.

### Physical Plant

At the Guadalupe mill the ongoing program of upgrades designed to enhance recoveries and improve throughput is continuing. Over the last year metallurgical studies have led to significantly increased metal recoveries. Further improvements will require upgrading and replacement of certain equipment. Under the 2008 budget, one of the secondary crushers will be replaced by a new more efficient crusher improving the overall throughput of the crushing circuit. Further plans have been approved to expand the flotation circuit capacity as well increasing the thickener capacity. The zinc dryer will also be replaced.

Initial engineering studies have been completed for increasing tailings capacity, and enhancing the current dam. This program will be staged over the next two years and initial estimates suggest that it will represent less than \$1 million. Final designs are being approved and construction of the expansion commenced in the second quarter.

In 2007, the lab at the mine was retrofitted and upgraded. A new assay furnace and high precision weigh scale have been installed. Further upgrades are planned for 2008 to maintain quality and increase the capacity of the facility. 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 the Company to schedule and optimize mining, development and exploration programs in significantly shorter time frames.

The Company has also upgraded the services for the offices and residences on site. Additional expenditures will be made to ensure water, sewage and lighting is brought up to modern standards. The Company is also preparing a large area between the mill site and the Gallega adit for construction of a major core storage facility to handle the large amount of core acquired with the Mamatla purchase and the additions resulting from the extensive drill program being conducted both on surface and underground.

In aggregate, the Royal Mines of Zacualpan now uses 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.

During the quarter, in spite of intensive up grades to safety and standards, we experienced a fatality. This is of the greatest concern to all of our team and we can only express our deepest sympathy to the family. Our industry experiences certain risks which we can mitigate, but not necessarily eliminate. In this case, investigations by the appropriate authorities, the union and the company were conducted in a candid and forthright manner and although no blame for the incident was placed on the Company, in conjunction with regulatory agencies we have initiated an independent audit of mine safety and response.

The mine is the principal employer in the district, and it has made an ongoing dialogue with locals a fundamental pillar of its operations. The mines budget for assistance destined for local community projects and schools is under the responsibility of a dedicated community relations officer.

#### Other

In the quarter, the Company announced the purchase of a semi-portable 200 tpd mill, including all major equipment, for US\$700,000, which once relocated will give the mining group increased capacity and flexibility. Due diligence by the Company's engineers determined that all the major pieces of machinery are in excellent condition. The Company is currently conducting a number of advanced exploration projects in the Mamatla and Zacualpan Districts, some of which, because of distances from the main facility or for metallurgical reasons, cannot be readily processed at the Guadalupe plant. A semi-portable plant may offer the opportunity of processing those potential mineral deposits with superior economics, as well as providing an increase in overall mill capacity.

#### Exploration

During the quarter, exploration was active on several fronts. Surface and underground drilling continued without interruption. A summary of exploration work carried out during the quarter is described below.

#### Data Compilation

Since 2004, the Company has been reporting results from a large number of old mine prospects at Zacualpan. To put the results of this extensive field work, historical information and assays in context and prioritize exploration targets, the Company hired a senior geological database expert in early 2007 to compile a computer Geographic Information System ("GIS") database encompassing all past mining and exploration data in the Zacualpan and neighbouring Mamatla Districts. To quarter end over 850 old mine workings have been entered into the database, of which the Company exploration crews have sampled 87 in detail. Of these, ten priority targets were drill tested resulting in the discovery of two new mines (Chivo and San Ramon). Five of the other ten targets returned economically significant results that will lead to further drilling. At this point, only about 10% of the large Zacualpan property has seen detailed exploration.

#### Chivo Mine Extensions Exploration

The Chivo Mine is the newest addition to the Company's production profile. In early 2007 drill results from 18 holes in the Chivo Zone led to a production decision. Highlights of this work included 937 g/t silver, 0.35 g/t gold, 1.88% zinc and 0.75% lead across 2.7 meters TW (DH Z-06-10) and 378 g/t silver, 0.30 g/t gold, 4.25% zinc and 1.76% lead across 4.7 meters TW (DH Z07-03).

Samples from the initial 60-meter long mining stope averaged 269 g/t silver, 0.74g/t gold, 3.01% zinc and 1.08% lead across a TW of 3.3m ranging to a high of 657 g/t silver, 0.60 g/t gold, 1.13% zinc and 0.18% lead across a TW of 2.85 meters. At the point where the access adit intersected the vein, the rock section above the vein contained a series of additional sheeted veins which, when combined with the main vein averaged 220 g/t silver across 20.1 meters, including one sheeted vein which assayed 392 g/t silver across a TW of 5.2 meters. The full extent of this wide bulk mineable section will be further investigated as mining and underground exploration proceeds.

Surface drilling is continuing on the north and south extensions of the Chivo Zone to fully delineate its extent. During the quarter, assays from five new holes on the northern extension of the Chivo Zone were received and returned the following high grades:

<b>CHIVO NORTH EXTENSION DRILL HOLES (MAIN VEIN)</b>						
DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TW (m)	ZINC (%)	LEAD (%)	SILVER (g/t)	GOLD (g/t)
SECTION 1060N (Sections are listed from south to north, drill holes are listed from west to east.)						
Z07-49	157.5	<b>8.8</b>	<b>5.62</b>	<b>1.64</b>	62	0.14
	Including:	1.0	<b>14.94</b>	<b>3.52</b>	57	0.33
	Including:	0.2	<b>29.50</b>	<b>5.83</b>	70	1.13
SECTION 1090N						
Z07-45	97.7	0.2	<b>5.35</b>	<b>1.27</b>	<b>1,080</b>	0.34
Z07-46	127.7	<b>3.0</b>	<b>8.40</b>	<b>3.56</b>	<b>274</b>	0.26
	Including:	1.3	<b>15.20</b>	<b>6.20</b>	<b>139</b>	0.17
Z07-47	124.4	<b>12.3</b>	<b>6.03</b>	<b>2.05</b>	<b>105</b>	0.14
	Including:	<b>7.4</b>	<b>8.73</b>	<b>3.01</b>	<b>150</b>	0.21
	Including:	<b>1.8</b>	<b>15.59</b>	<b>5.85</b>	<b>369</b>	0.34

The deepest holes on both these sections were the widest and highest grade intersections leaving the zone open for expansion to depth and to the north. Drill hole Z08-49 was drilled at depth on the same section as drill hole Z07-08-11 (see the Company news release dated July 12, 2007) and extended the zone of mineralization an additional 50m down dip. Drill holes Z08-45 through Z08-48 were drilled on a new section 30m north of any previous drilling.

On a deposit scale, the Chivo Zone is showing itself to be increasingly zinc and lead-rich to the north where these holes were drilled and silver-rich to the south where the Company has completed additional drill holes during the quarter (assays pending). The main Chivo Zone remains open in all directions for further expansion.

Chivo was discovered in 2005 when the Company crews found high-grade veins in old mine workings (see the Company news release dated September 7, 2005). Samples from the veins assayed 1,095 g/t silver and 0.38 g/t gold across 1.25 meters TW in the workings and 2,640 g/t silver and 1.36 g/t gold across 0.85 meters on surface. Subsequent drill programs consisting of 21 holes returned highlights of 937 g/t silver, 0.35 g/t gold, 1.88% zinc and 0.75% lead across 2.7 meters TW (Drill hole Z-06-10) and 378 g/t silver, 0.30 g/t gold, 4.25% zinc and 1.76% lead across 4.7 meters TW (Drill hole Z07-03). (See the Company news releases dated October 12, 2006 and July 12, 2007.) To date, 41 drill holes have been completed on the zone (assays pending for 15 holes) and additional drilling is planned to begin again in June 2008.

#### Los Reyes Zone

There is a cluster of other large veins in the Chivo area ("La Virgen Valley Project") and exploration of these nearby targets continues on the premise that any of them could be readily and quickly integrated into the Chivo Mine. Subsequent to quarter end, the Company announced assay results from a new discovery, Los Reyes Zone, located 600 meters east of the Chivo Mine. Los Reyes is a thick vein system that trends parallel to the silver-rich Chivo Zone. Highlights from the 11-hole Los Reyes drill program include the following:

<b>LOS REYES DRILL HOLES (MAIN VEIN)</b>						
DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TW (m)	ZINC (%)	LEAD (%)	SILVER (g/t)	GOLD (g/t)
SECTION 1N (Sections listed from south to north, drill holes listed from west to east)						
Zo7-42	111.2	4.5	2.05	0.64	<b>262</b>	0.09
	Including:	2.2	3.10	0.96	<b>496</b>	0.15
	Including:	1.1	1.67	0.44	<b>717</b>	0.27
Zo6-33	115.1	5.2	1.64	0.50	17	0.18
SECTION 2N						
Zo7-35	194.9	1.1	<b>4.35</b>	1.28	25	2.21
SECTION 3N						
Zo7-37	191.1	4.1	<b>4.46</b>	1.07	46	0.34
	Including:	0.6	<b>17.80</b>	<b>4.62</b>	<b>135</b>	<b>1.24</b>
SECTION 4N						
Zo7-38	202.4	5.9	1.99	0.53	22	0.18

The other holes in this program intersected lower grades. The holes were drilled on a 35 x 50 meter grid over a length of 200 meters. The zone is open for expansion in all directions.

Several splay veins branching off the main Los Reyes Vein returned significant assays from the drill program as follows:

<b>LOS REYES DRILL HOLES (SPLAY VEINS)</b>						
DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TW (m)	ZINC (%)	LEAD (%)	SILVER (g/t)	GOLD (g/t)
SECTION 1N						
Zo7-42	26.7	1.0	0.35	0.14	260	0.07
and:	94.0	0.5	10.05	2.09	338	0.05
SECTION 3N						
Zo7-40	44.5	2.5	0.17	0.09	187	0.03
37 Splay1	147.6	1.5	2.51	2.41	52	0.19
SECTION 4N						
Zo7-38	90.4	1.0	4.35	1.05	139	0.07
Zo7-39	99.5	1.2	4.48	2.14	57	0.06

The Company's mine staff will evaluate the Los Reyes Zone for possible integration into the Chivo mine plans.

#### Zacualpan Early Stage Exploration

The Company employs field crews dedicated to early stage exploration throughout the District. These crews have been sampling some of the 850+ old mine workings on the project area and have been carrying out extensive soil sampling on 100 x25 meter grids. During the quarter, this work was focussed on two main project areas within the vast Zacualpan mineral holdings. The Carlos Pacheco-Nochebuena ("CPN") Project is located five kilometers southwest of the Zacualpan processing plant in the central portion of the Company's land holdings and covers a large 10-square-kilometer well mineralized area of copper-gold and silver-zinc-lead veins. The San Antonio Project is located five kilometers southeast of the plant and covers extensions of high grade historic mines. It is anticipated that both these project areas will be drilled after assay results from field work are received and interpreted.

#### Mamatla Silver and Base Metals Project, Mexico

The Company won the 200-square-kilometer Mamatla District in a government auction in February 2007 and a dedicated field crew began work immediately. The district is located immediately adjacent to and southwest of Zacualpan. Mamatla is host to epithermal silver and base metal veins as well as volcanogenic massive sulphide ("VMS") base and precious metal mineralization.

### Mamatla VMS Prospects

The Mamatla VMS mineralization varies from copper and gold-rich systems to zinc, lead, gold and silver-rich systems. The Mamatla project covers the same stratigraphy as the Campo Morado VMS belt, where Farallon Resources (TSE: FAN) has announced a production decision 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 Mamatla.

### Capire VMS Project

The most advanced exploration targets at Mamatla are the Capire and Aurora 1 VMS deposits, which were discovered less than one kilometer apart and drilled by prior operators in the 1990s. 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 0.22 g/t gold, 73 g/t silver, 0.45% lead and 1.13% zinc in a near-surface zone with potential for open pit mining and open for expansion. In the same auction bid document, the Aurora 1 deposit is described with an indicated resource of 194,000 tonnes, grading 1.28 g/t gold, 180 g/t silver, 2.13% lead and 4.45% zinc.

*The Company has not independently verified these resource estimates and the estimates are not compliant with Canadian National Instrument ("NI") 43-101 requirements; therefore, they should not be relied upon. However, the Company believes the historical resource estimates and drill results provide an indication of the potential of the Capire VMS Project and are relevant to the Company's plans for further exploration work.*

During the quarter, the Company began a 3,000-meter plus program of detailed core drilling on a 50 x 25 meter grid to bring these deposits into Mineral Resource categories into compliance with Canadian NI43-101 standards. At quarter end, this drill program was still in progress. Assays will be released when received and interpreted.

### Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007, a dedicated exploration crew has discovered over 70 previously unidentified epithermal vein prospects and old mines. This work is continuing and assays will be released when they are received and interpreted.

### **Veta Grande (Zacatecas) Silver Project, Mexico**

On September 28, 2006, the Company announced the signing of a Comprehensive Agreement to purchase the Veta Grande Silver Project in the historic Zacatecas Silver District of Mexico over a maximum of four years for US\$1,120,000 and 500,000 shares. The project includes a 200 tpd processing plant and certain surface rights. The project is located 500 kilometers northwest of Mexico City. Access is by paved highways that run through the district. Infrastructure is good throughout the District with road networks, electric power and a trained work force. During 2007, exploration focused on some of the 17 mineral concessions located within this district. No exploration work was carried out on the concessions during the quarter, but due diligence work continued on the processing plant.

### Zacatecas Processing Plant

The 200 tpd processing plant began operations during the third quarter 2006. It is now operating on a custom milling basis by the vendor processing mineral for local small scale miners. The Company engineers are carrying out an assessment of the plant and associated facilities as part of the Company's due diligence work toward a decision to finalize the purchase.

### **Future Exploration Plans**

The exploration budget for 2008 has been more than doubled in order to put some of the more than 850 known prospects at the Zacualpan and Mamatla Districts on a faster track to potential production and build mineral inventories for mining. The exploration program is being funded through existing cash balances. The drill budget has been expanded to 12,000 metres of Phase 1 surface drilling and 5,000 meters of underground drilling. Additional technical personnel were hired to carry out work ranging from greenfields to advanced stage exploration. 2008 began with three dedicated field crews each lead by a senior geologist working on the San Antonio, Mamatla and CPN Projects, respectively. A prospecting team continues reconnaissance work in the districts. Three geologists are overseeing both surface and underground drilling operations at Zacualpan and Capire (Mamatla). Crews continue to sample an expanded soil grid which will encompass an additional 12,000 samples in 2008. The purchase of a second wholly owned underground

drill has also been budgeted. The GIS database compilation continues into 2008 with an emphasis put on district-wide interpretation.

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

## **The Dominican Republic**

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrata plc, as well as a number of juniors, including Unigold Inc. ("Unigold"), Globestar Mining Corporation ("Globestar"), Linear Gold Corp. ("Linear"), Energold Drilling Corp. ("Energold") and Everton Resources Inc. ("Everton"). The exploration concessions in the Dominican Republic held by the Company constitute a block of exploration concessions covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which the Company believes offers the opportunity for mineralization. The Company's block of concessions is located some 100 kilometers east of Barrick's large Pueblo Viejo gold deposit and hosted in the same rock formation. During the quarter, a limited program of geophysical-induced polarisation work was carried out to better define future drill targets.

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

## **INVESTOR RELATIONS**

The Company has regularly attended a number of investors conferences in Canada and more recently abroad, along with engaging the services of an investor relations representative to assist in developing the Company's profile. The Company continues to offer regular analysts tours of the operations of the Zacualpan Project. We believe that the only way the magnitude of the project can be fully appreciated is by allowing investor's representatives to have total and completely candid exposure to the ongoing activities at both at the mines in Zacualpan and the exploration potential there and elsewhere. The Company intends to repeat these tours over the course of the next year. During the quarter, the Company extended the engagement of Sean Rakhimov to assist in the providing of investor information. 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, stock-based compensation, inventory valuation, asset retirement obligations, 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. 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 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. Operating results are dependent not only on mining and milling efficiency, but also on the market price of metals which are volatile and beyond the control of the Company.

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.

### ***Selected Annual Information***

<b>Description</b>	<b>2007</b>	<b>Restated 2006</b>	<b>2005</b>
Total revenues	\$7,250,077	\$7,005,793	N/A
Net income (loss)	\$286,727	\$505,660	(\$486,270)
Net income (loss) per share-Basic	\$0.01	\$0.01	(\$0.02)
Net income (loss) per share -Diluted	\$0.01	\$0.01	(\$0.02)
Total assets	\$27,677,980	\$18,483,936	\$3,767,288
Total long-term financial liabilities	\$2,716,137	\$2,257,116	\$270,206
Dividends declared	N/A	N/A	N/A

The Company has grown significantly since December 2005 through its capital finance raising activities and its purchase of the Royal Mines of Zacualpan assets, the acquisition of the Mamatla concession, and through its property interests in the Veta Grande Silver project in the Zacatecas area of Mexico. The Company has progressed into an active mining operation with a substantial resource property asset base centered around two key silver mining areas in Mexico. The Company is well financed, with \$8.8 million cash on hand and working capital in excess of \$10.1 million at March 31, 2008. The Company's mining operations are profitable and are being ramped up to higher production levels, and the Company has opened its first new mine, the El Chivo mine, since completing the Zacualpan acquisition. The total amount of long term financial liabilities are all related to future income tax liabilities. During the course of preparing the 2007 year end financial statements management determined that a restatement of the 2006 financial statement operating results was required as a result of the need to recognize for accounting purposes future income tax asset and liability timing differences related to the initial Zacualpan acquisition.

As well, the 2006 financials were also restated due to the early recognition of income relating to funds received for properties which should have been recorded against the carrying cost of the property and as a cash call payable.

### **Accounting for the Acquisition of Minera El Porvenir de Zacualpan S.A. de C.V. ("MPZ")**

On January 16, 2006, the Company completed the acquisition, through its wholly owned subsidiary Minera Aguila Plateada S.A. de C.V. ("MAP"), of all the issued and outstanding shares of MPZ. Total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and payment of \$2,260,200. This was, for accounting purposes, a business combination. The Company, therefore, recognized the fair value of the assets acquired and liabilities assumed as at the date of acquisition.

The results of operations of MPZ and its wholly-owned subsidiary, Minera Laureles S.A. de C.V., from January 17, 2006 forward are included in our financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired and liabilities assumed is summarized in the table below.

Canadian \$

**Purchase Price**

Net share consideration at market value at date of issue (300,000 shares)	\$ 179,500
Cash payment to vendors	2,260,200
	<u>2,439,700</u>

**Fair value of assets acquired and liabilities assumed:**

Accounts receivable and prepaid expenses	126,676
Inventory	174,701
Property, plant and equipment	240,087
Resource properties	5,038,305
	<u>5,579,769</u>
Accounts payable and accrued liabilities	(374,356)
Forward sales contract liability	(2,164,773)
Future income tax liability	(600,940)
	<u>(3,140,069)</u>
	<u>2,439,700</u>

The liabilities above include approximately US\$465,000 pertaining to forward sales contract losses realized to the date of acquisition, under a smelter contract commitment obligation entered into in April 2004 by MPZ prior to the Company's involvement. 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 tons of lead and 100 tons of zinc, which had been sold forward at US\$7.00 per ounce silver, US\$400.00 per ounce gold, US\$720.00 per ton lead, and US\$1,100 per ton zinc. MAP also assumed 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.

This meant that we recognized 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. Had MPZ not entered into forward selling commitments and had MPZ been able to mine and to sell the same quantity of metals as it had contracted to deliver, it would have, for the seven months from January to July 2006, realized approximately US\$1.294 million more than it did do under its forward sales delivery contractual commitments. This foregone revenue and MPZ's obligation to make good on the delivery obligation was taken into account as part of the purchase consideration.

**Restatement**

As at December 31, 2006, the Company should have recorded a future income tax asset of \$416,652 and a future income tax liability of \$1,181,766. The offsetting entry was to Future Income Tax Expense during the 2006 fiscal year. In addition, the Company had recorded received property payments as Other Income; however, the Company has now determined that \$134,899 of this should have been recorded against the resource properties. As a result of these corrections, net income was reduced by \$467,162. This has resulted in an increase in the reported deficit as at December 31, 2006. The effect of the restatement on the year 2006 consolidated financial statements is as follows:

	As previously reported	As restated
Future income tax asset	\$ -	\$ 416,652
Resource Properties	\$ 9,684,458	\$ 10,028,849
Accounts Payable	\$ 1,059,229	\$ 1,105,668
Future income tax liability	\$ 1,075,350	\$ 2,257,116
Income for the year	\$ 972,822	\$ 505,660
Deficit	\$ 4,366,563	\$ 4,833,725
Earnings per share – basic	\$ 0.03	\$ 0.01
Earnings per share – diluted	\$ 0.02	\$ 0.01

## Results of Operations

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

Quarter	Revenues	Net Income (loss)	Basic Net Income (Loss) per Share *	Diluted Net Income (Loss) Per Share *	Total Assets	Total Long- term Liabilities
1 <sup>st</sup> 2008	2,687	845	0.02	0.02	28,795	2,846
4 <sup>th</sup> 2007	2,110	356	0.01	0.01	27,678	2,716
3 <sup>rd</sup> 2007	1,604	(287)	(0.01)	(0.01)	21,125	2,407
2 <sup>nd</sup> 2007	1,677	(48)	0.00	0.00	19,936	2,360
1 <sup>st</sup> 2007	1,859	266	0.01	0.01	19,156	2,299
4 <sup>th</sup> 2006 **	2,009	264	0.00	0.00	18,484	2,257
3 <sup>rd</sup>	1,873	167	0.00	0.00	16,750	1,071
2 <sup>nd</sup>	1,977	(103)	0.00	0.00	17,567	964
1 <sup>st</sup>	1,147	178	0.01	0.01	9,681	870

\* These numbers have been rounded to two decimal places

\*\* These 2006 comparative results have been restated (see note 16 to the 2007 year end 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 of 2006. 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 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. 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 allocated half of its acquisition cost to deferred mineral exploration and development costs to recognize its investment made in the many potential exploration targets that it has identified on the properties that it acquired with the purchase of the shares of MPZ. Exploration work carried out during 2007 and the first quarter of 2008 mapping old historic mine workings has significantly increased the number of potential exploration targets identified on the properties from the over 300 reported at December 2006 to well over 800 today. The current programs underway are designed to develop immediate mining targets and to enhance future production.

#### Mine Operating Earnings for the Quarter ended March 31, 2008

Average mill throughput during the quarter was 274 tpd, about the same as the prior 2007 fourth quarter and marginally higher than the 253 tpd processed in the first quarter of 2007. Revenues (net smelter returns) calculated under Canadian GAAP for the 2008 first quarter were \$2,686,721, compared to revenues of \$1,858,831 in the first quarter of 2007. This represents an increase of \$828,000 over the first quarter revenues earned in 2007 and \$577,000 over the revenue earned in the fourth quarter of 2007. These higher revenues are due to a combination of higher metal prices and higher grades of ore from the El Chivo mine being processed through the mill. The Company incurred operating costs of \$1,227,648 for the quarter before amortization and depletion expenses of \$185,250 compared to operating costs of \$1,164,493 and amortization and depletion expenses of \$193,965 incurred in the first quarter of 2007. On an absolute dollar basis, these operating costs were \$63,155 higher in the first quarter of 2008 compared to total operating costs in the first quarter of 2007. On a total operating cost per ton basis, the Company continued to reduce its average operating costs per ton from \$50.97 in the first quarter of 2007 to \$50.63 in the first quarter of 2008. Mine operating earnings for the quarter were \$1,273,823; an increase of \$773,450 from the \$500,373 recorded for the first quarter of 2007. First quarter earnings in 2008 also showed a strong improvement over the fourth quarter of 2007 as a result of rising silver prices enhancing net smelter returns. Net income in the first quarter increased to \$845,457 compared to \$356,000 in the fourth quarter of 2007 and \$266,555 earned in the first quarter of 2007.

#### General, Administrative and Other Expenses

General and administrative expenses for the first quarter were \$193,946 approximately \$100,000 less than the \$295,169 of expenses incurred in the first quarter of 2007. The major factor accounting for this significant variance is fluctuations in the valuation of foreign exchange translation gains and losses. During the first quarter of 2008 the Company recorded a foreign exchange gain of \$151,000 compared to a foreign

exchange translation loss of \$46,000 in the first quarter of 2007. Other key factors contributing to changes in the current quarter compared to the prior year were increases in office salary and services costs of approximately \$42,000 and increased stock compensation expense costs of \$79,000 compared to the 2007 first quarter.

The Company earns its revenues paid under its smelter contracts in U.S. dollars and incurs its costs in Mexican pesos as well as Canadian dollars. Because the Company reports its earnings in Canadian dollars, under Canadian GAAP it must translate its revenues and expenses into Canadian dollars for financial statement purposes using the temporal method. The Company incurred a foreign exchange gain of \$151,094 in the first quarter of 2008 compared to a foreign exchange loss of \$46,172 in the first quarter of 2007. 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 administrative expenses and net reported income. Excluding foreign exchange and stock compensation expense, administrative expenses are now running at approximately \$250,000 per quarter. Some comments with respect to specific items of costs for the quarter are as follows:

Accounting and audit costs charged to administrative expenses are now running around \$25,000 per quarter similar to our insurance costs. Investor relations costs have also now stabilized at approximately \$40,000 per quarter. Costs in 2008 include the services of one consultant and expenditures related to a number of industry and investor conventions. We also spent monies on sponsoring several newsletter writers' and brokers' tours of our Mexican mining operations. We expect that we will maintain our investor relations expenditures at approximately the current level as we continue to highlight our achievements to the investment community.

Legal costs charged to administrative expenses in the first quarter of 2008 were \$9,055 and were of a general legal support service nature. 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 were \$106,052 in the current quarter compared to \$63,954 in the first quarter of 2007. These higher costs are a result of the increased level of staff and services support required in connection with our operation of the Zacualpan silver property and our other exploration efforts in Mexico, including those around the Zacatecas area. We expect that these expenses will continue to increase modestly in 2008 as we continue to increase the scale of our operations of mining and mineral exploration activities in Mexico.

During the first quarter of 2008, the Company recognized an expense of \$79,093 in relation to the vesting of stock options granted to officers, directors and employees in the third quarter of 2007 and the first quarter of 2008. These options are valued using the Black Scholes pricing model. No similar expense was recognized in the first quarter of 2007.

Transfer agent and filing fees were \$16,700 during the first quarter of 2008 approximately \$2,000 more than the \$14,862 of such expenses incurred in the first quarter of 2007. We expect these costs will likely continue to approximately the current level during the 2008 year.

#### Resource Property Expenditures

##### Zacualpan

Exploration expenditures related to Zacualpan for the 2008 first quarter were \$1,283,964, compared to \$241,794 in the first quarter of 2007. A significant portion of this increase in expenditures was the result of the Company's increasing its expenditures on drilling operations in the first quarter of 2008, whereas little drilling was conducted at Zacualpan in the first quarter of 2007. Much of this drilling was focused on various advanced to early-stage targets in the Zacualpan area. The Company's exploration expenditures are expected to continue at a high level during 2008 as the Company continues to develop its exploration program to explore the many targets that it has identified. 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 also committed additional resources and has hired additional geological support staff and resources to lead three separate teams to accelerate the early exploration and mapping of its properties and prospective drill targets. The Company expects that its 2008 exploration expenditures on the Zacualpan

property will continue at their current rate exceeding its 2007 expenditures by a significant margin as it proceeds to explore some of its initial more promising exploration targets.

#### Zacatecas

During the 2008 first quarter, the Company recorded property acquisition costs of \$40,040 in connection with the acquisition of certain mineral concessions in the Zacatecas area. The Company now has acquired 100% interests in 17 mineral concessions in the Zacatecas Silver District, four of which are subject to joint venture agreements. 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, which program was fully funded by our joint venture partner. This initial program was completed during the second quarter of 2007. Assay results from this drilling were received and published by our joint venture partner in mid-June. During 2007, the Company incurred a total of \$602,204 of deferred exploration costs expenditures on the Zacatecas property concessions, \$537,235 of which was recovered from our joint venture partner. Subsequent to the first quarter of 2008, our joint venture partner fulfilled its obligations to earn a 65 % interest in the four properties included in the joint venture.

#### Liquidity and Capital Resources

At March 31, 2008 the Company had working capital of \$10.1 million, a reduction of \$1.2 million from its working capital position of \$11.3 million at December 31, 2007 but a significant \$4.3 million increase from the \$5.8 million working capital position at March 31, 2007. The principal reasons for the decrease in the working capital position during the first quarter of 2008 was the Company's decision to accelerate its exploration expenditures on resource property costs on which it expended \$1.4 million during the first quarter and its decision to expend additional resources of approximately \$0.9 million during the first quarter on the purchase of additional property, plant and equipment for its mining operations. The majority of this expense was for the acquisition of a 200 tpd day semi-portable mill that is being acquired in Central Mexico which is being moved to the Zacualpan mine property for future expansion of our mine and mill operations. In total, the Company expended almost \$2.4 million during the first quarter of 2008 on investing activities compared to only \$450,000 of such expenditures in 2008. The Company's working capital position is expected to remain strong through the 2008 year as the cash flow from mining operations should be sufficient to fund the majority of the Company's 2008 resource property cost exploration expenditures.

During the first and second quarters of 2006, the Company completed two private placements involving the issuance of share purchase units with warrants attached which expire in July and October of 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 \$104,640 on the exercise of 622,000 share purchase options and \$1,049,750 on the exercise of 2,700,000 share purchase warrants.

During 2007, the Company raised \$7,375,089 from the exercise of share purchase warrants, exercisable at \$0.50 and \$1.30 per share that expired on July 5, 2007 and October 6, 2007 and the exercise of employee and directors' share purchase options.

## Outstanding Share Data

The following common shares and convertible securities were outstanding at May 15, 2008.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at May 15, 2008	47,335,210		
Employee stock options	365,000	\$0.13	October 20, 2008
	375,000	\$0.15	May 12, 2009
	553,000	\$0.42	April 13, 2010
	35,000	\$1.44	February 6, 2010
	1,055,000	\$1.40	September 5, 2012
	75,000	\$1.67	October 22, 2012
Fully Diluted at May 15, 2008	49,793,210		

## Transactions with Related Parties

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

Under a management services agreement 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 the Company'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.

During the first quarter ended March 31, 2008, fees in the amount of \$579,520 (2007- \$157,018) were paid to a significant shareholder of the Company for contract drilling services performed in Mexico at the Zacualpan and Zacatecas. These services were provided in the normal course of business operations at similar rates that would be offered to any other mining company. As at March 31, 2008, the balance owed to Energold with respect to its recoverable costs was \$500,426 (2007 -\$24,908).

During the quarter fees in the amount of \$33,206(2007 - \$33,113) were paid or accrued to two directors and one officer of the Company, of which \$21,956 is shown in various administrative expenditures on the income statement, and \$11,250 is shown in resource properties.

## Subsequent Events

On May 13, 2008, Yale Resources Ltd. completed its final payment obligations with respect to the Zacatecas joint venture agreement and has now fully earned its 65 % interest in the four property concessions covered under this joint venture agreement.

## **Accounting Estimates, Policies and Standards**

When a new Canadian accounting standard is released, the Company undertakes a review and evaluation to determine if it is applicable. If the new standard is applicable, it is then analyzed and summarized in a manner that effectively documents and evaluates the impact on the Company and determines the actions the Company needs to take in order to comply with the new standard.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used in determining possible impairment of mineral property costs, the fair values of stock options and financial instruments, asset retirement obligations and future income tax assets. The Company evaluates its estimates on an on-going basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value for assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Should the Company be unable to meet its ongoing obligations, the realizable value of its assets may decline materially from current estimates.

The details of the Company's significant accounting policies are presented in Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2007, which can be found on SEDAR. The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

#### 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.

#### Asset Impairment

Management periodically reviews the carrying value of its mineral properties and mining assets. 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 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.

#### *Stock-based Compensation*

The Company accounts for stock options at fair value pursuant to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, which established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Management is required to make significant estimates about future volatility and the period in which stock options will be exercised. The selection of the estimated volatility figure, and the estimate of the period in which an option will be exercised can have a significant impact on the costs recognized for stock-based compensation. The estimates concerning volatility are made with reference to historical volatility, which is not necessarily an accurate indicator of volatility which will be experienced in the future. The exercise of options may occur at times different than those estimated, or options may expire unexercised. 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 pricing model, the assumptions of which can be found in Note 9 of the Company's consolidated financial statements for the year ended December 31, 2007. The cost of options granted to directors, employees and non-employees is recognized over the vesting period of the respective options, in accordance with Section 3870 and is either expensed or capitalized to mineral properties for grants to individuals working directly on mineral projects.

#### Revenue Recognition

Revenue arising from the sale of metals 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. The Company's metals contained in concentrates are provisionally priced at the time of sale based on the prevailing market price as specified in the sales contracts. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for the metals sold and result in 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.

*Off-balance sheet arrangements*

The Company has not entered into any off-balance sheet arrangements such as obligations under certain guarantee contracts, retained or contingent interests in assets transferred to an unconsolidated entity, obligations under derivative instruments that are classified as equity or obligations under material variable interests in unconsolidated entities that conduct certain activities such as financing, liquidity, market risk or credit support.

***New Accounting Policies 2007***

Effective January 1, 2007, the Company adopted the guidelines governed by Sections 1530, 3855 and 1506 of the CICA Handbook, "Comprehensive Income", "Financial Instruments – Recognition and Measurement" and "Accounting Changes".

**Other Comprehensive Income**

Other Comprehensive Income (Section 1530) is the change in a company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities that are not included in net income (loss) until realized.

Investments classified as available for sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are accounted for using the equity method and not adjusted to fair market value. At December 31, 2007, the Company has no investments designated as available for sale. The adoption of Section 1530, Comprehensive Income, did not impact the consolidated balance sheet of the Company as at January 1, 2007.

**Financial Instruments – Recognition and Measurement**

The Company's financial assets consist of cash and term deposits, accounts receivable and prepaid expenses, accounts payable and amounts due to a significant shareholder.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognised in the net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in earnings (loss).

Upon adoption of these new standards, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are designated as loans and receivable which are measured at amortized cost. Investments are designated as available-for-sale and are recorded at cost when there is no readily available market price. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At December 31, 2007, the Company did not have any held-to-maturity financial instruments. The adoption of this policy had no material impact on opening deficit.

The Company's policy is to recognize all transaction costs associated in acquiring a financial asset or liability in net income at the time of acquisition.

**Accounting Changes**

Accounting Changes (Section 1506), establishes standards and new disclosure requirements for the selection and reporting of changes in accounting policies and estimates and the reporting of error corrections. It clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application to prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to

the assets and liabilities of the earliest period practicable with a corresponding adjustment made to opening retained earnings. This Section is effective for fiscal years beginning on or after January 1, 2007.

As reported in Note 16 to the 2007 consolidated financial statements, the Company determined that accounting errors occurred in preparing its 2006 consolidated financial statements as disclosed earlier in this MD&A. Management has brought these matters to the board of directors' attention and has corrected the errors.

### **Newly Adopted Accounting Policies- 2008**

On January 1, 2008, the Company adopted three new presentation and disclosure standards issued by CICA: Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863, *Financial Instruments – Presentation*, have replaced Section 3861, *Financial Instruments - Disclosure and Presentation*. These new sections incorporate many of the disclosure requirements of Section 3861, but place an emphasis on disclosure about risk, including both qualitative and quantitative information about the risk exposures arising from financial instruments. Section 1535, *Capital Disclosures*, establishes disclosure requirements about the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with capital requirements and, if the entity has not complied, the consequences of such non-compliance.

Section 3031, *Inventories*, which replaces Section 3030, establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

In addition, the Company also adopted and implemented the amendments to Handbook Section 1400 concerning *General Standards on Financial Statement Presentation*. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period on January 1, 2008.

### **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, and to meet external capital requirements on our debt and credit facilities.

In the management of its capital, the Company includes its cash and cash equivalent balances, and monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less free 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, share capital, warrants, contributed surplus and retained earnings or deficit.

It is 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 below 50%, except in unusual circumstances such as a major acquisition. Currently the Company has no 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.

### **Management of Financial Risk**

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, foreign exchange, 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 arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk is primarily attributable to short term deposits and accounts receivable from its

concentrates refinery. The Company's primary counterparties related to our money market investments carry investment grade ratings. As is typical within the mining industry the Company deals with one smelter 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 and our principal Canadian banker follow sound business practices. The Company's maximum exposure to credit risk at the reporting date is the carrying value of our receivables and short term deposits.

#### 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 available or 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.

#### Market Risks

The significant market risks to which the Company is exposed are foreign exchange risk, interest rate risk and commodity price risk.

#### Foreign Exchange Risks

The Company operates principally in Mexico and the Dominican Republic, and incurs costs and revenues in Mexican pesos as well as US dollars. Settlement prices under its smelting and refining contract are defined in US dollar terms. Some of the overhead costs for the Mexican mining operations are also incurred in Canadian dollars. Foreign exchange risk exposures arise from transactions denominated in foreign currencies, and the Company is at risk for changes in the value both of the Mexican peso and the US dollar.

At March 31, 2008, the Company is exposed to currency risk through the following assets and liabilities held in U.S. and other foreign currencies:

	March 31, 2008		March 31, 2007
Cash and cash equivalents	\$ 1,213,752	\$	1,155,914
Other assets	2,111,273		1,700,998
Accounts payable	(1,150,865)		(669,945)
	<u>\$ 2,174,860</u>	<u>\$</u>	<u>2,186,967</u>

The Company has elected not to actively manage our foreign exchange risk at this time.

#### Interest Rate Risk

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits. 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.

The deposits are invested on a short term basis to enable liquidity for payment of operational and capital expenditures. As a result of rapid rollover of short term investments there is little risk of capital loss as a result of changes in interest rates.

#### 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.

In March 2007, CICA issued the new Handbook Section 3031, "Inventories", which replaces the former Section 3030, "Inventories". The new standard provides more extensive guidance on the determination of

cost, including the allocation of overhead and requires impairment testing. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company has determined that because of its strong financial position it has no current concerns about its ability to continue as a going concern.

### ***Recent Accounting Pronouncements Issued But Not Yet Implemented***

Effective January 1, 2009, for the Company, Section 3064 replaces Handbook Section 3062, "Goodwill and Intangible Assets" and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

### **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 quarter ended March 31, 2008 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 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 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 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, Chief Executive Officer

May 15, 2008