

**IMPACT Silver Corp.**  
**Form 51-102F1**  
**Management Discussion & Analysis**  
**For the Period Ended June 30, 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 period ended June 30, 2007 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 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 280 tpd. It holds an option on a second 200 tpd 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 I Issuer under the symbol IPT and on Frankfurt as IKL.

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 Zacatecus Silver District. We have set some very ambitious goals for ourselves this year 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 second quarter of 2007, IMPACT continues to achieve higher levels of throughput at the Zacualpan mines averaging 279 tpd for the quarter (2006-145 tpd) as part of the program to bring production up to the current mill's capacity of approximately 500 tpd. Programmed underground development resulted in higher production of lead and zinc while silver grades declined. Production in late fall from the El Chivo and San Ramon mines are expected to improve silver throughput.

In the first quarter the Company acquired through government auction 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 announced the acquisition of the Nueva Granada and the Asturiana concessions. These concessions cover large old mine workings in the prolific Veta Grande area.

#### Exploration Highlights

- 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.
- A 10,000m drill program at its projects at Zacualpan and Zacatecas is ongoing.
- During the second quarter, a 1,815m drill program was completed on the Zacatecas Joint Venture concessions with Yale Resources.

### **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 124.5 km<sup>2</sup> land position, two operating mines and a leased 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 this dominant land position through staking activities and the recent purchase (completed January 16, 2006) of all of the issued and outstanding shares of a local Mexican mining company, Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ"). The Company subsequently purchased the previously leased, Guadalupe processing plant and mining equipment and acquired certain mineral concessions and surface rights at Zacualpan.

#### 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 2 to 5 meters in width. Individual production shoots are often 30 to 150m long and predominantly steeply dipping.

## Production and Development

	Three Months Ended June 30 2007	Six Months Ended June 30 2007	Six Months Ended June 30, 2006
Total tonnes (t) Produced	25,451	48,296	29,859
Tonnes Produced per Day	279	253	182
Silver Production (Oz)	73,890	159,497	189,409
Lead (t)	157.35	293.03	164.62
Zinc (t)	243.69	487.28	340.33
Cdn. \$ direct costs per tonne	43.38	46.97	63.23

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

## Mining

### Royal Mines of Zacualpan

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. The majority of the ore at that time reported 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 its ore supply from ore at the Guadalupe mine, where base metal grades are higher and silver grades lower until the underground development at San Ramon could be completed. As tonnage throughput increases, and more tonnage is pulled from the Guadalupe Mine on site operating costs are declining and for the six months are approximately Cdn. \$47.00 per tonne. We expect these costs to rise marginally on a per tonne basis with recent union settlements and higher costs for electricity and fuel and as we source additional tons from higher grade but higher costs mines.

### Guadalupe Mine

During the first half of 2007, 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. An intensive program of remapping and exploration is continuing at the Guadalupe Mine. Material from the Guadalupe Mine is brought to surface on a skip and transported approximately 100m to the plant and it remains the lowest cost producer for the mines supplying the mill.

### La Gallega (Salvadora) Mine

Success in exploration drilling in 2006 led to the commencement of mining in late 2006 from the 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 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 increasingly 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.

### El Chivo

As a result of drill exploration results in 2006 and 2007 work has commenced on preparing for the development and mining of the El Chivo Mine. Permitting and site preparation is underway with first development muck anticipated as being available in late fall.

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, increased emphasis has been put on improving recoveries of the production areas including previously mined stopes by redefining cut-off grades. The mine is also involved in negotiations for a new smelter contract and ongoing union contracts.

Upon acquisition of the project in January 2006, IMPACT ear-marked sufficient funds and man-power to undertake an aggressive 2 year plan to modernize operations and increase production. Since then much of the mining equipment has been upgraded including rebuilding of the mine's 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 light surface trucks were purchased to replace unsafe vehicles inherited from the previous operator.

Our mine geologist and surveyors with access to the wholly owned underground drill have expanded exploration efforts which 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.

An ongoing program of upgrades is continuing designed to enhance recoveries and improve throughput. In the plant metallurgical studies have led to significantly increased metal recoveries. 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. Detailed engineering studies are continuing for increasing tailings capacity.

The lab at the mine has been retrofitted and upgraded. A new assay furnace and high precision weigh scale have 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. 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

Exploration was active on several fronts during the year to date. IMPACT continued a 10,000m surface drill program 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. Dedicated senior personnel continue to compile all historic data from the district into a large computer database which will form the basis for future exploration targeting.

During the quarter surface drilling was completed at the Chivo Silver Shoot and the drill moved on to test other earlier stage targets. Chivo is located in the southern part of the Zacualpan silver district and represents a new zone of high grade silver mineralization. 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. Highlights of the 2006 drill program returned a number of significant intercepts including 937g/t silver over 2.7m including 2,380g/t silver and 4.83% zinc over 0.7m (see news release dated October 12, 2006 for details).

The 2007 drill program at Chivo was designed to test the outer limits of the high grade silver shoot for mine planning purposes. Significant results from recent holes drilled at Chivo are as follows:

<b>CHIVO SILVER SHOOT DRILL HOLES</b>						
DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	ZINC (%)	LEAD (%)
<b>2007 DRILLHOLES</b> (from recent drill program)						
Z07-01	48.5	0.2	<b>1,260</b>	<b>1.51</b>	<b>2.21</b>	<b>0.84</b>
Z07-01	57.0	0.6	358	0.10	0.91	0.36
Z07-02	71.6	1.9	37	0.22	1.49	1.31
Z07-03	84.1	<b>4.7</b>	<b>378</b>	<b>0.30</b>	<b>4.25</b>	<b>1.76</b>
	Including	<b>1.3</b>	<b>1,305</b>	<b>0.33</b>	<b>9.63</b>	<b>3.77</b>
Z07-04	97.8	<b>1.7</b>	<b>237</b>	<b>0.90</b>	<b>6.26</b>	<b>2.52</b>

Drilling successfully delineated the northern and down dip edges of the zone for mining purposes as well as determining that the shoot is still open for expansion to the south. The Chivo Silver Shoot as defined to date measures 100m horizontal and 220m down dip. Based on the success of this program and prior work, the Chivo Silver Shoot is scheduled to be put into production by the end of 2007. Mine preparation work and permit applications have already commenced.

#### CHIVO NORTHEAST ZONE

Three drill holes testing a target 120m to the northeast of the Chivo Silver Shoot discovered a significant zone of mineralization that may be the margin of a second mineral shoot. Initial assays from these holes returned the following results:

<b>CHIVO NORTHEAST ZONE DRILL HOLES</b>						
DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	ZINC (%)	LEAD (%)
<b>2007 DRILLHOLES</b> (from recent drill program)						
Z07-08	111.3	0.8	<b>321</b>	<b>0.14</b>	<b>2.79</b>	<b>0.64</b>
Z07-10	116.5	3.4	34	0.06	2.34	1.22
	Including:	0.7	67	0.05	3.93	3.05
Z06-11	128.5	1.4	<b>451</b>	<b>0.43</b>	<b>3.86</b>	<b>1.32</b>
Z06-11	132.3	4.2	52	0.12	2.48	1.14

Presently, very little is known about this target. It is open for expansion to the northeast and down dip. More drilling is planned for this new discovery in the near future.

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

The Mamatla Project is located immediately southwest of the Royal Mines of Zacualpan Silver District.

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 500-tonne-per-day Zacualpan processing plant within trucking distance of several of the Mamatla deposits and prospects, which may significantly lower 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. Both prospects are near surface and may be amenable to open pit mining.

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.

During the quarter IMPACT's field crew continued mapping and sampling on the Mamatla Project in preparation for a drill program to begin in the fourth quarter.

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

### Introduction

On July 10, 2006, IMPACT announced a Letter Option Agreement to acquire the Veta Grande Silver Project in the historic Zacatecas Silver District of Mexico. On September 28th IMPACT announced the signing of a Comprehensive Agreement under effectively the same terms to purchase the Veta Grande Silver Project over a maximum of four years for US\$1,120,000 and 500,000 shares. The project includes a 200 tonne-per-day processing plant and certain surface rights. 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 consists of 17 mining concessions, surface rights and a 200 tpd processing plant now being operated by the Optionor.

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 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 Nueva Grande and Asturiana 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.

Mapping and sampling of the 100% owned IMPACT concessions has begun with plans for drilling when the drill now working at the Royal Mines of Zacualpan becomes available.

### Zacatecas Joint Venture

In October 2006, IMPACT announced a new joint venture with Yale Resources 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 500-meter 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 first 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. The best intersection assayed 1,340g/t silver over 0.8m at San Jose.

### The Processing Plant

The 200 tpd 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 represents 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. It anticipates 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 Resources, and Xstrada 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 granted 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 IMPACT believes offers the opportunity for mineralization. IMPACT's block of concessions is located some 100km east of Barrick Gold's Pueblo Viejo gold deposit and hosted in the same rock formation. The Company has conducted limited work on the project in the last six months.

*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 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. 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 June 30, 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 eighteen months. It has done so, through its capital finance raising activities and its purchase of the Royal Mines 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 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 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 affect 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<sup>th</sup>, 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 Zaculapan 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>	<b>2,439,700</b>
<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>	<b>(600,940)</b>
<b>Residual Purchase Price Allocated to Resource Properties</b>	<b>\$ 4,858,212</b>

#### Restatement of 2006 Financial Results

In the process of completing its 2006 year end audited financial statements, management determined that it should revise the metal market prices used to establish the estimated forward sales contract liability and hence the residual purchase price allocated to resource properties in connection with its acquisition of Minera el Porvenir de Zacualpan. Previously, we had used our best estimate of future metal prices during the term of the forward sales contract to July 31, 2006. We subsequently determined that we should have used the spot prices in effect on January 16, 2006, the date of closing the purchase transaction, to establish the forward sales contract liability.

As a result of this accounting error, our earnings during the first three quarters of 2006 had not been correctly recorded on a quarterly basis and hence need to be retrospectively restated in accordance with CICA handbook guidelines. The most significant effect of this restatement, from an investor point of view, is to shift the recognition of earned income between quarters in the restated 2006 comparative statements.

However, there will be no overall change in the recognition of income, earnings, and earnings per share for the 2006 year overall from that previously reported in our 2006 annual report.

## 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
2 <sup>nd</sup> 2007	1,677	(48)	0.00	0.00	19,175	1,178
1 <sup>st</sup>	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> **	1,977	(103)	0.00	0.00	17,567	964
1 <sup>st</sup> **	1,147	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

\*\* These 2006 comparative results have been restated (see note 15 to the financial statements)

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

The Company completed the acquisition of the Zacualpan mine in January of 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 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 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 June 30, 2007

Average mill throughput during the quarter was 280 tons per day. Revenues (net smelter returns) calculated under GAAP for the quarter were \$1,676,896. The Company incurred operating costs of \$1,104,167 for the quarter before amortization and depletion expenses of \$199,863. Mine operating earnings for the quarter were \$372,866 a decrease of \$127,507 from the first quarter results in 2007 and a decrease of \$252,586 from the restated comparative period in 2006. Silver production decreased during the quarter as a result of significantly lower grade mineral being processed as the Company moves through a development stage cleaning out material from several old stopes which have low silver grades but acceptable zinc and lead grades and developing new workings that will start to come into production late in the third and early fourth quarters. Silver production decreased in the second quarter to 73,890 ounces from 85,606 ounces in the first quarter and from 98,950 ounces recovered and sold in the comparative second quarter in 2006. Offsetting this decline, the Company continued to maintain an increase in its production of both lead and zinc. Total lead production was 157 tonnes in the second quarter, an increase of 22 tonnes from the first

quarter and more than 62 tonnes higher than the 95 tonnes sold in the second quarter of 2006. Zinc production increased year to date 487 tonnes compared to 340 tonnes in 2006.

General and administrative expenses for the quarter were \$462,234 which included a foreign exchange loss of \$172,306. During the comparative period in 2006, general and administrative expenses were reduced to a total of \$141,143, as the result of recording a foreign exchange translation gain of \$158,378 during the quarter. Overall, management is pleased with the current results achieved despite the small loss in the second quarter as it continues to build the base for its future operations. The Company had a smaller net loss of \$48,000 for the quarter compared to a restated loss of \$103,000 for the similar period in 2006. For the year to date, the Company has earned a net income of \$218,978 compared to a restated net income of \$75,416 earned in its first six months operations in 2006.

#### General, Administrative and Other Expenses

Administrative expenses for the second quarter were \$462,234 compared to \$295,169 in the first quarter and \$141,143 for the similar period in 2006. The major factor accounting for most of this significant variance is fluctuations in the valuation of foreign exchange translation gains and losses. 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. During the second quarter, the Company incurred a foreign exchange loss of \$172,306, an increase over the loss of \$46,172 reported in the first quarter. During the second quarter in the prior year, the Company had recorded a foreign exchange gain of \$158,378 and a total gain of \$192,620 for the first six months of 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 and net reported income. Recent fluctuations in money market exchange rates have been particularly dramatic with the value of the U.S. dollar declining against the value of the Canadian dollar by almost ten percent since the beginning of the year. The major portion of this decline took place in the second quarter. Excluding foreign exchange, G&A expenses are now running at approximately \$280,000 per quarter. Some comments with respect to specific items of costs for the quarter are as follows:

Accounting and audit costs charged to general and administrative expense were recorded at \$24,116 during the second quarter and \$45,711 year to date, about the same amount as recorded in the similar period during the prior year. As previously indicated, we still expect these costs to be somewhat higher in 2007 than in 2006 as a result of increasing audit complexity and financial reporting governance requirements.

Insurance costs of \$28,299 were incurred for the quarter and \$57,200 for the first six months. In the prior year premiums on coverage were not accrued until later in 2006.

The costs related to maintaining investor relations were \$50,183 in the quarter and \$88,946 during the first six months of 2006, compared to \$9,966 in the second quarter and \$32,264 in the first six months of 2006. Costs in 2007 included the services of one consultant and expenditures related to investor conventions and mail-outs and newsletter writer's tours of the mine. We expect that our costs will continue at this level 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 \$13,235 a decrease from the \$23,516 recorded in the first quarter and significantly less than in the prior year when the Company had a private placement. Costs in the quarter 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 \$112,497 in the second quarter compared to \$63,954 in the first quarter of 2007 for a total of \$176,451 year to date. 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 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 two quarters 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 two

quarters of 2007 there was no comparable grant thus resulting in a decrease in related expenses of \$26,915 for the quarter and \$63,871 for the year to date compared to the 2006 periods.

Transfer agent and filing fees were \$10,305 during the quarter and \$25,167 for the first six months of the year compared to a total of \$53,287 in fees incurred in the first six months of 2006. Costs were higher in 2006 due to two private placement transactions in the first half of that year. These costs will likely continue at the current levels as outstanding share options and warrants are exercised over the next three to five months.

#### Resource Property Expenditures

##### Zacualpan

Exploration expenditures related to Zacualpan for the second quarter were \$797,124 compared to \$241,794 in the first quarter and \$628,390 in the second quarter of 2006. The Company has announced plans for a minimum 10,000 meter drilling program in 2007, much of which will be 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 for the balance of the year 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 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 the second quarter of 2007, the Company also recorded net expenditures of \$91,587 in deferred exploration costs with respect to its newly acquired Zacatecas properties. The Company also expended \$80,913 on the acquisition of two mineral concessions during the second quarter. 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, in which our joint venture partner will shortly have earned a 65 percent interest by paying all exploration expenditures to date on these mineral concessions plus reimbursing the Company in full for the concession acquisition costs. 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 of 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. Assay results from this drilling were received and published by our joint venture partner in mid June.

#### Liquidity and Capital Resources

At June 30, 2007, the Company had working capital of \$5,278,223 a slight decrease from the \$5,418,999 working capital position at March 31, 2007 but \$447,955 greater than the working capital position of \$4,830,268 at December 31, 2006. During the second quarter year the Company received \$635,643 in share subscriptions from the exercise of warrants and options and funded approximately \$915,503 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 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 \$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.

During the first six months of 2007, the Company raised almost one million dollars from the exercise of share purchase warrants, exercisable at \$0.50 per share that expired on July 5, 2007. At June 30<sup>th</sup> there were still 1,658,000 such share purchase warrants outstanding, of which 1,513,000, were exercised prior to

their expiry to raise an additional \$756,500 for the Company and 145,000 warrants expired unexercised. As shown in the table below, there remain outstanding as at August 17, 2007 approximately 4.1 million warrants exercisable at prices from \$1.20 to 1.30 per share which expire on October 6, 2007.

#### Outstanding Share Data

The following common shares and convertible securities were outstanding at August 17, 2007.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at August 17, 2007	43,166,464		
Employee stock options	365,000	\$ 0.13	October 20, 2008
	375,000	\$ 0.15	May 12, 2009
	622,500	\$0.42	April 13, 2010
	35,000	\$ 1.45	February 6, 2008
	1,085,000	\$ 1.92	July 17, 2012
Warrants	584,000	\$ 1.20	October 6, 2007
	3,504,974	\$ 1.30	October 6, 2007
Fully Diluted at August 17, 2007	49,737,938		

#### 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 \$960 (2006 - \$1,316) were charged by Energold for the quarter ended June 30th.

During the first quarter IMPACT signed an agreement with Energold, for the latter to provide diamond drilling services to IMPACT. Energold received fees in the amount of \$662,999 during six months (2006 - \$258,274) for contract drilling services performed in Mexico. 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 June 30, 2007, the balance owed to Energold with respect to its recoverable costs was \$43,827 (2006 - \$152,189).

During the quarter, fees in the amount of \$109,712 (2006 - \$42,498) were paid or accrued to two directors and one officer of the Company, of which \$96,375 is shown in various administrative expenditures on the income statement, and \$13,337 is shown in resource properties.

#### Subsequent Events

On July 17, 2007, the Company granted up to 1,085,000 incentive stock options to directors, officers and employees under its Stock Option Plan. The options are exercisable on or before July 17, 2012 at the price of \$1.92 per share.

On August 10, 2007, the Company issued 100,000 shares as a partial payment towards the exercise of its Zacatecas processing plant operation purchase agreement.

#### Changes in Accounting Policies

The consolidated financial statements for the period ended June 30, 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 June 30, 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 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 June 30, 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 June 30, 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 June 30, 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

August 17, 2007