

**IMPACT Silver Corp.**  
**(formerly IMPACT Minerals International Inc.)**  
**Form 51-102F1**  
**Management Discussion & Analysis**  
**For the Period Ended June 30, 2005**

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**Forward Looking Information:**

This interim management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to IMPACT Minerals International Inc. ("IMPACT" or the "Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to IMPACT. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to IMPACT or its management, are intended to identify forward-looking statements. This MD & A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of IMPACT's exploration properties. Such statements reflect the current views of IMPACT with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of IMPACT to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

**Highlights for the Second Quarter 2005**

Exploration and engineering studies continued at IMPACT's Royal Mines of Zacualpan Silver Project in central Mexico during the quarter with encouraging results. The final conclusions from these activities will form the basis for making a purchase decision for the project's claims, operating mines and 500-tonne-per-day processing plant lease from the Mexican owners.

In April 2005, IMPACT completed a 1,866 meter 12-hole core drilling program on the property. These holes tested targets in the Compadres and Cometa Navideno Vein systems.

Two areas in the Compadres Vein System were tested with ten drill holes. All holes intersected multiple stacked veins carrying significant silver mineralization with multiple high grade sections ranging up to 27,793 g/t silver across 0.4 meters true width.

Two holes tested the Cometa Navideno Vein System with moderate to low values.

Mapping and sampling on surface and in historical underground workings continued during the quarter with an aim to identify additional targets for further drilling.

**Future Goals**

IMPACT will continue its due diligence and exploration work on the Royal Mines of Zacualpan Project through 2005.

IMPACT plans to become a silver producer through the purchase of the Zacualpan claims, operating mines and processing plant lease, subject to the satisfactory completion of its due diligence and exploration work program.

IMPACT is evaluating other silver projects as possible acquisitions to continue to build the Company into a premier silver producer.

## **Royal Mines of Zacualpan Silver Project, Mexico**

### **Due Diligence and Exploration Program**

#### Introduction

IMPACT Minerals holds option agreements covering most key parts of the Royal Mines of Zacualpan Silver District in central Mexico including two operating mines and a leased mill rated at 500 tonnes per day. The project is located 100 km southwest of Mexico City and 25 km 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.

#### Option Agreements

On June 14, 2004, IMPACT signed two option agreements with two private Mexican companies for two producing silver mines, a processing plant lease and properties covering much of the Royal Mines of Zacualpan Silver Mining District in central Mexico. In total, under terms of the two option agreements, IMPACT may purchase all rights of the Mexican owners for US\$1.6 million plus 300,000 IMPACT shares.

In 2004, IMPACT staked additional concessions for itself that gave it control over a total of 125 km<sup>2</sup> and a dominant land position in the District.

#### Production and Development

Under terms of IMPACT's option agreements, the Mexican companies may continue mining and processing material from the properties until IMPACT exercises its purchase options for the operations, contracts and properties. Mining is presently continuing at the Compadres Mine and on a smaller scale at the Cuchara Mine and Guadalupe Mine. Material is trucked from the operating mines to the central processing plant. Mining and processing is often interrupted at Zacualpan due to lack of capital to maintain continuous operations. IMPACT geologists periodically visit and sample the active areas in the mines to keep directly informed of developments.

During the quarter, mining was completed down to Level 3 at the Compadres Mine and a ramp was being developed to continue mining on Levels 4 and 5. Levels are about 12m apart. Prior to mining, IMPACT geologists collected three samples from a six-meter long high grade portion of Silver Shoot No. 1 exposed at the time on Level 3 to confirm the high grades reported by miners. These three Level 3 samples collected by IMPACT averaged 12,591 g/t silver and 12.07 g/t Au over 1.67 m. true width.

#### Drilling

During the quarter, IMPACT completed a 1,866-meter 12-hole core drilling program on the property. The objective of the drill program was to test extensions of the high grade Compadres Silver Shoot No. 1, the nearby Soledad section of the Compadres Vein System and the early stage Cometa Navideno Vein System.

Four holes tested extensions of Compadres Silver Shoot No. 1 and demonstrated that the Compadres Vein System consists of a series of stacked parallel veins with several high grade sections as listed in the table of drilling highlights below:

SILVER SHOOT No. 1 SECTION OF COMPADRES VEIN SYSTEM						
<i>Vein Name</i> DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	ZINC (%)	LEAD (%)
<i>AC VEIN</i>						
2	58.7	0.6	546	0.15	0.22	0.08
<i>CHAPARITA VEIN</i>						
1	67.9	0.9	259	0.28	0.33	0.09
2	79.2	0.4	434	0.73	2.43	1.30
3	41.4	2.1	229	0.18	0.53	0.12
<i>CONCEPCIÓN VEIN</i>						
1	138.8	1.8	293	0.40	1.25	1.40
2	163.5	0.8	6,013	2.31	0.36	0.47
3	127.8	0.4	115	0.29	3.67	1.05
4	153.6	4.4	2,713	0.36	1.01	0.74
	including:	0.4	27,793	3.40	9.47	7.52
<i>SAN AGUSTÍN VEIN</i>						
2	174.2	1.6	3,234	0.41	2.67	1.91
	including:	0.7	7,010	0.73	5.87	4.26
3	133.5	1.2	450	0.23	2.30	0.75
4	168.4	0.6	1,140	3.68	0.56	0.23
<i>FOOTWALL VEIN</i>						
4	185.0	0.7	202	4.23	0.60	0.42

Drill holes 1 and 2 intersected the Concepción Vein about 70 m. and 115 m., respectively, down dip (downward along the plane of the vein) of the Level 3 mine workings. (Level 3 workings lie about 65 m. below surface and the vein system dips about 50 degrees to the northeast.) Drill holes 3 and 4 were drilled 35 m. northwest of drill holes 1 and 2 and intersected the Concepción Vein 60 m. and 125 m. down dip of Level 3.

The drilling has demonstrated good continuity to the vein system and the deepest intersections in the Concepción and San Agustín Veins are also the highest grade leaving the zones open for expansion along strike and down dip.

The Compadres Vein System has now been mapped over several kilometres with higher grade sections (shoots) occurring in a generally lower grade vein system. Silver Shoot No. 1, as observed on Level 2 of the active mine workings, is a 50 m. x 3 m. section of the vein system with medium to high grade silver values.

The next six holes were drilled 200 meters to the southeast to test another possible shoot in the Soledad section of the Compadres Vein System and returned the following values:

SOLEDAD SECTION OF COMPADRES VEIN SYSTEM							
VEIN NAME	TOP OF INTERCEPT	ESTIMATED	SILVER	SILVER	GOLD	ZINC	LEAD
DRILL HOLE No.	(m)	TRUE WIDTH (m)	(g/t)	(oz/ton)	(g/t)	(%)	(%)
<b>UPPER VEIN</b>							
8	57.90	1.35	377	11.0	0.48	0.14	0.06
9	64.00	0.25	666	19.4	0.04	1.11	0.14
10	54.10	0.70	222	6.5	0.02	0.03	0.09
<b>MIDDLE VEIN</b>							
6	56.60	0.30	1,060	30.9	0.44	0.40	0.26
	followed by:	1.00	Old open mine working - no samples				
<b>SAN AGUSTIN VEIN</b>							
5	82.60	1.20	635	18.5	0.09	0.05	0.23
7	62.30	0.50	228	6.7	0.22	1.79	1.41
8	127.40	0.60	Old open mine working - no samples				
9	132.60	2.40	225	6.5	0.49	0.07	0.03
10	127.70	0.50	Old open mine working - no samples				

Results of the work carried out to date indicate that these drill holes in the Soledad section of the Compadres Vein System may have intersected the top of another mineralized shoot similar to the nearby high grade Silver Shoot No. 1. The Soledad drill holes were collared on top of a high ridge and the deepest holes in this program only penetrated to the elevation of the top of Silver Shoot No. 1. Plans call for future drilling to test the Soledad system down to greater depths at elevations similar to those that host the high grade portions in Silver Shoot No. 1.

Drill holes 11 and 12 tested the Cometa Navideno Vein System located about one kilometer north of the Compadres area. Earlier sampling of the historic Santiago mine workings by IMPACT returned average values of 235g/t silver and 0.31g/t gold across 0.9m (TW) ranging up to a high of 1,320g/t silver and 0.99g/t gold across 0.3 m. (TW). Drill hole 11 tested the veins about 30 m. below the old workings and encountered low grades. Drill hole 12 tested the Cometa Navideno Vein about 120 m. below the old mine workings and returned 7.26% zinc, 7.45% lead, 75g/t silver and 0.59g/t Au across 0.65 m.

#### Field Work and Engineering Studies

During the quarter, field work continued with mapping and sampling on surface and in historic underground workings. This work is leading to a better understanding of the geological controls on mineralization and is defining additional targets for future drilling. Assay results from this work are pending.

During the quarter, IMPACT continued preliminary engineering studies to evaluate the active mining and metallurgical operations at Zacualpan. A site visit was made by IMPACT's consulting tailings engineer and metallurgical test work continued to optimize metal recoveries.

## 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 1975-2004 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 150 m. long and predominantly steeply dipping.

## Future plans

Near term plans call for compilation of the considerable database collected to date and continued field work to establish targets for another drill program. This work, along with the engineering studies, will form the basis for making a purchase decision for the Royal Mines of Zacualpan claims, operating mines and 500-tonne-per-day processing plant lease. If IMPACT decides to purchase the Zacualpan assets, it would immediately become a significant producer of silver as well as by-product zinc, lead and gold. IMPACT is also evaluating other precious metal projects as possible acquisitions to continue to build the Company into a premier precious metals producer.

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.

## **The Dominican Republic**

The Dominican Republic continues to attract considerable interest from the industry with the ongoing activities of Placer Dome at the Pueblo Viejo gold mine and Falconbridge, as well as a number of juniors including Unigold, Globestar, Linear, Energold and Everton.

The exploration concessions in the Dominican Republic held by IMPACT constitute a block 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 100 kilometres east of Placer Dome's Pueblo Viejo gold deposit and hosted in the same rock formation. The block of concessions includes El Brujo and La Bruja located on a distinctive Northwest trending structure. South of El Brujo, separated by another of IMPACT's concessions, lies the Baritina concession where previous work identified at least two zones of gold mineralization.

With the exception of La Bruja, IMPACT is awaiting licence renewals for its Dominican Republic concessions. During the quarter, a small soil sampling, mapping and prospecting program was carried out over the eastern portion of the La Bruja. No significant results were obtained.

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:

Over the last approximately nine months IMPACT took major steps to expand its investor relations activities. The Company launched a new website and engaged two investor relations service companies – one to focus on Europe/International and one to focus on North America. Fryban Financial S.A. of Switzerland ("Fryban") provides ongoing consultation on investor relations and external communications. Fryban receives \$4,000 per month and 300,000 options at \$0.20 per share good for two years. In the first quarter a local representative was engaged for a limited time to provide investor relations and communication services in the North America market for \$1,500 per month and a two-year stock option for 50,000 shares at \$0.30 per share. That contract has now been cancelled. Other investor relations' activities are carried out by the Energold's staff and consist of dissemination of

information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports maintenance of web sites and press releases.

The Company's new website at [www.IMPACTminerals.com](http://www.IMPACTminerals.com) has up-to-date and detailed information on IMPACT's projects, as well as corporate and other information.

## **Financial Discussion**

### **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 very dependent upon the personnel 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 has no history of profitable operations and its mineral projects are at an early stage. 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 interim consolidated financial statements for the quarter ended June 30, 2005 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 has incurred operating losses over the last several fiscal years, has limited financial resources, no source of operating cash flow, and no assurance that sufficient funding, including adequate financing, will be available to further explore its mineral projects and to cover the overhead costs necessary to maintain a public company in good standing.

IMPACT's financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes that actions can be taken or planned that will mitigate the adverse conditions and events that 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.

## Selected Annual Information

Description	2004	2003	2002
Total revenues	N/A	N/A	N/A
Net income (loss)	(\$320,251)	(\$116,309)	(\$103,589)
Net income (loss) per share	(\$0.02)	(\$0.01)	(\$0.01)
Dividends	Nil	Nil	Nil
Total assets	\$2,004,431	\$942,951	\$993,416
Total long-term financial liabilities	N/A	N/A	N/A
Cash dividends declared	N/A	N/A	N/A

## Results of Operations:

Summary of Quarterly Results (Canadian \$)

Period	Revenues	Net Income (loss)	Net Income (Loss) per Share *	Fully diluted Net Income (Loss) per Share *	Total Assets	Total Long-term Liabilities
2 <sup>nd</sup> Quarter 2005	Nil	(182,405)	(0.01)	(0.01)	2,439,406	Nil
1 <sup>st</sup> Quarter 2005	Nil	(106,886)	(0.01)	(0.01)	2,375,121	Nil
4 <sup>th</sup> Quarter 2004	Nil	(124,942)	(0.01)	(0.01)	2,004,431	Nil
3 <sup>rd</sup> Quarter 2004	Nil	(76,494)	(0.01)	(0.01)	1,292,892	Nil
2 <sup>nd</sup> Quarter 2004	Nil	(56,888)	(0.01)	(0.01)	1,282,662	Nil
1 <sup>st</sup> Quarter 2004	Nil	(61,927)	(0.01)	(0.01)	1,080,269	Nil
4 <sup>th</sup> Quarter 2003	Nil	(49,272)	(0.01)	(0.01)	942,951	Nil
3 <sup>rd</sup> Quarter 2003	Nil	(13,819)	0.00	0.00	941,138	Nil
2 <sup>nd</sup> Quarter 2003	Nil	(32,581)	0.00	0.00	950,907	Nil
1 <sup>st</sup> Quarter 2003	Nil	(20,637)	0.00	0.00	970,633	Nil

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

Administrative expenses for the second quarter were \$184,845 compared to \$56,161 in 2004 and \$109,626 in the first quarter. Accounting and audit fees increased by \$1,819 due to increased reporting requirements and increased activities. As part of the Company's need to enhance shareholder value, investor relation costs increased over the comparative quarter in 2004 by \$28,393, year to date increase over last year was \$53,394. This included attending conventions and promotional material but the most significant increase was related to investor relations consultant's fees year to date of \$25,500. Legal costs increased \$28,506 for the six months compared to 2004, this was primarily related to the cost of granting of options, the exercising of warrants, two recent private placements and fees related to the acquisition of the Zacualpan concessions in Mexico.

With the increase in activity related to the Zacualpan exploration and regulatory requirements, administrative costs including rent, office services, salaries were \$25,009 higher than last year and are expected to continue at that level due to the increased activity. Further, administrative related travel costs of \$4,338 (2004- \$0) are also anticipated to continue at the higher level.

Due to requirements for reporting the cost of stock options granted, the Company recorded a stock based compensation expense of \$118,554 for the six-month period compared to \$43,873 in 2004. This resulted in a significant increase in expenses for the period and a corresponding adjustment to shareholders equity for the deemed value of the options granted. The Company believes that the granting of stock options is an important incentive to its personnel and in spite of the "deemed cost" intends to keep on with the practice.

The company also recorded a minor foreign exchange gain and interest income.

### **Liquidity and Capital Resources**

At June 30<sup>th</sup> working capital was \$ 339,593 compared to \$ 244,747 in the prior year, but declined from December 31 by \$295,275. Cash and term deposits were \$441,668 up from \$299,008 in June 30, 2004.

During the first six months the Company raised a further \$513,425 through the exercise of 3,069,166 share purchase warrants.

Exploration expenditures at Zacualpan for the six months were \$553,237 and property payments of \$87,720 (\$38,500 representing 100,00 treasury shares of the Company) bringing the capitalized expenditures to date to \$964,680. Expenditures included acquisition costs, mapping, surveying and sampling in the district as well as the first phase drill program. A company conducted a further field program on its Proyectos Mineros concession in the Dominican Republic during the second quarter resulting in expenditures of \$19,581 in total for the first half of 2005.

### **Subsequent Events**

On August 17, 2005, the Company changed its name from IMPACT Minerals International Inc. to IMPACT Silver Corp. The Company's shares were not consolidated and holders of current certificates in the name of IMPACT Minerals International Inc. do not need to do anything.

### **Transactions with Related Parties**

As part of a previous private placement Energold Mining Ltd., the controlling shareholder, ("Energold") purchased 393,334 of the units. Each unit consisted of one common share and one share purchase warrant. During the first six months Energold exercised its warrants and acquired a further 393,334 shares of the Company at a price of \$0.185 per share.

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. Administrative services fees of \$4,673 (2004 - \$1,321) were charged by Energold for the period. As at June 30, 2005, the balance owed to Energold was \$96,663, which was non-interest bearing.

During the six months ended June 30<sup>th</sup>, fees in the amount of \$183,020 (2004- \$0) were paid to the parent company for contract drilling services performed in Mexico on the Zacualpan concessions.

During the period ended June 30, 2005, fees in the amount of \$50,050 (2004 - \$22,770) were paid or accrued to two directors of the Company, \$18,016 of which is shown in various administrative expenditures on the income statement and \$32,034 is shown in mineral properties.

## Changes in Accounting Policies

The consolidated financial statements for the period ended June 30, 2005 followed the same accounting policies and methods of application as in the prior year's annual financial statements.

## Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Outstanding Share Data

The following common shares and convertible securities of the Company were outstanding at August 17, 2005:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at August 17, 2005	20,334,188		
Employee stock options	780,000	\$ 0.13	October 20, 2008
	300,000	\$0.20	August 31, 2006
	475,000	\$0.15	May 12, 2007
	50,000	\$ 0.31	January 10, 2007
	710,000	\$ 0.42	April 13, 2007
Warrants	2,500,000	\$ 0.30/\$0.35	December 09, 2005/ December 9, 2006
	205,000	\$ 0.30/\$0.35	December 09, 2005/ December 09, 2006
Fully Diluted at August 17, 2005	23,041,513		

## Financial Instruments and Other Instruments

IMPACT's financial instruments consist of cash and short-term deposits, restricted cash, GST receivable and accounts payable. Unless otherwise noted, it is management's opinion that IMPACT is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

## Approval

The Board of Directors of IMPACT has approved the disclosure contained in this interim MD&A. A copy of this interim 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  
August 17, 2005