

**IMPACT MINERALS INTERNATIONAL INC.**  
**Form 51-102F1**  
**Management Discussion & Analysis**  
**For the Period Ended March 31, 2005**

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**Forward-Looking Information:**

This 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 first quarter 2005:

- Due diligence exploration, engineering studies and corporate investigations at IMPACT's Royal Mines of Zacualpan Silver Project in central Mexico continued during the quarter. The results of 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 February 2004, IMPACT announced the start of a 2000 meters ("m.") core drilling program on the property. Subsequent to end of the quarter, IMPACT announced results from the first four holes of the drill program. These holes all intersected multiple stacked veins carrying medium to high grade silver mineralization with assays ranging up to 27,793 g/t silver across 0.4 m. TW.
- Mapping and sampling on surface and in historical underground workings continued during the quarter with an aim to identify further targets for drilling in late summer 2005.
- During the quarter IMPACT initiated preliminary engineering studies to evaluate the active mining and metallurgical operations at Zacualpan.

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, smelter contract, mining permits 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 detail, the first option agreement is a three-year lease with option to purchase for mining leases and concessions that include the producing Cuchara Mine and the Compadres Mine. Under terms of this agreement, IMPACT is making lease payments of US\$3,000 per month and 100,000 shares per year, as well as incurring work commitments totalling US\$1,000,000 over three years covering the properties in both agreements. In return, IMPACT has the option at any time before the end of the third year to purchase 100% interest in these mining leases and concessions for US\$1,000,000.

The second is a three-year option agreement for mining leases and concessions covering other key parts of the Zacualpan Silver District. This agreement includes the historic Guadalupe Mine, which continues to operate on limited tonnage and the 500-tonne-per-day processing plant with associated facilities. The assets in this second agreement are presently under lease by a private Mexican company and IMPACT has an option to purchase all the Mexican company's lease rights to these assets for US\$500,000. The lease rights expire in 2014 but may be extended. Under these agreements, the Mexican companies may continue mining and processing material from the properties in both agreements until IMPACT exercises its purchase options.

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 Cuchara Mine, Compadres Mine and Guadalupe Mine. Material is trucked from the three 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.

Subsequent to quarter end, the best material had been mined out between Levels 2 and 3 at the Compadres Mine and a ramp was being developed to continue mining on Level 4, planned to be

about 12m down dip of Level 3. 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 began a 2000 m. 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 known from active mine workings and to test several early stage targets on other parts of the Compadres Vein System and on vein systems elsewhere on the property.

Subsequent to quarter end, the results of the first four drill holes were announced. These four holes targeted extensions of Compadres Silver Shoot No. 1. This drilling demonstrated that the Compadres Vein System consists of a series of stacked parallel veins as listed in the table of drilling highlights below:

Vein Name DRILL HOLE No.	TOP OF INTERCEPT (m)	ESTIMATED TRUE WIDTH (m)	SILVER (g/t)	GOLD (g/t)	ZINC (%)	LEAD (%)
AC VEIN						
2	58.7	0.6	546	0.15	0.22	0.08
CHAPARITA VEIN						
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
CONCEPCIÓN VEIN						
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
SAN AGUSTÍN VEIN						
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
FOOTWALL VEIN						
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 presently active Compadres 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 (or 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. After these four holes were completed on Silver Shoot No. 1, the drill was moved about 200 m. southeast to test another possible shoot in the Soledad section of the Compadres Vein System. Assay results from these holes are pending.

#### Field Work and Engineering Studies

During the quarter, Phase 3 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 initiated preliminary engineering studies to evaluate the active mining and metallurgical operations at Zacualpan. Site visits by IMPACT's consulting, mining, metallurgical and tailings engineers established a basic understanding of the present status of the Zacualpan operations and will form a basis for further engineering work at the site.

#### 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 over the past nine months and continued field work to establish targets for another drill program planned for later this summer. Many assays from the recently completed drill program and field work are still pending. This work, along with the corporate and engineering investigations, 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 silver projects as possible acquisitions to continue to build the Company into a premier silver 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 and only carried out minimal work on these projects in 2004, and for the first quarter in 2005.

*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 took major steps to expand its investor relations activities during the last six months. While continuing its policy of attending at trade and investors conferences in Canada, the Company launched a new website, 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 was granted 300,000 options at \$0.20 per share, good for two years. During the most recent quarter, SRW Capital was contracted to provide investor relations and communication services in the North American market for \$1,500 per month, and was granted 50,000 options at a price of \$0.31 per share for a period of two years.

The Company has launched a new website at [www.IMPACTminerals.com](http://www.IMPACTminerals.com), which includes 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 consolidated financial statements for the quarter ended March 31, 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**

<b>Description</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
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 \$)**

<b>Period</b>	<b>Revenue s</b>	<b>Net Income (Loss)</b>	<b>Net Income (Loss) per Share *</b>	<b>Fully diluted Net Income (Loss) per Share *</b>	<b>Total Assets</b>	<b>Total Long- term Liabilitie s</b>
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 period were \$109,626 compared to \$56,473 in 2004. Accounting and audit fees increased by \$1,354 due to increased reporting requirements and increased activities. As part of the Company's need to enhance shareholder value, investor relations costs increased \$25,001. This included attending conventions, promotional material and consultant's fees. Legal costs increased \$15,356 compared to 2004. This was primarily related to the cost of granting of options, the exercising of warrants and two recent private placements. Additional legal costs related to the option on the Zacualpan silver project. All of these items are expected to remain at a higher level of expenditure for the remainder of 2005.

With the increase in activity related to the Zacualpan exploration and regulatory requirements, administrative costs including rent, office services, salaries and travel costs were \$15,436 higher than the comparative quarter in 2004, and are expected to continue at this level as the company advances its major project.

Due to requirements for reporting the impact of stock options granted, the Company recorded a stock based compensation expense of \$26,473 for the period compared to \$24,614 in 2004. This resulted in a non-cash expense for the period and a corresponding adjustment to shareholders equity for the deemed value of the options granted.

The company also recorded a foreign exchange gain of \$4,068 and interest income of \$2,740.

#### Liquidity and Capital Resources:

At March 31<sup>st</sup>, working capital was \$577,849 compared to a deficit of \$110,299 in the prior year. Working capital declined during the quarter by \$57,019. The decrease was primarily due to exploration expenditures at Zacualpan for the quarter. This brings the capitalized expenditures to date at Zacualpan to \$648,476. Expenditures included acquisition costs, mapping, surveying and sampling in the district, costs related to engineering consultants as well as part of the first phase drill program. The Company did not conduct further reconnaissance exploration in Mexico or the Dominican Republic in the first quarter of 2005.

Additional funds received included the proceeds from the exercise of 2,114,000 warrants at \$0.165 and \$0.185 per share totalling \$357,775. The balance of the warrants expiring in April were exercised subsequent to the end of the quarter.

#### Outstanding Share Data

The following common shares and convertible securities were outstanding at May 14, 2005:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at May 14, 2005	20,234,188		
Employee stock options	780,000	\$ 0.13	October 20, 2008
	300,000	\$ 0.20	August 31, 2006
	475,000	\$ 0.15	May 12, 2009
	50,000	\$0.31	January 10, 2007
Warrants	2,500,000	\$ 0.30/\$ 0.35	December 9, 2005/ December 9, 2006
	205,000	\$ 0.30/\$ 0.35	December 9, 2005/ December 9, 2006
Fully Diluted at May 14, 2005	25,544,188		

### **Transactions with Related Parties**

Energold provides IMPACT with a furnished office space in consideration of a monthly fee of \$750 per month. Under a management services agreement dated October 2004, Energold recovers direct labour costs for mineral exploration, public relations and office services 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 carried out by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases. Administrative services fees of \$1,371 (2004 - \$1,321) were charged by Energold in the quarter. Energold also maintains a contract diamond drill division, which conducted the first phase program at Zacualpan. Inter-company charges for that program as at March 31, were \$88,114. As at March 31, 2005, the balance owed to Energold was \$72,262, which was non-interest bearing. During the quarter, also Energold exercised 393,334 warrants @\$0.185.

During the quarter ended March 31, 2004, fees in the amount of \$24,990 (2004 - \$9,000) were paid or accrued to two directors of the Company, of which \$11,240 is shown in various administrative expenditures on the income statement, and \$13,750 is shown in mineral properties. In November 2004, the Company entered into an agreement with one director for fees of \$2,500 per month for a period of twenty-four months renewing automatically on a month by month basis for one year thereafter.

### **Changes in Accounting Policies**

The consolidated financial statements for the quarter ended March 31, 2005 follow 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.

### **Financial Instruments and Other Instruments**

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

### **Approval**

The Board of Directors of IMPACT has approved 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  
May 14, 2005