

**IMPACT MINERALS INTERNATIONAL INC.**  
**Form 51-102F1**  
**Management Discussion & Analysis**  
**For the Period Ended June 30, 2004**

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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. Aside from factors identified in the annual MD & A, additional important factors, if any, are identified here.

**Highlights:**

- IMPACT acquired options on properties covering much of the Zacualpan Silver Mining District in central Mexico.
- The Company recently closed a private placement of \$450,000 to finance those ongoing activities.
- The Company also announced the addition of Mr. George Gorzynski as Vice President Exploration and as a Director.

**Exploration:**

**The Dominican Republic**

The Dominican Republic continues to attract considerable interest from the industry, with the recent announcement of the Goldfields exploration joint venture with MinMet plc. and the ongoing activities of Placer Dome at Pueblo Viejo, 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 the company constitute a block covering highly favourable stratigraphy in the eastern end of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which the company believes offers the opportunity for mineralization. The Company holds a block of concessions in the Los Ranchos Formation, some 100 kilometres east of Pueblo Viejo gold deposit hosted in the same rocks, including a number of which are currently under reapplication. 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 the Company's concessions, lies the Baritina concession where previous work identified at least two zones of mineralization.

## **El Brujo Concession**

A preliminary 800m. drill program on the El Brujo concession in the eastern Dominican Republic in March last year confirmed the presence of porphyry style copper-gold mineralization. The drilling intersected mineralization in two of the three potential porphyry centres tested. The levels of copper and gold are in line with alteration and intensity of quartz stockwork veining within the mapped intrusive.

The results are being reviewed in conjunction with the extensive soil geochemistry anomaly and alteration mapped over an area of 6 km by 2 km. Given the early stage of the drilling, the Company feels these results are encouraging and warrant further exploration. The Company also regards the untested Los Cayas zone to the Northwest of the current drilling highly prospective as an epithermal gold prospect.

### **Los Cayas Zone**

Soil sampling completed earlier in the year outlined a series of anomalous zones in the Los Cayas area. Follow up rock samples returned a number of high values with a maximum of 44.4 g/t Au and 509 g/t Ag.

The highest gold values from the Los Cayas zone are derived from a semi-massive silicified vein structure hosted in sericite schist. The vein displays a continuous strike approximately 350° parallel to the foliation of the schist with a dip 52-85° to the southwest. The vein can be crudely traced for approximately 580 metres before being slightly offset to the east, where it continues for a further 350 metres orientated at 325°. The offset has been attributed to a possible fault structure defined by a well-pronounced stream valley.

The vein structure width is highly variable with a maximum width of three metres. The vein structure is more typically reduced to a series of sub parallel silica-schist horizons, averaging <0.5 metres wide.

Rock samples that returned the highest values often come from veins less than ten centimetres wide and occasionally contain observable very fine-grained sulphide. Sampling confirms the highly erratic nature of the gold distribution within the structure. The Company anticipates a further program of sampling and mapping of this area will be conducted during the next twelve months and upon the re-granting of the concession it will conduct a further program of surface trenching.

## **La Bruja Concession**

To the southeast on the La Bruja concession in a previous 2,222 m. 10 hole drill program, BHP identified a gold anomaly with the best intersection of 50m. of 0.97 g/t gold including 12m. of 1.42g/t gold in hole DDH-5.

## **Bartina Concession**

The concession lies south of La Bruja in the same general geological package. Past grid-based work at Baritina delineated zones of gold-silver-zinc mineralization localized at the intersection of major faults (trench and channel values up to 5.59 g/t Au over 2 metres in the North Caracol Creek Zone and 5.35 g/t Ag, 39.8 g/t Ag and 2.25% Zn over 2 metres in the South Caracol Creek Zone).

## **Mexico**

On June 14<sup>th</sup>, IMPACT signed two option agreements with private Mexican companies for properties covering much of the Zacualpan Silver Mining District in central Mexico. The agreements include options on two operating mines and a processing plant.

### **Agreements**

The first option agreement is a three-year lease with option to purchase for mining leases and concessions covering 2.3 km<sup>2</sup> that includes the producing Cuchara Mine and one area being prepared for production. Under terms of this agreement, IMPACT shall make lease payments of US\$3,000 per month and 100,000 shares per year as well as incur work commitments totalling US\$1,000,000 over three years covering the properties in both agreements. In return, IMPACT shall have the option at

any time before the end of the third year to purchase 100% interest in the mining leases and concessions for US\$1,000,000.

The second option is a three-year agreement for mining leases and concessions covering key parts of the Zacualpan Silver District. This agreement includes the small producing Alacran Mine and a 500-tonne-per-day processing plant with associated facilities. The plant is presently operating at about 300 tonnes per day on feed from the Cuchara and Alacran Mines. 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 the 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 until IMPACT exercises its purchase options. The agreements are subject to TSX Venture Exchange approval and a 60 day legal due diligence period.

## History

The Zacualpan Mining District is one of the oldest mining districts in North America with Spanish Colonial mining dating back to 1528. It is located in the Taxco Silver Region 100km southwest of Mexico City and 25km northwest of the well-known Taxco Silver Mine. Total historic production at Zacualpan is not known but sporadic reports in the files of Consejo de Recursos Minerales, a Mexican government agency, indicate some very high grade shipments (3,000 to 6,000g/t Ag) of Zacualpan oxide mineralization were delivered by mule train to the Taxco mill in the early years of production. In 1990 according to the files of the Mexican optionors, average grades from three mines now closed but included in the IMPACT agreements, were reported to be 348g/t Ag, 2.72%Zn and 1.09%Pb. In recent times production volumes and grades have decreased due to lack of funding for exploration, underground development, maintenance and modernization. In 2002 according to the records of the Mexican optionors, 111,887 tonnes were mined mainly from the Moro (probable extension of the Cuchara Vein), Cuchara and Alacran Mines at a reported average grade of 141g/t Ag, 1.17g/t Au, 2.89%Zn and 1.70%Pb.

## Mineralization

Zacualpan is a classic Mexican epithermal silver district with an abundance of veins that have seen historic production. The deepest historical mine in the district was the Guadalupe Mine (included in the second IMPACT agreement) which was mined to a depth of 275 metres. Based on Guadalupe and other historical producers in the district, mine staff have developed a geological model for mineralization in the district. In this model upper levels of individual mineralized zones are typically characterized by precious metal dominant (silver + gold) mineralization with lower levels characterized by base metal-rich (silver + gold + zinc + lead) mineralization. Near surface mineralization was typically oxidized and locally highly enriched (up to 6,000g/t Ag). Most of the known near surface high-grade material has been mined out but it remains a viable target for modern exploration in overburden covered areas. Veins presently being mined at the Cuchara and Alacran Mines typically vary from 3 to 5 metres in width. Individual mineralized shoots are reported by mine staff to be 50 to 150 metres long and are steeply dipping. Cut off grade is presently about 230g/t Ag equivalent but very high grades are known in some upper level zones. A case in point is the recent development on the Compadres Vein which has exposed an old mine stope with a median grade of 680g/t Ag and 0.3g/t Au over 0.90m ranging up to 1,128g/t Ag and 0.2g/t Au over 1.9m (values confirmed by IMPACT sampling). A recent single drill hole intersection 50m below this old stope by the Mexican owners is reported to have intersected 3.3m grading 1,463g/t Ag and 0.2g/t Au. This Compadres Vein will be one of the early targets for drill testing by IMPACT. Under terms of the first agreement, if the Mexican owner begins mining on the Compadres Vein such mining will be limited to a maximum of 1500 tonnes per month.

## Summary and future exploration plans

The acquisition of Zacualpan gives IMPACT a flagship project and provides the company with several opportunities. Under the agreements IMPACT acquires options over a large area for exploration in a historic silver district. In addition IMPACT has the option to purchase lease rights to the operating processing plant should its exploration work prove successful.

IMPACT will immediately begin a program of data compilation, mapping and sampling at Zacualpan with the objective of starting an initial drill program to test some of the more obvious targets in the next six months. It is IMPACT's plan to carry out exploration and engineering studies toward expanding and upgrading reserves and operations to re-establish Zacualpan as a modern profitable mining operation. Further details on mineralization, exploration potential and mining/processing operations will be reported as work proceeds.

*National Instrument 43-101 supporting information related to the Zacualpan project above was disclosed in a News Release issued by the Company June 17, 2004.*

**Investor relations:**

IMPACT assisted by Energold Mining Ltd. ("Energold") it's parent company, and its personnel has conducted a limited a program to raise the profile of the Company, including attendance at investor conferences and broker presentations. The Company maintains a web site at [www.impactmin.com](http://www.impactmin.com).

**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 personal efforts and commitment of its existing management who devote less than 50% 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.

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, 2004 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.

## Results of Operations:

### Summary of Quarterly Results (Canadian \$)

(Note 1)

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 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
4 <sup>th</sup> Quarter 2002	Nil	(39,609)	(0.01)	(0.01)	993,416	Nil
3 <sup>rd</sup> Quarter 2002	Nil	(18,174)	0.00	0.00	1,024,883	Nil

Administrative expenses for the six months were \$112,634 compared to \$53,196 in 2003. Due to recent changes in requirements for reporting the impact of stock options granted, the Company recorded a stock based compensation expense of \$43,873 as an administrative expense, with a corresponding adjustment to shareholders equity. This expense accounted for 73.8% of the increase in costs over the previous year.

In spite of increased regulatory requirements the Company's managed to maintain most of its administrative expenditures in line with last year with the only two significant exceptions, accounting audit & legal and transfer agent & filing fees. The total of these two increased \$17,822 compared to the same period last year. This was primarily related to the cost of granting of options, and the private placement that occurred during the period.

Property expenditures in the Dominican Republic totalling \$10,128 were limited to some fieldwork and re-applications for certain concessions. Expenditures in Mexico of \$29,134 related to the program that resulted in the acquisition of two option agreements on the Zacualpan project. A further \$6,101 of reconnaissance expenditures was written off during the period.

### Liquidity and Capital Resources:

Working capital was \$244,747 compared to a deficit of \$25,579 in June of the prior year. The Company closed a \$450,000 private placement in April 2004, for 3,000,000 units at \$0.15 per unit. Each unit consists of a share and a share purchase warrant, with 2,500,000 warrants exercisable at \$0.165, and 500,000 warrants at \$0.185 per share. The proceeds will be used for general corporate purposes. The Company granted a further 214,166 warrants at \$0.165 as a finder's fee. All the warrants expire April 14, 2005.

During the quarter 50,000 share purchase warrants were exercised at a price of \$0.12 per share, the balance of the \$0.12 warrants (950,000 warrants) expired June 24.

On May 12, 2004 the Company granted additional incentive stock options under its Stock Option Plan to directors and employees exercisable for up to 475,000 shares of the Company. The options are exercisable on or before May 12, 2009 at an exercise price of \$0.15 per share.

### Outstanding Share Data

a) Details are as follows:

	Number	Amount
Authorized:		
100,000,000 common shares without par value		
20,000,000 non-voting preferred shares without par value		
Issued and outstanding:		
Balance – June 30, 2003	10,730,022	\$ 5,369,504
Fair value of stock options issued	-	34,246
Balance - December 31, 2003	10,730,022	5,403,750
Fair value of stock options issued	-	43,873
Shares issued for cash	3,050,000	456,000
Share issue costs	-	(34,191)
Balance – June 30, 2004	13,780,022	\$ 5,869,432

As at June 30, 2004, the Company has 375,000 shares in escrow. These shares may not be released without the consent of the regulatory authorities.

In April 2004, the Company issued a private placement of 3.0 million units at a price of \$0.15 per unit, of which 393,334 units were sold to the parent company. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of \$0.165 per share for 2.5 million units and \$0.185 per share for 500,000 units. The Company granted a further 214,166 warrants at \$0.165 as a finder's fee. All the warrants expire April 14, 2005.

b) Share Purchase Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. Options vest 25% on the date granted and 12 1/2% every quarter thereafter.

A summary of the Company's options at June 30, 2004 and the changes for the period are as follows:

Number Outstanding June 30 2003	Issued	Exercised	Forfeited	Expired	Number Outstanding June 30 2004	Exercise Price Per Share	Expiry Date
620,000	-	-	-	-	620,000	\$ 0.10	October 20, 2004
-	780,000	-	-	-	780,000	\$ 0.13	October 20, 2008
-	475,000	-	-	-	475,000	\$ 0.15	May 12, 2009
620,000	1,255,000	-	-	-	1,875,000	\$ 0.10- \$ 0.15	October 20, 2004-May 12, 2009

## **Transactions with Related Parties**

As part of the aforementioned private placement Energold Mining Ltd., the controlling shareholder, ("Energold") purchased 393,334 of the above units which resulted in Energold owning or controlling 5,406,667 common shares of the Company, not including any shares issuable upon the exercise of warrants. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of \$0.185 per share until April 14, 2005.

Energold provides IMPACT with a furnished office space, in consideration of a monthly fee of \$250. Energold recovers other service costs, like mineral exploration or public relations at specified charge out rates. Energold recovers miscellaneous charges, like postage, on the basis of IMPACT's actual usage. Investor relations' activities are carried out by the Energold 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 \$1,321 (2003 - \$791) were charged by Energold in the first half of 2004. As at June 30, 2004, the balance owed to Energold was \$46,117, which was non-interest bearing.

During the six months ended June 30, 2004, fees in the amount of \$22,770 (2003 - \$18,000) were paid or accrued to three directors of the Company, of which \$18,000 is shown as management fees on the income statement and \$4,770 is shown in the write-off of mineral properties.

## **Changes in Accounting Policies**

The interim consolidated financial statements for the quarter and six months ended June 30, 2004 followed the same accounting policies and methods of application in the most recent annual financial statements.

## **Off-balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **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, 2004