

IMPACT Silver Corp.
(formerly IMPACT Minerals International Inc.)
Form 51-102F1
Management Discussion & Analysis
For the Period Ended June 30, 2006

INTRODUCTION

This Management Discussion and Analysis (“MD&A”) of IMPACT Silver Corp. (“IMPACT” or “the Company”) is dated August 10, 2006. This MD&A should be read in conjunction with the unaudited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the quarter ended June 30, 2006 which have been prepared in accordance with Canadian generally accepted accounting principles. 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.

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 and mining 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.

BUSINESS DESCRIPTION

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 200tpd. It recently commenced a program of exploration and development with the objective to ultimately bring production to the current rated mill capacity of 500tpd. This long term program consists of upgrading the underground and surface facilities, and an extensive program of exploration and development.

Subsequent to the end of the second quarter, IMPACT announced the optioning of a second small silver project, the “Veta Grande Project”, this one located in the prolific silver district of Zacatecas. The acquisition includes a 200tpd mill and five mineral concessions.

The Company is a reporting issuer in British Columbia and trades on the TSX Venture Exchange under the symbol IPT.

HIGH LIGHTS YEAR TO DATE

- During the first six months the Company raised approximately \$10.5 million Canadian by way of private placements.
- In its second quarter of operations the Company earned profits of \$428,508 (first quarter \$188,276).
- During the second quarter IMPACT began a 4000m surface drill program on both advanced and early stage exploration targets as well as an underground drill program in the vicinity of the active mine workings.
- On January 16, 2006, IMPACT became the newest TSX silver producer through the purchase of the Royal Mines of Zacualpan Silver Project in central Mexico. The project includes two operating silver mines, mineral concessions covering 124.5 km² over most of the silver district, and a lease on a 500-tonne-per-day processing plant and certain leased mining equipment.
- In May 2006, IMPACT exercised an option to purchase the leased mining equipment for US\$500,000.
- On July 19th IMPACT completed the purchase of the leased 500-tonne-per-day processing plant plus certain mineral concessions and surface rights for US\$1,140,000 and 100,000 shares. With these purchases IMPACT now owns all the equipment and surface rights related to its Royal Mines of Zacualpan operations and will have a 100% interest with no underlying royalties to 124.5 km² of mineral concessions comprising most of the silver district.
- In July, IMPACT announced the signing of an option agreement allowing it the right to earn a 100% interest in four concessions and a 200 ton per day processing plant in the Zacatecas district, (the "Veta Grande Project").

ROYAL MINES OF ZACUALPAN SILVER PROJECT, MEXICO

Introduction

IMPACT owns assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5km² 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.

Production and Development

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 first mineral shipments (one silver-lead concentrate, one zinc concentrate and one shipment of high grade silver direct shipping ore) were made on January 31, 2006. Average mill throughput in the first half was 182 tpd. Preliminary results indicate on site operating costs were approximately Cdn. \$50.00 per ton however we expect these to rise marginally with the inclusion of the costs of a number of the projects we have commenced.

	1 st Quarter	2 nd Quarter	Year to Date
Total Tonnes (t) Produced	12,959	16,900	29,859
Tonnes Produced per Day	180	184	182
Silver Production (Ozs)	92,950	96,459	189,409
Lead (t)	69.55	95.07	164.62
Zinc (t)	139.86	200.67	340.53
Cdn. \$ direct costs per ton	\$49.66	\$51.67	\$50.80

Note: all measurements are in metric and are subject to smelter settlements

At year end 2005, mining by the previous owner was down to Level 8 at the high grade San Ramon Mine. Since January, IMPACT continued mining remnant high grade (2000g/t+ silver) mineral on Level 8 and continued mining medium grade mineral from both Levels 7 and 8, levels are 10 to 12m apart. The ramp has reached Level 10. Material is brought to surface and trucked from the mine to the central processing plant.

During the first quarter, mining of medium grade mineral at the Guadalupe Mine continued on the 195m Level exploiting the Lipton, Lipton del Bajo and Liptonia Veins. More recently the mine has opened up additional workings on another parallel vein, the Paulina Vein. With the recent addition of a new Mine Geologist and Mine Surveyor, the Guadalupe Mine is being extensively remapped and explored. Several additional areas appear to represent possible additional production stopes and the mine's underground drill, after being refurbished has been assigned to the area. Material from the Guadalupe Mine is brought to surface on a skip and transported approximately only 150m to the plant.

Over the next six to nine months, the Company anticipates fluctuating mill grades as it emphasizes the underground program to develop more workings and to access some historic mining stopes.

Other

Subsequent to the recent financing, IMPACT began upgrading the operations with the objective of increasing production and recoveries, and bringing the operations up to modern standards over the next eighteen to twenty-four months. Mine management has also initiated safety and community relation programs, hiring specific personnel for these areas. In February, the first independent review for mine water discharge for environmental purposes was completed at four of the Company's workings, with very satisfactory results. The previously announced program of rehabilitation and preventative maintenance for mobile equipment and the mill is underway, with the objective of improving recoveries and reducing equipment downtime.

Engineering Studies

During 2005, IMPACT carried out preliminary engineering studies to evaluate the active mining and metallurgical operations at Zacualpan. A preliminary engineering study was received assessing sites for expansion of tailings facilities and two reports were received on metallurgical test work to improve metal recoveries. These programs are ongoing during the first half of 2006 with continued work in both areas.

Exploration

Exploration was active on several fronts during the quarter. IMPACT began a 4000m surface drill program in May 2006 designed to test both extensions of known areas of mining 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.

Surface drilling during the quarter started with the downdip extension of the San Ramon silver shoot where mining continues on the upper levels and then moved on to test the recently identified Chivo prospect. Results will be released when assays are received and interpreted.

The Pino Prospect is on the Lipton Vein system. It is located 700m south of the Guadalupe Mine which has historically produced 10 million ounces of silver predominantly from the Lipton Vein. IMPACT continues to mine the Lipton Vein in the Guadalupe Mine today. The Pino Prospect area is marked by a large gold-in-soil anomaly and sparse old small mine workings. Sampling of some of these workings by IMPACT personnel in the spring of 2006 returned variable assays including 337g/t silver over 1.5m true width, 243g/t silver over 1.4m true width and 2,050g/t silver over 0.25m true width. Drilling will target the potential at depth on the Pino section of the Lipton Vein.

The Chivo Prospect is on the San Ramon vein system and at this early stage displays some of the same high grade mineralization found at the San Ramon Mine 1300m to the southeast. IMPACT personnel found two parallel veins in old mine workings here. Samples from the western vein assayed 1,095g/t silver and 0.38g/t gold across 1.25m true width in the workings and 2,640g/t silver and 1.36g/t gold across 0.85m on surface. The wall rock beside the vein contained numerous small veinlets and assayed 463g/t silver and 0.477g/t gold across 2.2m true width. The eastern vein averaged 175g/t silver and 0.92g/t gold across 1.54m true width. This program is drilling the first holes in the Chivo Prospect and is designed to test the potential strike and dip extent of the mineralization.

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.

Future Plans for the Royal Mines of Zacualpan Silver Project

Now that IMPACT has consolidated its dominant land position in the district, future plans for the Royal Mines of Zacualpan Silver Project focus on upgrading and expanding operations, and carrying out extensive exploration to build mineral inventories for mining. Toward these ends IMPACT has begun upgrading equipment in the mines and the processing plant which combined with engineering and metallurgical studies are improving metal recoveries and set the stage for expansion of production. IMPACT anticipates that its program of upgrades and expansion of production utilizing funds from the April financing will span 18 to 24 months. In exploration IMPACT is carrying out an extensive program through 2006 that includes drill programs designed to expand the active mining areas and test high priority exploration targets for new zones of mineralization. Drilling is being done both from surface using a contractor and from underground using a drill owned by the mine.

Veta Grande (Zacatecas) Silver Project, Mexico

Introduction

Subsequent to quarter end 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. The project includes a 200-tonne-per-day processing plant, four mineral concessions and certain surface rights. The project is located 500km 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 AGREEMENT

IMPACT has acquired a four-year option from a private Mexican vendor to purchase four mining concessions, a 200tpd processing plant and associated surface rights. Under the agreement, IMPACT may purchase the assets for US\$1,120,000 and 500,000 shares in stages, as follows, plus commit to US\$700,000 in work expenditures (US\$350,000 in each of the first two years):

IMPACT paid US\$10,000 on signing of the Letter Option Agreement. On signing of a comprehensive agreement and receipt of regulatory approvals, IMPACT will pay US\$370,000 and 100,000 shares to the vendor, for which IMPACT will acquire a 25% interest in any Net Revenues from material processed through

the plant. Of this amount, US\$330,000 will be used to pay off existing debt on the processing plant. After 18 months, additional payments of US\$200,000 and 100,000 shares will earn IMPACT a total 40% interest in any Net Revenues from material processed through the plant. After 36 months, further payments of US\$240,000 and 200,000 shares will earn IMPACT a total 60% interest in any Net Revenues from material processed through the plant. After 48 months, additional payments of US\$300,000 and 100,000 shares will earn IMPACT a 100% interest in the project with no underlying royalties. IMPACT may accelerate the payments and work commitments at any time after the first 18 months and upon completion of the cash and share payments will earn a 100% interest in the project.

Under the agreement, the Mexican vendor may mine and process material from the properties until IMPACT exercises its purchase option. The agreement has now received TSX Venture Exchange acceptance for filing.

THE PROJECT

The Veta Grande Project consists of mining concessions, surface rights and a 200tpd processing plant. The last production through the plant was in 2003.

Four mining concessions and one concession application comprise the mineral rights. Two of the initial targets on the concessions are the Cristian and San Pascual Mines. The Cristian Mine was last in production on a small scale in 2003. The shaft was flooded and IMPACT could not access the workings, but 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. The San Pascual Mine last saw production about 20 years ago. The shaft was flooded, but 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. Planned work at these and other sites controlled by IMPACT will consist of exploration and evaluation, followed by drilling. The 200tpd processing plant was built in 2000 and last operated in 2003. IMPACT engineers will make a full assessment of the plant and associated facilities as part of IMPACT's due diligence work. The surface rights to the area around the plant are also included in the agreement.

FUTURE PLANS for the Veta Grande Project

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 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 plans to immediately begin due diligence, exploration and engineering work to evaluate the production potential of the properties and the processing plant. IMPACT has also begun evaluating other concessions in the district as potential acquisitions.

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.

LOS RANCHOS PROJECTS, DOMINICAN REPUBLIC

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Resources, 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 100km east of Barrick Gold'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, is the Baritina concession where previous work identified at least two zones of gold

mineralization. No work was conducted on the property in the first quarter; however a limited program was initiated for the La Bruja concession in the second quarter.

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 six months IMPACT 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 for a monthly consideration of \$1,500 per month plus the granting of 35,000 stock options at \$1.45 per share for a two-year term. Energold Drilling Corp. a significant shareholder in the Company provided additional services including personnel.

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 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, 2006 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 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.

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 tons of lead and 100 tons 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. Historically, MPZ had fallen significantly short on its contractual delivery commitments on all but silver throughout 2005 and it is not expected that it will meet its shortfall in 2006 as the areas the Company is currently mining are relatively low in lead, zinc and gold realizations.

Modern Canadian accounting theory recommends that the purchase method of accounting be used to account for all business combinations and that the acquirer, in a business combination, should 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 this theory requires that the Company recognize the opportunity loss in MPZ of the difference between our estimate of current metal market prices 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 has become even more significant since that date because of the substantial increase in metal prices that have occurred since the beginning of 2006. The Company's best estimate is 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 sell the same quantity at current market prices it would have realized approximately US\$2.428 million more than it will do under its forward sales delivery contractual commitments. This revenue, and MPZ's obligation to make good on the delivery obligation represents contingent consideration which the Company must take 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 17th, 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 \$5,559,350 has been allocated to Zaculapan resource property acquisition costs.

	Canadian \$
Purchase Price	
Net share consideration at market value at date of issue (300,000 shares)	\$ 296,500
Cash payment to vendors	2,031,244
	<hr/>
Total Purchase Price	2,327,744
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Identifiable Net Assets Acquired	
Cash	-
Other current assets	533,239
Other assets	133,187
	<hr/>
	666,426
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Current liabilities	(505,135)
Forward sales contract liability	(3,372,897)
	<hr/>
	(3,878,032)
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Net Identifiable Assets and Liabilities	(3,211,606)
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Residual Purchase Price Allocated to Resource Properties	\$ 5,559,350
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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 nd 2006	1,965	428	0.01	0.01	17,793	363
1 st	1,142	188	0.01	0.01	10,141	269
4 th 2005	Nil	(131)	(0.01)	(0.01)	3,767	270
3 rd	Nil	(66)	(0.00)	(0.00)	2,349	Nil
2 nd	Nil	(182)	(0.01)	(0.01)	2,439	Nil
1 st	Nil	(107)	(0.01)	(0.01)	2,375	Nil
4 th 2004	Nil	(125)	(0.01)	(0.01)	2,102	97
3 rd	Nil	(76)	(0.01)	(0.01)	1,293	Nil
2 nd	Nil	(57)	(0.01)	(0.01)	1,283	Nil

* These numbers have been rounded to two decimal places

The Company's income statement includes the consolidation of operations of the Zacualpan mine in Mexico since January 16th, 2006, as a result the comparison to the prior year's quarters while required, may not be appropriate.

The Company completed the acquisition of the Zacualpan mine in January, 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 Canadian Generally Accepted Accounting Principals ("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 \$3,211,606 attributed to resource assets, and the set-up of a forward sales contract liability for \$3,372,897. 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.

The results of this treatment meant the company enjoyed a small profit in its first quarter despite the extensive restructuring of the underground and surface workings. The current programs underway are designed to develop immediate mining targets and to enhance future production. This will mean 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 Six Months ended June 30, 2006

Average mill throughput in the first half was 182tpd. Gross sales as calculated under GAAP were \$3,108,108, with a corresponding gain for the quarter on the capitalized forward sale of \$175,606. Depreciation and depletion related to the mine and its' acquisition cost was \$573,615. On site operating costs were approximately \$50.00 per tonne of ore processed through the mill. Mine operating earnings for the quarter were \$480,820.

General, Administrative and Other Expenses

Administrative expenses for the first half were \$256,125 compared to \$294,471 in 2005 however, the company enjoyed a foreign exchange gain during the period that reduced those expenses by \$233,014. Due to recent changes in requirements for reporting the cost of stock options granted, the Company also recorded a stock based compensation expense of \$63,871 for the year to date compared to \$118,554 in 2005. This has resulted in a significant expense for the period and a corresponding adjustment to shareholder's equity for the deemed value of the options granted. General and administrative expenses year to date excluding these two categories were \$425,268 for 2006 and \$177,707 for the comparative period.

Accounting and audit costs charged to general and administrative expense have increased by \$42,052 from 2005. This relates to increased audit services and support work in connection with activities related to the Zacualpan purchase as well as higher overall audit costs related to changing audit regulations and governance practices.

Legal costs charged to general and administrative expenses in the first half of 2006 were \$60,398 compared to \$51,437 in 2005. These costs were primarily connected to the initial financing and acquisition of the Zacualpan Mine. We anticipate that legal costs will remain high for at least the next two quarters in part because of the recent financings, acquisitions and in part as the Company exercises its various options on its lease to purchase agreements.

Office salaries and services costs increased by \$56,150 and management fees by \$26,859 in 2006 compared to 2005 as a result of the increased level of staff and services support required in connection with the operation of the Zacualpan silver property.

Transfer agent's fees and filing fees increased by \$42,473 primarily due to higher activity levels in shareholder transactions and recent financings.

The cost related to maintaining investor relations declined by \$23,802. Costs in 2006 included the services of one consultant and expenditures related to investor conventions and mail-outs. We expect to increase our expenditures in the third and fourth quarter as we highlight our achievements to the investment community.

With the increase in activity related to the Zacualpan exploration and regulatory requirements, other administrative costs including office and sundry, and rent were \$25,234 higher than the comparative quarter and are expected to increase further in 2006. Further, administrative related travel costs of \$17,458 (2005-\$4,338) are also anticipated to continue to rise over the next six months.

Resource Property Expenditures

Exploration expenditures related to Zacualpan for the first half of 2006 were \$875,912 compared to \$680,786 in 2005. Exploration activity in the first quarter was at reduced levels because of issues related to the closing of the property agreements and the need to await the closing of our private placement in order to fund the exploration program. However in the second quarter the company commenced a surface diamond drill program for a second quarter total expenditure of \$593,967. 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.

During the period the Company also issued 300,000 shares for an ascribed value of \$357,000 as part of the acquisition of the Zacualpan Project.

The Company has recorded a provision for future income taxes amounting to \$362,906 at June 30, 2006, compared to \$224,666 at June 30, 2005. The Company expects that its 2006 exploration expenditures on the Zacualpan property will continue at its current rate exceeding its 2005 expenditures as it proceeds to explore some of its more promising exploration targets.

Liquidity and Capital Resources

At June 30, 2006, the Company had working capital of \$4,254,112 compared to \$1,117,282 at December 31, 2005. During the six months the Company completed two private placements raising a total of \$10,377,278, 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. In the second quarter, IMPACT completed an additional private placement of \$8.03 million, the funds are being used to acquire the leased mill facility, mobile equipment, to upgrade current operations, conduct exploration and to provide working capital.

Funds raised from the private placements were augmented by the exercise of options and share purchase warrants by Company shareholders. During the first half, the Company also raised \$96,500 on the exercise of 575,000 share purchase options and \$634,750 on the exercise of 1,722,500 share purchase warrants.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 10, 2006.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at August 10, 2006	38,199,438		
Employee stock options	430,000	\$ 0.13	October 20, 2008
	375,000	\$ 0.15	May 12, 2009
	658,750	\$ 0.42	April 13, 2010
	35,000	\$ 1.45	February 6, 2008
Warrants	755,000	\$ 0.35	December 09, 2006
	3,618,750	\$ 0.50	July 05, 2007
	584,000	\$ 1.20	October 6, 2007
	3,942,000	\$ 1.30	October 6, 2007
Fully Diluted at Aug 10, 2006	48,597,938		

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 \$3,741 (2005 - \$4,673) were charged by Energold for the year to date.

During the first half IMPACT signed an agreement with Energold, for the latter to provide diamond drilling services. Energold received fees in the amount of \$258,274 during the first six months of 2006 (2005 - \$183,020) for contract drilling services performed in Mexico at the Zacualpan concessions. 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, 2006, the balance owed to Energold was \$152,189 (2005-\$96,663).

During the period ended June 30, 2006, fees in the amount of \$75,898 (2005 - \$50,050) were paid or accrued to two directors and one officer of the Company, of which \$33,218 is shown as management fees and consulting and investor relations on the income statement, and \$42,680 is shown in resource properties.

Changes in Accounting Policies

The consolidated financial statements for the period ended June 30, 2006 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, 2006.

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.

On Behalf of the Board of Directors,

"Frederick W. Davidson"
President, CEO

August 10, 2006