ANNUAL REPORT 2007

IMPACT SILVER CORP

IMPACT Silver Corp. is a low-cost Mexican silver producer
with an extensive portfolio of advanced silver projects.

The Company currently produces silver from four mines and a 500-tonnes-per-day (tpd) processing plant at the Royal Mines of Zacualpan. Through a 12,000-meter surface drilling program and a 5,000-meter underground program, the Company is currently exploring the wholly-owned, 200-square-kilometer Mamatla Silver district, the 125-square-kilometer Zaculapan Silver District and 17 projects in the Zacatecas Silver District.

The Company also possesses a semi-portable 200-tpd mill at Zacualpan, as well as an option to acquire an operating 200-tpd mill in Zacatecas. Having had positive mine earnings and cash flow from its first day of production and onward, the Company has distinguished itself as a respected junior silver producer.

IMPACT trades on the TSX Venture Exchange under the symbol IPT.

LETTER TO SHAREHOLDERS

Dear Shareholders,

2007 was an exciting year in which management's continued pursuit of growth through successful exploration began paying off and resulted in IMPACT ending the year with three producing mines.

Very few junior silver producers have accomplished as much as we have over the last two years. During this time IMPACT has grown from an exploration company into a significant silver producer. Importantly, the Company has managed to acquire control of almost two entire mineral districts in Central Mexico including the Royal Mines of Zacualpan Silver District, its newly-acquired concession covering the majority of the Mamatla mineral district SW of Zacualpan, as well as its Veta Grande Silver Project in Zacatecas. Through the exploration and development of our districts, we have the unique opportunity to become a significant producer through organic growth even before we complete additional external acquisitions.

2007 marked the second year in our ongoing program of maximizing exploration and exploitation at Zacualpan. The first stage of the program is designed to enhance immediate mill throughput until we achieve our current maximum rated capacity of 500 tonnes-per-day ("tpd"). The second stage is to continue exploration and to prepare for development new sources of ore that will justify expansion of our current facility or the building of new processing plants within the district. In addition, we will continue a reconnaissance program designed to evaluate the longer term potential of this almost 500-year-old mining district.

IMPACT has seen a tremendous number of new entrants into the prolific Zacatecas Silver District. At the Veta Grande Silver Project, IMPACT has the opportunity to leverage both its key land position as well as its option on an operating processing plant to become a key player in the Zacatecas Silver District. IMPACT has been carrying on due diligence, exploration and engineering work to evaluate the production potential of its properties and upgrading of the processing plant.

Over the next year, IMPACT will be vetting the immense quantity of information available on its recent Mamatla acquisition with the objective of establishing the immediate production potential as well as conducting the necessary reconnaissance work program on this exciting new district. In late fall of 2007, the Company commenced its first drill program on two of the Mamatla targets. The company recently announced it acquired access to additional technical data for the Mamatla district which should accelerate our knowledge of this highly prospective area.

Over the past two years we have been fortunate to have assembled a very experienced team of professional Mexican mining staff. We feel our team is one of the best operating staffs throughout Mexico. Additional technical depth was also added to the board of directors through the addition of Peter Tredger, a highly experienced and successful professional engineer.

Production exceeded the prior year by a significant amount in most categories, with mill throughput averaging 274 tpd compared to 196 tpd in 2006. We were able to bring 2007 operating costs down to $44.15 from $59.55 per-tonne-milled in 2006.

With record high zinc prices during the summer months, IMPACT management made the strategic decision to maximize zinc production by exploiting previously marginal ore. As zinc prices began to retreat, silver production was once again increased. The high-grade silver Chivo Mine commenced production in late 2007, while production at San Ramon re-commenced in early 2008. Both of these mines will significantly shift IMPACT's production profile back toward silver. On the back of these shifts, fourth quarter production of silver rose to 103,772 ounces from a low of 73,890 ounces in the second quarter of the year. We expect this trend to continue into 2008 as more mill feed is produced by those two silver-rich mines.

The exploration budget for 2008 has been more than doubled in order to put some of the 700+ known prospects at the Zacualpan and Mamatla districts on a faster track to potential production and build mineral inventories for mining. The exploration program is being funded through existing cash balances. The drill budget has been expanded to 12,000 meters of Phase 1 surface drilling and 5,000 meters of underground drilling. Additional technical personnel were hired to carry out work ranging from greenfields to advanced stage exploration. The year 2008 began with three dedicated field crews each lead by a senior geologist working on the San Antonio, Mamatla and CPN Projects, respectively. A prospecting team continues reconnaissance work in the districts. Three geologists are overseeing both surface and underground drilling operations at Zacualpan and Capire (Mamatla). Crews continue to sample an expanded soil grid, which will encompass an additional 12,000 samples in 2008. The purchase of a second wholly-owned underground drill has also been budgeted. The Geographic Information System database compilation continues into 2008 with an emphasis put on district-wide interpretation.

In 2008, we intend to increase production at Zacualpan assisted by our two higher grade mines, Chivo and San Ramon. We have also budgeted an expansion of both the reconnaissance and development exploration programs including the SW copper gold horizon.

At Mamatla, we have commenced a detailed drill program on the Capire and Aurora deposits and dramatically expanded our reconnaissance program on the balance of the District. In 2008 we also hope to consolidate our assets in Zacatecas with the exercising of the option on the mill located there and evaluating a number of consolidation opportunities in that district.

We would also like to express our appreciation for the hard work and effort of our employees and staff, both Mexican and Canadian, over the past year.

On Behalf of the Board of Directors,

Frederick W. Davidson
President, CEO

April 11, 2008

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Period Ended December 31, 2007

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of IMPACT Silver Corp. ("IMPACT" or "the Company") is dated April 9, 2008. This MD&A should be read in conjunction with the audited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the period ended December 31, 2007 which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of Annual and Interim Filings, and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

NOTE REGARDING FORWARD–LOOKING STATEMENTS

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

The Company

The Company is a natural resource mining and development company, primarily engaged in the acquisition, exploration and development of natural resource properties. 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 with a mill capacity of approximately 500 tonnes-per-day ("tpd") currently producing at a rate of approximately 300 tpd. It recently acquired a semi-portable 200 tpd mill for potential use at its projects in the Mamatla and Zacualpan mining districts. It also holds an option on a third 200 tpd mill the "Veta Grande Project" in Zacatecas.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier I Issuer under the symbol IPT and on Frankfurt as IKL.

Very few companies our size have accomplished as much as we have over the last two years, during which time IMPACT has grown from an exploration company

into a significant silver producer. As importantly, the Company has managed to acquire control of almost two entire mineral districts in Central Mexico including the Royal Mines of Zacualpan Silver District, its newly-acquired concession covering the majority of the Mamatla mineral district SW of Zacualpan, as well as its Veta Grande (Zacatecas) Silver Project.

We have the unique opportunity to potentially become a significant producer through organic growth even before we complete additional external acquisitions.

Our objective for the next two to three years at Zacualpan includes a three-stage program of exploration and exploitation. The first stage is designed to enhance immediate mill throughput until we achieve our current maximum rated capacity of 500 tpd. The second stage is to continue exploration and to prepare for development new sources of ore that will justify expansion of our current facility or the building of new processing plants within the overall district, and finally continue a reconnaissance program designed to evaluate the longer term potential of this almost 500 year old mining district.

At the Veta Grande Silver Project, IMPACT plans to leverage itself with the option on the processing plant to become the Zacatecas Silver District's dominant player. IMPACT has begun due diligence, exploration and engineering work to evaluate the production potential of the purchased properties and upgrading of the processing plant.

Over the next year, IMPACT will be vetting the immense quantity of information available on its recent Mamatla acquisition with the objective of establishing the immediate potential as well as the necessary reconnaissance work on this exciting new district. In late fall of 2007, the Company commenced its first drill program on two of the Mamatla targets. The company also recently announced it also acquired access to additional technical data for the Mamatla district which should accelerate our knowledge of this highly prospective area.

Adding additional depth to our board of directors, the Company was pleased to announce the recent addition of Peter Tredger, a highly experienced and successful professional engineer.

To help achieve our objectives, and in part due to the exercising of 7,604,272 share purchase warrants, the Company had by year-end, cash and term deposits of in excess of $10.0 million.

OPERATIONAL HIGHLIGHTS

Production over all exceeded the prior year by a significant amount in all categories, with mill throughput averaging 274 tpd compared to 196 tpd in 2006. We were able to bring operating costs down to $44.15/t from $59.55/t in 2006, which resulted in our ability to lower cut-off grades and extend the potential of a number of more marginal sources of feed.

Results for 2007 reflected a distinct pattern where the Company, during the summer, because of high zinc prices exploited some previously marginal ore before demobilizing out of certain work areas. Further two of its higher grade deposits, San Ramon and Chivo, were not ready to be exploited until the late fall. Chivo came on well into the last quarter, while production at San Ramon will re-commence in 2008. Fourth quarter production of silver rose to 103,772 ounces from a low of 73,890 ounces in the second quarter of the year. We expect this trend to continue into 2008 as more mill feed is produced by those two mines. This result was achieved in spite of the fact that fourth quarter throughput was reduced from 27,273 tonnes for the third quarter to 24,349 due to the abandonment of one production stope prematurely due to ground conditions.

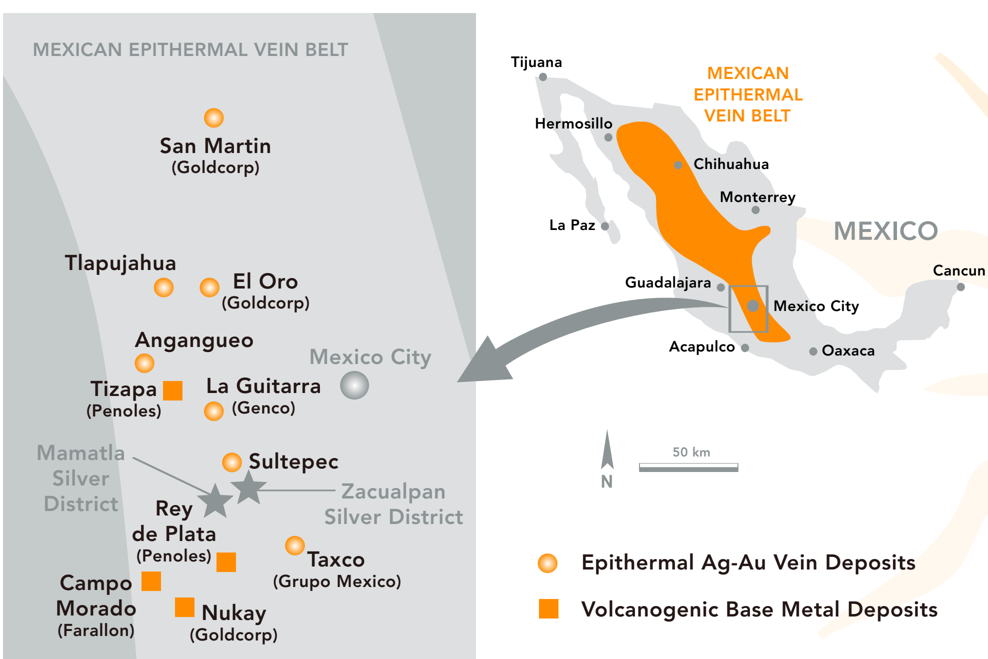
Ore production from the Chivo Mine to date has been primarily development muck and as the mine has just commenced production from it first stope, grades and tonnages are expected to continue to rise as part of the program to bring production up to the current mill's capacity of approximately 500 tpd.

Subsequent to the year end, the Company announced the acquisition of a second entire semi-portable 200 tpd mill to increase its capacity and flexibility for processing ore in the Zacualpan/Mamatla mining districts.

In the first quarter of 2007, the Company acquired through government auction the 200-square-kilometer Mamatla Volcanogenic Massive Sulphide (VMS) district adjacent to its Royal Mines of Zacualpan Silver District. In the north, at the Veta Grande project in Zacatecas the Company announced the acquisition of the Nueva Granada and the Asturiana concessions. These concessions cover large old mine workings in the prolific Veta Grande area.

The Company conducted an extensive reconnaissance and development program that included a 10,000-meter diamond drilling program in the Mamatla, Zacualpan and Zacatecas mining districts. Some of the exploration highlights included:

- New gold and copper discoveries at the Royal Mines of Zacualpan Project including 14.6g/t gold and 0.46% copper across 2.7 meters true width ("TW") at the Pacheco Prospect. These discoveries point to the potential for a copper gold district lying at depth below the silver district.
- The discovery of high grade gold zones at Mamatla, including 14.9g/t gold over 0.5 meters TW at the Zapote Prospect.
- In July 2007, IMPACT announced further drill results from the Chivo Silver Shoot, including 378g/t silver, 0.30g/t gold, 4.25% zinc and 1.76% lead across 4.7 meters TW. This same program discovered the Chivo Northeast Zone in four drill holes, including 451g/t silver, 0.43g/t gold, 3.86% zinc and 1.32% lead across 1.4 meters TW.



- The first drill results from the newly-discovered San Antonio zinc-lead-silver zone. Drill results included 11.55% zinc, 1.94% lead, 33g/t silver and 0.51g/t gold across 4.5 meters TW.
- Additional new drilling discoveries at San Patricio, where results included 935g/t silver, 2.14% zinc and 0.48% lead across 0.6 meters TW and on the Cuchara Extension, where results included 641g/t silver, 1.67% zinc and 0.53% lead across 2.2 meters TW.
- Surface sampling results from its Zacatecas concessions, including 444g/t silver over 1.10 meters TW from the San Jose Vein and 1,320g/t silver over 0.30 meters TW from the Armado Vein.

ROYAL MINES OF ZACUALPAN SILVER PROJECT (ZACUALPAN MINING DISTRICT), MEXICO

Introduction

IMPACT owns assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5-square-kilometer land position, two operating mines and a mill rated at 500 tpd. The project is located 100 kilometers southwest of Mexico City and 25 kilometers 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 acquired this dominant land position through staking activities and the 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 Guadalupe processing plant and mining equipment and acquired certain mineral concessions and surface rights at Zacualpan.

History

Zacualpan is one of the oldest mining districts in North America with Spanish Colonial mining dating back to at least 1527. In 1531, it was the first mining district in the Americas to be bestowed the title of 'Royal Mines' of Zacualpan by proclamation under the Spanish Crown. Zacualpan is a classic Mexican epithermal silver district with an abundance of veins that have seen historic production. Statistics for the early centuries of production are sporadic, but in modern times recorded production between 1975 and 2006 was about 17 million ounces of silver (31 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 meters long and predominantly steeply dipping.

Production and Development

	Three Months Ended December 31, 2007	Year Ended December 31, 2007	Three Months Ended December 31, 2006	Year Ended December 31, 2006
Total tonnes (t) Produced	24,349	99,918	19,023	68,173
Tonnes Produced per Day	265	274	207	196
Silver Production (Oz)	103,772	348,949	89,365	465,673
Lead (t)	152.99	601.03	107.45	375.43
Zinc (t)	259.10	976.07	190.46	725.20
CND$ direct costs per tonne	44.05	44.15	61.92	59.55

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

Mining

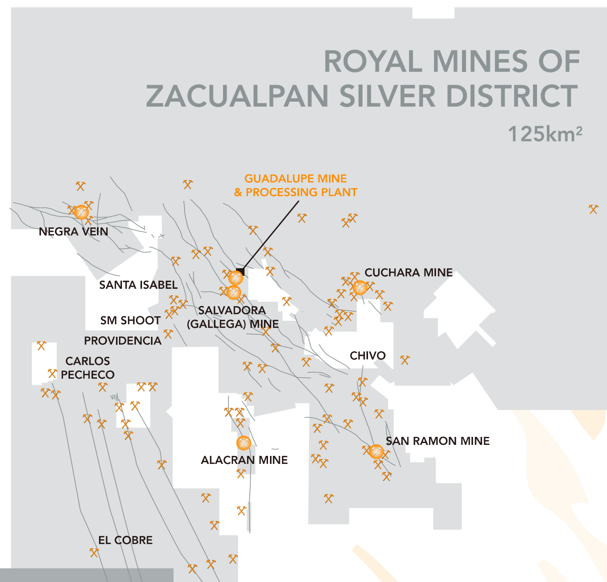
Royal Mines of Zacualpan

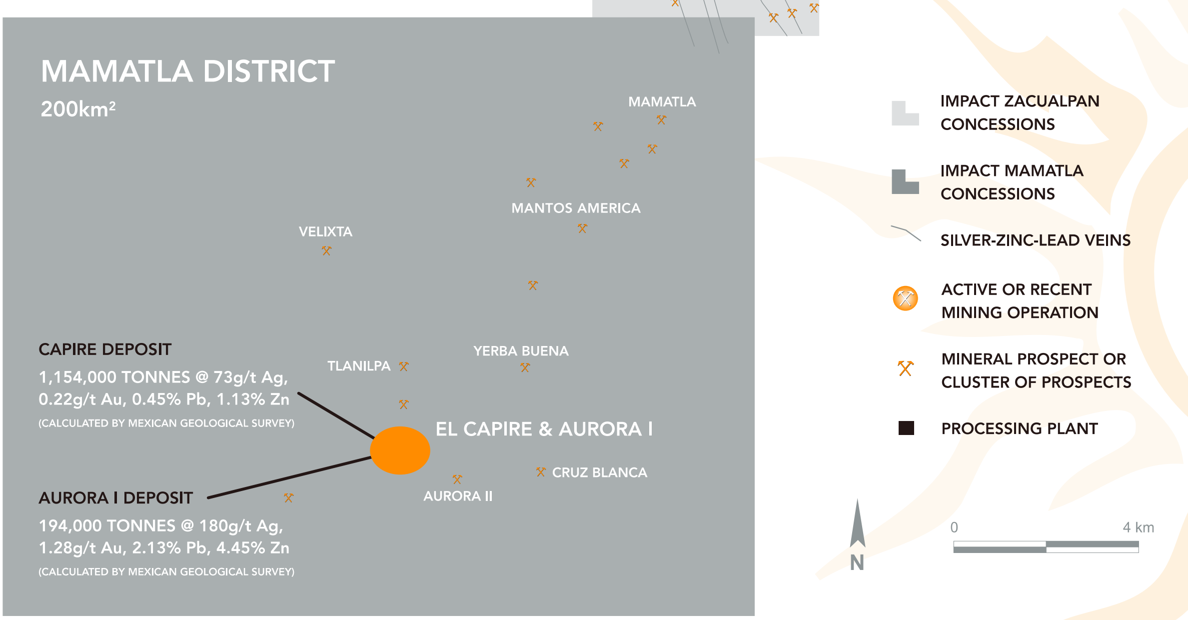
The Royal Mines of Zacualpan Silver Project was purchased by IMPACT on January 16, 2006 and IMPACT's first full day of production was January 18, 2006. The majority of the ore at that time reported from the high grade San Ramon Mine. Later in 2006, as underground mining and haulage costs rose at the San Ramon Mine, the Company started to source its ore supply from ore at the Guadalupe Mine, where base metal grades are higher and silver grades lower. In the fourth quarter of 2007, development at the Chivo Mine has raised silver grades; however, the higher hauling costs and lower tonnage throughout for the quarter resulted in higher direct costs per tonne. In spite of higher costs the higher silver grades resulted in a higher contribution margin per tonne for the quarter.

In 2008, when a revised mining plan can be completed at San Ramon, it is anticipated that silver grades will rise further.

Guadalupe Mine

During 2007, the majority of the mill feed was from mining of lower grade mineral at the Guadalupe Mine. The ore was sourced principally from the Lipton, Lipton del Bajo, Paulina, Intermediate and Liptonia Veins, as well as exploiting the Liptonia Vein on the 140 meters Level. An intensive program of remapping and exploration is continuing at the Guadalupe Mine. Material from the Guadalupe Mine is brought to surface on a skip and transported approximately 100 meters to the plant and it remains the lowest cost producer for the mines supplying the mill.





La Gallega (Salvadora) Mine

Success in exploration drilling in 2006 led to the commencement of mining in late 2006 from the Gallega adit. Mining began on the high grade Salvadora stopes and in the first quarter also commenced on the Lipton Vein and the recently-discovered San David Vein. Material is transported by truck from La Gallega approximately 500 meters to the mill and in the first half of the year formed an important source (20%) of mill feed. During the last half of the year, mining was interrupted at La Gallega to allow for building of a new paved road and development of a ramp to deeper levels. Mining resumed on limited basis in the fourth quarter.

San Ramon Mine

In 2006, the San Ramon Mine generated the majority of the high grade feed for the Zacualpan mill; however, operating costs were substantially rising and ore delineation became increasing more complex due to the nature of the mine access and the Company temporarily ceased mining here. After redesigning the mining plan, the Company will recommence mining at the San Ramon on a more selective basis in 2008.

Chivo Mine

During the quarter, construction of the new cross cut to the Chivo Mine was completed; drifting commenced along the vein and in December, the first mill feed from stope mining was achieved, resulting in initial production levels of approximately 100 tpd. A second adit approximately 60 meters vertically lower on the structure is currently being planned. The speed and efficiency of the development from discovery to mining is a tribute to the professionalism of our entire operating and exploration team.

Chivo is the third producing mine at the Royal Mines of Zacualpan Silver Project and the second put into production by the IMPACT team. The Chivo Mine is located in the central part of the district and as exploration and development continues, it is anticipated as providing a significant amount of higher grade feed to the existing mill.

Overall

Over the next few months, the Company anticipates that fluctuating mill grades will continue due to dilution from development muck, as it emphasizes underground development programs in order to increase production to the current mills' maximum capacity.

During the summer of 2007, the value of lead and zinc rose dramatically and increased emphasis was put on improving recoveries from production areas including previously mined stopes by redefining cut-off grades. This resulted in higher than average throughput grades for lead and zinc and a decline in grade for silver during the second and third quarter; however, exploitation was refocused on higher grade silver zones in the fourth quarter.

The mine has also completed negotiations for a new smelter contract and its ongoing union contracts.

Upon acquisition of the project in January 2006, IMPACT ear-marked sufficient funds and manpower to undertake an aggressive two-year plan to modernize operations and increase production. Since then, much of the mining equipment has been upgraded, including rebuilding a number of the mine's scoop-trams and underground trucks. Requirements for expanding the current active mine areas, as well as developing a number of new mining areas, will require additional scoops and underground trucks. New light surface trucks were purchased to replace unsafe vehicles inherited from the previous operator.

Our mine geologist and surveyors with access to the wholly-owned underground drill have expanded exploration efforts which have led to the discovery of several intermediate high grade veins in the Guadalupe and La Gallega Mines that are now being mined. A second underground drill has been provided for in the mine's budget for 2008. New survey and computerized equipment have been purchased and additional staff hired to map and monitor exploration, mining and processing operations.

An ongoing program of upgrades is continuing, designed to enhance recoveries and improve throughput. In the plant, metallurgical studies have led to significantly increased metal recoveries. A full inventory of spare parts for the mining equipment and mill has been purchased.

Initial engineering studies have been completed for increasing tailings capacity, and enhancing the current dam by bringing it up to current standards. This program will be staged over the next two years and initial estimates suggest that it will represent approximately US$3.50 per tonne of contained tailings. Construction of the expansion is anticipated as commencing in spring of 2008.

The lab at the mine has been retrofitted and upgraded. A new assay furnace and high precision weigh scale have been installed. Laboratory workers have been trained and now operate under new quality control standards. Blind tests on standard samples have demonstrated the high quality of assays now being reported by the mine laboratory. While assays will still be processed through commercial laboratories for the purposes of public disclosure and ongoing performance checks, the availability of next-day, accurate, onsite assays enables IMPACT to schedule and optimize mining, development and exploration programs in significantly shorter time frames.

IMPACT has instituted a safety program including the addition of a safety officer who is conducting an ongoing safety audit of all operations and runs regular safety courses that are required for all mine employees. Safety equipment has now been installed throughout the mine and plant. Safety protocols are now clearly marked and new safety procedures have been implemented. All employees have been outfitted with modern safety equipment and the Company has commenced training a mine rescue team, which will be the first for the immediate region.

In March of 2008, in spite of intensive upgrades to safety and standards, we experienced a fatality. This is of the greatest concern to all of our team and we can only express our deepest sympathy to the family. Our industry experiences certain risks which we can mitigate, but not necessarily eliminate. In this case, investigations by the appropriate authorities, the union and the company will be conducted in a candid and forthright manner.

The mine has a community relations officer. As the mine is the principal employer in the district, it has made an ongoing dialogue with locals, a fundamental pillar of its operations. The mine has budgeted for assistance destined for local community projects and schools.

In aggregate, the Royal Mines of Zacualpan now uses a proactive approach to operations and maintenance. Immediate results from the changes include improved worker morale, stronger community support, a significant decrease in operating downtime as well as overall improvements in operating costs and metal recoveries. The Company is budgeting additional funds to be used towards further upgrades, new equipment purchases and expansion of the operations.

Expansion

Subsequent to the year-end, the Company announced the purchase of a semi-portable 200-tpd mill, including all major equipment for US$700,000, which once relocated will give the mining group increased capacity and flexibility. Due diligence by the Company's engineers determined that all the major pieces of machinery are in excellent condition. The Company is currently conducting a number of advanced exploration projects, some of which, because of distances from the main facility or metallurgical reasons, cannot be readily processed at the Guadalupe plant. A semi-portable plant may offer the opportunity of processing those potential mineral deposits with superior economics, as well as providing an increase in mill capacity.

Exploration

Exploration was active on several fronts in 2007. The Company completed a 10,000-meter surface drill program designed to test both extensions of known areas of mineralization and new early-stage exploration targets. Drilling will continue without interruption in 2008. A summary of exploration work carried out in 2007 is described below. Underground, the Company has refurbished its wholly-owned underground core drill to the point where it now operates almost continuously.

Data Compilation

Since 2004, the Company has been reporting results from a large number of old mine prospects at Zacualpan. To put the results of this extensive field work, historical information and assays in context, and to prioritize exploration targets, the Company hired a senior geological database expert in early 2007 to compile a computer Geographic Information System (GIS) database encompassing all past mining and exploration data in the Zacualpan and neighbouring Mamatla Districts. To year-end 2007, over 750 old mine workings have been entered into the database, of which the Company's exploration crews have sampled 87 in detail. Of these, ten priority targets have been drill-tested, resulting in the discovery of two new mines (Chivo and San Ramon). Five of the other ten targets returned economically significant results that will lead to further drilling. At this point, only about 10% of the Zacualpan property has seen detailed exploration.

Due to the vast size of the Zacualpan district, exploration activity is carried out as a series of projects, each with its own dedicated team. A summary of exploration work completed in 2007 is discussed below with target areas described as near-term, intermediate-term and long-term production potential (see map on corporate website (www.impactsilver.com) for locations).

Near-Term Exploration Targets

(Less than one year horizon to potential production.)

Near-Term Exploration targets are mainly located in the vicinity of active mine workings. Many of these targets are tested by the mine staff through underground sampling and IMPACT's wholly-owned, continuously operating underground drill. The resulting samples are processed in a modern, fully-equipped laboratory that is located at the mine site. The Company does not routinely report assays from this underground sampling and drilling, as the work is considered part of the daily management of mining operations.

In 2007, underground Near-Term Exploration focused on the Guadalupe, Gallega and Chivo Mines. The underground drill is presently testing extensions of known veins on Level 195 of the Guadalupe Mine, outlining new areas for production. Other parts of the mines are re-evaluated by underground channel sampling. For example, the San Lorenzo Vein on Level 195 at Guadalupe returned nine underground samples averaging 444g/t silver, 1.3% lead and 2.6% zinc across 0.54 meters TW along a strike length of 90 meters with the best sample assaying 1,040g/t silver, 0.8% lead and 2.3% zinc across 1.1 meters TW and is now included in production plans for 2008. Similarly, underground exploration combined with surface drilling at the nearby Gallega Mine in 2007 discovered several new veins that are now in production.

Chivo Project

The Chivo Mine is the newest addition to the Company's production profile. In early 2007, drill results from 18 holes in the Chivo Silver Shoot led to a production decision. Highlights of this work included the following: 937g/t silver, 0.35g/t gold, 1.88% zinc and 0.75% lead across 2.7 meters TW (DH Z-06-10) and 378g/t silver, 0.30g/t gold, 4.25% zinc and 1.76% lead across 4.7 meters TW (DH Z07-03).

In November 2007, the first underground workings reached the Chivo Silver Shoot. Subsequent to year end, this shoot has been exposed underground for a distance of 120 meters on the south end and the first 60 meters has commenced commercial production. Samples from this initial 60-meter long mining stope averaged 269g/t silver, 0.74g/t gold, 3.01% zinc and 1.08% lead across a TW of 3.3 meters ranging to a high of 657g/t silver, 0.60g/t gold, 1.13% zinc and 0.18% lead across a TW of 2.85 meters. At the point where the access adit intersected the vein, the rock section above the vein contained a series of additional sheeted veins which, when combined with the main vein, averaged 220g/t silver across 20.1 meters, including one sheeted vein which assayed 392g/t silver across a TW of 5.2 meters. The full extent of this wide bulk mineable section will be further investigated as mining and underground exploration proceed. Surface drilling is continuing on the north and south extensions of the Chivo Silver Shoot to fully delineate its extent.

Exploration of several nearby targets continues on the premise that any of them could be readily and quickly integrated into the Chivo Mine. One of them, the San Patricio Vein, located 600 meters west of the Chivo Mine, is a branch off the main Lipton Vein which is host to the producing Guadalupe Mine further to the north. Four drill holes at San Patricio in 2007 returned highlights of 242g/t silver across 4.6 meters TW and 935g/t silver and 2.14% zinc across 0.6 meters TW. Further drilling is planned at San Patricio to expand on these results and on other targets in the Chivo Project area in 2008.

Intermediate-Term Exploration Targets (One- to three-year horizon to potential production.)

Significant effort is being given to Intermediate-Term Exploration Targets. The latest success in this category is the silver-rich Chivo Mine which progressed from discovery sampling in September 2005 to first drill hole assays in October 2006, and to first commercial production in early 2008. A variety of Intermediate Term Exploration Targets were explored in the district in 2007.

San Antonio Project

The San Antonio zone is located four kilometers southeast of the Zacualpan mill and 1,350 meters northeast of the Chivo Mine. On surface, it is marked by a glory hole, two old adits and a foundation for an old processing plant. Highlights from the eleven-hole drill program in 2007 include the following:

San Antonio Drill Holes

Drill Hole	Top of Intercept (m)	Estimated TW (m)	Zinc (%)	Lead (%)	Silver (g/t)	Gold (g/t)
Section 2000n						
Z07-15	53.5	2.9	7.81	3.76	50	0.91
	Including:	0.9	15.95	8.10	97	1.63
Z06-22	47.4	1.1	4.09	4.46	118	5.12
Section 2050n						
Z07-21	82.8	4.5	11.55	1.94	33	0.51
	Including:	1.8	16.53	1.63	25	0.55

Further drilling is planned for the San Antonio Zone and other nearby veins in 2008, and soil sampling, prospecting and mapping are planned for the general San Antonio Project area.

Cuchara Project

The Cuchara Mine is located three kilometers east of the Zacualpan mill. The main shoot has been mined intermittently for hundreds of years and was last in production in 2004. Recent drilling tested the southern extension of the Cuchara Vein system beyond historic mining areas returning the following highlights:

Cuchara Extension Drill Holes

Drill Hole No.	Top of Intercept (m)	Estimated TW (m)	Silver (g/t)	Gold (g/t)	Zinc (%)	Lead (%)
Z07-29	107.5	2.2	641	0.02	1.67	0.53
	Including:	0.6	1,340	0.02	2.27	0.80
Z07-30	18.8	1.5	229	0.07	1.17	0.35

In early 2007, a new discovery was also made at the nearby Oscar Vein:

Oscar Vein Drill Hole

Drill Hole No.	Top of Intercept (m)	Estimated TW (m)	Silver (g/t)	Gold (g/t)	Zinc (%)	Lead (%)
Z07-26	95.0	0.3	2,820	7.83	7.83	3.48

Mapping and prospecting has identified a cluster of at least ten other veins with old workings in the Cuchara area. Data compilation and surface work are continuing in preparation for further drilling of these and other nearby veins.

Pino Prospect

The Pino Prospect lies on the Lipton Vein system. It is located 700 meters south of the Guadalupe Mine, which has historically produced 10 million ounces of silver predominantly from the Lipton Vein. The Pino Prospect area is marked by a large soil anomaly and sparse old small mine workings. Highlights from drilling returned:

Pino Prospect Drill Holes

Drill Hole No.	Top of Intercept (m)	Estimated TW (m)	Silver (g/t)	Gold (g/t)	Zinc (%)	Lead (%)
Z06-19	125.5	4.9	8	0.06	1.84	0.59
	Including:	3.3	11	0.05	2.29	0.67
Z06-21	63.6	2.7	84	0.09	2.67	0.64
	And:	1.7	109	0.11	3.58	0.84

This initial test indicated this to be a zinc-rich prospect. The best holes (19 and 21) were both drilled near the valley bottom and indicate that metal values were increasing with depth in the vein structure. In late 2007, one additional hole was drilled to test this system to greater depth. Assays are pending. Additional drill sites have been prepared to further test this zone to depth in 2008.

Longer-Term Exploration Targets (Three- to five-year horizon to potential production.)

The Company field crews have been exploring various mineralized areas at Zacualpan with Longer-Term production possibilities. The most significant of these is the Carlos Pacheco-Nochebuena ("CPN") Gold-Copper Zone.

CPN Gold-Copper Project

The CPN Project covers a sizeable target area within the larger Zacualpan District. It is located five kilometers southwest of the Zacualpan mill in the central portion of the Company's land holdings covering a 10-square-kilometer area of large-scale, well mineralized with Copper-Gold and Silver-Zinc-Lead veins. In early 2007, the first results of sampling in some old mine workings returned highlights of:

Carlos Pacheco Adit Samples

Location	Estimated TW (m)	Gold (g/t)	Copper %	Silver (g/t)
End of Adit	2.7	14.6	0.46	58
Including:	1.2	32.4	0.80	106
Eight Meters From End of Adit	2.4	5.9	0.70	80
Including:	0.9	10.9	1.27	134

The Cobre Prospect is an old adit located on the Pacheco Vein System 3.5 kilometers south of the Pacheco Prospect on the same vein. Samples were collected in five places over the 25 meters exposed length of the vein in the adit and returned the following values:

Cobre Adit Samples

Location	Estimated TW (m)	Gold (g/t)	Copper %	Silver (g/t)
Average Of Five Samples Along 25 Meters Exposed Length Of Vein	1.0	1.2	2.34	181
Including:	1.2	0.2	7.81	88

Through much of 2007, a dedicated exploration team has been mapping and sampling the CPN Project area in preparation for a major drill program in 2008. Results from the 2007 exploration work will be released when all assays are received and interpreted.

These significant copper and gold zones are found at lower elevations in the Zacualpan district and may be indicative of a copper and gold district underlying the silver district. The Company's geologists consider this idea to hold big blue sky exploration potential and incorporate the possibility into their exploration planning.

MAMATLA SILVER AND BASE METALS PROJECT, MEXICO

The Company won the 200-square-kilometer Mamatla District in a government auction in February 2007 and a dedicated field crew began work immediately. The district is located immediately adjacent to and southwest of Zacualpan. Mamatla is host to epithermal silver and base metal veins as well as Volcanogenic Massive Sulphide ("VMS") base and precious metal mineralization.

Mamatla VMS Prospects

The Mamatla VMS mineralization varies from copper and gold rich systems to zinc, lead, gold and silver rich systems. The Mamatla project covers the same stratigraphy as the Campo Morado VMS belt where Farallon Resources Ltd. (TSX: FAN) has announced a production decision on the G-9 VMS deposit (5.57 million tonnes grading 7.3% zinc, 1.0% lead, 1.3% copper, 186g/t silver and 2.8g/t gold). The G-9 VMS deposit is located along trend 45 kilometers southwest of Mamatla.

Capire VMS Project

The most advanced exploration targets at Mamatla are the Capire and Aurora 1 VMS deposits which were discovered less than one kilometer apart and drilled by prior operators in the 1990s. In the auction bid document publicly released by the Mexican Geological Survey, the Capire deposit is described with an indicated resource of 1,154,500 tonnes grading 0.22g/t gold, 73g/t silver, 0.45% lead and 1.13% zinc in a near surface zone with potential for open pit mining and open for expansion. Several past drill highlights such as the following indicate that there are also higher grade portions to this deposit:

Capire Zone

Width (m)	Gold g/t	Silver g/t	Lead %	Zinc %	Copper %	Source
4.0	2.66	430	2.88	7.18	0.35	See Valerie Gold Press Release dated April 3, 1997
6.0	3.65	2218	2.38	5.67	0.66	See Valerie Gold Press Release dated May 22, 1996

In the auction bid document publicly released by the Mexican Geological Survey, the Aurora 1 Deposit is described with an indicated resource of 194,000 tonnes grading 1.28g/t gold, 180g/t silver, 2.13% lead and 4.45% zinc. Some past drill highlights include:

Aurora 1 Zone

Width (m)	Gold g/t	Silver g/t	Lead %	Zinc %	Copper %	Source
7.5	0.54	230	3.67	6.71	0.44	See Valerie Gold Press Release dated April 3, 1997
1.0	0.65	693	4.16	6.85	1.28	
1.0	1.34	353	5.18	10.6	0.67	

The Company has not independently verified these resource estimates and the estimates are not compliant with NI43-101 requirements; therefore, they should not be relied upon. The Company has also not yet verified the results of the previous exploration assays quoted from news releases of Valerie Gold Resources (now Valgold Resources Ltd., a TSX Venture Exchange company). These news releases were issued in the 1990s and therefore readers are cautioned that the results as presented may not comply with current NI43-101 standards of disclosure. However, the Company believes the historical resource estimates and drill results provide an indication of the potential of the Capire VMS Project and are relevant to the Company's plans for further exploration work.

In December 2007, IMPACT drilled an initial four holes into the Capire Deposit. Assays have not yet been received but these holes did intersect the mineralized horizons as indicated by previous drilling. A further 3,000 meters of drilling is planned for the Capire and Aurora 1 Deposits in 2008 to outline mineral resources.

Mamatla Epithermal Vein Prospects

Since acquisition of the Mamatla project in February 2007, a dedicated exploration crew has discovered over 70 previously unidentified epithermal vein prospects and old mines. Initial results from this work include the following. Assays from other prospects are pending.

Huatecosco Prospect

The Company crews found two old mine workings at the historic Huatecosco Prospect located about ten kilometers southwest of the Zacualpan mill. The lower working is a mine adit that has collapsed, but a selected grab sample of vein material from the mine dump returned an assay of 409g/t silver, 5.41 g/t gold, 0.9% zinc and 0.5% lead. Crews were able to enter the upper inclined shaft which leads to a small underground working on the vein in oxidized material. Sampling of the exposed vein returned 1.88g/t gold and 40g/t silver across 8.7 meters. Elsewhere in this working, assays were highly variable ranging up to 189g/t gold across 1.5 meters. The Company's geologists conclude that this is a wide vein that has variable, locally very high gold grades in the near surface oxidized zone and more consistent silver and gold grades at depth. Plans in 2008 are to open the lower adit and sample the vein at this lower level in preparation for future drilling.

San Joaquin Prospect

The San Joaquin Prospect is located 2.5 kilometers west of Huatecosco. A grab sample of vein material from the mine dump assayed 295g/t silver and 1.5% zinc. Plans are to map and sample this area and establish access to the old mine workings.

San Carlos Area Prospects

The ruins of the large historic San Carlos processing plant are located 13 kilometers southwest of the Company's operating Zacualpan processing plant. The San Carlos plant appears to have served as a central facility for processing minerals from local mines. At the site, the Company's crews found seven piles of mineralized rocks varying from 20-500 tonnes in size. Samples from these rock piles assayed between 0.06 2.12% copper, 0.1-17.55% zinc, 0.1-11.45% lead, 46-836g/t silver and 0.2-8.65g/t gold. With the belief that these piles represent mineral collected from various nearby old mines, the Company's crews began prospecting the surrounding countryside and discovered numerous old mine workings. Samples from some of the first workings discovered in 2007 are reported below.

Pirul Prospect

The Pirul Prospect is comprised of old mine shafts and adits located one kilometer north of the San Carlos plant. Samples from the workings returned the following highlights:

Pirul Prospect

Location	Sample Width (m)	Silver (g/t)	Zinc (%)	Lead (%)
Sample From Shaft	2.0	331	0.04	9.23
Samples From Adit Located 65 Meters Southeast of Shaft				
12 Meters from Entrance	1.0	285	5.31	6.88

Gorrion Prospect

The Gorrion Prospect is located 500 meters west of the Pirul Prospect. Samples from a dump beside a surface cut and a nearby outcrop returned the following values:

Gorrion Prospect

Location	Estimated TW (m)	Silver (g/t)
Surface Sample of Vein	2.1	163

Angel Prospect

The Angel Prospect is located three kilometers northwest of the San Carlos plant. Highlights from a series of old shafts and small surface open cuts traced over 100 meters returned the following values:

Angel Prospect

Location	Estimated TW (m)	Silver (g/t)
Average of three samples beside Shaft No. 1	0.9	331
Sample from Shaft No. 2 (30 meters NW of Shaft No. 1)	0.9	492

San Nicolas del Cobre Prospects

The San Nicolas del Cobre Prospects are found over a distance of one kilometer in the far northwest of the Mamatla District. Samples taken from old mine workings in the area returned the following values:

San Nicolas Del Cobre Prospects

Location	Estimated TW (m)	Copper (%)	Silver (g/t)	Gold (g/t)
Amigo Shaft	1.0	1.67	123	0.5
Enjambre Shaft	0.5	1.85	98	4.1

Dedicated IMPACT crews continue to carry out Intermediate Term Exploration and reconnaissance work in the Mamatla District. Detailed field work in 2008 began in the Huatecosco area.

VETA GRANDE (ZACATECAS) SILVER PROJECT, MEXICO

On September 28, 2006, the Company announced the signing of a Comprehensive Agreement to purchase the Veta Grande Silver Project in the historic Zacatecas Silver District of Mexico over a maximum of four years for US$1,120,000 and 500,000 shares. The project includes a 200-tpd processing plant and certain surface rights. The project is located 500 kilometers 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. During 2007, exploration focused on some of the 17 mineral concessions located within this district.

IMPACT Concessions (100%)

In 2007, the Company acquired and then crews carried out a program of mapping and surface sampling on the Nueva Granada and Asturiana concessions which cover veins branching off the Veta Grande Vein system, the major silver producer in the district. Old plans indicate the veins on these concessions were mined over a length of 700 meters and to a depth of 150-200 meters on the Company's concessions.

Field work in late 2007 focused on the San Jose and Armado Veins. The San Jose Vein crosses the concessions over a distance of 800 meters. Old mine workings and dumps mark the surface along its entire width. A total of six channel samples were collected from surface exposures of the vein and averaged 239g/t silver over 0.74 meters TW ranging to a high of 444g/t silver over 1.10 meters TW.

The Armado Vein trends 100 meters west of and runs parallel to the San Jose Vein. It has been traced over a distance of 500 meters and is marked by old mine workings and dumps along its entire length. Channel samples collected from surface exposures of the vein located 130 meters apart assayed 237g/t silver over 1.92 TW and 1,320g/t silver over 0.30 meters TW. Two samples were collected at an old mine dump on the vein located 400 meters to the north. A sulphide-bearing sample assayed 358g/t silver and a sulphide-poor sample assayed 247g/t silver.

Most of the other IMPACT concessions at Zacatecas have medium- to high-grade rock dumps beside old mine workings that have not seen any modern exploration or drilling. These include the Cristian Mine where samples from surface dumps returned 310g/t silver, 24.2% lead and 8.0% zinc from a high-grade stockpile. At the San Pascual, a representative sample of the dump around the shaft assayed 875g/t silver. A representative sample from the dump beside the nearby Pirul shaft assayed 525g/t silver.

Zacatecas Joint Venture (Yale Resources)

The Company optioned four of its Zacatecas concessions (San Sabino, Zacatecas, Salvador and San Jose) to Yale Resources Ltd. ("Yale"). Under the agreement, Yale may earn an interest in the concessions by making certain cash payments and completing certain work commitments. In mid-2007, Yale carried out a drill program on three concessions. In total, four holes (501 meters) were drilled at San Jose and 12 holes (1,314 meters) were drilled at Salvador/Zacatecas. The best intersection assayed 1,340g/t silver over 0.80 meters at San Jose.

Zacatecas Processing Plant

The 200-tpd processing plant began operations during the third quarter 2006. It is now operating on a custom milling basis by the vendor processing mineral for local small scale miners. IMPACT engineers are carrying out an assessment of the plant and associated facilities as part of the Company's due diligence work toward a decision to finalize the purchase.

FUTURE EXPLORATION PLANS

The exploration budget for 2008 has been more than doubled in order to put some of the 700+ known prospects at the Zacualpan and Mamatla districts on a faster track to potential production and build mineral inventories for mining. The exploration program is being funded through existing cash balances. The drill budget has been expanded to 12,000 metres of Phase 1 surface drilling and 5,000 meters of underground drilling. Additional technical personnel were hired to carry out work ranging from greenfields to advanced-stage exploration. The year 2008 began with three dedicated field crews each lead by a senior geologist working on the San Antonio, Mamatla and CPN Projects, respectively. A prospecting team continues reconnaissance work in the districts. Three geologists are overseeing both surface and underground drilling operations at Zacualpan and Capire (Mamatla). Crews continue to sample an expanded soil grid, which will encompass an additional 12,000 samples in 2008. The purchase of a second wholly-owned underground drill has also been budgeted. The GIS database compilation continues into 2008 with an emphasis put on district-wide interpretation.

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 Mamatla Silver and Base Metals Project and the Veta Grande (Zacatecas) Silver Project. Details on sampling methods and other information on the projects can be found in the Company's news releases.

LOS RANCHOS PROJECTS, DOMINICAN REPUBLIC

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Gold Corporation ("Barrick") and Xstrada, as well as a number of juniors, including Unigold Inc. ("Unigold"), Globestar Mining Corporation ("Globestar"), Linear Gold Corp. ("Linear"), Energold Drilling Corp. ("Energold") and Everton Resources Inc. ("Everton"). The exploration concessions in the Dominican Republic held by the Company constitute a block of applications for exploration concessions and granted concessions covering highly-favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which the Company believes offers the opportunity for mineralization. The Company's block of concessions is located some 100 kilometers east of Barrick's Pueblo Viejo gold deposit and hosted in the same rock formation. The Company has conducted limited work on the project in 2007 waiting for the concession renewals to be approved, and upon their receipt late in the year, it commenced an Induced Polarization program on the El Brujo I concession budgeted at over $120,000.

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information described in this Management Discussion and Analysis for the Dominican Republic Projects.

INVESTOR RELATIONS

IMPACT has regularly attended a number of investor conferences in Canada and more recently abroad, along with engaging the services of an investor relations representative to assist in developing the Company's profile. The Company continues to offer regular analyst tours of the operations of the Zacualpan project. We believe that the only way the magnitude of the project can be fully appreciated is by allowing investors' representatives to have total and completely candid exposure to the ongoing activities at both at the mines in Zacualpan and the exploration potential there and elsewhere. The Company intends to repeat these tours over the course of the next year. Subsequent to the year end, the Company re-engaged Sean Rakhimov to assist in the providing of investor information. Energold, a significant shareholder in the Company provided additional services including personnel to assist in the investor relations activities.

FINANCIAL DISCUSSION

CRITICAL ACCOUNTING ESTIMATES

In preparing financial statements, management has to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and the actual results may differ from results based upon these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Management's critical accounting estimates apply to the assessment for the impairment of resource properties and property, plant and equipment, as well as the valuation of other assets and liabilities such as inventories and future income tax liabilities, stock-based compensation, inventory valuation, asset retirement obligations, as well as accounting for income and resource taxes, depletion and amortization of mineral reserves and employee social benefit costs.

Risk Factors

Mineral exploration is a speculative venture. 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 dependent upon the personal efforts and commitment of its existing management who devote only a portion of their time to the Company's affairs. To the extent that management's services would be unavailable for any reason, a disruption to the operations of IMPACT could result, and other persons would be required to manage and operate the Company.

The mineral industry is intensely competitive in all its phases. IMPACT competes with many other mineral exploration companies who have greater financial resources and experience. Operating results are dependent not only on mining and milling efficiency, but also on the market price of metals which are volatile and beyond the control of the Company.

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.

Selected Annual Information

Description	2007	Restated 2006	2005
Total revenues	$7,250,077	$7,005,793	N/A
Net income (loss)	$286,727	$505,660	($486,270)
Net income (loss) per share – Basic	$0.01	$0.01	($0.02)
Net income (loss) per share – Diluted	$0.01	$0.01	($0.02)
Total assets	$27,677,980	$18,483,936	$3,767,288
Total long-term financial liabilities	$2,716,137	$2,257,116	$270,206
Dividends declared	N/A	N/A	N/A

As can be seen from the table of selected annual information above, the Company has grown significantly since December 2005. It has done so through its capital finance raising activities and its purchase of the Royal Mines of Zacualpan assets, and the acquisition of the Mamatla concession. In addition, it has added to its property interests through the Veta Grande Silver project in the Zacatecas area of Mexico. The Company has progressed from being an early stage exploration and development company into an active mining operation with a substantial resource property asset base centered around two key silver mining areas in Mexico. The Company is well financed for its current stage of operations, with both cash on hand and working capital in excess of $10.0 million at December 31, 2007. The Company's mining operations are profitable and are being ramped up to higher production levels, and the Company is opening its first new mine since completing the Zacualpan acquisition. The total amount of long term financial liabilities shown above are all related to future income tax liabilities. During the course of preparing the 2007 year end financial statements, management determined that a restatement of the 2006 financial statement operating results was required as a result of the need to recognize for accounting purposes future income tax asset and liability timing differences related to the initial Zacualpan acquisition.

As well, the 2006 financials were also restated due to the early recognition of income relating to funds received for properties which should have been recorded against the carrying cost of the property and as a cash call payable.

Accounting for the Acquisition of Minera El Porvenir de Zacualpan S.A. de C.V. ("MPZ")

On January 16, 2006, the Company completed the acquisition, through its wholly-owned subsidiary, Minera Aguila Plateada S.A. de C.V. ("MAP"), of all the issued and outstanding shares of MPZ. Total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and payment of $2,260,200. This was, for accounting purposes, a business combination. The Company, therefore, recognized the fair value of the assets acquired and liabilities assumed as at the date of acquisition.

The results of operations of MPZ and its wholly-owned subsidiary, Minera Laureles S.A. de C.V., from January 17, 2006 forward are included in our financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired and liabilities assumed is summarized in the table below.

		Canadian $
Purchase Price		
Net share consideration at market value at date of issue (300,000 shares)	$	179,500
Cash payment to vendors		2,260,200
		2,439,700
Fair value of assets acquired and liabilities assumed		
Accounts receivable and prepaid expenses		126,676
Inventory		174,701
Property, plant and equipment		240,087
Resource properties		5,038,305
		5,579,769
Accounts payable and accrued liabilities		(374,356)
Forward-sales contract liability		(2,164,773)
Future income tax liability		(600,940)
		(3,140,069)
		2,439,700

The liabilities above include approximately US$465,000 pertaining to forward-sales contract losses realized to the date of acquisition, under a smelter contract commitment obligation entered into in April 2004 by MPZ prior to the Company's involvement. Under this contract obligation, MPZ had entered into monthly forward-sales commitments with a Mexican smelter through to the end of July 2006, calling for monthly deliveries of 20,000 ounces of silver, 200 ounces of gold, 50 tonnes of lead and 100 tonnes of zinc, which had been sold-forward at US$7.00 per ounce silver, US$400.00 per ounce gold, US$720.00 per tonne lead, and US$1,100 per tonne zinc. MAP also assumed 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.

This meant that we recognized the difference between the spot price of current metal markets at the date of our acquisition of MPZ, to the date of final closure of the forward-sales commitment obligations (July 31, 2006) and the agreed selling prices entered into under the 2004 forward-sales contract arrangement. Had MPZ not entered into forward selling commitments and had MPZ been able to mine and to sell the same quantity of metals as it had contracted to deliver, it would have, for the seven months from January to July 2006, realized approximately US$1.294 million more than it did do under its forward-sales delivery contractual commitments. This foregone revenue and MPZ's obligation to make good on the delivery obligation was taken into account as part of the purchase consideration.

Restatement

As at December 31, 2006, the Company should have recorded a future income tax asset of $416,652 and a future income tax liability of $1,181,766. The offsetting entry was to Future Income Tax Expense during the 2006 fiscal year. In addition, the Company had recorded received property payments as Other Income; however, the Company has now determined that $134,899 of this should have been recorded against the resource properties. As a result of these corrections, net income was reduced by $467,162. This has resulted in an increase in the reported deficit as at December 31, 2006. The effect of the restatement on the year 2006 consolidated financial statements is as follows:

	As previously reported	As restated
Future income tax asset	$ –	$ 416,652
Resource Properties	$ 9,684,458	$ 10,028,849
Accounts Payable	$ 1,059,229	$ 1,105,668
Future income tax liability	$ 1,075,350	$ 2,257,116
Income for the year	$ 972,822	$ 505,660
Deficit	$ 4,366,563	$ 4,833,725
Earnings per share – basic	$ 0.03	$ 0.01
Earnings per share – diluted	$ 0.02	$ 0.01

Results of Operations

Summary of Quarterly Results (CDN$ 000's except income (loss) per share)

Quarter	Revenues	Basic Net Net Income (loss)	Diluted Net Income (Loss) Per Share*	Income (Loss) Per Per Share *	Total Assets	Total Long-term Liabilities
4th 2007	2,110	356	0.01	0.01	27,678	2,716
3rd 2007	1,604	(287)	(0.01)	(0.01)	20,364	1,225
2nd 2007	1,677	(48)	0.00	0.00	19,175	1,178
1st 2007	1,859	266	0.01	0.01	18,395	1,117
4th 2006 **	2,025	264	0.00	0.00	18,484	2,257
3rd	1,873	167	0.00	0.00	16,750	1,071
2nd	1,977	(103)	0.00	0.00	17,567	964
1st	1,147	178	0.01	0.01	9,681	870

* These numbers have been rounded to two decimal places

** These 2006 comparative results have been restated (see Note 16 to the financial statements)

The Company's income statement includes the consolidation of operations of the Zacualpan Mine in Mexico since January 16, 2006.

The Company completed the acquisition of the Zacualpan Mine in January of 2006, the details of which are described more completely above. In addition to the cash and share outlays, MPZ had a smelter contract that included fixed pricing for the delivery of specific quantities of certain metals for a period expiring July 31, 2006. Under GAAP, in an acquisition, the difference between the fixed prices and the market price as well as any projected shortfalls in delivery are deemed part of the acquisition price. Because this acquisition was made with the primary purpose of acquiring unrestricted access to the total exploration potential of the MPZ properties and the entire Zacualpan silver mining district, the Company allocated half of its acquisition cost to deferred mineral exploration and development costs to recognize its investment made in the many potential exploration targets that it has identified on the properties that it acquired with the purchase of the shares of MPZ. Exploration work carried out during 2007 has significantly increased the number of potential exploration targets identified on the properties from the over 300 reported in our last annual report to over 750 today. The current programs underway are designed to develop immediate mining targets and to enhance future production.

Mine Operating Earnings for the Year ended December 31, 2007

Average mill throughput during the year was 274 tpd, a significant increase from the 194 tpd mined in the prior fifty-week period, from the date of Zacualpan acquisition on January 16 to December 31, 2006. Revenues (net smelter returns) calculated under GAAP for the 2007 year were $7,250,077, just slightly greater than the revenues in 2006 – $7,005,793. The Company incurred operating costs of $4,411,191 for the year before amortization and depletion expenses of $767,955 ($539,466 – 2006). On an absolute dollar basis, these operating costs were $351,691 higher than the fifty-week operating period in 2006, when total operating costs were $4,059,500. On a total cost-per-tonne basis, the Company achieved a significant reduction in average operating costs-per-tonne from approximately $60.00 in 2006 to $44.00 in 2007 because of the 41% increase in average daily mill throughput. Mine operating earnings for the year were $2,070,931; a decrease of $335,896 from the $2,406,827 recorded for the fifty week period ended December 31, 2006 in the prior year. Fourth quarter earnings in 2007 also showed a strong improvement over the third quarter of 2007 as a result of rising silver prices enhancing net smelter returns despite lower overall silver production. Net income in the fourth quarter increased by approximately $643,000 over the reported loss of $287,000 in the third quarter to a net income of $356,000 in the fourth quarter.

General, Administrative and Other Expenses

General and administrative expenses for the 2007 year were $1,683,197 or $857,782 more than the total administrative expenses incurred in 2006 of $825,415. The major factor accounting for $537,619 or 63% of this significant variance is fluctuations in the valuation of foreign exchange translation gains and losses. Other key factors contributing 10% or more to higher costs in 2007 were investor relations expenditures with an increase of $84,206, office salary and services costs of $119,927, and increased stock compensation expense costs of $112,330, compared to the 2006 year.

The Company earns its revenues paid under its smelter contracts in U.S. dollars and incurs its costs in Mexican pesos as well as Canadian dollars. Because the Company reports its earnings in Canadian dollars, under GAAP it must translate its revenues and expenses into Canadian dollars for financial statement purposes using the temporal method. The Company incurred a foreign exchange loss of $450,921 in 2007 compared to a foreign exchange gain of $86,698 during 2006. Foreign exchange fluctuations in the translation of the Company's Mexican-owned assets into Canadian dollars will continue each quarter and may have a significant impact on future quarterly reported administrative expenses and net reported income. Fluctuations in money market exchange rates have been particularly dramatic in 2007 with the value of the U.S. dollar declining against the value of the Canadian dollar by almost 16% since the beginning of the year. The major portion of this decline took place in the second and third quarters of 2007. Excluding foreign exchange and stock compensation expense, administrative expenses are now running at approximately $250,000 per quarter. Some comments with respect to specific items of costs for the quarter are as follows:

Accounting and audit costs charged to administrative expenses were $42,517 lower in 2007 compared with the prior year as 2006 costs were impacted by the audit costs associated with the Zacualpan Mine acquisition. We expect these costs to be about the same in 2008 as 2007 as our auditors gain greater familiarity with our overall operations.

Insurance costs have increased by $34,742 in 2007 to $107,866 compared to $73,124 in 2006. This reflects a full year's premium expense coverage in 2007, whereas in the prior year, insurance coverage was not placed on certain assets until they were acquired part way through the year. We expect that insurance coverage costs in 2008 will likely run about ten to fifteen percent higher than the 2007 expense level because of the recent purchase of a used 200-tpd mill and other mining equipment for the mine.

The costs related to maintaining investor relations increased by $84,206 in 2007 to $150,295 from $66,089 in the prior year. We increased our expenditures on investor relations activities significantly in 2007 in order to help with our successful capital raising efforts and to be able to tell our company's story more effectively to the investor community. Costs in 2007 included the services of one consultant and expenditures related to a number of industry and investor conventions. We also spent monies on mail-outs and sponsored several newsletter writers' and brokers' tours of our Mexican mining operations. We expect that we will maintain our investor relations expenditures at approximately the 2007 level in 2008 as we continue to highlight our achievements to the investment community.

Legal costs charged to administrative expenses in 2007 were $47,586 less at $57,280 in the current year compared to $104,866 in the prior year when the Company had two private placements and also incurred costs related to the Zacualpan acquisition and the Zacatecas Veta Grande Silver Project. Costs during the year were of a general legal support service nature. Ongoing costs are associated with the purchase acquisitions that the Company has carried out in exercising its various options on its lease to purchase agreements and legal costs associated with our Zacatecas Option Agreement and property title reviews.

Office salaries and services costs were $308,292 in the year compared to $188,365 in the prior year. The increase in costs in 2007 is the result of performance bonuses paid to the Company's CEO and Vice President of Exploration in 2007, as well as higher costs incurred as a result of hiring a full time accountant to supervise the head office accounting and financial reporting for the Company's operations. These higher costs are a result of the increased level of staff and services support required in connection with our operation of the Zacualpan silver property and our other exploration efforts in Mexico, including those around the Zacatecas area. We expect that these expenses will continue to increase modestly in 2008 from the 2007 level as we continue to increase the scale of our operations of mining and mineral exploration activities in Mexico.

In 2006, the Company recognized the value of the stock options granted to officers, directors and employees for the period using the Black-Scholes Option Pricing Model of $105,831. During the third quarter of 2007, the Company granted stock options to officers, directors and employees, resulting in an expense for the year of $218,161.

Transfer agent and filing fees were $38,403 during 2007 or $26,557 less than the $64,960 of such expenses incurred in 2006. Costs were higher in 2006 due to two private placement transactions in the first half of that year. We expect these costs will likely continue to approximately the current 2007 level during the 2008 year.

Resource Property Expenditures

Zacualpan

Exploration expenditures related to Zacualpan for the 2007 year were $2,467,304, compared to $2,047,758 in 2006. The majority of this increase in expenditures was the result of the Company's increasing its expenditures on drilling operations from approximately 5,000 meters in 2006 to approximately 8,000 meters at Zacualpan in 2007. Much of this drilling was focused on various advanced- to early-stage targets in the Zacualpan area. The Company's exploration expenditures are expected to continue at a high level during 2008 as the Company continues to develop its exploration program to explore the many targets that it has identified. The Company capitalizes surface exploration and amortizes it on a mine-by-mine basis. Underground exploration primarily in active mining areas is expensed as incurred.

The Company has also hired additional geological support staff and resources to lead three separate teams to accelerate the early exploration and mapping of its properties and prospective drill targets. The Company expects that its 2008 exploration expenditures on the Zacualpan property will continue at their current rate exceeding its 2007 expenditures as it proceeds to explore some of its initial more promising exploration targets.

Zacatecas

During the 2007 year, the Company recorded property acquisition costs of $462,890 in connection with the acquisition of certain mineral concessions in the Zacatecas area. The Company now has acquired 100% interests in 17 mineral concessions in the Zacatecas Silver District, four of which are subject to joint venture agreements. These acquisitions are part of the Company's strategy of building its property portfolio of mineral concessions in the Zacatecas area to provide future mineral supplies to feed the Veta Grande processing mill plant which the Company has the option to purchase. In mid-March 2007, the Company commenced an initial exploration drilling program on several of these properties, which program was fully funded by our joint venture partner. This initial program was completed during the second quarter. Assay results from this drilling were received and published by our joint venture partner in mid-June. During 2007, the Company incurred a total of $602,204 of deferred exploration costs expenditures on the Zacatecas property concessions, $537,235 of which was recovered from our joint venture partner.

Liquidity and Capital Resources

At December 31, 2007, the Company had working capital of $11,349,373, a significant $5,340,070 increase from the $6,008,665 working capital position at September 30, 2007. The December 31, 2007 working capital position was also $6,148,892 greater than the restated working capital position of $5,200,481 at December 31, 2006. The increase in working capital during the fourth quarter was largely due to the exercise of substantially all of the outstanding purchase share warrants that expired on October 6, 2007, as well as the strong earnings recorded during the fourth quarter.

During the first and second quarters of 2006, the Company completed two private placements involving the issuance of share purchase units with warrants attached which expire in July and October of 2007. The initial subscriptions raised a total of approximately $10,300,000, net of expenses, of which $1,046,000 was recorded in 2005. The funds from the first private placement were used as part of the purchase of the Zacualpan mines and the leasehold interests. The funds from the second placement were used to acquire the leased mill facility, certain mining and mobile equipment, to upgrade current operations, to conduct exploration and to increase the Company's overall working capital position. Funds raised from the private placements were augmented by the exercise of options and share purchase warrants by Company shareholders. During 2006, the Company also raised $104,640 on the exercise of 622,000 share purchase options and $1,049,750 on the exercise of 2,700,000 share purchase warrants.

During 2007, the Company raised $7,375,089 from the exercise of share purchase warrants, exercisable at $0.50 and $1.30 per share that expired on July 5, 2007 and October 6, 2007 and the exercise of employee and directors' share purchase options.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 9, 2008.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at April 9, 2008	47,308,710		
Employee stock options	365,000	$ 0.13	October 20, 2008
	375,000	$ 0.15	May 12, 2009
	604,500	$0.42	April 13, 2010
	35,000	$ 1.44	February 6, 2010
	1,055,000	$ 1.40	September 5, 2012
	75,000	$1.67	October 22, 2012
Fully Diluted at April 9, 2008	**49,818,210**		

Transactions with Related Parties

Energold Drilling Corp. owns 6,610,001 shares of the Company 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 the Company'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.

IMPACT signed an agreement with Energold in early 2007 for the latter to provide diamond drilling services to IMPACT. Energold received fees in the amount of $1,368,903 in 2007 (2006 – $533,534) for contract drilling services performed in Mexico. These services were provided in the normal course of business operations at similar rates that would be offered to any other mining company. As at December 31, 2007, the balance owed to Energold with respect to its recoverable costs was $582,081 (2006 – $35,270).

During the year, fees in the amount of $269,900 (2006 – $162,358) were paid or accrued to two directors and one officer of the Company, of which $225,075 is shown in various administrative expenditures on the income statement, and $44,825 is shown in resource properties.

Subsequent Events

In February 2008, the Company granted 35,000 incentive stock options to a consultant under its Stock Option Plan. The options are exercisable on or before February 6, 2010, at a price of $1.44 per share.

On February 14, 2008, the Company signed an agreement with Valgold Resources Ltd. (TSX.V: VAL) for the acquisition of a large amount of technical data on its Mamatla Silver District, in return for a total of 50,000 shares in the Company.

Subsequent to the year end, the Company signed an agreement to purchase a 200-tpd processing plant for a cost of US$700,000, which will be dismantled and moved to the Company's Zacualpan Silver District.

Accounting Estimates, Policies and Standards

When a new Canadian accounting standard is released, the Company undertakes a review and evaluation to determine if it is applicable. If the new standard is applicable, it is then analyzed and summarized in a manner that effectively documents and evaluates the impact on the Company and determines the actions the Company needs to take in order to comply with the new standard.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used in determining possible impairment of mineral property costs, the fair values of stock options and financial instruments, asset retirement obligations and future income tax assets. The Company evaluates its estimates on an ongoing basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value for assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Should the Company be unable to meet its ongoing obligations, the realizable value of its assets may decline materially from current estimates.

The details of the Company's significant accounting policies are presented in Note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2007, which can be found on SEDAR. The following policies are considered by management to be essential to understanding the processes and reasoning that go into the preparation of the Company's financial statements and the uncertainties that could have a bearing on its financial results.

Resource Properties

All costs related to resource property acquisition, exploration and development are capitalized by project. These costs are amortized against revenue from production, using the units of production basis, or written off if the interest is deemed impaired, abandoned or sold. The amounts shown for resource property costs incurred to date, less recoveries, do not necessarily reflect present or future values. The recoverability of amounts shown for resource property costs are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects, as well as future profitable production or proceeds from the disposition thereof.

Asset Impairment

Management periodically reviews the carrying value of its mineral properties and mining assets. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as resource properties represent costs incurred to date and do not necessarily reflect present or future values.

Stock-based Compensation

The Company accounts for stock options at fair value pursuant to CICA Handbook Section 3870, which established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Management is required to make significant estimates about future volatility and the period in which stock options will be exercised. The selection of the estimated volatility figure, and the estimate of the period in which an option will be exercised can have a significant impact on the costs recognized for stock-based compensation. The estimates concerning volatility are made with reference to historical volatility, which is not necessarily an accurate indicator of volatility which will be experienced in the future. The exercise of options may occur at times different than those estimated, or options may expire unexercised. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model, the assumptions of which can be found in Note 9 of the Company's consolidated financial statements for the year ended December 31, 2007. The cost of options granted to directors, employees and non-employees is recognized over the vesting period of the respective options, in accordance with Section 3870 and is either expensed or capitalized to mineral properties for grants to individuals working directly on mineral projects.

Revenue Recognition

Revenue arising from the sale of metals contained in concentrates is recognized when title and the significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers. The Company's metals contained in concentrates are provisionally priced at the time of sale based on the prevailing market price as specified in the sales contracts. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for the metals sold and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales.

Off-balance sheet arrangements

The Company has not entered into any off-balance sheet arrangements such as obligations under certain guarantee contracts, retained or contingent interests in assets transferred to an unconsolidated entity, obligations under derivative instruments that are classified as equity or obligations under material variable interests in unconsolidated entities that conduct certain activities such as financing, liquidity, market risk or credit support.

New Accounting Policies

Effective January 1, 2007, the Company adopted the guidelines governed by Sections 1530, 3855 and 1506 of the CICA Handbook, "Comprehensive Income", "Financial Instruments – Recognition and Measurement" and "Accounting Changes".

Other Comprehensive Income

Other Comprehensive Income (Section 1530) is the change in a company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities that are not included in net income (loss) until realized.

Investments classified as available for sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are accounted for using the equity method and not adjusted to fair market value. At December 31, 2007, the Company has no investments designated as available for sale. The adoption of Section 1530, Comprehensive Income, did not impact the consolidated balance sheet of the Company as at January 1, 2007.

Financial Instruments – Recognition and Measurement

The Company's financial assets consist of cash and term deposits, accounts receivable and prepaid expenses, accounts payable and amounts due to a significant shareholder.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognised in the net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in earnings (loss).

Upon adoption of these new standards, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are designated as loans and receivable which are measured at amortized cost. Investments are designated as available-for-sale and are recorded at cost when there is no readily available market price. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At December 31, 2007, the Company did not have any held-to-maturity financial instruments. The adoption of this policy had no material impact on opening deficit.

The Company's policy is to recognize all transaction costs associated in acquiring a financial asset or liability in net income at the time of acquisition.

Section 3861 identifies and details information to be disclosed in the financial statements.

Accounting Changes

Accounting Changes (Section 1506), establishes standards and new disclosure requirements for the selection and reporting of changes in accounting policies and estimates and the reporting of error corrections. It clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application to prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable with a corresponding adjustment made to opening retained earnings. This Section is effective for fiscal years beginning on or after January 1, 2007.

As reported in Note 16 to the 2007 consolidated financial statements, the Company determined that accounting errors occurred in preparing its 2006 consolidated financial statements as disclosed earlier in this MD&A. Management has brought these matters to the board of directors' attention and has corrected the errors.

Recent Accounting Pronouncements Issued But Not Yet Implemented

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". These standards are effective for interim and annual consolidated financial statements for the Company's reporting period on January 1, 2008.

Section 1535 establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and

carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA issued the new Handbook Section 3031, "Inventories", which will replace Section 3030, "Inventories". The new Section mentions that inventories shall be measured at the lower of cost and the net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of the last-in, first-out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008.

Effective January 1, 2009, for the Company, Section 3064 replaces Handbook Section 3062, "Goodwill and Intangible Assets" and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management believes that the Company has designed, established and is operating reasonable overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional information relating to IMPACT is on SEDAR at www.sedar.com.

On Behalf of the Board of Directors,

Frederick W. Davidson
President, Chief Executive Officer

April 9, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of IMPACT Silver Corp. ("the Company") have been prepared by management in accordance with accounting principles generally accepted in Canada, and within the framework of the summary of significant accounting policies in these consolidated financial statements, and reflect management's best estimate and judgment based on currently available information.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors meets periodically with management and with the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting and control matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

F.W. Davidson President and Chief Executive Officer

R. S. Younker Chief Financial Officer

April 9, 2008

AUDITORS' REPORT

To the Shareholders of IMPACT Silver Corp.

We have audited the consolidated balance sheets of IMPACT Silver Corp. as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income and deficit and the consolidated statements of cash flows for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended then ended December 31, 2007, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants Vancouver BC

April 11, 2008

CONSOLIDATED BALANCE SHEETS

As at December 31 *Canadian Dollars*	2007	2006 *Restated Note 16*
ASSETS		
Current		
Cash and cash equivalents	$ 10,144,831	$ 3,969,819
Accounts receivable and prepaid expenses	2,200,292	1,624,260
Inventory	344,977	330,688
Investments recorded at cost	50,000	–
Future income tax asset *Note 12*	415,257	416,652
	13,155,357	6,341,419
Property, Plant and Equipment *Note 6*	1,948,076	2,113,668
Resource Properties *Schedule Note 4*	12,574,547	10,028,849
	$ 27,677,980	$ 18,483,936
LIABILITIES		
Current		
Accounts payable	$ 1,159,185	$ 1,105,668
Income tax payable	64,718	–
Due to related party *Note 7*	582,081	35,270
	1,805,984	1,140,938
Future Income Tax Liability *Note 12*	2,716,137	2,257,116
	4,522,121	3,398,054
SHAREHOLDERS' EQUITY		
Share Capital *Note 8*	27,134,387	15,382,377
Warrants *Note 8(b)*	–	4,222,385
Contributed Surplus *Note 8(c)*	568,470	314,845
Deficit *Statement 2*	(4,546,998)	(4,833,725)
	23,155,859	15,085,882
	$ 27,677,980	$ 18,483,936

ON BEHALF OF THE BOARD:

F.W. Davidson
Director

G. Gorzynski
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND DEFICIT

For the Years Ended December 31 *Canadian Dollars*	2007	2006 *Restated Note 16*
Revenue	$ 7,250,077	$ 7,005,793
Expenses		
Operating costs	4,411,191	4,059,500
Amortization and depletion	767,955	539,466
	5,179,146	4,598,966
Mine Operating Earnings	2,070,931	2,406,827
General and Administrative Expenses		
Accounting and audit	93,546	136,063
Amortization	15,968	10,165
Foreign exchange	450,921	(86,698)
Insurance	107,866	73,124
Investor relations	150,295	66,089
Legal	57,280	104,866
Management fees and consulting	112,797	61,598
Office and sundry	38,564	35,065
Office salaries and services	308,292	188,365
Rent	53,796	33,023
Stock-based compensation expense *Note 9(b)*	218,161	105,831
Transfer agent and filing fees	38,403	64,960
Travel and accommodation	37,308	32,964
	1,683,197	825,415
Income Before the Following	387,734	1,581,412
Other Income (Expenses)		
Interest income	200,295	110,243
Loss on forward-sales contract	–	(970,693)
Other income	49,571	117,381
Write-off of resource properties	(2,791)	(420)
	247,075	(743,489)
Income before Taxes	634,809	837,923
Current income tax expense	(64,718)	–
Future income tax expense	(283,364)	(332,263)
Net Income and comprehensive income for the Year	286,727	505,660
Deficit – Beginning of year	(4,833,725)	(5,339,385)
Deficit – End of Year	$ (4,546,998)	$ (4,833,725)
Earnings Per Share – Basic	0.01	0.01
– Diluted	0.01	0.01
Weighted Average Number of Shares Outstanding – Basic	42,778,704	35,611,966
Weighted Average Number of Shares Outstanding – Diluted	43,975,280	40,479,729

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31 *Canadian Dollars*	2007	2006 *Restated Note 16*
Cash Resources Provided By (Used In)		
Operating Activities		
Income for the year	$ 286,727	$ 505,660
Items not affecting cash		
Amortization and depletion	783,923	549,631
Loss on forward-sales contract	–	970,693
Stock-based compensation expense	218,161	105,831
Future Income taxes	283,364	332,263
Write-off of resource properties	2,791	420
Changes in non-cash working capital		
Accounts receivable and prepaid expenses	(576,032)	(1,601,552)
Inventory	(14,289)	(330,688)
Investment	(50,000)	–
Accounts payable	53,517	(2,146,154)
Income tax payable	64,718	–
Net assets on acquisition of Minera El Porvenir de Zacualpan	–	347,201
	1,052,880	(1,266,695)
Investing Activities		
Acquisition of Minera El Porvenir de Zacualpan *Note 5*	–	(2,260,200)
Acquisition of property, plant and equipment	(33,175)	(2,101,086)
Resource property costs	(3,303,828)	(2,257,402)
Recovery of resource property costs	537,235	88,461
	(2,799,768)	(6,530,227)
Financing Activities		
Advances from related party	546,811	23,641
Share capital issued	7,375,089	10,545,328
Shares to be issued	–	840
	7,921,900	10,569,809
Net Increase in cash and cash equivalents	6,175,012	2,772,887
Cash and cash equivalents – Beginning of year	3,969,819	1,196,932
Cash and cash equivalents – End of Year	$ 10,144,831	$ 3,969,819

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED SCHEDULES OF RESOURCE PROPERTIES

For the Years Ended December 31 *Canadian Dollars*	2007	2006 Restated Note 16
Zacatecas Properties, Mexico *(Notes 4(e))*		
Acquisition cost	$ 462,890	$ 781,709
Deferred exploration costs		
Assaying	22,514	10,04
Drilling	285,516	–
Field administration and expenses	53,556	40,369
Future income taxes *(Note 12)*	18,292	44,906
Travel and accommodation	24,344	12,703
Vehicles	9,591	854
Wages and consulting	188,391	63,591
	602,204	172,470
Recoveries	(537,235)	(88,461)
	527,859	865,718
Zacualpan Mine and Concessions, Mexico *(Note 4(d))*		
Acquisition cost	111,219	5,097,937
Deferred exploration costs		
Assaying	119,844	81,248
Development	178,601	296,093
Drilling	1,147,069	536,083
Field administration, legal and expenses	160,077	87,007
Future income taxes *(Note 12)*	157,865	592,150
Travel and accommodation	120,120	71,584
Vehicles	31,532	46,341
Wages and consulting	552,196	337,252
	2,467,304	2,047,758
Amortization and depletion	(600,227)	(445,478)
Recoveries	–	(67,990)
	1,978,296	6,632,227
Other Properties, Dominican Republic *(Notes 4(b)(c))*		
Deferred exploration costs		
Field administration	4,234	208
Travel and accommodation	3,283	–
Vehicles	55	–
Wages and consulting	34,762	420
	42,334	628
Write-off of resource properties	(2,791)	(420)
	39,543	208
Costs for the Year	2,545,698	7,498,153
Balance – Beginning of year	10,028,849	2,530,696
Balance – End of Year	$ 12,574,547	$ 10,028,849

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006 *Canadian Dollars*

1. NATURE OF OPERATIONS

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and Dominican Republic. The Company's major products are silver and base metals sold in the form of zinc and lead concentrates. The Company is also active in the exploration of silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. The recovery of the Company's investment in these resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves on these properties and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Jade Oil Corporation ("Jade"), located in Canada, Proyectos Mineros, S.A. ("PMSA") and Minera Monte Plata, S.A. ("MMP"), both located in the Dominican Republic, and Minera Aguila Plateada S.A. de C.V. ("MAP"), located in Mexico. These statements also include the accounts of Minera Porvenir de Zacualpan S.A. de C.V. ("MPZ") and its wholly-owned subsidiary Minera Laureles, S.A. de C.V. from their date of acquisition by MAP on January 16, 2006. The Company has determined that it does not have any variable interest entities as at December 31, 2007 and 2006. All significant inter-company balances have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk or change in value.

Resource Properties

All costs related to resource property acquisition, exploration and development are capitalized by project. These costs are amortized against revenue from production, using the units of production basis, or written off if the interest is deemed impaired, abandoned or sold. The amounts shown for resource property costs incurred to date, less recoveries, and do not necessarily reflect present or future values. The recoverability of amounts shown for resource property costs are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects as well as future profitable production or proceeds from the disposition thereof.

Mineral Property Titles

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, except for certain exploration concessions in the Dominican Republic where exploration concessions have been reapplied for in the normal course of business.

Property Option Payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its resource property costs in good standing.

Asset Impairment

Management periodically reviews the carrying value of its mineral properties and mining assets. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as resource properties represent costs incurred to date and do not necessarily reflect present or future values.

Income (Loss) per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period reported. Significant areas requiring the use of management estimates include assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values used to establish the purchase price allocation, fair values for purposes of impairment analysis, reclamation obligation, non-cash stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities. Actual results could differ from these estimates.

Share Capital

i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value .

iii) The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on relative fair values as follows: the fair value of common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Stock Options and Warrants

The Company accounts for stock options on a straight-line basis and warrants at fair value pursuant to CICA Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model. Warrants are recorded at estimated fair values using the Black-Scholes option pricing model.

Translation of Foreign Currencies

The Company has determined that all of its subsidiaries are integrated; therefore, monetary items are translated at the rate of exchange in effect at the balance sheet date, non-monetary items are translated at historic exchange rates and revenue and expense items are translated at the average rate prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in the year they occur. For 2007 there was a foreign exchange loss of $450,921 (2006 – gain of $86,698).

Asset Retirement Obligations

The Company accounts for asset retirement obligations ("ARO") by recognizing the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company has determined that it has no material AROs at December 31, 2007 and 2006.

Inventories

Materials and supplies are currently valued at the lower of average cost and replacement cost. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at the lower of average production cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization of mining interests.

Revenue Recognition

Revenue arising from the sale of metals contained in concentrates is recognized when title and the significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customers. The Company's metals contained in concentrates are provisionally priced at the time of sale based on the prevailing market price as specified in the sales contracts. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for the metals sold and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales.

Property, Plant and Equipment

Plant and equipment is recorded at cost and is amortized using a straight-line method over the assets expected useful life, not exceeding ten years. All vehicles, including mine mobile equipment as well as office furniture and equipment are amortized on a declining balance at rates varying from 10% to 30% annually.

Comprehensive Income

Comprehensive Income, consists of net income and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translations gains and losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

The Company has determined that it has no comprehensive income at December 31, 2007.

Financial Instruments – Recognition and Measurement

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognised in the net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in earnings (loss).

Upon adoption of these new standards, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are designated as loans and receivable which are measured at amortized cost. Investments are designated as available-for-sale and are recorded at cost when there is no readily available market price. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At December 31, 2007, the Company did not have any held-to-maturity financial instruments. The adoption of this policy had no material impact on opening deficit.

The Company's policy is to recognize all transaction costs associated in acquiring a financial asset or liability in net income at the time of acquisition.

Section 3861 identifies and details information to be disclosed in the financial statements.

New Accounting Pronouncements

Capital disclosure and financial instruments – disclosure and presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3682, Financial Instruments – Disclosures, and Handbook Section 3863,

Financial Instruments – Presentation. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how a company manages those risks. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

Inventories

In March 2007, the CICA issued the new Handbook Section 3031, Inventories, which will replace Section 3030, Inventories. The new Section mentions that inventories shall be measured at the lower of cost and the net realizable value. It provides guidelines on determining cost, prohibiting going forward the use of last-in, first-out method (LIFO), and requires the reversal of a previous write-down when the value of inventories increases. The new standard will apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

General standards on financial statement presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

Goodwill and intangible assets

The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. FAIR VALUE OF FINANCIAL ASSETS

The Company's financial assets consist of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related party. As at December 31, 2007, the Company holds an equivalent of CAD$1,793,239 in net financial assets held in U.S. and other foreign currencies which is exposed to currency risk based on fluctuations in the prevailing foreign currency exchange rates. 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 assets.

4. RESOURCE PROPERTIES

a) Details are as follows:

	2007	2006 *Restated Note 16*
PMSA Concessions – Dominican Republic		
Acquisition	$ 497,000	$ 497,000
Exploration and development	395,280	356,666
	892,280	853,666
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	29,050	28,121
	114,050	113,121
Zacualpan Concessions – Mexico		
Acquisition costs	5,428,676	5,317,457
Exploration	3,725,743	2,016,531
Future income taxes	1,020,221	862,356
	10,174,640	8,196,344
Zacatecas Properties – Mexico		
Acquisition costs	1,244,599	781,709
Exploration	711,476	127,564
Future income taxes	63,198	44,906
Recoveries	(625,696)	(88,461)
	1,393,577	865,718
Other Properties		
Exploration	10,185	7,099
Accumulated write-off	(10,185)	(7,099)
	–	–
	$ 12,574,547	$ 10,028,849

b) PMSA Agreement

By various agreements dated October 22, 1996 to July 15, 1999 and effective August 20, 1999, the Company acquired 100% of the shares of the Dominican Republic registered company PMSA. PMSA has exploration concessions located in various parts of the Cordillera Oriental in the Dominican Republic, including the El Brujo concession.

The concessions are subject to a 1% NSR to a maximum of US $1,000,000.

c) MMP Agreement

By agreement dated July 15, 1999, the Company acquired 100% of the shares of the Canadian company, Jade, which owns 100% of the shares of the Dominican Republic registered company, Minera Monte Plata, S.A. ("MMP"). MMP holds the Baritina exploration concession located in the Cordillera Oriental in the Dominican Republic.

The concessions are subject to a 1% NSR to a maximum of US$1,000,000.

d) Zacualpan Agreements

On June 14, 2004, the Company signed two option agreements with third parties in the Zacualpan Silver Mining District in Central Mexico.

The first option agreement was a three-year lease with an option to purchase mining leases and concessions, called the Royal Mines of Zacualpan Silver Project ("Royal Mines"), which included San Ramon (Compadres) Mine which later went into production. Under terms of this agreement, the Company was required to make payments of US$3,000 per month for three years and to issue 100,000 shares per year to the third party, as well as incur work commitments totalling US$1,000,000 over three years. The Company was to 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.

In December 2005, the Company amended the terms of the agreements for the purchase of the Royal Mines from an asset purchase to a share purchase. Under the amending agreement, the Company, through its 100% subsidiary MAP, was to purchase all the issued and outstanding shares of Minera El Porvenir de Zacualpan, S.A. de C.V. (MPZ), which owns the Royal Mines, including the Capela Assets of Zacualpan Mines (mining concessions and surface rights). On January 16, 2006, this transaction was completed (Note 5).

The second option agreement entered into in June 2004 was a three-year agreement for mining leases and concessions, which included the producing Guadalupe Mine and a 500-tpd processing plant with associated facilities. The assets in this second agreement were under lease by a third party, and the Company had an option to purchase all the lease rights to the assets for US$1,140,000. In February 2006, the Company, through its wholly-owned subsidiary MAP, entered into an amended agreement giving it an exclusive option to purchase these same leased assets including the 500-tpd processing plant, certain mineral concessions and surface rights located in Zacualpan District for US$1,140,000 and 100,000 shares of the Company at any time before December 2, 2006. An initial option payment of US$2,000 was made just after signing of the agreement, and thereafter the Company paid US$4,000 monthly to the vendor. In July 2006, the Company exercised its option under this agreement and as a result owns all the equipment and surface rights related to its Royal Mines operations, and has a 100% interest with no underlying royalties on its mineral concessions.

During the current year, the Company acquired the right to purchase a concession known as the Mamatla Mining District adjacent to the Company's Royal Mines of Zacualpan Silver Project in Central Mexico. The purchase price for the Mamatla Mining District is approximately $215,700 (2,211,990 Pesos), of which $91,690 (884,796 pesos) was paid in 2007. Subsequent to the year end the Company paid the balance in full of $124,010 (1,327,194 Pesos).

The concession is subject to a 1% NSR.

e) Zacatecas Agreements

Under an agreement dated July 10, 2006, the Company through its wholly-owned subsidiary MAP, acquired a four-year option from a third party to purchase a 200-tpd processing plant and associated surface rights in the Zacatecas Mining District of Mexico. Under the agreement, MAP may purchase the assets for US$1,120,000 (US$469,300 paid) and 500,000 shares (100,000 issued) in stages, plus commit to US$700,000 in work expenditures (US$350,000 in each of the first two years).

Under separate purchase agreements, the Company acquired eleven mineral concessions in the Zacatecas area

during 2006, and two concessions in 2007 to hold a total of 17 concessions, four of which are under an option agreement with a third party. No further payments or commitments exist for these concessions.

f) During 2006, the Company entered into an option agreement with a third party in which the third party was given the right to earn a 65% interest in four concessions at Zacatecas. To earn its interest the third party was required to reimburse the Company US$15,000 per concession, pay for all acquisition costs and incur a minimum expenditure of US$100,000 in exploration per concession.

5. ACQUISITION OF MINERA EL PORVENIR DE ZACUALPAN, S.A DE C.V. ("MPZ")

a) On January 16, 2006, the Company completed the acquisition, through its wholly-owned subsidiary MAP, of all the issued and outstanding shares of MPZ. Total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and payment of $2,260,200. This was, for accounting purposes, a business combination. The Company, therefore recognizes the fair value of the assets acquired and liabilities assumed as at the date of acquisition.

The results of operations of MPZ, and its wholly-owned subsidiary Minera Laureles, from January 17, 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 and liabilities assumed is summarized in the table below.

Purchase Price

Net share consideration at market value at date of issue (300,000 shares)	$	179,500
Cash payment to vendors		2,260,200
	$	2,439,700
Fair value of assets acquired and liabilities assumed:		
Accounts receivable and prepaid expenses	$	126,676
Inventory		174,701
Property, plant and equipment		240,087
Resource properties		5,038,305
		5,579,769
Accounts payable and accrued liabilities		(374,356)
Forward-sales contract liability		(2,164,773)
Future income tax liability		(600,940)
		(3,140,069)
	$	2,439,700

The liabilities above include approximately US$465,000 pertaining to forward-sales contract losses realized to the date of acquisition, under a smelter contract commitment obligation entered into in April 2004 by MPZ prior to the Company's involvement. Under this contract obligation, MPZ had entered into monthly forward-sales commitments with a Mexican smelter through to the end of July 2006 calling for monthly deliveries of 20,000 ounces of silver, 200 ounces of gold, 50 tonnes of lead and 100 tonnes of zinc which had been sold forward at US$7.00 per ounce silver, US$400.00 per ounce gold, US$720.00 per tonne lead, and US$1,100.00 per tonne zinc. MAP also assumed 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.

This meant that we recognized the difference between the spot price of current metal markets at the date of our acquisition of MPZ, to the date of final closure of the forward-sales commitment obligations (July 31, 2006), and the agreed selling prices entered into under the 2004 forward-sales contract arrangement. Had MPZ not entered into forward-sales commitments and had MPZ been able to mine and to sell the same quantity of metals as it had contracted to deliver, it would, for the seven months from January to July 2006, have realized approximately US$1.294 million more than it did do under its forward-sales delivery contractual commitments. This foregone revenue and MPZ's obligation to make good on the delivery obligation was taken into account as part of the purchase consideration.

6. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost $	Accumulated amortization $	Net Book Value $	Cost $	Accumulated amortization $	Net Book Value $
Mine equipment	744,154	103,782	640,372	717,943	35,923	682,020
Mobile equipmentt	532,913	400,442	132,471	532,913	341,142	191,771
Office furniture and equipment	90,320	57,702	32,618	83,356	41,734	41,622
Plant equipment	342,389	53,832	288,557	342,389	22,643	319,746
Surface rights	734,128	–	734,128	734,128	–	734,128
Vehicles	194,730	74,800	119,930	194,730	50,349	144,381
	2,638,634	(690,558)	1,948,076	2,605,459	(491,791)	2,113,668

7. DUE TO RELATED PARTY

As at December 31, 2007, an amount of $582,081 (2006 – $35,270) was due to a significant shareholder of the Company. Monies owed to the related party are unsecured, non-interest bearing and without specific repayment terms. Management anticipates that the amount will be repaid within one year and accordingly it has been classified as current.

8. SHARE CAPITAL

a) Details are as follows:

	Number	Amount
Authorized:		
Unlimited common shares without par value		
Issued and outstanding:		
Balance – December 31, 2005	23,639,188	$ 8,437,288
Private placements	10,935,000	10,326,400
Shares issued for resource properties	400,000	472,000
Shares issued for property, plant and equipment	100,000	122,000
Share purchase options exercised	622,000	104,640
Share purchase warrants exercised	2,900,000	1,110,250
Shares returned to treasury	(200,000)	(60,500)
Fair value of warrants issued	–	(4,037,061)
Shares issue costs – shares issued for finders' fees	1,084,000	(842,400)
Share issue costs – other	–	(520,928)
Value assigned to options exercised	–	87,806
Value assigned to warrants exercised	–	182,882
Balance – December 31, 2006	39,480,188	$ 15,382,377
Shares issued for resource properties	100,000	190,000
Share purchase options exercised	74,250	23,935
Share purchase warrants exercised	7,604,272	7,351,154
Value assigned to options exercised	–	19,077
Value assigned to warrants exercised	–	4,167,844
Balance – December 31, 2007	47,258,710	$ 27,134,387

b) Warrants

A summary of the transaction in the warrant account is as follows:

	Number of warrants	Amount
Balance – December 31, 2005	–	–
Private placement (i)	3,125,000	$ 949,348
Agent compensation warrants (i)	250,000	75,948
Issue costs (i)	500,000	90,715
Private placement (ii)	3,650,000	2,788,671
Agent compensation warrants (ii)	292,000	223,094
Issue costs (ii)	584,000	277,491
Exercise of warrants	(635,000)	(182,882)
Balance – December 31, 2006	7,766,000	$ 4,222,385
Exercise of warrants	(7,604,272)	(4,167,844)
Expiry of warrants	(161,728)	(54,541)
Balance – December 31, 2007	–	$ –

(i) The Company determined the fair value of the January 5, 2006 private placement, agent's warrants and issue costs based upon a Black-Scholes model using the following weighted average assumptions: expected life of 18 months, expected volatility 82.18%, risk free interest rate 3.9%, dividend yield of 0%.

(ii) The Company determined the fair value of the April 6, 2006, private placement, agent's warrants , and issue costs based upon a Black-Scholes model using the following weighted average assumptions: expected life of 18 months, expected volatility 80.92%, risk free interest rate 4.3%, dividend yield of 0%.

c) Contributed Surplus

Balance – December 31, 2005	$ 296,820
Fair value of stock options issued	105,831
Value assigned to options exercised	(87,806)
Balance – December 31, 2006	314,845
Fair value of stock options issued	218,161
Value assigned to options exercised	(19,077)
Value assigned to expired warrants	54,541
Balance – December 31, 2007	**$ 568,470**

d) At December 31, 2006, the Company had 375,000 shares in escrow which were released in 2007 with the consent of the regulatory authorities.

e) In October 2004, the Company issued a private placement of 2.5 million units at a price of $0.30 per unit, of which 405,000 units were sold to a significant shareholder of the Company. The Company granted a further 205,000 units as a finder's fee. 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 $0.30 for the first year and $0.35 per share in the second year up to December 9, 2006. To December 31, 2006, 2,705,000 of these warrants had been exercised.

f) On January 10, 2006, as part of a private placement, the Company sold 6,250,000 units at a price of $0.40 per unit. Each unit consists of one common share and one-half share purchase warrant. One full warrant entitles the holder to purchase an additional share of the Company at a price of $0.50 per share until July 5, 2007. The Company also issued as a finder's fee 500,000 units under the same terms and conditions as the private placement, and 500,000 warrants, entitling the holder to purchase one additional common share of the Company at a price of $0.50 per share until July 5, 2007. To December 31, 2007, 3,730,000 of these warrants had been exercised, and 145,000 warrants had expired.

g) On April 6, 2006, as part of a private placement, the Company sold 7,300,000 units at a price of $1.10 per unit. Each unit consists of one common share and one-half share purchase warrant. One full warrant entitles the holder to purchase an additional share of the Company at a price of $1.30 per share until October 6, 2007. The

Company also issued as a finder's fee 584,000 units under the same terms and conditions as the private placement, and 584,000 warrants, entitling the holder to purchase one additional share of the Company at a price of $1.20 per share until October 6, 2007. To December 31, 2007, 4,509,272 of these warrants had been exercised, and 16,728 warrants had expired.

9. 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) A summary of the Company's stock option plan at December 31, 2007 and the changes for the years ended on these dates is as follows:

	Number	Weighted Average Exercise Price
At December 31, 2005	2,040,000	0.24
Granted	35,000	1.45
Exercised	(620,000)	0.17
Forfeited	(1,250)	0.42
At December 31, 2006	1,453,750	0.30
Granted	1,130,000	1.42
Exercised	(74,250)	0.32
Forfeited	–	–
At December 31, 2007	**2,509,500**	**0.80**

The following table summarizes information about the stock options outstanding at December 31, 2007:

Number Outstanding December 31, 2006	Issued	Exercised	Forfeited	Number Outstanding December 31, 2007	Exercise Price Per Share	Expiry Date
390,000	–	(25,000)	–	365,000	$0.13	October 20, 2008 (i)
375,000	–	–	–	375,000	$0.15	May 12, 2009 (i)
653,750	–	(49,250)	–	604,500	$0.42	April 13, 2010 (i)
35,000	–	–	–	35,000	$1.45	February 6, 2008 (i)
–	1,055,000	–	–	1,055,000	$1.40	September 5, 2012 (ii)
–	75,000	–	–	75,000	$1.67	October 22, 2012 (ii)
1,453,750	1,130,000	(74,250)	–	2,509,500	$0.13- $1.67	February 6, 2008 - October 22, 2010

(i) All the options are fully vested at December 31, 2007.

(ii) As of December 31, 2007, 414,375 options are vested.

The following table summarizes information about the stock options outstanding at December 31, 2006:

Number Outstanding December 31, 2005	Issued	Exercised	Forfeited	Number Outstanding December 31, 2006	Exercise Price Per Share	Expiry Date
780,000	–	(390,000)	–	390,000	$0.13	October 20, 2008 (i)
75,000	–	(75,000)	–	–	$0.20	August 31, 2006 (i)
475,000	–	(100,000)	–	375,000	$0.15	May 12, 2009 (i)
710,000		(55,000)	(1,250)	653,750	$0.42	April 13, 2010 (i)
–	35,000	–	–	35,000	$1.45	February 6, 2008(ii)
2,040,000	35,000	(620,000)	(1,250)	1,453,750	$0.13- $1.45	February 6, 2008 - April 13, 2010

(i) All the options are fully vested at December 31, 2006.

(ii) As of December 31, 2006, 21,875 options are vested.

i) In February 2006, the Company granted stock options under its Stock Option Plan to a consultant exercisable for up to 35,000 shares of the Company, with an estimated value of $19,056 on the grant date. The options are exercisable on or before February 6, 2008 at a price of $1.45 per share.

ii) In September 2007, the Company granted stock options under its Stock Option Plan to directors, officers and consultants exercisable for up to 1,055,000 shares of the Company, with an estimated value of $563,946 on the grant date. The options are exercisable on or before September 5, 2012 at a price of $1.40 per share.

iii) In October 2007, the Company granted stock options under its Stock Option Plan to a director exercisable for up to 75,000 shares of the Company, with an estimated value of $46,308 on the grant date. The options are exercisable on or before October 22, 2012 at a price of $1.67 per share.

b) The fair value of stock options used to calculate compensation is estimated using the Black Scholes Option Pricing Model. The Company recognized a stock option expense and an increase to contributed surplus of $218,161 (2006 – $105,831) for the year ended December 31, 2007, based on a grading vesting schedule using the assumptions as follows:

Number of options granted	35,000	1,055,000	75,000
Risk-free interest rate	3.98%	4.28%	4.17%
Expected dividend yield	NIL	NIL	NIL
Expected stock price volatility	89%	63.19%	62.67%
Expected option life in years	1	2	2

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, related party transactions are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions are as follows:

a) During the year ended December 31, 2007, fees in the amount of $269,900 (2006 – $162,358) were paid or accrued to directors and officers of the Company, of which $225,075 is shown in various administrative expenditures on the income statement, and $44,825 is shown in mineral properties.

b) During the year ended December 31, 2007, an administrative fee of $4,143 (2006 – $5,011) was paid to a shareholder for management of the Company's administrative and exploration programs.

c) During the year ended December 31, 2007, fees in the amount of $1,368,903 (2006 – $533,534) were paid to a significant shareholder of the Company for contract drilling services performed in Mexico at the Zacualpan and Zacatecas concessions.

11. MANAGEMENT AGREEMENTS

The Company entered into a management agreement with one director for fees of $5,000 per month for a period of thirty six months on May 1, 2006.

12. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian and federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	2007	2006 *Restated Note 16*
Earnings (loss) before income taxes	$ 634,809	$ 837,923
Canadian federal and provincial income tax rates	34.12%	34.12%
Income tax expenses based on the above rates	216,597	285,899
Increase (decrease) due to:		
Non-deductible expenses	125,017	123,397
Losses and temporary differences for which an income tax asset has not been recognized	121,325	177,818
Difference between foreign and Canadian tax rates	(157,547)	(68,636)
Other	42,690	(186,217)
Income tax expense	$ 348,082	$ 332,261

The components of future income taxes are as follows:

	2007	2006
Future income tax assets		
Non-capital losses	$ 670,788	$ 963,593
Property, Plant and Equipment	7,429	7,271
Mineral Properties	726,489	874,478
Other	465,222	276,720
Total future tax assets	1,869,929	2,122,062
Valuation allowance	(1,454,671)	(1,635,630)
Net future income tax assets	415,257	486,432
Future income tax liabilities		
Property, Plant and Equipment	184,200	186,207
Mineral properties	2,531,937	2,070,909
Other	–	69,780
Future income tax liabilities	2,716,137	2,326,896
Future income tax liability, net	$ 2,300,880	$ 1,840,464

This is represented on the balance sheet as:

	2007	2006
Current future income tax assets	$ 415,257	$ 416,652
Long-term future income tax liabilities	2,716,137	2,257,116
	$ 2,300,880	$ 1,840,464

The company has non-capital loss carry-forwards of approximately $2,469,631 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian and Mexican operations and expire as follows:

2008	$	67,853
2009		103,443
2010		62,801
2013		7,163
2014		196,412
2015		266,730
2016		361,062
2017		12,937
2026		828,544
2027		562,687
		–
	$	2,469,632

A full valuation allowance has been recorded against the net potential future income tax assets associated with the Canadian loss carry-forwards of $2,030,000 and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

13. SEGMENTED INFORMATION

Details at December 31 are as follows:

		2007		2006
Revenue by geographic area				
Mexico	$	7,250,077	$	7,005,793
Net income (loss) by geographic area				
Caribbean	$	(2,791)	$	(208)
Canada		(1,918,377)		(489,915)
Mexico		2,207,895		995,783
	$	286,727	$	505,660
Assets by geographic area				
Caribbean	$	1,006,330	$	966,788
Canada		9,023,976		3,251,208
Mexico		17,647,674		14,265,940
	$	27,677,980	$	18,483,936
Property, plant and equipment by geographic area				
Canada	$	15,232	$	18,849
Mexico		1,932,844		2,094,819
	$	1,948,076	$	2,113,668

14. ECONOMIC DEPENDENCY

As is customary in the mining industry, the Company has entered into a single contract with a Mexican refining and smelting company, for the refining and sale of its silver, precious metals, zinc and lead contained in its zinc and lead concentrates. This contract with Met-Mex Penoles, S.A. de C.V. accounts for 100% of the sales of the Company. The net smelter returns to the Company are determined under the refining and smelting contract which sets out the agreed settlement terms and concentrate treatment charges.

15. COMMITMENT

During the year, the Company signed a new lease which commenced June 1, 2007 and ends May 31, 2010. Lease obligations, net of operating costs are $40,800 per year.

16. RESTATEMENT

As at December 31, 2006, the Company should have recorded a future income tax asset of $416,652 and a future income tax liability of$1,181,766. The offsetting entry was to Future Income Tax Expense during the 2006 fiscal year. In addition, the Company has recorded received property payments as Other Income; however, the Company has now determined that $134,899 of this should have been recorded against the resource properties. As a result of these corrections net income was reduced by $467,162. This has resulted in an increase in the reported deficit as at December 31, 2006. The effect of the restatement on the year 2006 consolidated financial statements is as follows:

	As previously reported	As restated
Future income tax asset	$ –	$ 416,652
Resource Properties	$ 9,684,458	$ 10,028,849
Accounts payable	$ 1,059,229	$ 1,105,668
Future income tax liability	$ 1,075,350	$ 2,257,116
Net income for the year	$ 972,822	$ 505,660
Deficit	$ 4,366,563	$ 4,833,725
Earnings per share – basic	$ 0.03	$ 0.01
Earnings per share – diluted	$ 0.02	$ 0.01

17. SUBSEQUENT EVENTS

a) Subsequent to the year-end, the Company granted stock options under its Stock Option Plan to a consultant exercisable for up to 35,000 shares of the Company. The options are exercisable on or before February 6, 2010 at a price of $1.44 per share.

b) On February 14, 2008 the Company signed an agreement with a third party for the acquisition of technical data on its Mamatla Silver District in return for a total of 50,000 shares in the Company.

c) Subsequent to the year-end, the Company signed an agreement to purchase a 200-tpd processing plant. The semi-portable plant is located in Central Mexico. The processing plant will be dismantled and moved to the Company's Royal Mines of Zacualpan Silver District. The total purchase price of the processing plant was US$700,000 (paid).

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DISCLAIMER

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 Mexican Projects.

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