

IMPACT Silver Corp.

2005 annual report

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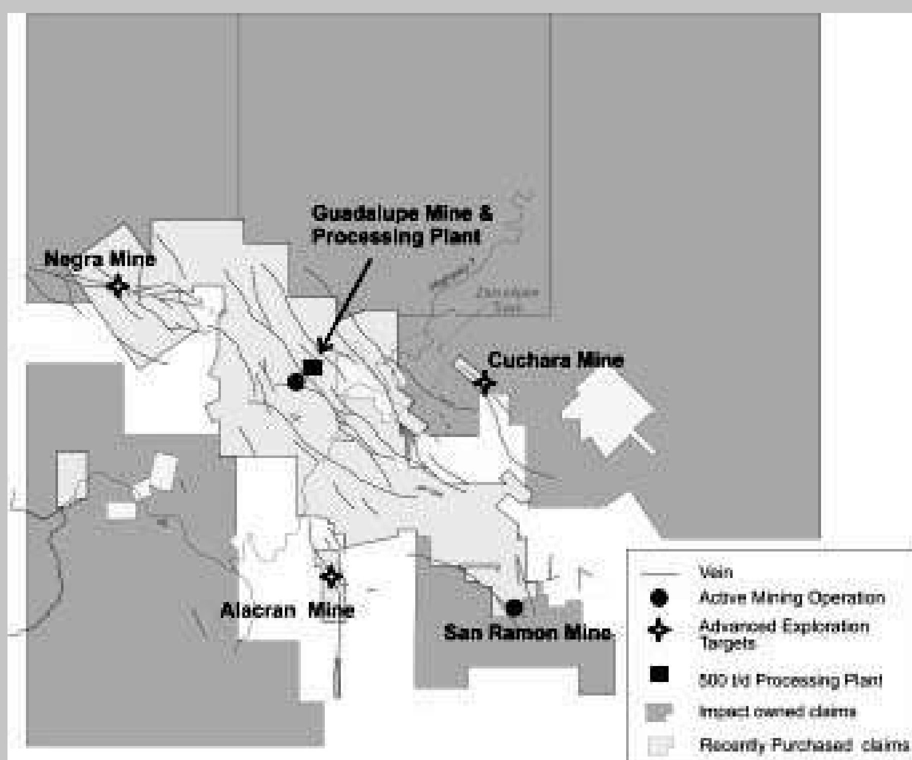
ROYAL MINES OF ZACUALPAN PROJECT MAP



IMPACT Silver Corp. (IPT:TSX.V) is dedicated to aggressively growing into a significant silver producer through its operations and exploration potential at the Royal Mines of Zacualpan in Mexico.

Message to Shareholders

At the beginning of 2005, we set out a number of objectives for IMPACT. These included generating significant exploration results, branding IMPACT as a pure-silver company as well as initiating the transition from exploration to production while managing share dilution.

- In May 2005, our first drilling program hit significant mineralization in 10 of 12 holes drilled. Results varied from grades such as 0.4 m of 27,793 g/t Ag, 3.4 g/t Au, 9.47% Zn and 7.52% Pb on the down dip extension of the San Ramon (Compadres) Mine to the grass-roots discovery at the San Agustin Vein of 1.2 m of 635 g/t Ag.
- In August 2005, the Company re-branded itself as IMPACT Silver Corp. to signal our intentions to become a dominant silver player.
- In November 2005, the Company determined to proceed with the exercising of the option to acquire the Royal Mines of Zacualpan and announced the raising of $2.5 million. With the closing of the financing in early 2006, IMPACT used the resulting funds to acquire the Mexican Company that held the Royal Mines including the lease on the 500-tonne-per-day mill.
- On January 16, 2006, IMPACT purchased the Royal Mines of Zacualpan Silver Project in central Mexico. The project includes two operating silver mines, a 500-tonne-per-day processing plant lease and mineral concessions covering 124.5 km^2 over most of the silver district
- On March 14, 2006, IMPACT announced signing of an option agreement to purchase the 500-tonne-per-day processing plant plus certain mineral concessions and surface rights for US$1,140,000 and 100,000 shares at any time before December 2, 2006. IMPACT also announced signing an option agreement to purchase certain mining equipment for US$500,000 any time before July 16, 2006.

As we accomplished these objectives, we have set ourselves new goals that include expanding our mine production, investing heavily in exploiting the Zacualpan's considerable mineral potential as well as searching for new opportunities in advanced stage silver projects.

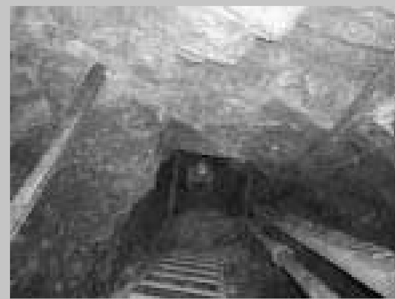
To lay the foundation for realizing these new set of goals, in April 2006, IMPACT completed an $8.03 million private placement. This funding is earmarked for the exercise of the option on the leased mill and equipment, as well as increasing mine production through a significant drill program, completing extensive underground development and by investing in mill and plant operations. The balance will replenish ongoing working capital as well as potential covering the monetization of the Company's existing base metal hedges.

On behalf of the Board, I will close once again by commending the dedication and hard work of our Mexican workforce, our Canadian management and staff, as well as our shareholders for their support as the Company moves toward a profitable future.

On behalf of the Board of Directors,

"Frederick W. Davidson"
President, CEO

April 13, 2006


Royal Mines of Zacualpan

HIGHLIGHTS

In 2005

- In April 2005, IMPACT completed a 1,866m 12-hole core drilling program on the Royal Mines of Zacualpan silver project. Two areas in the San Ramon (Compadres) Vein System were tested with 10 drill holes. All holes intersected multiple stacked veins carrying significant silver mineralization with multiple high grade sections ranging up to 27,793 g/t silver across 0.4m true width.

  In August 2005, the Company changed its name to IMPACT Silver Corp. to better reflect the nature of its business.

- In September 2005, results from new high grade silver prospects were announced. Sampling of the historic Chivo mine workings returned 1,095g/t silver and 0.38g/t gold across 1.25m true width.
- Sampling of the historic Santa Isabelle mine workings averaged 830g/t silver and 0.56g/t gold across 0.8m true width over a strike length of 50m in nine samples ranging up to 3,020g/t silver and 0.13g/t gold across 0.7m true width.
- In November 2005, IMPACT announced its intention to raise $2.5 million Canadian by way of private placement which was fully subscribed and subsequently closed on January 10, 2006.

Subsequent to 2005

- On January 16, 2006, IMPACT purchased the Royal Mines of Zacualpan Silver Project in central Mexico. The project includes two operating silver mines, a 500-tonne-per-day processing plant lease and mineral concessions covering 124.5 km^2 over most of the silver district.
- On March 14, 2006, IMPACT announced the signing of an option agreement to purchase the 500-tonne-per-day processing plant plus certain mineral concessions and surface rights for US$1,140,000 and 100,000 shares at any time before December 2, 2006. IMPACT also announced signing an option agreement to purchase certain mining equipment for US$500,000 any time before July 16, 2006.
- On April 6, 2006, IMPACT announced the closing of an $8.03 million financing.

Future Plans

- It is IMPACT's intention to complete the purchases of both the processing plant and mining equipment in 2006. With these purchases IMPACT will own all the equipment and surface rights related to its Royal Mines of Zacualpan operations and will have a 100% interest with no underlying royalties to 124.5 km^2 of mineral concessions comprising most of the silver district.
- Extensive exploration is planned for the district with the aim to increase volume and number of sources for production. This work will include surface and underground drill programs.
- IMPACT plans to grow into a premier producer of silver by expanding and upgrading the Royal Mines of Zacualpan operations and through acquisitions.

Royal Mines of Zacualpan

Introduction

IMPACT owns and leases assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5km^2 land position, two operating mines and a leased mill rated at 500 tonnes per day. The project is located 100km southwest of Mexico City and 25km northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force. The Company has acquired this dominant land position through staking activities and the recent purchase (completed January 16, 2006) of all of the issued and outstanding shares of a local Mexican mining company, Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ"). On March 14, 2006, the Company announced two lease with option to purchase agreements, the first for the processing plant and certain mineral concessions and surface rights and the second for certain mining equipment.

Production and Development

The Royal Mines of Zacualpan Silver Project was purchased by IMPACT on January 16, 2006. IMPACT's first full day of production was January 18, 2006. The first mineral shipments (one silver-lead concentrate, one zinc concentrate and one shipment of high grade silver direct shipping ore) were made on January 31, 2006. Through to the end of February a total of 12 mineral shipments were made (four silver-lead concentrate, four zinc concentrate and four shipments of high grade silver direct shipping ore).

At year end 2005, mining by the previous owner was down to Level 8 at the high grade San Ramon (Compadres) Mine. Levels are about 12m apart. Subsequent to the purchase, IMPACT continued mining remnant high grade (2000g/t+ silver) mineral on Level 8 and continued mining medium grade mineral from both Levels 7 and 8. As of early April 2006, the ramp has reached Level 9. At year end 2005 and subsequently, mining of medium grade mineral at the Guadalupe Mine continued on the 195m Level exploiting the Lipton, Lipton del Bajo and Liptonia Veins. Material is trucked from the operating mines to the central processing plant. At year end 2005, under previous management, production was less than half of the 500-tonne-per-day capacity of the processing plant. Subsequent to the purchase on January 16, 2006, IMPACT installed new senior management at the mine and began upgrading the operations with the aim of increasing metal production and recoveries, and bringing the operations up to modern standards.

Engineering Studies

During 2005, IMPACT carried out preliminary engineering studies to evaluate the active mining and metallurgical operations at Zacualpan. A preliminary engineering study was received assessing sites for expansion of tailings facilities and two reports were received on metallurgical test work to improve metal recoveries.

Field Work

During the year, fieldwork focused on mapping and sampling on surface and in historic underground workings. Highlights of this work include identification of high grade zones in the historic Chivo and Santa Isabel mine workings.

Royal Mines of Zacualpan

Field crews traced the San Ramon (Compadres) Vein System a distance of 1300m northwest of the high grade San Ramon (Compadres) Mine at which point they uncovered the entrance to the old Chivo mine workings. In the mine workings IMPACT personnel were able to observe two parallel north trending veins. A sample from the western vein assayed 1,095g/t silver and 0.38g/t gold across 1.25m true width. The wall rock beside the vein contained numerous small veinlets and assayed 463g/t silver and 0.477g/t gold across 2.2m true width. Crews were unable to further access this area due to collapsed mine workings. From the eastern vein six channel samples were collected over a strike length of 40m and averaged 175g/t silver and 0.92g/t gold across 1.54m true width. Host rock between the two veins contains 10-35% small veinlets and assayed 83g/t silver and 0.57g/t gold across 6.35m. A channel sample from one of the veins exposed on surface above the Chivo workings assayed 2,640g/t silver and 1.36g/t gold across 0.85m.

The Santa Isabel workings are located in the west central part of the property. Field personnel were able to partially sample the remnants of an old 2m wide stope to a point where the underground workings were collapsed. The portion of the stope sampled averaged 830g/t silver and 0.56g/t gold across 0.8m true width over a strike length of 50m in nine samples ranging up to 3,020g/t silver and 0.13g/t gold across 0.7m true width.

History

Zacualpan is one of the oldest mining districts in North America with Spanish Colonial mining dating back to at least 1527. In 1531, it was the first mining district in the Americas to be bestowed the title of 'Royal Mines' of Zacualpan by proclamation under the Spanish Crown. Zacualpan is a classic Mexican epithermal silver district with an abundance of veins that have seen historic production. Statistics for the early centuries of production are sporadic, but in modern times recorded production between 1975-2004 was about 17 million ounces of silver (26 million ounces silver equivalent with by-product gold, lead and zinc credits). Veins presently being mined on the property typically vary from 2 to 5m in width. Individual production shoots are often 30 to 150m long and predominantly steeply dipping.

Zacualpan Project Acquisition

On December 5, 2005, the Company announced that it had amended the terms of its agreement for the purchase of the Royal Mines of Zacualpan Silver Project from an asset purchase to a share purchase agreement. By purchasing all of the issued and outstanding shares of the vendor's Mexican mining company, IMPACT could continue the existing mining and processing operations uninterrupted, and contracts for services, mineral sales and mine workers remain intact as well as all operating permits. The Company also acquired additional surface property rights from the vendor as part of the amending agreement.

The purchase of the Mexican operating company was completed on January 16, 2006. The total consideration paid to the shareholders of MPZ under the amended share purchase agreements as finally agreed upon was US$ 1,871,445 plus the issuance of 300,000 shares of IMPACT. The 200,000 shares of the Company previously issued to, and owned by, MPZ under the original purchase agreements, were returned to the Company treasury.

Royal Mines of Zacualpan

As part of the takeover, the Company had to assume certain contingent liabilities under a forward hedging sales agreement that the vendor had in place with a major Mexican smelter. Currently, the Company is not fully satisfying its obligations to deliver lead and zinc, resulting in a contingent liability that may be significant. The Company estimates that the cash settlement value of its liability at the date of acquisition of MPZ was approximately US$465,000. The final obligation will not be determined until after July 31, 2006.

As under the original agreement, after the share purchase the Company's Mexican subsidiary will continue to lease the processing plant and some central claims which include the operating Guadalupe Mine under the current contracts. Certain mining equipment was also excluded from the purchase agreement and was to be the subject of a rental contract by the Company's from the vendors. Subsequent to the year end and the closing of the share purchase acquisition, the above contemplated lease with option to purchase agreements were entered into. The first of the two new contracts is an exclusive option agreement that allows the Company to purchase at any time before December 2, 2006, the 500-tonne-per-day processing plant plus certain mineral concessions and surface rights, including the concessions covering the producing Guadalupe Mine for a total consideration of US$1,140,000 in cash and 100,000 shares of the Company. The cost of the option agreement is US $4,000 per month. Presently the Company leases the plant and surface rights to process its mineral production and is subject to a rental fee. The claim in which the Guadalupe Mine is located is also leased and subject to a 2.5% Net Smelter Royalty. Both the plant fee and the royalty would end upon the exercise by the Company of its option under this agreement. The second contract is a lease with an exclusive option to purchase agreement for certain mining production equipment. Under this agreement the Company presently leases the equipment for US$25,000 per month and has an option to purchase this equipment at any time before July 16, 2006 for US$500,000. (Half of each lease payment made is applicable towards the purchase price).

Project Financing Arrangements
In order to finance the MPZ share purchase option the Company announced in November 2005 its intention to raise $2.5 million Canadian by way of private placement which was fully subscribed and subsequently closed on January 10, 2006. This private placement comprised 6,250,000 units at a price of $0.40 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of IMPACT at a price of $0.50 per share until July 5, 2007.

The Company paid an agent's fee in connection with this private placement by issuing 500,000 agent's units, each agent's unit having the same terms as the private placement units; and 500,000 agent's warrants, each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.50 per share until July 7, 2007.

As announced the proceeds of this private placement were used by the Company to fund the US$1.87 million cash cost to acquire the shares of MPZ, and the balance of funds received were added to the Company's working capital.

Subsequent to the year end, on March 6, 2006, favourable investment market developments and silver price trends allowed the Company to announce its intention to raise an additional $8.0 million through a second private placement of up to 7,300,000 units at the price of $1.10 per unit, each unit consisting of one common

Royal Mines of Zacualpan and Los Ranchos Project

share of the Company and one-half of one common share purchase warrant. Each additional warrant will entitle the holder to purchase an additional share in the Company for a period of eighteen months from closing at the price of $1.30 per share. This private placement was also fully subscribed and closed on April 6, 2006. 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, each entitling the holder to purchase one additional share of the Company at a price of $1.20 per share until October 7, 2007. The funds raised by this private placement are to be applied to the ongoing work program at the Company's Zacualpan Silver project as well as being added to working capital.

Future Plans
IMPACT's plans for the Royal Mines of Zacualpan Silver Project in 2006 focus on consolidating its position in the district, upgrading and expanding operations, and carrying out extensive exploration. It is IMPACT's intention to complete the purchases of both the processing plant and mining equipment in 2006. With these purchases, IMPACT will own all the equipment and surface rights related to its Zacualpan operations and will have a 100% interest with no underlying royalties to 124.5 km2 of mineral concessions comprising most of the Zacualpan silver district. In regard to operations, IMPACT has begun upgrading equipment in the mines along with the processing plant which combined with engineering and metallurgical studies are expected to improve metal recoveries and set the stage for expansion of production. IMPACT plans an extensive exploration program in 2006 that will include drill programs designed to expand the active mining areas and test high priority exploration targets for new zones of mineralization. Exploration targets slated for drilling include the high grade Chivo Prospect described above. Drilling will be done both from surface using a contractor and from underground using a drill owned by the mine.

On the corporate level, IMPACT plans to grow into a premier producer of silver through internal growth at the Royal Mines of Zacualpan Silver Project and through acquisitions. As a result of the Company's strategy to increase production and operating efficiencies through the previously mentioned initiatives, considerable expenditures will be incurred over the next couple of quarters. While the Company will be affected by these substantial expenses and their corresponding effects to profitability in the short-term, subsequent quarters should reflect the implemented operating efficiencies as well as lower costs of production.

LOS RANCHOS PROJECTS, DOMINICAN REPUBLIC

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

The exploration concessions in the Dominican Republic held by IMPACT constitute a block covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which IMPACT believes offers the opportunity for mineralization. IMPACT's block of concessions is located some 100km east of Placer Dome's Pueblo Viejo gold deposit and hosted in the same rock formation. The block of concessions includes El Brujo and La Bruja located on a distinctive Northwest trending structure. South of El Brujo, separated by another of IMPACT's concessions, lies the Baritina concession where previous work identified at least two zones of gold mineralization. Limited work was carried out on the Dominican Republic concessions during the year.

Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") of IMPACT Silver Corp. ("IMPACT" or "the Company") is dated April 13, 2006. This MD&A should be read in conjunction with the audited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the year ended December 31, 2005 which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of Annual and Interim Filings, and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

This list is not exhaustive and these and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company disclaims any intention and assumes no obligation to update any forward-looking statement contained in this document, even if new information becomes available, as a result of future events or for any other reason.

BUSINESS DESCRIPTION

The Company is a natural resource development stage company, primarily engaged in the acquisition, exploration and development of natural resource properties since its inception. The Company's principal business activities for the past ten years have been the exploration and development of certain mineral properties located in the Dominican Republic and Mexico. The Company is a reporting issuer in British Columbia and trades on the TSX Venture Exchange under the symbol IPT.

INVESTOR RELATIONS

IMPACT attended a number of trade and investors conferences in Canada along with engaging two investor relations service companies, one being Fryban Financial S.A. of Switzerland ("Fryban") to focus on Europe/International and one to focus on North America. Fryban received $4,000 per month for six months and was granted 300,000 options at $0.20 per share good for two years for its continued support. In the first quarter of 2005, a local representative was engaged for a period of three to four months to provide investor relations and communication services in the North American market for $1,500 per month, and was granted 50,000 options at $0.31 per share for a period of two years of which 25,000 were exercised and 25,000 were cancelled. In February of 2006, the Company engaged an investor relations representative for a four-month period for a monthly consideration of $1,500 per month plus the granting of 35,000 stock options at $1.45 per share for a two-year term.

Management's Discussion and Analysis

FINANCIAL DISCUSSION

Risk Factors
Mineral exploration is a speculative venture. There is no certainty that the money spent on exploration and development on the Company's mineral projects will result in any discoveries of commercial bodies of ore. The long-term profitability of IMPACT's operations will in part be related to the success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

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

The mineral industry is intensely competitive in all its phases. IMPACT competes with many other mineral exploration companies who have greater financial resources and experience.

The market price of precious metals and other minerals is volatile and cannot be controlled.

IMPACT has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

The consolidated financial statements for the year ended December 31, 2005 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that IMPACT will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. IMPACT has incurred operating losses over the last several fiscal years, has limited financial resources, no established and proven source of operating cash flow, and no assurance that sufficient funding, including adequate financing, will be available to further explore its mineral projects and to cover the overhead costs necessary to maintain a public company in good standing.

IMPACT's financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes that the recent private placement financings completed by the Company since the December 31, 2005 year end mitigate the adverse conditions and events that might raise doubt about the validity of the going concern assumption used for these financial statements. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used.

Selected Annual Information

Description	**2005**	**2004**	**2003**
Total revenues	N/A	N/A	N/A
Net income (loss)	($486,270)	($320,251)	($116,309)
Net income (loss) per share	($0.02)	($0.02)	($0.01)
Dividends	Nil	Nil	Nil
Total assets	$3,767,288	$2,101,548	$942,951
Total long-term financial liabilities	$270,206	$97,117	N/A
Cash dividends declared	N/A	N/A	N/A

Results of Operations

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

Quarter	Revenues	Net Income (loss)	Net Income (Loss) per Share *	Fully diluted Net Income (Loss) Per Share *	Total Assets	Total Long-term Liabilities
4th 2005	Nil	(131)	(0.01)	(0.01)	3,767	270
3rd	Nil	(66)	(0.00)	(0.00)	2,349	Nil
2nd	Nil	(182)	(0.01)	(0.01)	2,439	Nil
1st	Nil	(107)	(0.01)	(0.01)	2,375	Nil
4th 2004	Nil	(125)	(0.01)	(0.01)	2,102	97
3rd	Nil	(76)	(0.01)	(0.01)	1,293	Nil
2nd	Nil	(57)	(0.01)	(0.01)	1,283	Nil
1st	Nil	(62)	(0.01)	(0.01)	1,080	Nil

*These numbers have been rounded to two decimal places.

General, Administrative and Other Expenses

Administrative expenses for the year were $494,081 compared to $314,334 in 2004. Due to recent changes in requirements for reporting the cost of stock options granted, the Company recorded a stock based compensation expense of $190,877 for the year compared to $95,797 in 2004. This resulted in a significant increase in expenses for the period and a corresponding adjustment to shareholder's equity for the deemed value of the options granted.

Accounting and audit costs charged to general and administrative expense have increased by $36,476 from $5,000 in 2004 to $41,476 in 2005. This relates to increased audit services and support work in connection with activities related to the Zacualpan purchase as well as higher overall audit costs related to both increased staff charge out rates and work levels mandated by changing audit regulations and governance practices.

Legal costs charged to general and administrative expenses in 2005 were $46,033 compared to $81,752 in 2004. These costs were proportionately lower primarily due to timing differences in the Company's financing activities. The Company completed two private placements in 2004, none in 2005, and will have closed two private placements during the first four months of 2006. Accordingly, legal costs will again be higher in 2006 than in 2005. A significant portion of legal expenses incurred in 2005 relate to carrying out due diligence work with respect to researching title and ownership of the Zacualpan concessions. These costs have been charged to deferred exploration costs since they are in management's opinion a cost of acquiring the rights to explore and to utilize these concessions related to the option on the Zacualpan silver project. Office salaries and services costs increased by $34,829 in 2005 compared to 2004 as a result of the increased level of staff and services support required in connection with the acquisition of the Zacualpan silver property.

Transfer agent's fees and filing fees increased by $7,502 primarily due to higher activity levels in shareholder transactions and increased fee levels levied by the stock exchanges. Annual filing fees are based upon a Company's total market value capitalization and so as our stock price increases the Company must pay more to maintain its listing on TSX Venture Exchange. The Company's investment in maintaining good investor relations resulted in increased expenditures of $25,255 in 2005 to $70,925 compared to $45,670 in 2004. This included attending conventions, promotional material and consultant's fees. All of these items are expected to remain at a higher level of expenditure for the early part of 2006.

Management's Discussion and Analysis

With the increase in activity related to the Zacualpan exploration and regulatory requirements, other administrative costs including management fees and consulting, office and sundry, and rent were $12,927 higher than last year and are expected to increase further in 2006. Further, administrative related travel costs of $11,351 (2004- $5,323) are also anticipated to continue to rise.

Resource Property Expenditures

Property expenditures in the Dominican Republic totalling $20,190 in 2005 were limited to some fieldwork, government filings and re-applications for certain concessions. Exploration expenditures related to Zacualpan in 2005 were $1,024,813 compared to $310,351 in 2004. The increased level of expenditures in 2005 reflect the much more extensive Phases 3 and 4 exploration work carried out in the property in 2005 including diamond drilling and assaying costs. Wages and consulting costs increased significantly in 2005 as part of our due diligence work required for the Zacualpan property purchase decision. This increased the amount spent on these costs by over $200,000 above 2004 expenditure levels. The Company also recorded a provision for future income taxes amounting to $173,089 in 2005 compared to $97,117 in 2004. The Company expects that its 2006 exploration expenditures on the Zaculapan property will exceed its 2005 expenditures as it proceeds to explore some of its more promising exploration targets.

Liquidity and Capital Resources

At December 31, 2005, working capital was $1,117,282 compared to $634,868 at December 31, 2004. Included in working capital was an amount of $1,046,000 related to funds received in late December with respect to a private placement that closed subsequent to the year end in early January. No private placements were closed in 2005 compared to the prior year, 2004, when two private placements were closed. Proceeds from both 2004 placements were applied to fund the ongoing work on the Company's Zacualpan Silver project carried out in 2005.

Funds raised from the 2004 private placements were augmented during 2005 by the exercise of options and share purchase warrants by Company shareholders. During 2005 the Company raised $52,750 on the exercise of share purchase options and a further $645,425 through the exercise of 3,509,166 share purchase warrants. This included an amount of $132,000 raised on the exercise of 440,000 share purchase warrants in the fourth quarter of 2005.

In April 2005, the Company granted additional incentive stock options under its Stock Option Plan to directors and employees exercisable for up to 710,000 shares of the Company. The options are exercisable on or before April 13, 2010, at an exercise price of $0.42 per share.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 13, 2006.

	# of Shares	Exercise Price	Expiry Date
Issued and outstan ding common sh ares at April -13, 2006	37,407,813		
Employee stock options	430,000	$ 0.13	October 20, 2008
	75,000	$ 0.20	August 31, 2006
	425,000	$ 0.15	May 12, 2009
	689,375	$ 0.42	April 13, 2010
	35,000	$ 1.45	February 6, 2008
Warrants	1,036,000	$ 0.35	December 09, 2006
	3,875,000	$ 0.50	July 05, 2007
	584,000	$ 1.20	October 6, 2007
	3,942,000	$ 1.30	October 6, 2007
Fully Diluted at April 13, 2006	48,499,188		

Transactions with Related Parties

Energold Drilling Corp. is the controlling shareholder of IMPACT Silver Corp., owning or controlling 5,811,667 common shares of the Company at January 1, 2005. As such, it is considered a related party. During 2005, Energold increased its shareholdings in the Company by 798,334 shares through the exercise of outstanding share purchase warrants as disclosed in note 8 to the financial statements increasing its overall shareholdings outstanding or controlled to 6,610,001.

From October 1, 2004, Energold provided IMPACT with a furnished office space in consideration of a monthly fee of $750. Under a management services agreement dated October 2004, Energold recovers direct labour costs like mineral exploration or public relations at specified daily charge-out rates plus 15% overheads. Energold also recovers miscellaneous charges plus 15% on the basis of IMPACT's actual usage. Investor relations' activities are carried out by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases. Administrative services fees of $8,360 (2004 - $2,662) were charged by Energold in the year. As at December 31, 2005, the balance owed to Energold was $806, which was non-interest bearing.

During the year ended December 31, 2005, fees in the amount of $96,684 (2004 - $64,580) were paid or accrued to two directors of the Company, of which $36,050 is shown as management fees and consulting and investor relations on the income statement, and $60,634 is shown in mineral properties. Energold also received fees in the amount of $183,020 (2004-nil) during the year for contract drilling services performed in Mexico at the Zacualpan concessions. These services were provided in the normal course of business operations at similar rates that would be offered to or attainable from any other similarly qualified drilling services company.

Changes in Accounting Policies

The consolidated financial statements for the year ended December 31, 2005 followed the same accounting policies and methods of application as in the prior year's annual financial statements.

Off-balance Sheet Arrangements

The Company had no off-balance sheet arrangements in place as at December 31, 2005.

Financial Instruments and Other Instruments

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

Approval

The Board of Directors of IMPACT has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional Information

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

Staley, Okada & Partners
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of IMPACT Silver Corp.:

We have audited the consolidated balance sheets of IMPACT Silver Corp. as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Staley, Okada & Partners"

Vancouver, B.C.
April 5, 2006 (except as to Note 12e which is as of April 6, 2006)

STALEY, OKADA & PARTNERS
CHARTERED ACCOUNTANTS

IMPACT Silver Corp.

Statement 1

(formerly IMPACT Minerals International Inc.)
(A Development Stage Company)
Consolidated Balance Sheets
As at December 31
Canadian Funds

ASSETS		2005		*2004*
Current				
Cash and term deposits	$	**1,196,932**	$	718,451
Accounts receivable and prepaid expenses		**22,709**		13,407
		1,219,641		731,858
Property, Plant and Equipment		**16,951**		2,570
Resource Properties - *Schedule (Note 4)*		**2,530,696**		1,367,120
	$	**3,767,288**	$	2,101,548

LIABILITIES				
Current				
Accounts payable	$	**101,553**	$	83,944
Due to related party *(Note 5)*		**806**		13,046
		102,359		96,990
Future Income Tax Liability – *(Note 10)*		**270,206**		97,117
		372,565		194,107
SHAREHOLDERS' EQUITY				
Share Capital *(Note 6)*		**8,437,288**		6,630,513
Contributed Surplus *(Note 6(b))*		**296,820**		130,043
Deficit - *Statement 2*		**(5,339,385)**		(4,853,115)
		3,394,723		1,907,441
	$	**3,767,288**	$	2,101,548

ON BEHALF OF THE BOARD:

"F.W. Davidson"   , Director

"G. Gorzynski"   , Director

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

IMPACT Silver Corp.

Statement 2

(formerly IMPACT Minerals International Inc.)
(A Development Stage Company)

Consolidated Statements of Loss and Deficit
For the Years Ended December 31
Canadian Funds

		2005		2004
General and Administrative Expenses				
Accounting and audit	$	41,476	$	5,000
Amortization		2,874		453
Foreign exchange		(166)		4,886
Investor relations		70,925		45,670
Legal		46,033		81,752
Management fees and consulting		30,330		28,500
Office and sundry		11,774		5,177
Office salaries and services		49,219		14,390
Rent		9,000		4,500
Stock-based compensation expense (*Note 7(b)*)		190,877		95,797
Transfer agent and filing fees		30,388		22,886
Travel and accommodation		11,351		5,323
Loss Before the Following		494,081		314,334
Other Expenses (Income)				
Interest income		(8,107)		(762)
Write-off of resource properties		296		6,679
		(7,811)		5,917
Loss for the Year		486,270		320,251
Deficit - Beginning of year		4,853,115		4,532,864
Deficit - End of Year	$	5,339,385	$	4,853,115
Loss Per Share – Basic and diluted	$	0.02	$	0.02
Weighted Average Number of Shares Outstanding		19,817,560		13,247,762

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

IMPACT Silver Corp.

Statement 3

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

Consolidated Statements of Cash Flows

For the Years Ended December 31

Canadian Funds

Cash Resources Provided By (Used In)		2005		2004
Operating Activities				
Loss for the year	$	(486,270)	$	(320,251)
Items not affecting cash				
Amortization		2,874		453
Stock-based compensation expense		190,877		95,797
Write-off of resource properties		296		6,679
Changes in non-cash working capital		14,572		32,285
		(277,651)		(185,037)
Investing Activities				
Property, plant and equipment		(17,255)		(3,023)
Resource properties		(958,548)		(283,856)
		(975,803)		(286,879)
Financing Activities				
Due to related party		(12,240)		(53,019)
Share capital issued		698,175		1,239,009
Shares to be issued		1,046,000		-
		1,731,935		1,185,990
Net Increase (Decrease) in Cash		478,481		714,074
Cash position - Beginning of year		718,451		4,377
Cash Position - End of Year	$	1,196,932	$	718,451
Non-Cash Financing / Investing Activities				
Future income tax liability	$	173,089	$	97,117
Resource properties – non-cash deferred exploration	$	(6,265)	$	37,082
Shares issued for resource properties	$	38,500	$	22,000
Stock-based compensation included in contributed surplus	$	190,877	$	95,797
Value assigned to options exercised	$	(24,100)	$	-

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

IMPACT Silver Corp.

Schedule

(formerly IMPACT Minerals International Inc.)
(A Development Stage Company)
Consolidated Schedules of Resource Properties
For the Years Ended December 31
Canadian Funds

		2005		2004
Proyectos Mineros, S.A. (PMSA) Concessions, Dominican Republic – *(Notes 4 (b))*				
Deferred exploration costs				
Field administration and expenses	$	**4,012**	$	2,741
Travel and accommodation		**4,229**		-
Vehicles		**1,316**		-
Wages and consulting		**10,633**		8,750
		20,190		11,491
Minera Monte Plata, S.A. (MMP) Concessions, Dominican Republic – *(Notes 4(c))*				
Deferred exploration costs				
Field administration		**109**		1,045
Zacualpan Concessions, Mexico – *(Note 4(d))*				
Acquisition cost		**118,464**		110,489
Deferred exploration costs				
Assaying		**128,868**		34,228
Drilling		**197,713**		-
Field administration , legal and expenses		**103,169**		25,910
Future income taxes – *(Note 10)*		**173,089**		97,117
Travel and accommodation		**58,653**		16,622
Vehicles		**38,800**		22,631
Wages and consulting		**324,521**		113,843
		1,024,813		310,351
		1,143,277		420,840
Other properties				
Deferred exploration costs				
Field administration and expenses		**-**		294
Wages and consulting		**-**		6,385
		-		6,679
Write-off of resource properties		**-**		(6,679)
		-		-
Costs for the Year		**1,163,576**		433,376
Balance - Beginning of year		**1,367,120**		933,744
Balance - End of Year	$	**2,530,696**	$	1,367,120

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

1. Nature of Operations

IMPACT Silver Corp. (the "Company") engages principally in the acquisition, exploration and development of resource properties. As discussed in the notes to the financial statements, the recovery of the Company's investment in resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves 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

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Proyectos Mineros, S.A. ("PMSA"), located in the Dominican Republic, Jade Oil Corporation ("Jade"), located in Canada, which has a wholly owned subsidiary Minera Monte Plata, S.A. ("MMP"), located in the Dominican Republic, and Minera Aguila Plateada S.A. de C.V. ("MAP"), located in Mexico.

All of the subsidiaries are accounted for using the purchase method.

b) 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.

c) Mineral Operations

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs, including indirect costs relating to the exploration program's field office, are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

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 renewal permits have been reapplied for in the normal course of business.

d) 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 mineral interests in good standing.

2. Significant Accounting Policies - *Continued*

e) **Loss per Share**

Loss per share amounts have been calculated and presented in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Basic earnings 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.

f) **Management's Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

g) **Share Capital**

i) The proceeds from the exercise of stock options, warrants and the purchase of escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share 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 reduced by an estimate of transaction costs normally incurred when issuing shares for cash, as determined by the board of directors of the Company.

h) **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.

i) **Stock-based Compensation**

Effective August 1, 2003, the Company has adopted the Canadian Institute of Chartered Accountants (CICA) amendments to Section 3870, "Stock-based Compensation and Other Stock-based Payments", which requires an expense to be recognized in the consolidated financial statements for all forms of employee stock-based compensation, including stock options.

2. Significant Accounting Policies - *Continued*

j) **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.

k) **Asset Retirement Obligations**

The recommendations of CICA Handbook Section 3110, Asset Retirement Obligations ("CICA 3110"), became effective on January 1, 2004. This section requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of the environmental remediation required, changes in the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability or accrual has been recorded as the Company is in the exploration stage on its properties and no reasonable estimate of the fair value of the liability can be estimated. There is no effect on prior years, as a result of adopting this new recommendation.

l) **Change in Accounting Policy**

The Accounting Standards Board (AcSB) issued Accounting Guideline AcG 15 "*Consolidation of Variable Interest Entities*," to harmonize the Guideline with the equivalent FASB Interpretation No. 46R, "*Consolidation of Variable Interest Entities*." The Guideline provides criteria for identifying VIEs and further criteria for determining what entity, if any, should consolidate them. The Guideline is effective for annual and interim periods beginning on or after 1 November 2004, and upon adoption, will not materially impact the Company's results of operations and financial position. The Guideline is effective 1 January 2005 for the Company.

3. Fair Value of Financial Instruments

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

4. Resource Properties

a) Details are as follows:

	2005	2004
PMSA Concessions – Dominican Republic		
Acquisition	$ 497,000	$ 497,000
Exploration and development	356,458	336,268
	853,458	833,268
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	28,121	28,012
	113,121	113,012
Zacualpan concessions - Mexico		
Acquisition costs	219,520	110,489
Exploration	1,074,391	213,234
Future income taxes	270,206	97,117
	1,564,117	420,840
Other Properties		
Exploration	-	6,679
Accumulated write -off	-	(6,679)
	-	-
	$ 2,530,696	$ 1,367,120

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.

Under the terms of the agreements, the Company issued 425,000 shares for a value of $85,000. MMP's only asset, recorded on its books at a nominal value, as at August 20, 1999,was the mineral concessions and therefore consideration for the purchase of Jade has been recorded under resource properties.

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

4. Resource Properties - *Continued*

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, which included the producing Compadres Mine. Under terms of this agreement, the Company was required to make payments of US$3,000 per month for three years (US$42,000 paid), and to issue 100,000 shares per year (200,000 issued) to the third party, as well as incur work commitments totalling US$1,000,000 over three years. The Company also agreed to pay in advance US$45,000 against the US$3,000 per month payments for years two and three, of which US$45,000 has been paid. 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.

The second option agreement was a three-year agreement for mining leases and concessions which included the producing Guadalupe Mine, and a 500-tonne-per-day processing plant with associated facilities. The assets in this second agreement are presently 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. Subsequent to year end this option agreement was signed *(Note 12 (c))*.

In December 2005, the Company amended the terms of the agreements for the purchase of the Royal Mines of Zacualpan Silver Project from an asset purchase to a share purchase. Under the amending agreement, the Company, through its 100% subsidiary Minera Aguila Plateada S.A. de C.V., 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 Silver Mines of Zacualpan, including the Capela Assets of Zacualpan Mines (mining concessions, mining equipment, and surface rights). Subsequent to year end, this purchase transaction was closed *(Note 12(b))*.

5. Due to Related Party

As at December 31, 2005, an amount of $806 (2004 - $13,046) was due to a related party. 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.

6. Share Capital

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited common shares without par value			
Issued and outstanding:			
Balance – December 31, 2003	10,730,022	$	5,369,504
Private placements	5,705,000		1,261,500
Shares issued for resource properties	100,000		22,000
Share purchase options exercised	435,000		43,500
Share purchase warrants exercised	195,000		29,700
Share issue costs			(95,691)
Balance – December 31, 2004	17,165,022		6,630,513
Shares issued for resource properties	100,000		38,500
Share purchase warrants exercised	3,509,166		645,425
Share purchase options exercised	250,000		52,750
Value assigned to options exercised			24,100
	21,024,188		7,391,288
Allotted and fully paid:			
Shares to be issued – *(Note 12(a))*	2,615,000		1,046,000
Balance – December 31, 2005	23,639,188	$	8,437,288

b) Contributed Surplus

Balance, December 31, 2003	$	34,246
Fair value of stock options issued		95,797
Balance, December 31, 2004		130,043
Fair value of stock options issued		190,877
Value assigned to options exercised		(24,100)
Balance, December 31, 2005	$	296,820

c) As at December 31, 2005, the Company has 375,000 shares in escrow. These shares may not be released without the consent of the regulatory authorities.

d) In April 2004, the Company issued a private placement of 3.0 million units at a price of $0.15 per unit, of which 393,334 units were sold to a related party. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of $0.165 per share for 2.5 million units and $0.185 per share for 500,000 units. The Company granted a further 214,166 warrants at $0.15 as a finder's fee. As of December 31, 2005, all the warrants had been exercised.

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 related party. 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.

7. 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 options at December 31, 2005 and the changes for the period are as follows:

Number Outstanding December 31, 2004	Issued	Exercised	Expired	Number Outstanding December 31, 2005	Exercise Price Per Share	Expiry Date
780,000	-	-	-	780,000	$0.13	October 20, 2008
300,000	-	(225,000)	-	75,000	$0.20	August 31, 2006
475,000	-	-	-	475,000	$0.15	May 12, 2009
-	50,000	(25,000)	(25,000)	-	$0.31	January 10, 2007
-	710,000	-	-	710,000	$0.42	April 13, 2010
1,555,000	760,000	(250,000)	(25,000)	2,040,000	$0.13-$0.42	August 31, 2006-April 13, 2010

i) In October 2003, the Company granted additional stock options under its Stock Option Plan to directors and employees exercisable for up to 780,000 shares of the Company, with an estimated value of $98,457 on the grant date. The options are exercisable on or before October 20, 2008 at a price of $0.13 per share.

ii) In May 2004, the Company granted additional stock options under its Stock Option Plan to directors and employees exercisable for up to 475,000 shares of the Company, with an estimated value of $60,696 on the grant date. The options are exercisable on or before May 12, 2009 at a price of $0.15 per share.

iii) In August 2004, the Company granted additional stock options under its Stock Option Plan to a consultant exercisable for up to 300,000 shares of the Company, with an estimated value of $29,156 on the grant date. The options are exercisable on or before August 31, 2006 at a price of $0.20 per share.

iv) In January 2005, the Company granted additional stock options under its Stock Option Plan to a consultant exercisable for up to 50,000 shares of the Company, with an estimated value of $8,125 on the grant date. The options are exercisable on or before January 10, 2007 at a price of $0.31 per share.

v) In April 2005, the Company granted additional stock options under its Stock Option Plan to directors and employees exercisable for up to 710,000 shares of the Company, with an estimated value of $215,322 on the grant date. The options are exercisable on or before April 13, 2010 at a price of $0.42 per share.

7. Share Purchase Options - *continued*

b) The fair value of stock options used to calculate compensation for employees is estimated using the Black Scholes Option Pricing Model. The Company recognized a stock option expense and an increase to contributed surplus of $190,877 (2004 - $95,797) for the year ended December 31, 2005, based on a grading vesting schedule as follows:

Number of options granted	780,000	475,000	300,000	50,000	710,000
Risk-free interest rate	4.14%	3.73%	2.97%	2.81%	3,30%
Expected dividend yield	NIL	NIL	NIL	NIL	NIL
Expected stock price volatility	191.6%	124.7%	117.3%	138%	206%
Expected option life in years	5	5	2	2	5

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.

8. Related Party Transactions

Except as disclosed elsewhere in these financial statements, related party transactions are as follows:

a) During the year ended December 31, 2005, fees in the amount of $96,684 (2004 - $64,580) were paid or accrued to two directors of the Company, of which $36,050 is shown in various administrative expenditures on the income statement, and $60,634 is shown in mineral properties.

b) During the year ended December 31, 2005, an administrative fee of $8,360 (2004 - $2,662) was paid to a related party for management of the Company's administrative and exploration programs.

c) In April 2004, as part of a private placement, the Company sold 393,334 units to a related party, at a price of $0.15 per unit. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of $0.185 per share until April 14, 2005. In March 2005, the related party exercised 393,334 warrants.

d) In October 2004, as part of a private placement, the Company sold 405,000 units to a related party at a price of $0.30 per unit. 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 per share for the first year and $0.35 per share in the second year up to December 9, 2006. Prior to December 9, 2005, the related party exercised its option to purchase 405,000 common shares.

e) During the year ended December 31, 2005, fees in the amount of $183,020 (2004 – nil) were paid to a related party for contract drilling services performed in Mexico at the Zacualpan concessions.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Management Agreements

The Company had entered into management and consulting agreements with two directors for fees totalling $3,000 ($1,500 each) per month until May 2004, and thereafter with one director for fees totalling $1,500 per month. On November 1, 2004, the Company entered into a management agreement with one director for fees of $2,500 per month for a period of twenty-four months, renewing automatically on a month-by-month basis for one year thereafter. This replaces the previous agreement.

10. Income Taxes

a) The Company has, as of December 31, 2005, incurred non-capital losses for tax purposes of approximately $780,000. They may be carried forward and used to reduce taxable income of future years. These losses expire as follows:

		Amount
2006	$	9,000
2007		117,000
2008		68,000
2009		103,000
2010		63,000
2014		170,000
2015		250,000
	$	780,000

The Company has incurred certain exploration and development expenses of approximately $2,486,000, which may be carried forward indefinitely.

The potential future tax benefits have not been recognized in these financial statements.

b) Future income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial statements purposes and the amounts for income tax purposes. Significant components are as follows:

		2005		2004
Future tax assets	**$**	**-**	$	-
Future tax liability	**$**	**270,206**	$	97,117

The main component of the difference that gives use to the future tax liabilities are as follows:

Future Tax Assets		**2005**		2004
Losses carried forward	**$**	**780,000**	$	530,000
Mineral property costs		**2,486,000**		2,466,000
Undepreciated capital cost in excess of net book value of equipment		**18,000**		16,000
		3,284,000		3,012,000
Future tax liability		**(270,206)**		(97,117)
Valuation allowance		**(3,013,794)**		(2,914,883)
	$	**-**	$	-

11. Segmented Information

The Company has one operating segment, which is the exploration and development of mineral properties. The Company's principal operations were primarily carried out in Canada, the Dominican Republic and Mexico. All of the investment income is earned in Canada. Details are as follows:

Assets by geographic area		**As at December 31, 2005**		As at December 31, 2004
Caribbean	**$**	**1,236,786**	$	1,043,397
Mexico		**1,326,496**		323,723
Canada		**1,204,006**		734,428
	$	**3,767,288**	$	2,101,548

Net loss (income) by geographic area		**As at December 31, 2005**		As at December 31, 2004
Mexico	**$**	**(4,721)**	$	6,679
Canada		**490,991**		313,572
	$	**486,270**	$	320,251

12. Subsequent Events

a) 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.

As of December 31, 2005, funds of $1,046,000 had been received by the Company in connection with this private placement, and 2,615,000 shares have been reserved for issuance.

12. Subsequent Events - *continued*

b) On January 16, 2006, the Company completed the acquisition, through its wholly-owned subsidiary MAP, of all the issued and outstanding shares of MPZ, which owns the Royal Silver Mines of Zacualpan, including the Capela Assets of Zacualpan Mines (mining concessions, mining equipment, and surface rights).

   The total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and the payment of US$1,871,445, as well as assuming certain liabilities in MPZ totalling approximately US$552,000 of which US$465,000 pertains to hedging contracts. The 200,000 shares of the Company previously issued to, and owned by MPZ under the original contract of purchase and sale, were returned to the treasury.

c) In February 2006, the Company, through its wholly owned subsidiary MAP, entered into an exclusive option to purchase a 500-tonne per day processing plant, certain mineral concessions and surface rights located in Zacualpan 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 the Company is required to pay US$4,000 monthly to the vendor. The Company currently leases the plant and surface rights to process its mineral production. The producing Guadalupe Mine is located on these leased mineral concessions and is subject to a 2.5% Net Smelter Royalty. These lease and royalty payments will end upon exercise of this agreement.

d) In January, 2006, the Company through its wholly owned subsidiary MAP, entered into a lease with an option to purchase various mining production equipment. Under this agreement, the Company presently leases the equipment for US$25,000 per month and has an option to purchase the equipment at any time before July 6, 2006 for US$500,000. Half of each lease payment is applicable toward the purchase price.

e) 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.

CORPORATE INFORMATION

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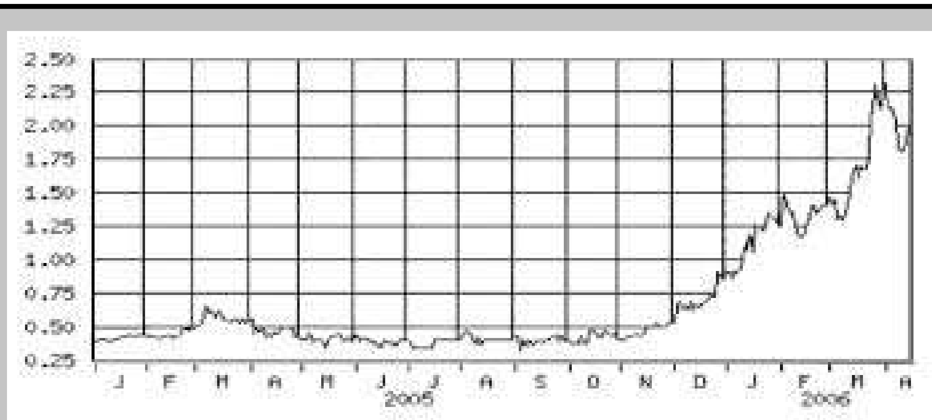
SHARE PRICE PERFORMANCE



January 1, 2005 to April 13, 2006

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.

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.

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