

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

**Interim Consolidated Financial Statements**

**June 30, 2006 and 2005**  
*Unaudited*

**NOTICE**

These interim consolidated financial statements for the six months ended June 30, 2006 of IMPACT Silver Corp. have been prepared by management and have not been subject to review by the Company's auditors.

# IMPACT Silver Corp.

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

## Consolidated Balance Sheets

As at

Canadian Funds

Unaudited

Statement 1

ASSETS	June 30, 2006	June 30, 2005	December 31, 2005 <i>Audited</i>
<b>Current</b>			
Cash and term deposits	\$ 6,007,862	\$ 441,668	\$ 1,196,932
Accounts receivable and prepaid expenses	1,026,493	48,702	22,709
Inventory	215,390	-	-
	<u>7,249,745</u>	<u>490,370</u>	<u>1,219,641</u>
Property, Plant and Equipment – (Note 5)	1,977,234	18,386	16,951
Resource Properties – Schedule (Note 3)	8,565,966	2,155,316	2,530,696
	<u>\$ 17,792,945</u>	<u>\$ 2,664,072</u>	<u>\$ 3,767,288</u>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable	\$ 1,545,250	\$ 54,114	\$ 101,553
Due to related party (Note 6)	152,189	96,663	806
Forward Sales Contract	1,298,194	-	-
	<u>2,995,633</u>	<u>150,777</u>	<u>102,359</u>
Future Income Tax Liability – (Note 11)	362,906	224,666	270,206
	<u>3,358,539</u>	<u>375,443</u>	<u>372,565</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital (Note 7)	18,875,408	7,182,438	8,437,288
Contributed Surplus (Note 7(b))	281,599	248,597	296,820
Deficit – Statement 2	(4,722,601)	(5,142,406)	(5,339,385)
	<u>14,434,406</u>	<u>2,288,629</u>	<u>3,394,723</u>
	<u>\$ 17,792,945</u>	<u>\$ 2,664,072</u>	<u>\$ 3,767,288</u>

ON BEHALF OF THE BOARD:

“F.W. Davidson” \_\_\_\_\_, Director

“G. Gorzynski” \_\_\_\_\_, Director

# IMPACT Silver Corp.

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

## Interim Consolidated Statements of Loss and Deficit

Canadian Funds

Unaudited

Statement 2

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Revenue</b>	\$ 1,965,192	\$ -	\$ 3,108,108	\$ -
<b>Expenses</b>				
Operating Costs	1,243,046	-	1,887,992	-
Depreciation and depletion	309,254	-	573,615	-
(Gain) on forward sales contract	(67,928)	-	(175,606)	-
	<u>1,484,372</u>	<u>-</u>	<u>2,286,001</u>	<u>-</u>
<b>Mine Operating Earnings</b>	<u>480,820</u>	<u>-</u>	<u>882,107</u>	<u>-</u>
<b>General and Administrative Expenses</b>				
Accounting and audit	41,136	1,965	46,871	4,819
Amortization	56,598	1,060	57,952	1,438
Foreign exchange	(198,772)	2,278	(233,014)	(1,790)
Investor relations	9,966	30,806	32,264	56,066
Legal	39,668	25,050	60,398	51,437
Management fees and consulting	28,659	7,500	41,859	15,000
Office and sundry	13,435	4,155	22,416	6,677
Office salaries and services	58,790	13,037	78,768	22,618
Rent	7,590	2,250	13,995	4,500
Stock-based compensation expense (Note 8(b))	26,915	92,081	63,871	118,554
Transfer agent and filing fees	9,093	4,663	53,287	10,814
Travel and accommodation	7,671	-	17,458	4,338
	<u>100,749</u>	<u>184,845</u>	<u>256,125</u>	<u>294,471</u>
<b>Income Before the Following</b>	<u>380,071</u>	<u>(184,845)</u>	<u>565,982</u>	<u>(294,471)</u>
<b>Other Income (Expenses)</b>				
Interest income	48,362	2,440	51,222	5,180
Write-off of resource properties	75	-	(420)	-
	<u>48,437</u>	<u>2,440</u>	<u>50,802</u>	<u>5,180</u>
<b>Net Income for the Period</b>	<u>428,508</u>	<u>(182,405)</u>	<u>616,784</u>	<u>(289,291)</u>
Deficit - Beginning of period	(5,151,109)	(4,960,001)	(5,339,385)	(4,853,115)
<b>Deficit - End of Period</b>	<u>\$ (4,722,601)</u>	<u>\$ (5,142,406)</u>	<u>\$ (4,722,601)</u>	<u>\$ (5,142,406)</u>
<b>Earnings Per Share – Basic</b>	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)
– Diluted	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.02)
<b>Weighted Average Number of Shares Outstanding - Basic</b>	37,270,301	20,175,168	32,573,824	19,158,778
- Diluted	42,974,051	24,003,918	38,277,574	22,987,528

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

# IMPACT Silver Corp.

Statement 3

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

## Interim Consolidated Statements of Cash Flows

Canadian Funds

Unaudited

Cash Resources Provided By (Used In)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Operating Activities</b>				
Income (loss \) for the period	\$ 428,508	\$ (182,405)	\$ 616,784	\$ (289,291)
Items not affecting cash				
Amortization	56,598	1,060	57,952	1,438
Depreciation and depletion	309,254	-	573,615	-
Gain on forward sales contract	(67,928)	-	(175,606)	-
Stock-based compensation expense	26,916	92,081	63,872	118,554
Write-off of resource properties	(75)	-	420	-
Changes in non-cash working capital	146,157	8,582	(2,361,307)	(42,212)
	<b>899,430</b>	<b>(80,682)</b>	<b>(1,224,270)</b>	<b>(211,511)</b>
<b>Investing Activities</b>				
Acquisition of Minera El Porvenir de Zacualpan	-	-	(3,327,269)	-
Forward sales contract	(1,529,648)	-	1,298,194	-
Property, plant and equipment	(1,190,992)	(7,248)	(1,206,899)	(17,254)
Resource properties	(697,414)	(396,439)	(942,736)	(645,060)
	<b>(3,418,054)</b>	<b>(403,687)</b>	<b>(4,178,710)</b>	<b>(662,314)</b>
<b>Financing Activities</b>				
Due to related party	151,427	24,401	151,383	83,617
Share capital issued	7,547,607	155,650	10,062,527	513,425
	<b>7,699,034</b>	<b>180,051</b>	<b>10,213,910</b>	<b>597,042</b>
<b>Net Increase (Decrease) in Cash</b>	<b>5,180,410</b>	<b>(304,318)</b>	<b>4,810,930</b>	<b>(276,783)</b>
Cash position - Beginning of period	827,452	745,986	1,196,932	718,451
<b>Cash Position - End of Period</b>	<b>\$ 6,007,862</b>	<b>\$ 441,668</b>	<b>\$ 6,007,862</b>	<b>\$ 441,668</b>
<b>Non-Cash Financing / Investing Activities</b>				
Acquisition of Minera El Porvenir de Zacualpan	\$ -	\$ -	\$ (1,935,581)	\$ -
Future income tax liability	\$ 94,078	\$ 64,382	\$ 92,700	\$ 127,549
Property, plant and equipment	\$ (811,336)	\$ -	\$ (811,336)	\$ -
Resource properties – non-cash deferred exploration	\$ 23,950	\$ 99,045	\$ (14,546)	\$ 22,913
Shares issued for resource properties	\$ -	\$ 38,500	\$ 296,500	\$ 38,500
Stock-based compensation included in contributed surplus	\$ 26,916	\$ 92,081	\$ 63,872	\$ 118,554
Value assigned to options exercised	\$ (41,041)	\$ -	\$ (79,093)	\$ -

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

# IMPACT Silver Corp.

Schedule

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

## Interim Consolidated Schedules of Resource Properties

Canadian Funds

Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Zacatecas Property, Mexico – (Notes 3(e), 13(a))</b>				
Deferred exploration costs				
Wages and consulting	\$ 3,980	\$ -	\$ 3,980	\$ -
<b>Zacualpan Mine and Concessions, Mexico</b>				
– (Note 3(d))				
Acquisition costs	169,643	49,699	5,728,993	87,720
Deferred exploration costs				
Assaying	13,991	47,815	33,737	88,978
Development	42,002	-	154,970	-
Drilling	258,274	94,905	258,274	197,569
Field administration, legal and expenses	39,176	8,411	90,854	26,056
Future income taxes – (Note 11)	94,078	64,382	92,700	127,549
Travel and accommodation	25,349	11,062	43,775	27,013
Vehicles	11,251	18,062	22,860	28,655
Wages and consulting	109,846	86,250	178,742	184,966
	593,967	330,887	875,912	680,786
Depreciation and Depletion	(309,254)	-	(573,615)	-
	454,356	380,586	6,031,290	768,506
<b>Other Properties, Dominican Republic</b>				
– (Notes 3 (b)(c))				
Deferred exploration costs				
Field administration	(75)	3,982	420	3,982
Travel and accommodation	-	4,229	-	4,229
Vehicles	-	1,266	-	1,266
Wages and consulting	-	10,213	-	10,213
	(75)	19,690	420	19,690
Write-off of resource properties	75	-	(420)	-
	-	19,690	-	19,690
<b>Costs for the Period</b>	<b>458,336</b>	<b>400,276</b>	<b>6,035,270</b>	<b>788,196</b>
Balance - Beginning of period	8,107,630	1,755,040	2,530,696	1,367,120
<b>Balance - End of Period</b>	<b>\$ 8,565,966</b>	<b>\$ 2,155,316</b>	<b>\$ 8,565,966</b>	<b>\$ 2,155,316</b>

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

# IMPACT Silver Corp.

(formerly IMPACT Minerals International Inc.)

*(A Development Stage Company)*

## Notes to Interim Consolidated Financial Statements

June 30, 2006 and 2005

*Canadian Funds*

*Unaudited*

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### 1. Significant Accounting Policies

#### a) Basis of Presentation

These interim financial statements follow the same accounting policies and methods of their application of the most recent annual financial statements. These financial statements should be read in conjunction with the audited financial statements as at December 31, 2005.

#### b) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 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.

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

#### c) Inventories

Materials and supplies are currently valued at average cost. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at average production cost. Cost includes production labour, materials and depreciation of plant and equipment directly involved in the mining and production processes.

#### d) Revenue Recognition

Revenues are currently recognized at quoted market prices at the time of shipment when risks and rewards of ownership pass to the customer. Final prices are determined by quoted market prices in periods subsequent to the date of sale. Subsequent variations in price are recognized as revenue adjustments until the price is finalized.

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### 2. 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. As at June 30, 2006, the Company holds an equivalent of CAD\$(1,255,417) in financial instruments 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 instruments. The carrying value of these financial instruments approximates their fair value, unless otherwise noted.

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# IMPACT Silver Corp.

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(A Development Stage Company)

## Notes to Interim Consolidated Financial Statements

June 30, 2006 and 2005

Canadian Funds

Unaudited

### 3. Resource Properties

a) Details are as follows:

	2006	2005
PMSA Concessions – Dominican Republic		
Acquisition	\$ 497,000	\$ 497,000
Exploration and development	356,458	355,849
	<b>853,458</b>	852,849
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	28,121	28,121
	<b>113,121</b>	113,121
Zacualpan Concessions – Mexico		
Acquisition costs	5,948,513	198,209
Exploration	1,857,605	766,471
Future Income Taxes	362,906	224,666
Depreciation and depletion	(573,617)	-
	<b>7,595,407</b>	1,189,346
Zacatecas Property – Mexico		
Exploration	3,980	-
Other Properties		
Exploration	495	6,679
Accumulated write-off	(495)	(6,679)
	-	-
	<b>\$ 8,565,966</b>	<b>\$ 2,155,316</b>

#### 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 Proyectos Mineras, S.A. ("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 Oil Corporation, 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.

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## Notes to Interim Consolidated Financial Statements

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### 3. 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 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 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 and surface rights). On January 15, 2006, this transaction was completed (*Note 4*).

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-tonne-per-day 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-tonne per day 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 of Zacualpan operations, and has a 100% interest with no underlying royalties on its mineral concessions.

#### e) Zacatecas Agreement

Subsequent to the end of the quarter, the Company through its wholly owned subsidiary MAP, acquired a four-year option from a third party to purchase four mining concessions, a 200-tonne-per-day processing plant and associated surface rights in the historic Zacatecas Mining District of Mexico. Under the agreement, MAP may purchase the assets for US\$1,120,000 and 500,000 shares in stages, plus commit to US\$700,000 in work expenditures (US\$350,000 in each of the first two years). Under the agreement, the vendor may mine and process material from the properties until MAP exercises its purchase option.

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## Notes to Interim Consolidated Financial Statements

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#### 4. 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 MAP, of all the issued and outstanding shares of MPZ. The total consideration paid to the shareholders of MPZ was the issuance of 300,000 shares of the Company and the payment of US\$1,741,778, as well as the assumption of certain liabilities in MPZ. These liabilities included approximately US\$465,000 pertaining to forward sales contract losses realized to December 31, 2005, under a smelter contract commitment obligation entered into in April 2004 by MPZ. Under this contract obligation, MPZ had entered into monthly forward sales commitments with a Mexican smelter through to the end of July 2006 calling for monthly deliveries of 20,000 ounces of silver, 200 ounces of gold, 50 tons of lead and 100 tons of zinc which had been sold forward at \$US prices established in 2004 of \$7.00 per ounce silver, \$400.00 per ounce gold, \$720.00 per ton lead, and \$1,100.00 per ton zinc. Indirectly, MAP also assumed both the real and the contingent liability for the forward sales commitments through to July 31, 2006 that had been entered into by MPZ, including the obligation to settle for any physical shortfall in deliveries against the forward sales contract obligations. Historically, MPZ had fallen significantly short on its contractual delivery commitments on all but silver throughout 2005, and it was not expected that it would meet its shortfall in 2006 as the areas the Company was currently mining were relatively low in lead, zinc and gold realizations.

Modern Canadian accounting theory recommends that the purchase method of accounting be used to account for all business combinations and that the acquirer, in a business combination, should recognize the assets acquired and liabilities assumed from the date of acquisition, including any assets and liabilities that may not have been recognized on the balance sheet of the acquired enterprise. As applied to our acquisition of MPZ this theory requires that we recognize the opportunity loss in MPZ of the difference between our estimate of current metal market prices at the date of our acquisition of MPZ to the date of final closure of the forward sales commitment obligations (July 31, 2006) and the agreed selling prices entered into under the 2004 forward sales contract arrangement. Our best estimate made early in 2006 was that had MPZ not entered into forward sales commitments in 2004, 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\$2.428 million more than it will do under its forward sales delivery contractual commitments. This forgone revenue and MPZ's obligation to make good on the delivery obligation, represents contingent consideration which we must take into account as part of the purchase consideration.

The CICA handbook 1581.22 indicates that the cost of the purchase to the acquirer should be determined by the fair value of the consideration given or the acquirer's share of the fair value of the net assets or equity interests acquired, whichever is more reliably measurable. The acquirer's share of the fair value of the net assets or equity interest acquired and the consideration paid are assumed to be equal, unless there is evidence to the contrary.

The acquisition of MPZ was accounted for using the purchase method with MAP being identified as the acquirer. The results of operations of MPZ, and its wholly owned subsidiary Minera Laureles, from January 17<sup>th</sup>, 2006 forward are included in these financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired is summarized in the table below, and the residual purchase price of \$5,559,350 has been allocated to Zacualpan resource property acquisition costs.

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## Notes to Interim Consolidated Financial Statements

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#### 4. Acquisition of Minera El Porvenir de Zacualpan S.A de C.V. ("MPZ") - continued

	Canadian \$
<b>Purchase Price</b>	
Net share consideration at market value at date of issue (300,000 shares)	\$ 296,500
Cash payment to vendors	2,031,244
	<u>2,327,744</u>
<b>Identifiable Net Assets Acquired</b>	
Cash	-
Other current assets	533,239
Other assets	133,187
	<u>666,426</u>
Current liabilities	(505,135)
Forward sales contract liability	(3,372,897)
	<u>(3,878,032)</u>
Net Identifiable Assets and Liabilities	<u>(3,211,606)</u>
<b>Residual Purchase Price Allocated to Resource Properties</b>	<u>\$ 5,559,350</u>

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#### 5. Property, Plant and Equipment

	June 30, 2006	June 30, 2005
Mine equipment	\$ 671,462	\$ -
Mobile equipment	547,333	-
Office furniture and equipment	75,630	32,333
Plant equipment	312,424	-
Surface rights	670,728	-
Vehicles	121,732	10,007
	<u>2,399,309</u>	42,340
Accumulated amortization	(422,075)	(23,954)
Net Book Value	<u>\$ 1,977,234</u>	<u>\$ 18,386</u>

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#### 6. Due to Related Party

As at June 30, 2006, an amount of \$152,189 (2005 - \$96,663) 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.

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# IMPACT Silver Corp.

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## Notes to Interim Consolidated Financial Statements

June 30, 2006 and 2005

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Unaudited

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### 7. Share Capital

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited common shares without par value			
Issued and outstanding:			
Balance – June 30, 2005	20,334,188	\$	7,182,438
Private placements	2,615,000		1,046,000
Share purchase options exercised	250,000		52,750
Share purchase warrants exercised	440,000		132,000
Value assigned to options exercised			24,100
Balance – December 31, 2005	23,639,188		8,437,288
Private placements	12,019,000		10,326,400
Shares issued for resource properties	300,000		357,000
Share purchase options exercised	575,000		96,500
Share purchase warrants exercised	1,722,500		634,750
Shares returned to treasury	(200,000)		(60,500)
Share issue costs			(995,122)
Value assigned to options exercised			79,092
Balance – June 30, 2006	38,055,688	\$	18,875,408

b) Contributed Surplus

Balance, June 30, 2005	\$	248,597
Fair value of stock options issued		72,323
Value assigned to options exercised		(24,100)
Balance, December 31, 2005		296,820
Fair value of stock options issued		63,871
Value assigned to options exercised		(79,092)
Balance, June 30, 2006	\$	281,599

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## Notes to Interim Consolidated Financial Statements

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### 7. Share Capital - continued

- c) As at June 30, 2006, 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. To June 30, 2006, 1,950,000 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 June 30, 2006, 212,500 warrants had been exercised.
  - 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.
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Canadian Funds

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### 8. 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 June 30, 2006 and the changes for the period are as follows:

Number Outstanding June 30, 2005	Issued	Exercised	Expired	Number Outstanding June 30, 2006	Exercise Price Per Share	Expiry Date
780,000	-	(350,000)	-	430,000	\$0.13	October 20, 2008
300,000	-	(300,000)	-	-	\$0.20	August 31, 2006
475,000	-	(100,000)	-	375,000	\$0.15	May 12, 2009
50,000	-	(25,000)	(25,000)	-	\$0.31	January 10, 2007
710,000	-	(50,000)	(1,250)	658,750	\$0.42	April 13, 2010
-	35,000	-	-	35,000	\$1.45	February 6, 2008
2,315,000	35,000	(825,000)	(26,250)	1,498,750	\$0.13- \$1.45	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.
- vi) In February 2006, the Company granted additional 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.
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### 8. 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 \$63,871 (2005 - \$118,554) for the six months ended June 30, 2006, based on a grading vesting schedule as follows:

Number of options granted	780,000	475,000	300,000	50,000	710,000	35,000
Risk-free interest rate	4.14%	3.73%	2.97%	2.81%	3.30%	3.98%
Expected dividend yield	NIL	NIL	NIL	NIL	NIL	NIL
Expected stock price volatility	191.6%	124.7%	117.3%	138%	206%	89%
Expected option life in years	5	5	2	2	5	1

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.

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### 9. Related Party Transactions

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

- a) During the six months ended June 30, 2006, fees in the amount of \$75,898 (2005 - \$50,050) were paid or accrued to two directors and one officer of the Company, of which \$33,218 is shown in various administrative expenditures on the income statement, and \$42,680 is shown in resource properties.
- b) During the six months ended June 30, 2006, an administrative fee of \$3,741 (2005 - \$4,673) 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 six months ended June 30, 2006, fees in the amount of \$258,274 (2005 - \$183,020) 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.

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### 10. Management Agreements

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. On May 1, 2006, this agreement was replaced by a three-year employment agreement for compensation of \$5,000 per month.

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### 11. 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
	<u>\$ 780,000</u>

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. The significant components are as follows:

	June 30, 2006	December 31, 2005
Future tax assets	\$ -	\$ -
Future tax liability	\$ 362,906	\$ 270,206

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

	June 30, 2006	December 31, 2005
<b>Future Tax Assets</b>		
Losses carried forward	\$ 780,000	\$ 780,000
Mineral property costs	2,486,000	2,486,000
Undepreciated capital cost in excess of net book value of equipment	18,000	18,000
	<u>3,284,000</u>	<u>3,284,000</u>
Future tax liability	(362,906)	(270,206)
Valuation allowance	(2,921,094)	(3,013,794)
	<u>\$ -</u>	<u>\$ -</u>

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### 12. 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 at June 30, 2006 are as follows:

Assets by geographic area	2006		2005	
Caribbean	\$	966,580	\$	965,970
Mexico		11,076,785		984,005
Canada		5,749,581		717,097
	\$	17,792,946	\$	2,664,072

Net income (loss) by geographic area	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Mexico	\$ 690,091	\$ -	\$ 1,113,096	\$ (30,847)
Canada	(261,583)	(182,405)	(496,312)	(258,444)
	\$ 428,508	\$ (182,405)	\$ 616,784	\$ (289,291)

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### 13. Subsequent Events

- a) In August, 2006, the Company through its wholly owned subsidiary MAP, acquired a four-year option from a private third party to acquire four mining concessions, a 200-tonne-per-day processing plant and associated surface rights in the historic Zacatecas Mining District of Mexico. Under the agreement, MAP may purchase the assets for US\$1,120,000 and 500,000 shares in stages, plus commit to US\$700,000 in work expenditures (US\$350,000 in each of the first two years):

Under the agreement, the vendor may mine and process material from the properties until MAP exercises its purchase option. The agreement is subject to TSX Venture Exchange approval.

- b) In July, 2006, the Company through its wholly owned subsidiary MAP, completed the purchase of all of the remaining mining and processing equipment, mineral concessions and surface rights not already owned at its Royal Mines of Zacualpan Silver Project. The purchase is the final exercise of the option agreement announced March 14, 2006, and was recorded in the accounts of the Company in the six months ended June 2006. Under the agreement, the Company acquired the 500-tonne-per-day processing plant plus certain mineral concessions and surface rights for US\$1,140,000 plus 100,000 shares. With these purchases, the Company now owns all the equipment and surface rights related to its Royal Mines of Zacualpan operations and has a 100% interest, with no underlying royalties, to its mineral concessions.
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