

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

**Interim Consolidated Financial Statements**

**March 31, 2006 and 2005**  
*Unaudited*

**NOTICE**

These interim consolidated financial statements for the three months ended March 31, 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)

## Interim Consolidated Balance Sheets

As at

Canadian Funds

Unaudited

Statement 1

ASSETS	March 31, 2006	March 31, 2005	December 31, 2005 <i>Audited</i>
<b>Current</b>			
Cash and term deposits	\$ 827,452	\$ 745,986	\$ 1,196,932
Accounts receivable and prepaid expenses	966,604	22,181	22,709
Inventory	208,335	-	-
	<b>2,002,391</b>	768,167	1,219,641
<b>Property, Plant and Equipment</b>	<b>31,504</b>	12,198	16,951
<b>Resource Properties - Schedule (Note 3)</b>	<b>8,107,630</b>	1,657,923	2,530,696
	<b>\$ 10,141,525</b>	\$ 2,438,288	3,767,288
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable	\$ 612,718	\$ 118,056	\$ 101,553
Due to related party (Note 5)	762	72,262	806
Forward Sales Contract (Note 4)	2,827,842	-	-
	<b>3,441,322</b>	190,318	102,359
<b>Future Income Tax Liability - (Note 10)</b>	<b>268,828</b>	63,167	270,206
	<b>3,710,150</b>	253,485	372,565
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital (Note 6)</b>	<b>11,286,760</b>	6,988,288	8,437,288
<b>Contributed Surplus (Note 6(b))</b>	<b>295,724</b>	156,516	296,820
<b>Deficit - Statement 2</b>	<b>(5,151,109)</b>	(4,960,001)	(5,339,385)
	<b>6,431,375</b>	2,184,803	3,394,723
	<b>\$ 10,141,525</b>	\$ 2,438,288	\$ 3,767,288

ON BEHALF OF THE BOARD:

"F.W. Davidson" \_\_\_\_\_, Director

"G. Gorzynski" \_\_\_\_\_, Director

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

# IMPACT Silver Corp.

(formerly IMPACT Minerals International Inc.)

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## Interim Consolidated Statements of Loss and Deficit For the Three Months Ended March 31

Canadian Funds

Unaudited

Statement 2

	2006	2005
<b>Revenue</b>	<b>\$ 1,142,916</b>	<b>\$ -</b>
<b>Expenses</b>		
Operating Costs	644,946	-
Depreciation and depletion	264,361	-
(Gain) on forward sales contract	(107,678)	-
	<b>801,629</b>	<b>-</b>
<b>Mine Operating Earnings</b>	<b>341,287</b>	<b>-</b>
<b>General and Administrative Expenses</b>		
Accounting and audit	5,735	2,854
Amortization	1,354	378
Foreign exchange	(34,242)	(4,068)
Investor relations	22,298	25,260
Legal	20,730	26,387
Management fees and consulting	13,200	7,500
Office and sundry	8,981	2,522
Office salaries and services	19,978	9,581
Rent	6,405	2,250
Stock-based compensation expense (Note 7(b))	36,956	26,473
Transfer agent and filing fees	44,194	4,338
Travel and accommodation	9,787	6,151
	<b>155,376</b>	<b>109,626</b>
<b>Income (Loss) Before the Following</b>	<b>185,911</b>	<b>(109,626)</b>
<b>Other Income (Expenses)</b>		
Interest income	2,860	2,740
Write-off of resource properties	(495)	-
	<b>2,365</b>	<b>2,740</b>
<b>Net Income for the Period</b>	<b>188,276</b>	<b>(106,886)</b>
Deficit - Beginning of period	(5,339,385)	(4,853,115)
<b>Deficit - End of Period</b>	<b>\$ (5,151,109)</b>	<b>\$ (4,960,001)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>27,825,163</b>	<b>13,247,762</b>
<b>Diluted Number of Shares Outstanding</b>	<b>36,089,188</b>	<b>25,329,188</b>
<b>Earnings Per Share – Basic</b>	<b>\$ .01</b>	<b>\$ (0.01)</b>
– Diluted	<b>\$ .01</b>	<b>\$ (0.01)</b>

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# IMPACT Silver Corp.

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## Interim Consolidated Statements of Cash Flows For the Three Months Ended March 31

Canadian Funds

Unaudited

Statement 3

<b>Cash Resources Provided By (Used In)</b>	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Income (Loss) for the period	\$ 188,276	\$ (106,886)
Items not affecting cash		
Amortization	1,354	378
Depreciation and depletion	264,361	-
Gain on forward sales contract	(107,678)	-
Stock-based compensation expense	36,956	26,473
Write-off of resource properties	495	-
Changes in non-cash working capital	(2,507,464)	(50,794)
	<u>(2,123,700)</u>	<u>(130,829)</u>
<b>Investing Activities</b>		
Acquisition of Minera El Porvenir de Zacualpan	(3,327,269)	-
Forward sales contract	2,827,842	-
Property, plant and equipment	(15,907)	(10,006)
Resource properties	(245,322)	(248,621)
	<u>(760,656)</u>	<u>(258,627)</u>
<b>Financing Activities</b>		
Due to related party	(44)	59,216
Share capital issued	2,514,920	357,775
	<u>2,514,876</u>	<u>416,991</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(369,480)</b>	<b>27,535</b>
Cash position - Beginning of year	1,196,932	718,451
<b>Cash Position - End of Year</b>	<b>\$ 827,452</b>	<b>\$ 745,986</b>
<b>Non-Cash Financing / Investing Activities</b>		
Acquisition of Minera El Porvenir de Zacualpan	\$ (1,935,581)	\$ -
Future income tax liability	\$ (1,378)	\$ 63,167
Resource properties – non-cash deferred exploration	\$ (38,496)	\$ (76,132)
Shares issued for acquisition of Minera El Porvenir de Zacualpan	\$ 296,500	\$ -
Stock-based compensation included in contributed surplus	\$ 36,956	\$ 26,473
Value assigned to options exercised	\$ (38,052)	\$ -

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# IMPACT Silver Corp.

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(A Development Stage Company)

## Interim Consolidated Schedules of Resource Properties For the Three Months Ended March 31

Canadian Funds

Unaudited

Schedule

	2006	2005
<b>Zacualpan Mine and Concessions, Mexico – (Note 4(d))</b>		
Acquisition costs	<b>\$ 5,559,350</b>	\$ 38,021
Deferred exploration costs		
Assaying	19,745	41,163
Development	112,968	-
Drilling	-	102,664
Field administration, legal and expenses	51,679	17,645
Future income taxes – (Note 10)	(1,378)	63,167
Travel and accommodation	18,426	15,951
Vehicles	11,609	10,593
Wages and consulting	68,896	98,716
	<b>281,945</b>	349,899
Depreciation and Depletion	<b>(264,361)</b>	-
	<b>5,576,934</b>	387,920
<b>Other properties</b>		
<b>Deferred exploration costs</b>		
Field administration and expenses	295	-
Wages and consulting	200	-
	<b>495</b>	-
Write-off of resource properties	<b>(495)</b>	-
	-	-
<b>Costs for the Period</b>	<b>5,576,934</b>	387,920
Balance - Beginning of period	<b>2,530,696</b>	1,270,003
<b>Balance - End of Period</b>	<b>\$ 8,107,630</b>	\$ 1,657,923

-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

March 31, 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. 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.

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# IMPACT Silver Corp.

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## Notes to Interim Consolidated Financial Statements

March 31, 2006 and 2005

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### 3. Resource Properties

a) Details are as follows:

	2006	2005
PMSA Concessions – Dominican Republic		
Acquisition	\$ 497,000	\$ 497,000
Exploration and development	356,458	336,268
	<b>853,458</b>	833,268
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	28,121	28,012
	<b>113,121</b>	113,012
Zacualpan concessions - Mexico		
Acquisition costs	5,778,870	148,510
Exploration	1,357,714	499,966
Future Income Taxes	268,828	63,167
Depreciation and depletion	(264,361)	-
	<b>7,141,051</b>	711,643
Other Properties		
Exploration	495	6,679
Accumulated write-off	(495)	(6,679)
	-	-
	<b>\$ 8,107,630</b>	\$ 1,657,923

#### 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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### 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 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. 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 the Company is required to pay US\$4,000 monthly to the vendor. Until the option is exercised, the Company continues to lease the plant, mineral concessions, 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.

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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 ounce silver, \$400.00 per ounce gold, \$720.00 per ton lead, and \$1,100.00 per ton zinc. Indirectly, MAP also assumed both the real and the contingent liability for the forward sales commitments through to July 31, 2006 that had been entered into by MPZ, including the obligation to settle for any physical shortfall in deliveries against the forward sales contract obligations. Historically, MPZ had fallen significantly short on its contractual delivery commitments on all but silver throughout 2005 and it is not expected that it will meet its shortfall in 2006 as the areas the Company is currently mining are relatively low in lead, zinc and gold realizations.

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

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. While this lost opportunity cost was significant at January 16, 2006 it has become even more significant since that date because of the substantial increase in metal prices that have occurred since the beginning of 2006. Our best estimate is that had MPZ not entered into forward sales commitments in 2004 for the seven months from January 1, 2006 to July 31, 2006, in the delivery quantities and prices that it had agreed to and had been able to sell the same quantity at current market prices it would realize 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.

	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. Due to Related Party

As at March 31, 2006, an amount of \$762 (2005 - \$72,262) 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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### 6. Share Capital

a) Details are as follows:

	Number	Amount
Authorized:		
Unlimited common shares without par value		
Issued and outstanding:		
Balance – March 31, 2005	19,279,022	\$ 6,988,288
Private placements	2,615,000	1,046,000
Shares issued for resource properties	100,000	38,500
Share purchase options exercised	250,000	52,750
Share purchase warrants exercised	1,395,166	287,650
Value assigned to options exercised		24,100
Balance – December 31, 2005	23,639,188	8,437,288
Private placements	4,135,000	1,654,000
Shares issued for resource properties	300,000	357,000
Share purchase warrants exercised	1,229,000	430,150
Share purchase options exercised	270,625	42,163
Shares returned to treasury	(200,000)	(60,500)
Share issue costs		(231,193)
Value assigned to options exercised		38,051
	29,373,813	10,666,959
Allotted and fully paid		
Shares to be issued – (Note 12(b))	563,455	619,801
Balance – March 31, 2006	29,937,268	\$ 11,286,760

b) Contributed Surplus

Balance, March 31, 2005	\$	156,516
Fair value of stock options issued		164,404
Value assigned to options exercised		(24,100)
Balance, December 31, 2005		296,820
Fair value of stock options issued		36,956
Value assigned to options exercised		(38,052)
Balance, March 31, 2006	\$	295,724

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## Notes to Interim Consolidated Financial Statements

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### 6. Share Capital - continued

- c) As at March 31, 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 March 31, 2006, 1,669,000 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.

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### 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 March 31, 2006 and the changes for the period are as follows:

Number Outstanding March 31, 2005	Issued	Exercised	Expired	Number Outstanding March 31, 2006	Exercise Price Per Share	Expiry Date
780,000	-	(200,000)	-	580,000	\$0.13	October 20, 2008
300,000	-	(225,000)	-	75,000	\$0.20	August 31, 2006
475,000	-	(50,000)	-	425,000	\$0.15	May 12, 2009
50,000	-	(25,000)	(25,000)	-	\$0.31	January 10, 2007
-	710,000	(20,625)	-	689,375	\$0.42	April 13, 2010
-	35,000	-	-	35,000	\$ 1.45	February 6, 2008
1,605,000	745,000	(520,625)	(25,000)	1,804,375	\$0.13- \$0.42	August 31, 2006- April 13, 2010

# IMPACT Silver Corp.

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## Notes to Interim Consolidated Financial Statements

March 31, 2006 and 2005

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### 7. Share Purchase Options - continued

- 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.
- 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 \$36,956 (2005 - \$26,473) for the three months ended March 31, 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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## Notes to Interim Consolidated Financial Statements

March 31, 2006 and 2005

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### 8. Related Party Transactions

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

- a) During the three months ended March 31, 2006, fees in the amount of \$33,440 (2005 - \$24,990) were paid or accrued to two directors and one officer of the Company, of which \$13,420 is shown in various administrative expenditures on the income statement, and \$20,020 is shown in mineral properties.
- b) During the three months ended March 31, 2006, an administrative fee of \$2,425 (2005 - \$1,321) 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 three months ended March 31, 2006, fees in the amount of \$nil (2005 - \$88,114) 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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# IMPACT Silver Corp.

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

## Notes to Interim Consolidated Financial Statements

March 31, 2006 and 2005

Canadian Funds

Unaudited

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### 9. 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 for one year thereafter. This replaces the previous agreement.

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### 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
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	\$ 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. The significant components are as follows:

	March 31, 2006	December 31, 2005
Future tax assets	\$ -	\$ -
Future tax liability	\$ 268,828	\$ 97,117

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

	March 31, 2006	December 31, 2005
<b>Future Tax Assets</b>		
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
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	3,284,000	3,012,000
Future tax liability	(268,828)	(97,117)
Valuation allowance	(3,015,172)	(2,914,883)
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	\$ -	\$ -

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## Notes to Interim Consolidated Financial Statements

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### 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 at March 31, 2006 are as follows:

Assets by geographic area	2006	2005
Caribbean	\$ 966,580	\$ 946,280
Mexico	8,353,642	807,510
Canada	821,303	684,498
	<u>\$ 10,141,525</u>	<u>\$ 2,438,288</u>

Net income (loss) by geographic area	2006	2005
Mexico	\$ 423,005	\$ (88,175)
Canada	(234,729)	(18,711)
	<u>\$ 188,276</u>	<u>\$ (106,886)</u>

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### 12. Subsequent Events

- a) In January, 2006, the Company through its wholly owned subsidiary MAP, entered into a short term lease with an option to purchase various mining production equipment. Under this agreement, the Company 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. On May 12, 2006 MAP exercised its option to purchase the mining production equipment.
  - b) 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. As of March 31, 2006, funds of \$619,801 had been received by the Company in connection with this private placement.
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