

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

Interim Consolidated Financial Statements

September 30, 2006 and 2005
Unaudited

NOTICE

These interim consolidated financial statements for the nine months ended September 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	September 30, 2006	September 30, 2005	December 31, 2005 <i>Audited</i>
Current			
Cash and term deposits	\$ 3,843,753	\$ 194,578	\$ 1,196,932
Accounts receivable and prepaid expenses	958,127	36,123	22,709
Inventory	265,508	-	-
	<u>5,067,388</u>	230,701	1,219,641
Property, Plant and Equipment – (Note 5)	2,071,804	17,666	16,951
Resource Properties – Schedule (Note 3)	9,598,654	2,350,824	2,530,696
	<u>\$ 16,737,846</u>	\$ 2,599,191	3,767,288
LIABILITIES			
Current			
Accounts payable	\$ 434,885	\$ 79,586	\$ 101,553
Due to related party – (Note 6)	30,121	346	806
Forward Sales Contract – (Note 13(b))	814,820	-	-
	<u>1,279,826</u>	79,932	102,359
Future Income Tax Liability – (Note 11)	469,657	249,731	270,206
	<u>1,749,483</u>	329,663	372,565
SHAREHOLDERS' EQUITY			
Share Capital (Note 7)	19,187,305	7,190,188	8,437,288
Contributed Surplus (Note 7(b))	308,760	287,760	296,820
Deficit – Statement 2	(4,507,702)	(5,208,420)	(5,339,385)
	<u>14,988,363</u>	2,269,528	3,394,723
	<u>\$ 16,737,846</u>	\$ 2,599,191	\$ 3,767,288

ON BEHALF OF THE BOARD:

“F.W. Davidson” _____, Director

“G. Gorzynski” _____, Director

IMPACT Silver Corp.

(formerly IMPACT Minerals International Inc.)

(A Development Stage Company)

Consolidated Statements of Loss and Deficit

Canadian Funds

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Statement 2

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Revenue	\$ 1,872,595	\$ -	\$ 4,980,703	\$ -
Expenses				
Operating costs	993,633	-	2,881,625	-
Amortization and depletion	369,396	-	996,353	-
(Gain) on forward sales contract	(37,393)	-	(212,999)	-
	1,325,636	-	3,664,979	-
Mine Operating Earnings	546,959	-	1,315,724	-
General and Administrative Expenses				
Accounting and audit	48,711	1,217	95,582	6,036
Amortization	2,528	720	7,138	2,158
Foreign exchange	145,181	1,282	(87,833)	(508)
Investor relations	13,779	10,000	46,043	66,066
Legal	26,550	(13,192)	86,948	38,245
Management fees and consulting	8,475	7,500	40,334	22,500
Office and sundry	43,748	1,348	66,163	8,025
Office salaries and services	33,345	10,611	122,113	33,229
Rent	9,650	2,250	23,645	6,750
Stock-based compensation expense (Note 8(b))	34,358	39,163	98,230	157,717
Transfer agent and filing fees	7,834	3,108	61,121	13,922
Travel and accommodation	7,361	3,371	24,819	7,709
	381,520	67,378	584,303	361,849
Income Before the Following	165,439	(67,378)	731,421	(361,849)
Other Income (Expenses)				
Interest income	49,460	1,364	100,682	6,544
Write-off of resource properties	-	-	(420)	-
	49,460	1,364	100,262	6,544
Net Income for the Period	214,899	(66,014)	831,683	(355,305)
Deficit - Beginning of period	(4,722,601)	(5,142,406)	(5,339,385)	(4,853,115)
Deficit - End of Period	\$ (4,507,702)	\$ (5,208,420)	\$ (4,507,702)	\$ (5,208,420)
Earnings Per Share – Basic	\$ 0.01	\$ (0.00)	\$ 0.02	\$ (0.02)
– Diluted	\$ 0.00	\$ (0.00)	\$ 0.02	\$ (0.02)
Weighted Average Number of Shares Outstanding - Basic	38,262,604	20,245,873	34,490,992	19,558,824
- Diluted	43,890,104	24,307,748	40,118,422	23,620,699

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

IMPACT Silver Corp.

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Consolidated Statements of Cash Flows

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Statement 3

Cash Resources Provided By (Used In)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Operating Activities				
Income (loss) for the period	\$ 214,899	\$ (66,014)	\$ 831,683	\$ (355,305)
Items not affecting cash				
Amortization and depletion	371,924	720	1,003,491	2,158
Gain on forward sales contract	(37,393)	-	(212,999)	-
Stock-based compensation expense	34,358	39,163	98,230	157,717
Write-off of resource properties	-	-	420	-
Changes in non-cash working capital	(252,341)	11,223	(2,613,648)	(158,538)
	331,447	(14,908)	(892,823)	(353,968)
Investing Activities				
Acquisition of Minera El Porvenir de Zacualpan	-	-	(3,327,269)	-
Forward sales contract	(483,374)	-	814,820	-
Property, plant and equipment	(819,000)	-	(2,025,899)	(17,254)
Resource properties	(1,138,814)	(143,615)	(2,081,550)	(661,126)
	(2,441,188)	(143,615)	(6,619,898)	(678,380)
Financing Activities				
Due to related party	(122,068)	(96,317)	29,315	(12,700)
Share capital issued	67,700	7,750	10,130,227	521,175
	(54,368)	(88,567)	10,159,542	508,475
Net Increase (Decrease) in Cash	(2,164,109)	(247,090)	2,646,821	(523,873)
Cash position - Beginning of period	6,007,862	441,668	1,196,932	718,451
Cash Position - End of Period	\$ 3,843,753	\$ 194,578	\$ 3,843,753	\$ 194,578
Non-Cash Financing / Investing Activities				
Acquisition of Minera El Porvenir de Zacualpan	\$ -	\$ -	\$ (1,935,581)	\$ -
Future income tax liability	\$ 106,751	\$ 25,065	\$ 199,451	\$ 152,614
Shares issued for property, plant and equipment	\$ 122,000	\$ -	\$ 122,000	\$ -
Property, plant and equipment	\$ 811,336	\$ -	\$ 811,336	\$ -
Resource properties – non-cash deferred exploration	\$ (8,926)	\$ (1,763)	\$ (23,472)	\$ 21,150
Shares issued for resource properties	\$ 115,000	\$ -	\$ 411,500	\$ 38,500
Stock-based compensation included in contributed surplus	\$ 34,358	\$ 39,163	\$ 98,230	\$ 157,717
Value assigned to options exercised	\$ (7,196)	\$ (2,483)	\$ (86,290)	\$ 2,483

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IMPACT Silver Corp.

Schedule

(formerly IMPACT Minerals International Inc.)

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Consolidated Schedules of Resource Properties

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	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Zacatecas Property, Mexico – (Notes 3(e))				
Acquisition costs	\$ 588,112	\$ -	\$ 588,112	\$ -
Deferred exploration costs				
Assaying	3,375	-	3,375	-
Field administration, legal and expenses	105,633	-	105,633	-
Travel and accommodation	7,334	-	7,334	-
Vehicles	435	-	435	-
Wages and consulting	23,735	-	27,715	-
	<u>140,512</u>	<u>-</u>	<u>144,492</u>	<u>-</u>
	<u>728,624</u>	<u>\$ -</u>	<u>732,604</u>	<u>\$ -</u>
Zacualpan Mine and Concessions, Mexico – (Note 3(d))				
Acquisition costs	15,829	10,811	5,744,822	98,531
Deferred exploration costs				
Assaying	29,341	30,633	63,078	119,611
Development	67,258	-	222,228	-
Drilling	275,280	144	533,554	197,713
Field administration, legal and expenses	15,052	36,173	105,906	62,229
Future income taxes – (Note 11)	106,751	25,065	199,451	152,614
Travel and accommodation	18,529	12,260	62,304	39,273
Vehicles	18,193	3,954	41,053	32,609
Wages and consulting	94,661	76,096	273,403	261,062
	<u>625,065</u>	<u>184,325</u>	<u>1,500,977</u>	<u>865,111</u>
Amortization and Depletion	<u>(336,830)</u>	<u>-</u>	<u>(910,445)</u>	<u>-</u>
	<u>304,064</u>	<u>195,136</u>	<u>6,335,354</u>	<u>963,642</u>
Other Properties, Dominican Republic – (Notes 3 (b)(c))				
Deferred exploration costs				
Field administration	-	108	420	4,090
Travel and accommodation	-	-	-	4,229
Vehicles	-	50	-	1,316
Wages and consulting	-	214	-	10,427
	<u>-</u>	<u>372</u>	<u>420</u>	<u>20,062</u>
Write-off of resource properties	<u>-</u>	<u>-</u>	<u>(420)</u>	<u>-</u>
	<u>-</u>	<u>372</u>	<u>-</u>	<u>20,062</u>
Costs for the Period	1,032,688	195,508	7,067,958	983,704
Balance - Beginning of period	<u>8,565,966</u>	<u>2,155,316</u>	<u>2,530,696</u>	<u>1,367,120</u>
Balance - End of Period	\$ 9,598,654	\$ 2,350,824	\$ 9,598,654	\$ 2,350,824

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

IMPACT Silver Corp.

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Notes to the Consolidated Financial Statements September 30, 2006 and 2005

Canadian Funds

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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.

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 September 30, 2006, the Company holds an equivalent of CAD\$213,179 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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3. Resource Properties

a) Details are as follows:

	2006	2005
PMSA Concessions – Dominican Republic		
Acquisition costs	\$ 497,000	\$ 497,000
Exploration and development	356,458	356,221
	<u>853,458</u>	<u>853,221</u>
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration and development	28,121	28,121
	<u>113,121</u>	<u>113,121</u>
Zacualpan Concessions – Mexico		
Acquisition costs	5,964,342	209,020
Exploration and development	2,375,917	925,731
Future Income Taxes	469,657	249,731
Amortization and depletion	(910,445)	-
	<u>7,899,471</u>	<u>1,384,482</u>
Zacatecas Property – Mexico		
Acquisition costs	588,112	-
Exploration and development	144,492	-
	<u>732,604</u>	<u>-</u>
Other Properties		
Exploration and development	495	6,679
Accumulated write-off	(495)	(6,679)
	<u>-</u>	<u>-</u>
	<u>\$ 9,598,654</u>	<u>\$ 2,350,824</u>

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 the Consolidated Financial Statements September 30, 2006 and 2005

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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

On July 10, 2006, 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 (\$421,000 paid) and 500,000 shares (100,000 issued) in stages, plus commit to US\$700,000 in work expenditures (US\$350,000 in each of the first two years). Under the agreement, the vendor may mine and process material from the properties until MAP exercises its purchase option.

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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 17th, 2006 forward are included in these financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired is summarized in the table below, and the residual purchase price of \$5,559,350 has been allocated to Zacualpan resource property acquisition costs.

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

	Canadian \$
Purchase Price	
Net share consideration at market value at date of issue (300,000 shares)	\$ 296,500
Cash payment to vendors	2,031,244
	<u>2,327,744</u>
Identifiable Net Assets Acquired	
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>
Residual Purchase Price Allocated to Resource Properties	<u>\$ 5,559,350</u>

5. Property, Plant and Equipment

	September 30, 2006	September 30, 2005
Mine equipment	\$ 696,302	\$ -
Mobile equipment	234,097	-
Office furniture and equipment	72,302	32,333
Plant equipment	340,308	-
Surface rights	729,661	-
Vehicles	117,569	10,007
	<u>2,190,239</u>	42,340
Accumulated amortization	(118,435)	(24,674)
Net Book Value	<u>\$ 2,071,804</u>	<u>\$ 17,666</u>

6. Due to Related Party

As at September 30, 2006, an amount of \$30,121 (2005 - \$346) 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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7. Share Capital

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited common shares without par value			
Issued and outstanding:			
Balance – September 30, 2005	20,359,188	\$	7,190,188
Private placements	2,615,000		1,046,000
Share purchase options exercised	225,000		45,000
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	400,000		472,000
Shares issued for property, plant and equipment	100,000		122,000
Share purchase options exercised	615,000		101,700
Share purchase warrants exercised	1,847,500		697,250
Shares returned to treasury	(200,000)		(60,500)
Share issue costs			(995,122)
Value assigned to options exercised			86,289
Balance – September 30, 2006	38,420,688	\$	19,187,305

b) Contributed Surplus

Balance, September 30, 2005	\$	287,760
Fair value of stock options issued		33,160
Value assigned to options exercised		(24,100)
Balance, December 31, 2005		296,820
Fair value of stock options issued		98,230
Value assigned to options exercised		(86,290)
Balance, September 30, 2006	\$	308,760

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7. Share Capital - continued

- c) As at September 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 September 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 September 30, 2006, 337,500 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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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 September 30, 2006 and the changes for the period are as follows:

Number Outstanding September 30, 2005	Issued	Exercised	Expired	Number Outstanding September 30, 2006	Exercise Price Per Share	Expiry Date
780,000	-	(390,000)	-	390,000	\$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	(865,000)	(26,250)	1,458,750	\$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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Canadian Funds

Unaudited

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 \$98,230 (2005 - \$157,717) for the nine months ended September 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.

9. Related Party Transactions

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

- a) During the nine months ended September 30, 2006, fees in the amount of \$101,093 (2005 - \$71,114) were paid or accrued to two directors and one officer of the Company, of which \$42,243 is shown in various administrative expenditures on the income statement, and \$58,850 is shown in resource properties.
- b) During the nine months ended September 30, 2006, an administrative fee of \$4,407 (2005 - \$6,156) 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 nine months ended September 30, 2006, fees in the amount of \$533,554 (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.

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:

	September 30, 2006	December 31, 2005
Future tax assets	\$ -	\$ -
Future tax liability	\$ 469,657	\$ 270,206

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

	September 30, 2006	December 31, 2005
Future Tax Assets		
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	(469,657)	(270,206)
Valuation allowance	(2,814,343)	(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 are as follows:

Assets by geographic area	As at September 30, 2006	As at September 30, 2005	As at December 31, 2005
Caribbean	\$ 966,580	\$ 966,342	\$ 1,236,786
Mexico	12,146,935	1,425,721	1,326,496
Canada	3,624,331	207,128	1,204,006
	\$ 16,737,846	\$ 2,599,191	\$ 3,767,288

Net income (loss) by geographic area	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Mexico	\$ 404,367	\$ 3,990	\$ 1,517,463	\$ 3,990
Canada	(189,468)	(70,004)	(685,780)	(359,295)
	\$ 214,899	\$ (66,014)	\$ 831,683	\$ (355,305)

13. Subsequent Events

- In October 2006, the Company optioned three wholly owned properties located in the Zacatecas Mining District in Mexico to a third party. This agreement allows the third party to acquire a 65% interest in the properties by reimbursing to the Company the property purchase costs and spending set minimums on exploration. The third party will then have an option to increase its interest to 80% in each property by paying additional fees in either cash or shares, at the Company's discretion.
 - In October 2006, the Company settled in full its outstanding forward sales contract liability for cash. All forward sales contract commitments ended as of July 31, 2006, with the termination of the contract.
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