

# **IMPACT Silver Corp.**

## **Interim Consolidated Financial Statements**

**June 30, 2007 and 2006**  
**Unaudited**

## **Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements have been prepared by management and are in accordance with Canadian generally accepted accounting principles. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has a process in place to evaluate internal control over financial reporting. Based on that evaluation, management has concluded that internal control over financial reporting was effective as of June 30, 2007.

The board of directors approves the financial statements and ensures that management discharges its financial responsibilities. The board's review is accomplished principally through the audit committee. The audit committee meets periodically with management and the auditors to review financial reporting and control matters.

"F.W. Davidson"  
President and Chief Executive Officer

"R. S. Younker"  
Chief Financial Officer

August 17, 2007

**IMPACT Silver Corp.**  
**Interim Consolidated Balance Sheets**  
**As at**

Canadian Dollars  
 Unaudited

Statement 1

ASSETS	June 30, 2007	June 30, 2006 <i>Restated</i> <i>(Note 15)</i>	December 31, 2006 <i>Audited</i>
<b>Current</b>			
Cash and term deposits	\$ 3,849,665	\$ 6,007,862	\$ 3,969,819
Accounts receivable and prepaid expenses	2,106,319	1,026,493	1,624,260
Inventory	336,861	215,390	330,688
	<b>6,292,845</b>	7,249,745	5,924,767
<b>Property, Plant and Equipment – (Note 5)</b>	<b>2,028,924</b>	1,977,234	2,113,668
<b>Resource Properties – Schedule (Note 3)</b>	<b>10,853,020</b>	8,340,321	9,684,458
	<b>\$ 19,174,789</b>	17,567,300	\$ 17,722,893
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable	\$ 970,795	1,545,250	\$ 1,059,229
Due to related party – (Note 6)	43,827	152,189	35,270
Forward sales contract – (Note 4)	-	1,012,977	-
	<b>1,014,622</b>	2,710,416	1,094,499
<b>Future Income Tax Liability</b>	<b>1,177,761</b>	963,846	1,075,350
	<b>2,192,383</b>	3,674,262	2,169,849
<b>Commitment – (Note 13)</b>			
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital – (Note 7)</b>	<b>17,298,499</b>	14,531,342	15,382,377
<b>Warrants – (Note 7(b))</b>	<b>3,528,371</b>	4,344,066	4,222,385
<b>Contributed Surplus – (Note 7(c))</b>	<b>303,121</b>	281,599	314,845
<b>Deficit – Statement 2</b>	<b>(4,147,585)</b>	(5,263,969)	(4,366,563)
	<b>16,982,406</b>	13,893,038	15,553,044
	<b>\$ 19,174,789</b>	17,567,300	\$ 17,722,893

ON BEHALF OF THE BOARD:

“F.W. Davidson” \_\_\_\_\_, Director

“G. Gorzynski” \_\_\_\_\_, Director

# IMPACT Silver Corp.

Statement 2

## Interim Consolidated Statements of Income and Deficit

Canadian Dollars  
Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 Restated (Note 15)	2007	2006 Restated (Note 15)
<b>Revenue</b>	\$ 1,676,896	\$ 1,977,208	\$ 3,535,727	\$ 3,124,071
<b>Expenses</b>				
Operating costs	1,104,167	1,243,046	2,268,660	1,887,992
Amortization and depletion	199,863	108,710	393,828	192,077
	<b>1,304,030</b>	<b>1,351,756</b>	<b>2,662,488</b>	<b>2,080,069</b>
<b>Mine Operating Earnings</b>	<b>372,866</b>	<b>625,452</b>	<b>873,239</b>	<b>1,044,002</b>
<b>General and Administrative Expenses</b>				
Accounting and audit	24,116	41,136	45,711	46,871
Amortization	3,549	56,598	7,130	57,952
Foreign exchange	172,306	(158,378)	218,478	(192,620)
Insurance	28,299	5,893	57,200	-
Investor relations	50,183	9,966	88,946	32,264
Legal	13,235	39,668	36,751	60,398
Management fees and consulting	19,034	28,659	39,425	41,859
Office and sundry	9,165	7,542	20,215	22,416
Office salaries and services	112,497	58,790	176,451	78,768
Rent	12,197	7,590	21,082	13,995
Stock-based compensation expense (Note 8(b))	-	26,915	-	63,871
Transfer agent and filing fees	10,305	9,093	25,167	53,287
Travel and accommodation	7,348	7,671	20,847	17,458
	<b>462,234</b>	<b>141,143</b>	<b>757,403</b>	<b>296,519</b>
<b>Income Before the Following</b>	<b>(89,368)</b>	<b>484,309</b>	<b>115,836</b>	<b>747,483</b>
<b>Other Income (Expenses)</b>				
Interest income	25,656	48,362	60,575	51,222
Loss on forward sales contract	-	(635,516)	-	(722,869)
Other income	16,135	-	43,181	-
Write-off of resource properties	-	75	(614)	(420)
	<b>41,791</b>	<b>(587,079)</b>	<b>103,142</b>	<b>(672,067)</b>
<b>Net Income (Loss) for the Period</b>	<b>(47,577)</b>	<b>(102,770)</b>	<b>218,978</b>	<b>75,416</b>
Deficit - Beginning of period	(4,100,008)	(5,161,199)	(4,366,563)	(5,339,385)
<b>Deficit - End of Period</b>	<b>\$ (4,147,585)</b>	<b>\$ (5,263,969)</b>	<b>\$ (4,147,585)</b>	<b>\$ (5,263,969)</b>
<b>Earnings (Loss) Per Share – Basic</b>	<b>(0.00)</b>	<b>(0.00)</b>	<b>0.01</b>	<b>0.00</b>
<b>– Diluted</b>	<b>-</b>	<b>-</b>	<b>0.00</b>	<b>0.00</b>
Weighted Average Number of Shares Outstanding - Basic	40,959,219	27,270,301	40,452,621	32,573,824
Weighted Average Numbers of Options Outstanding	1,156,953	1,207,641	1,164,429	1,193,733
Weighted Average Number of warrants outstanding	2,196,229	3,803,297	2,321,539	3,273,450
Weighted Average Number of Shares Outstanding - Diluted	<b>44,311,501</b>	<b>42,281,239</b>	<b>43,938,589</b>	<b>37,041,007</b>

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

# IMPACT Silver Corp.

Statement 3

## Interim Consolidated Statements of Cash Flows

Canadian Dollars  
Unaudited

Cash Resources Provided By (Used In)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 <i>Restated</i> <i>(Note 15)</i>	2007	2006 <i>Restated</i> <i>(Note 15)</i>
<b>Operating Activities</b>				
Income (loss) for the period	\$ (47,577)	\$ (102,770)	\$ 218,978	\$ 75,416
Items not affecting cash				
Amortization and depletion	203,412	165,308	400,958	250,029
Loss on forward sales contract	-	635,516	-	722,869
Stock-based compensation expense	-	26,915	-	63,871
Write-off of resource properties	-	(75)	614	420
Changes in non-cash working capital	(197,542)	(1,182,645)	(576,665)	(2,114,277)
	<b>(41,707)</b>	<b>(457,751)</b>	<b>43,885</b>	<b>(1,001,672)</b>
<b>Investing Activities</b>				
Acquisition of Minera El Porvenir de Zacualpan, net of cash acquired ( <i>Note 4</i> )	-	-	-	(2,260,200)
Acquisition of Property, plant and equipment	(16,752)	(1,190,992)	(18,277)	(1,206,899)
Acquisition of Resource properties	(915,503)	(986,882)	(1,364,702)	(1,051,210)
	<b>(932,255)</b>	<b>(2,177,874)</b>	<b>(1,382,979)</b>	<b>(4,518,309)</b>
<b>Financing Activities</b>				
Advances (repayments) from related party	18,919	151,427	8,557	151,383
Share capital issued	635,643	7,664,608	1,210,383	10,179,528
	<b>654,562</b>	<b>7,816,035</b>	<b>1,218,940</b>	<b>10,330,911</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(319,400)</b>	<b>5,180,410</b>	<b>(120,154)</b>	<b>4,810,930</b>
Cash position - Beginning of period	4,169,065	827,452	3,969,819	1,196,932
<b>Cash Position – End of Period</b>	<b>\$ 3,849,665</b>	<b>\$ 6,007,862</b>	<b>\$ 3,849,665</b>	<b>\$ 6,007,862</b>

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

# IMPACT Silver Corp.

Schedule

## Interim Consolidated Schedules of Resource Properties For the Six Months Ended June 30

Canadian Dollars  
Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 Restated (Note 15)	2007	2006 Restated (Note 15)
<b>Zacatecas Properties, Mexico – (Note 3(e))</b>				
Acquisition cost	\$ 80,913	\$ -	\$ 193,167	\$ -
Deferred exploration costs				
Assaying	15,751	-	22,395	-
Drilling	285,617	-	285,617	-
Field administration and expenses	32,187	-	37,544	-
Future income taxes	24,370	-	46,048	-
Travel and accommodation	16,480	-	20,782	-
Vehicles	7,358	-	7,924	-
Wages and consulting	141,634	3,980	164,488	3,980
	523,397	3,980	584,798	3,980
Recoveries	(431,810)	-	(431,810)	-
	172,500	3,980	346,155	3,980
<b>Zacualpan Mine and Concessions, Mexico – (Note 3(d))</b>				
Acquisition cost	5,664	169,643	70,844	5,087,387
Deferred exploration costs				
Assaying	22,868	13,992	48,068	33,737
Development	31,572	42,002	31,572	154,970
Drilling	479,165	258,274	539,799	258,274
Field administration , legal and expenses	27,623	73,599	73,242	125,277
Future income taxes	36,353	94,077	56,363	92,700
Travel and accommodation	20,524	25,349	33,259	43,775
Vehicles	11,310	11,251	16,278	22,860
Wages and consulting	167,709	109,846	240,337	178,742
	797,124	628,390	1,038,918	910,335
Amortization and depletion	(153,281)	(108,710)	(297,937)	(192,077)
	649,507	689,323	811,825	5,805,645
<b>Other Properties, Dominican Republic and Mexico– (Notes 3(b)(c))</b>				
Deferred exploration costs				
Field administration	324	125	1,728	420
Travel and accommodation	428	-	1,375	-
Vehicles	-	-	55	-
Wages and consulting	187	(200)	8,038	-
	939	(75)	11,196	420
Write-off of resource properties	-	75	(614)	(420)
	939	-	10,582	-
<b>Costs for the Period</b>	<b>822,946</b>	<b>693,303</b>	<b>1,168,562</b>	<b>5,809,625</b>
Balance - Beginning of period	10,030,074	7,647,018	9,684,458	2,530,696
<b>Balance - End of Period</b>	<b>\$ 10,853,020</b>	<b>\$ 8,340,321</b>	<b>\$ 10,853,020</b>	<b>\$ 8,340,321</b>

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

# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

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, 2006.

#### b) New Accounting Standards

On January 1, 2007, the Company adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, *Comprehensive Income* and Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The Company adopted these standards and amendments prospectively: accordingly, comparative amounts for prior periods have not been restated.

##### *Comprehensive Income*

Section 1530 introduces Comprehensive Income, which consists of net income and other comprehensive income ("OCI"). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translations gains and losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

The Company has determined that its foreign subsidiaries are not self-sustaining.

##### *Financial Instruments – Recognition and Measurement*

CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, effective for fiscal years beginning on or after October 1, 2006, establishes standards for the recognition, classification and measurement of financial instruments including the presentation of any resulting gains and losses. Assets classified as available-for-sale securities will have revaluation gains and losses included in other comprehensive income (and not included in the income statement) until such time as the asset is disposed of or incurs a decline in fair value that is other than temporary. At such time, any gains or losses will be realized and reclassified to the income statement.

The Company does not have any financial instruments requiring this treatment.

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### 2. Fair Value of Financial Assets

The Company's financial assets consist of cash and term deposits, accounts receivable, accounts payable and amounts due to related party. As at June 30, 2007, the Company holds an equivalent of CAD\$1,660,754 in net financial assets held in U.S. and other foreign currencies which is exposed to currency risk based on fluctuations in the prevailing foreign currency exchange rates. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from the financial assets. The carrying value of these financial assets approximates their fair value, unless otherwise noted.

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# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

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### 3. Resource Properties

a) Details are as follows:

	2007	2006 <i>Restated (Note 15)</i>
PMSA Concessions - Dominican Republic		
Acquisition	\$ 497,000	\$ 497,000
Exploration and development	366,850	356,458
	<u>863,850</u>	<u>853,458</u>
MMP Concessions - Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	28,519	28,121
	<u>113,519</u>	<u>113,121</u>
Zacualpan Concessions - Mexico		
Acquisition costs	5,388,301	5,306,907
Exploration and development	2,701,149	1,699,949
Future income taxes	519,435	362,906
	<u>8,608,885</u>	<u>7,369,762</u>
Zacatecas Properties - Mexico		
Acquisition costs	974,876	-
Exploration	234,504	3,980
Future income taxes	57,386	-
	<u>1,266,766</u>	<u>3,980</u>
Other Properties		
Exploration	7,713	7,099
Accumulated write-off	(7,713)	(7,099)
	<u>-</u>	<u>-</u>
	<u>\$ 10,853,020</u>	<u>\$ 8,340,321</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 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) Proyectos Mineros S.A. ("MMP") Agreement

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

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

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

# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

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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, called the Royal Mines of Zacualpan Silver Project ("Royal Mines"), which included San Ramon (Compadres) Mine which later went into production. Under terms of this agreement, the Company was required to make payments of US\$3,000 per month for three years and to issue 100,000 shares per year to the third party, as well as incur work commitments totalling US\$1,000,000 over three years. The Company was to have the option at any time before the end of the third year to purchase 100% interest in the mining leases and concessions for US\$1,000,000.

In December 2005, the Company amended the terms of the agreements for the purchase of the Royal Mines from an asset purchase to a share purchase. Under the amending agreement, the Company, through its 100% subsidiary Minera Aguila Plateada S.A. de C.V. ("MAP"), was to purchase all the issued and outstanding shares of Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ"), which owns the Royal Mines, including the Capela Assets of Zacualpan Mines (mining concessions and surface rights). On January 16, 2006, this transaction was completed (Note 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 operations, and has a 100% interest with no underlying royalties on its mineral concessions.

In February 2007, the Company was awarded a 100% exploration interest in a 200 square kilometre mineral concession in the Mamatla Mining District. This district is immediately southwest of and adjacent to the Company's Zacualpan property. The Company is required to pay US\$200,000 over two years, of which US\$40,000 was paid in February 2007, and further payments of US\$40,000 each are required every six months thereafter. In addition, the Company is required to pay a 1% NSR to the Mexican Geological Survey.

# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

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### 3. Resource Properties - continued

#### e) Zacatecas Agreements

Under an agreement dated July 10, 2006 and amended May 15, 2007, the Company through its wholly owned subsidiary MAP, acquired a four-year option from a third party to purchase a 200-tonne-per-day processing plant and associated surface rights in the Zacatecas Mining District of Mexico. Under the agreement, MAP may purchase the assets for US\$1,080,000 (US\$469,300 paid) and 500,000 shares (100,000 issued) in stages, plus commit to US\$700,000 in work expenditures. The Company has the right, but is not obligated, to accelerate the payment schedule and to complete the purchase at any time after February 10, 2008.

Under separate purchase agreements, the Company has acquired seventeen mineral concessions in the Zacatecas area since August 2006. No further payments or commitments exist for these concessions. Four of these concessions have been optioned to a third party under a letter agreement dated October 2, 2006. Under the terms of the joint venture agreement, the Company may recover all of its property costs and the first US\$100,000 of exploration expenditures on each property prior to the third party earning a 65% interest in each property. The third party may increase its interest by paying the Company, at the Company's discretion, either US\$125,000 or the equivalent value in shares in the third party.

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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 the equivalent 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.

This was, for accounting purposes, a business combination. The Company must therefore 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 required that we recognize the opportunity loss in MPZ of the difference between the spot price of current metal markets at the date of our acquisition of MPZ, to the date of final closure of the forward sales commitment obligations (July 31, 2006), and the agreed selling prices entered into under the 2004 forward sales contract arrangement. Had MPZ not entered into forward sales commitments 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\$1.294 million more than it did do under its forward sales delivery contractual commitments. This foregone revenue and MPZ's obligation to make good on the delivery obligation must be taken into account as part of the purchase consideration.

# IMPACT Silver Corp.

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### 4. Acquisition of Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ") – Continued

The CICA handbook section 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 results of operations of MPZ, and its wholly owned subsidiary Minera Laureles, from January 17, 2006 forward are included in these financial statements. The allocation of the total cost of the business combination to the fair value of the net assets acquired is summarized in the table below, and the residual purchase price of \$4,858,212 has been allocated to Zacualpan resource property acquisition costs.

#### Purchase Price

Net share consideration at market value at date of issue (300,000 shares)	\$	179,500
Cash payment to vendors		2,260,200
		<u>2,439,700</u>

#### Identifiable Net Assets Acquired

Accounts receivable and prepaid expenses	126,676
Inventory	174,701
Property, plant and equipment	240,087
Resource properties	180,093
	<u>721,557</u>

Accounts payable	(374,356)
Forward sales contract liability	(2,164,773)
	<u>(2,539,129)</u>

Net Identifiable Assets and Liabilities	<u>(1,817,572)</u>
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Future income tax assets	<u>(600,940)</u>
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Residual Purchase Price Allocated to Resource Properties	\$	<u>4,858,212</u>
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### 5. Property, Plant and Equipment

	<u>2007</u>	<u>2006</u>
Mine equipment	\$ 693,917	\$ 671,462
Mobile equipment	532,913	547,333
Office furniture and equipment	86,017	75,630
Plant equipment	342,389	312,424
Surface rights	734,128	670,728
Vehicles	194,730	121,732
	<u>2,584,094</u>	2,399,309
Accumulated amortization	(555,170)	(422,075)
Net Book Value	\$ <u>2,028,924</u>	\$ <u>1,977,234</u>

# IMPACT Silver Corp.

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### 6. Due to Related Party

As at June 30, 2007, an amount of \$43,827 (2006 - \$152,189) was due to a significant shareholder of the Company. Monies owed to the related party are unsecured, non-interest bearing and without specific repayment terms. Management anticipates that the amount will be repaid within one year and accordingly it has been classified as current.

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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, 2006	38,055,688	\$	14,531,342
Shares issued for resource properties	100,000		115,000
Shares issued for property, plant and equipment	100,000		122,000
Share purchase options exercised	47,000		8,140
Share purchase warrants exercised	1,177,500		475,500
Value assigned to options exercised	-		8,714
Value assigned to warrants exercised	-		121,681
Balance – December 31, 2006	39,480,188		15,382,377
Share purchase options exercised	50,000		13,750
Share purchase warrants exercised	1,894,026		1,196,634
Value assigned to options exercised	-		11,724
Value assigned to warrants exercised	-		694,014
Balance – June 30, 2007	41,424,214	\$	17,298,499

b) Warrants

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

	Number of warrants		Amount
Balance, June 30, 2006 (i) (ii)	8,188,500	\$	4,344,066
Exercise of warrants	(422,500)		(121,681)
Balance, December 31, 2006	7,766,000	\$	4,222,385
Exercise of warrants	(1,894,026)		(694,014)
Balance, June 30, 2007	5,871,974		3,528,371

# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

Unaudited

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### 7. Share Capital - continued

- i) The Company determined the fair value of the January 5, 2006 private placement, agent's warrants and issue costs based upon a Black-Scholes model using the following weighted average assumptions: expected life of 18 months, expected volatility 82.18%, risk free interest rate 3.9%, dividend yield of 0%.
- ii) The Company determined the fair value of the April 6, 2006, private placement, agent's warrants, and issue costs based upon a Black-Scholes model using the following weighted average assumptions: expected life of 18 months, expected volatility 80.92%, risk free interest rate 4.3%, dividend yield of 0%.
- c) Contributed Surplus
- |                                     |    |                |
|-------------------------------------|----|----------------|
| Balance, June 30, 2006              | \$ | 281,599        |
| Fair value of stock options issued  |    | 41,960         |
| Value assigned to options exercised |    | (8,714)        |
| Balance, December 31, 2006          |    | <u>314,845</u> |
| Value assigned to options exercised |    | (11,724)       |
| Balance, June 30, 2007              | \$ | <u>303,121</u> |
- d) On February 8, 2007, the TSXV Exchange consented to the full release of 375,000 shares of the Company that had been held in escrow.
- e) In October 2004, the Company issued a private placement of 2.5 million units at a price of \$0.30 per unit, of which 405,000 units were sold to a significant shareholder of the Company. The Company granted a further 205,000 units as a finder's fee. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of \$0.30 for the first year and \$0.35 per share in the second year up to December 9, 2006. In 2005, 440,000 warrants were exercised and the balance of the warrants were exercised in 2006.
- 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, 2007, 2,217,000 of these 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. To June 30, 2007, 312,026 of these warrants had been exercised.
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# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

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Canadian Dollars

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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 stock option plan at June 30, 2007 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price
At June 30, 2006	1,498,750	0.29
Exercised	(45,000)	0.16
At December 31, 2006	1,453,750	0.30
Exercised	(52,000)	0.28
At June 30, 2007	1,401,750	0.30

The following table summarizes information about the stock options outstanding at June 30, 2007:

Number Outstanding June 30, 2006	Issued	Exercised	Forfeited	Number Outstanding June 30, 2007	Exercise Price Per Share	Expiry Date
430,000	-	(65,000)	-	365,000	\$0.13	October 20, 2008
375,000	-	-	-	375,000	\$0.15	May 12, 2009
658,750	-	(32,000)	-	626,750	\$0.42	April 13, 2010
35,000	-	-	-	35,000	\$1.45	February 6, 2008
1,498,750	-	(97,000)	-	1,401,750	\$0.13- \$1.45	February 6, 2008- April 13, 2010

*All the options are fully vested at June 30, 2007.*

- i) In October 2003, the Company granted 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 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 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 April 2005, the Company granted 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.

# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

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### 8. Share Purchase Options - *continued*

- v) In February 2006, the Company granted stock options under its Stock Option Plan to a consultant exercisable for up to 35,000 shares of the Company, with an estimated value of \$19,056 on the grant date. The options are exercisable on or before February 6, 2008 at a price of \$1.45 per share.
- b) The fair value of stock options used to calculate compensation is estimated using the Black-Scholes Option Pricing Model. The Company recognized a stock option expense and an increase to contributed surplus of \$nil (2006 - \$63,871) for the period ended June 30, 2007, based on a grading vesting schedule using the assumptions as follows:

Number of options granted	780,000	475,000	300,000	710,000	35,000
Risk-free interest rate	4.14%	3.73%	2.97%	3.30%	3.98%
Expected dividend yield	NIL	NIL	NIL	NIL	NIL
Expected stock price volatility	191.6%	124.7%	117.3%	206%	89%
Expected option life in years	5	5	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, 2007, fees and cash bonus in the amount of \$142,825 (2006 - \$75,898) were paid or accrued to two directors and one officer of the Company, of which \$116,425 is shown in various administrative expenditures on the income statement, and \$26,400 is shown in mineral properties.
- b) During the six months ended June 30, 2007, an administrative fee of \$2,524 (2006 - \$3,741) was paid to a shareholder for management of the Company's administrative and exploration programs.
- c) During the six months ended June 30, 2007 fees in the amount of \$662,999 (2006 - \$258,274) were paid to a significant shareholder of the Company 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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# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

Unaudited

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### 11. Segmented Information

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006 <i>Restated</i> <i>(Note 15)</i>	2007	2006 <i>Restated</i> <i>(Note 15)</i>
Revenue by geographic area				
Mexico	<b>\$ 1,676,896</b>	\$ 1,977,208	<b>\$ 3,535,727</b>	\$ 3,124,071
Net income (loss) by geographic area				
Canada	<b>\$ (984,790)</b>	\$ (261,583)	<b>\$ (1,172,428)</b>	\$ (496,312)
Mexico	<b>937,213</b>	158,813	<b>1,391,406</b>	571,728
	<b>\$ 47,577</b>	\$ (102,770)	<b>\$ 218,978</b>	\$ 75,416
		As at June 30, 2007	As at June 30, 2006 <i>Restated</i> <i>(Note 15)</i>	As at December 31, 2006
Assets by geographic area				
Caribbean	<b>\$ 977,369</b>	\$ 966,580	<b>\$ 966,788</b>	\$ 966,788
Canada	<b>5,772,648</b>	10,851,139	<b>10,851,139</b>	3,251,208
Mexico	<b>12,424,772</b>	5,749,581	<b>5,749,581</b>	13,504,897
	<b>\$ 19,174,789</b>	\$ 17,567,300	<b>\$ 17,567,300</b>	\$ 17,722,893
Property, plant and equipment by geographic area				
Canada	<b>\$ 17,803</b>	\$ 16,996	<b>\$ 16,996</b>	\$ 18,849
Mexico	<b>2,011,121</b>	1,960,238	<b>1,960,238</b>	2,094,819
	<b>\$ 2,028,924</b>	\$ 1,977,234	<b>\$ 1,977,234</b>	\$ 2,113,668

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### 12. Economic Dependency

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

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### 13. Commitment

The Company has signed a lease for office premises which commenced March 1, 2006 and ends May 14, 2007. Lease obligations, net of operating costs, are \$33,833 during this period. Subsequent to the year end, the Company signed a new lease which will commence June 1, 2007 and end May 21, 2010. Lease obligations, net of operating costs, will be \$40,800 per year during the new agreement.

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# IMPACT Silver Corp.

## Notes to Interim Consolidated Financial Statements

June 30, 2007 and 2006

Canadian Dollars

Unaudited

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### 14. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

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### 15. Restatement

In the process of completing its 2006 year end audited financial statements, management determined that it should revise the metal market prices used to establish the estimated forward sales contract liability and hence the residual purchase price allocated to resource properties in connection with its acquisition of Minera el Porvenir de Zacualpan S.A. de C.V. Previously management used its best estimate of future metal prices during the term of the forward sales contract to July 31, 2006. Management subsequently determined that it should have used the spot prices in effect on January 16, 2006, the date of closing its purchase transaction, to establish the value of its forward sales contract liability. The Company has retrospectively restated its 2006 comparative amounts in accordance with the recommendations contained in CICA handbook 1506.42. The effect of the restatement on the June 30, 2006 consolidated statement amounts is as follows:

	As previously reported		As restated	
Resource properties	\$	8,565,966	\$	8,340,321
Forward sales contract liability	\$	1,298,194	\$	1,012,977
Future income tax liability	\$	362,906	\$	963,846
Deficit	\$	(4,722,601)	\$	(5,263,969)

	Three Months Ended June 30		Six Months Ended June 30	
	As previously reported	As restated	As previously reported	As restated
Revenue	\$ 1,965,192	\$ 1,977,208	\$ 3,108,108	\$ 3,124,071
Amortization and depletion	\$ 309,254	\$ 108,710	\$ 573,615	\$ 192,077
Loss (gain) on forward sales contract	\$ (67,928)	\$ 635,516	\$ (175,606)	\$ 722,869
Net income for the period	\$ 428,508	\$ (102,770)	\$ 616,784	\$ 75,416
Earnings per share - basic	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.00
Earnings per share - diluted	\$ 0.01	\$ n/a	\$ 0.02	\$ 0.00

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### 16. Subsequent Events

- i) On July 17, 2007, the Company granted 1,085,000 incentive stock options to directors, officers and employees under its Stock Option Plan. The options are exercisable on or before July 17, 2012 at the price of \$1.92 per share.
  - ii) On August 10, 2007, the Company issued 100,000 shares as partial payment towards the exercise of its Zacatecas processing plant operation purchase agreement.
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