EXPLORE PRODUCE IMPACT!

IMPACT SILVER CORP.





ANNUAL REPORT 2006

Impact Silver Corp.

is a low-cost Mexican silver producer with an extensive portfolio of advanced silver projects. The Company currently produces silver from two mines and a 500 tonnes per day (tpd) processing plant at the Royal Mines of Zacualpan. It controls mineral exploration rights to two silver districts, the 200 km^2 Mamatla and the 125 km^2 Royal Mines of Zacualpan and a portfolio of 15 silver projects in the world-class Zacatecas silver district.

The Company also has an option to acquire a producing 200tpd mill in Zacatecas. Having been profitable from its first day of production and onward, the Company has distinguished itself as a respected junior precious metals producer.

IMPACT trades on the TSX Venture Exchange under the ticker symbol "IPT".

Letter to Shareholders

Dear Shareholders,

The past year was a remarkable one for IMPACT Silver Corp. As at December 31, 2006 our stock price was up 109%, outperforming most of our peers and the price of silver. In our first year of operations, we recorded a net income of $972,822 (EPS $0.03) and $1,522,453, respectively.

2006 also marked an important turning point in the brief history of IMPACT Silver. Since it focused on silver in 2004, the Company has performed exceptionally well as an exploration company. On January 16th, that all changed when the Company joined the ranks of silver producers.

This past year, the Company focused on improving operations, profitability and exploration, building a sound platform for future growth. The Royal Mines of Zacualpan was purchased along with all of the processing and mining equipment resulting in a 100% interest with no underlying royalties, spanning a

125 km^2 historical silver district. In July, the Company expanded into one of Mexico's most famous silver districts in Zacatecas by signing an option agreement on an operating 200 tpd processing plant. Securing an option on this mill property was the basis for the acquisition of seventeen silver concessions. Subsequent to the year end, the Company won a 100% interest in the 200 km^2 Mamatla Silver district at an auction, bringing an additional district scale project into its exploration portfolio. Also early in 2007, the Company announced plans for an initial 10,000m diamond drill program on its projects in Zacatecas and Zacualpan.

The Company processed 68,173 tonnes of ore at an average total operating cost of Cdn$59.55 per tonne in our first year of operation. Total mill production was approximately 465,000 ounces of silver, 376 tonnes of lead, and 725 tonnes of Zinc in 2006. The high prices for base metals resulted in higher through-puts of lead and zinc. During the year, recoveries improved dramatically as planned. With the improvements made during the year at the mill, combined with more efficient mining techniques, we expect our incremental increase in production levels to continue during the current year.

Quarterly analyst tours commenced in October and the resulting newsletter and analyst coverage has been excellent. In the past year, over twelve new newsletter editors commenced coverage of the Company. Through increased communication at our mine sites we are also starting to build effective relationships with the local communities.

Silver has also had an excellent year. With the introduction of a silver ETF and a large gain in the price of the underlying commodity, interest in silver has once again been renewed after a long hiatus. Manufacturing demand continued its increase along with the development of a multitude of new applications for silver in emerging technologies. This positions IMPACT Silver as an ideal investment for those interested in production exposure to silver, with our great leverage to the silver price as well as immense exploration potential.

With the exciting foundation for future growth constructed in 2006, we anticipate that 2007 will be a year of great growth for IMPACT Silver. Our objective is to focus as a pure silver mining company and we intend to duplicate our model of acquiring and developing under-funded and under-explored projects. It is our goal to be one of the leading, profitable silver companies in Mexico.

We would also like to take this moment to express our appreciation for the hard work and effort of our employees and staff, both Mexican and Canadian, over the past year.

On Behalf of the Board of Directors,

Frederick W. Davidson
President, CEO

April 17, 2007

Management's Discussion & Analysis

IMPACT Silver Corp. (formerly IMPACT Minerals International Inc.)

Form 51-102F1 For the Period Ended December 31, 2006

INTRODUCTION

This Management Discussion and Analysis ("MD&A") of IMPACT Silver Corp. ("IMPACT" or "the Company") is dated April 10, 2007. This MD&A should be read in conjunction with the audited consolidated financial statements of IMPACT Silver Corp. and the notes thereto for the year ended December 31, 2006 which have been prepared in accordance with Canadian generally accepted accounting principles. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of Annual and Interim Filings, and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

NOTE REGARDING FORWARD–LOOKING STATEMENTS

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





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

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

BUSINESS DESCRIPTION

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and Dominican Republic. The Company's major products are silver and base metals sold in the form of zinc and lead concentrates. The Company is also active in the exploration of silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic. The Company's principal business activities for the past ten years have been the exploration and development of certain mineral properties located in the Dominican Republic and Mexico. The Company currently operates the Royal Mines of Zacualpan in the State of Mexico producing at a rate of approximately 240 tpd. It recently commenced a program of exploration and development with the objective to ultimately bring production to the current rated mill capacity of approximately 500 tpd. This long term program consists of upgrading the underground and surface facilities, and an extensive program of exploration and development.

In the third quarter of 2006, IMPACT announced the optioning of a second silver project, the "Veta Grande Project", this one located in the prolific silver district of Zacatecas. The acquisition includes a 200tpd mill and certain surface rights. Subsequent to the year end the company completed the acquisition of the 200 km^2 Mamatla concession through a government auction.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier I Issuer under the symbol IPT and on Frankfurt as IKL.

HIGHLIGHTS FOR THE YEAR

- In January, IMPACT became the newest TSX silver producer through the purchase of the Royal Mines of Zacualpan Silver Project in central Mexico. The acquisition included two operating silver mines, mineral concessions covering 124.5 km2 over most of the silver district, and a lease on a 500-tonne-per-day processing plant and certain leased mining equipment. By the end of the third quarter the Company had completed the acquisition of leased mining equipment for US$500,000 and the purchase of the leased 500-tonne-per-day processing plant plus certain mineral concessions and surface rights for US$1,140,000 and 100,000 shares. With these purchases IMPACT acquired all the remaining equipment and surface rights related to its Royal Mines of Zacualpan operations and now has a 100% interest with no underlying royalties.
- In July, IMPACT announced the acquiring of four concessions and the signing of an option agreement allowing it the right to earn a 100% interest in certain surface rights and a 200 tonne-per-day processing plant in the Zacatecas Silver District, (the "Veta Grande Project"). Later in the year IMPACT purchased several other concessions and optioned four concessions to Yale Resources. By year-end test production had begun at the plant and to date the number of concessions controlled by IMPACT has increased to 17.
- By the end of the year, at Zacualpan, mill throughput had increased from 165 tpd to 210 tpd and recoveries by approximately 10%. In total, in its first year of operations the Company earned a net profit of $972,822.
- In excess of $10.0 million Canadian was raised through private placements and the exercise of warrants.
- During the year IMPACT completed a 4,970m surface drill program on both advanced and early stage exploration targets at the Royal Mines of Zacualpan as well as an underground drill program in the vicinity of the active mine workings.

Subsequent to the end of the year

- IMPACT acquired the 200 km2 Mamatla VMS district adjacent to its Royal Mines of Zacualpan Silver District.
- The Company announced a 10,000m drill program at its project at Zacualpan and Zacatecas

Very few companies our size have accomplished as much as we have in such a short time. It has been an extremely busy and successful year for the Company, during which time it has grown from an exploration company into a profitable silver producer with one operational facility at the Royal Mines of Zacualpan and a second one under option in the Zacatecas Silver District. We have set some very ambitious goals for ourselves in the coming year including:

- Continued upgrading and expanding of the Royal Mines of Zacualpan Silver Project with a focus on operations, and carrying out extensive exploration to build mineral inventories for mining.
- At the Veta Grande Silver Project IMPACT plans to leverage itself with the option on the processing plant to become the Zacatecas Silver District's dominant player. IMPACT has begun due diligence, exploration and engineering work to evaluate the production potential of the properties purchased in 2006 and to upgrade the processing plant.

- IMPACT plans to grow into a premier producer of silver through internal growth at the Royal Mines of Zacualpan Silver District, its newly acquired Veta Grande (Zacatecas) Silver Project and the Mamatla District as well as through additional external acquisitions.

ROYAL MINES OF ZACUALPAN SILVER PROJECT, MEXICO

Introduction

IMPACT owns assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5k km2 land position, two operating mines and a leased mill rated at 500 tonnes-per-day. The project is located 100km southwest of Mexico City and 25km northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force. The Company has acquired this dominant land position through staking activities and the recent purchase (completed January 16, 2006) of all of the issued and outstanding shares of a local Mexican mining company, Minera El Porvenir de Zacualpan, S.A. de C.V. (“MPZ”). The Company subsequently purchased the previously leased, Guadalupe processing plant and mining equipment and acquired certain mineral concessions and surface rights at Zacualpan.

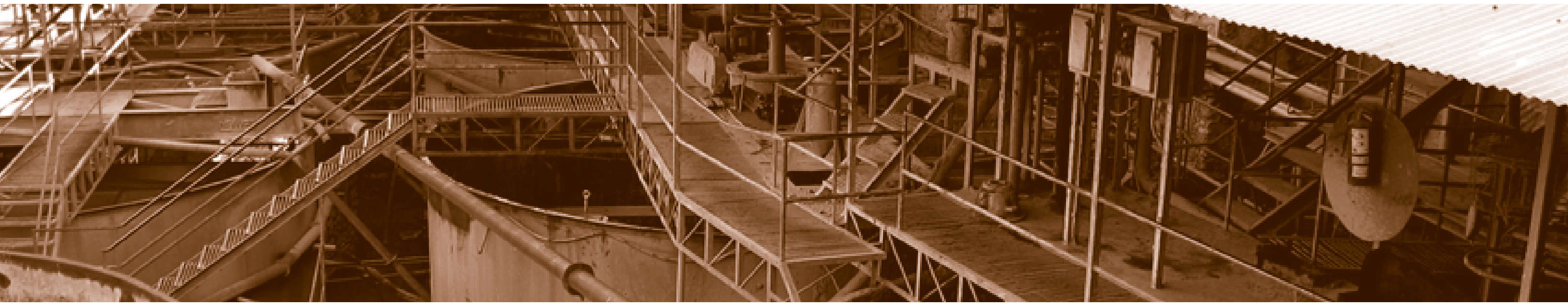
History

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

Production and Development

The Royal Mines of Zacualpan Silver Project was purchased by IMPACT on January 16, 2006 and IMPACT's first full day of production was January 18, 2006. The first mineral shipments (one silver-lead concentrate, one zinc concentrate and one shipment of high grade silver direct shipping ore) were made on January 31, 2006. Average mill throughput in the first year was 196 tpd. Total tonnes mined since January 18th until the end of the year were approximately 67,000 tonnes or 15,000 tonnes (29%) more than the previous year's total production.

On site operating costs were approximately Cdn. $60.00 per tonne. We expect these to rise marginally on a per tonne basis with the inclusion of the costs of a number of the projects we have commenced but will decline latter in the year as throughput increases during 2007.



Production and Development

	Three Months Ended December 31, 2006	Year Ended December 31, 2006
Total Tonnes (t) Produced	19,023	68,173
Tonnes Produced per Day	207	196
Silver Production (Oz.)	89,365	465,673
Lead (t)	107.45	375.43
Zinc (t)	190.46	725.20
Cdn. $ direct costs per tonne	$61.92	$59.55

Note: all measurements (other than silver) are in metric and are subject to smelter settlements.

Mining

Guadalupe Mine

During 2006, mining of medium grade mineral at the Guadalupe Mine continued principally on the 195m Level exploiting the Lipton, Lipton del Bajo Paulina, Intermediate and Liptonia Veins. In late 2006 mining also began to exploit the Liptonia Vein on the 140m Level. With the addition of a Mine Geologist and Mine

Surveyor, the Guadalupe Mine is being extensively remapped and explored. Material from the Guadalupe Mine is brought to surface on a skip and transported approximately only 100m to the plant.

La Gallega (Salvadora) Mine

Success in exploration drilling earlier in the year led to the commencement of mining in November 2006 from the Gallega adit. Mining began on the high grade Salvadora stopes. Subsequent to year end mining also commenced on the Lipton Vein and the recently discovered San David Vein is now being prepared for production as well. Material is transported by truck from Gallega approximately 1/2 kilometer to the mill and is forming an increasingly important source of mill feed.

San Ramon

At year end 2005, mining by the previous owner was down to Level 8 at the high grade San Ramon Mine. Since January, IMPACT continued mining remnant high grade (2000g/t+ silver) mineral on Level 8 and continued mining medium grade mineral from both Levels 7 and 8, levels are 10 to 12m apart. The ramp reached Levels 9 and 10 and mining from this area was completed during the month of November. Material from the San Ramon was brought to surface on a spiral ramp and trucked from the mine to the central processing plant. Further mining from San Ramon will be deferred until a lower adit (a second access) is completed that will significantly reduce underground and surface hauling costs.

Over the next six months to a year, the Company anticipates that fluctuating mill grades will continue as it emphasizes an underground development program in order to increase production. Upon acquisition of the project in January 2006, IMPACT ear-marked sufficient funds and man-power to undertake an aggressive 2 year plan to modernize operations and increase production. Since then much of the mining equipment has been upgraded including rebuilding five of the six scoop-trams. A new mine geologist and surveyors were hired and the refurbishment of the wholly owned underground drill has expanded underground exploration efforts and has lead to the discovery of several intermediate high grade veins in the Guadalupe Mine that are now being mined. New computerized equipment has been installed and additional staff hired, to map and monitor exploration, mining and processing operations. The mine now communicates with the Vancouver head office via new telephone links and a satellite high-speed internet connection.

In the plant metallurgical studies have led to significantly increased metal recoveries. The 7′ by 10′ ball mill has been refurbished and rebalanced, and both ball mills have been outfitted with new liners. Conveyor belts have been replaced throughout the plant. The zinc concentrate drier has been refurbished and work is now proceeding on the lead-silver concentrate drier. The head grade, concentrates and tailings samplers have been replaced. A full inventory of spare parts for the mining equipment and mill has been purchased. Work is now proceeding on refurbishment of the concentrate driers and the secondary crushers. Engineering studies are continuing for increasing tailings capacity.

The lab at the mine has been retrofitted and upgraded. A new assay furnace and high precision weigh scale have been installed. Laboratory workers have been trained and now operate under new quality control standards. Blind tests on standard samples have demonstrated the high quality of assays now being reported by the mine laboratory. While assays will still be processed through commercial laboratories for the purposes of public disclosure and ongoing performance checks, the availability of next-day accurate onsite assays enables IMPACT to schedule and optimize mining, development and exploration programs in significantly shorter time frames.

IMPACT has hired a safety officer who is conducting an ongoing safety audit of all operations and runs regular safety courses that are required for all mine employees. Safety equipment has now been installed throughout the mine and plant. Safety protocols are now clearly marked and new safety procedures have been implemented. All employees have been outfitted with modern safety equipment. A community relations officer has been added to the mine staff. IMPACT has made an ongoing dialogue with locals a fundamental pillar of its operations. The mine has budgeted for aid destined for local community projects and schools.

In aggregate, the Royal Mines of Zacualpan now employs a proactive approach to operations and maintenance. Immediate results from the changes include improved worker morale, stronger community support, a significant decrease in operating downtime as well as overall improvements in operating costs and metal recoveries. For 2007, an additional US$1 million has been budgeted to be used towards further upgrades, new equipment purchases and expansion of the operations.

Exploration

Exploration was active on several fronts during the year. IMPACT completed a 4972m surface drill program in 2006 designed to test both extensions of known areas of mining and new early stage exploration targets. Underground IMPACT has refurbished its wholly owned underground core drill to the point where it now operates almost continuously testing targets close to active mining areas. Fieldwork continued with mapping and sampling on surface and in historic underground workings.

Surface drilling during the year completed testing of downdip extension of the San Ramon silver shoot and the recently identified Chivo prospect as well as several reconnaissance targets.

At San Ramon five holes successfully tested the economic boundaries of the San Ramon Mine. These holes were drilled to determine the size of the San Ramon Mine and to plan for future mining. The holes were drilled to depths of between 85m to 180m below Level 10 of the San Ramon zone, the bottom level of mining to date. It appears the deepest of the five holes cut the roots of the San Ramon mineralization. The most significant results returned:

San Ramon Drill Holes

Drill Hole	Top of Intercept (m)	Est. True Width (m)	Silver (g/t)	Silver (oz/t)	Gold (g/t)	Zinc (%)	Lead (%)
1	243.6	0.9	279	8.1	0.11	2.52	1.47
	including	0.2	957	27.9	0.04	2.66	1.02
4	133.8	0.9	746	21.8	0.36	3.08	1.08

The Chivo Silver Shoot is located in the southern part of the Zacualpan silver district and represents a new zone of high grade silver mineralization at the Royal Mines of Zacualpan. Following up on previous high grade underground sampling (1,095g/t Silver over 1.25m TW) and surface sampling (2,640 g/t Silver over

0.85m TW), IMPACT drilled an initial eight holes on the Chivo Shoot. The holes tested the Chivo zone over a length of 60m and a downdip depth of 190m. The boundaries of the Shoot are not known and the zone remains open in all directions for expansion. Results included the following:

Chivo Shoot Drill Holes

Drill Hole	Top of Intercept (m)	Est. True Width (m)	Silver (g/t)	Silver (oz/t)	Gold (g/t)	Zinc (%)	Lead (%)
7	44.4	1.1	841	24.5	0.63	0.43	0.32
8	50.5	2.4	422	12.3	0.25	1.54	0.69
	including	0.9	783	22.8	0.38	1.37	0.56
9	51.4	0.9	122	3.6	0.35	0.59	0.38
10	59.1	2.7	937	27.3	0.35	1.88	0.75
	including	0.7	2,380	69.4	0.43	4.83	1.85
11	55.1	0.9	153	4.5	1.07	0.85	0.22
12	63.7	0.9	460	13.4	0.53	0.45	0.36
13	80.2	3.5	249	7.3	0.15	2.27	0.93
	including	0.4	1,170	34.1	0.26	9.65	3.90
14	40.6	1.3	274	8.0	0.55	4.40	1.02

Exploration targets at the Pino Prospect and in the Cuchara area were also drilled in 2006 with encouraging results and are scheduled for further drill testing in 2007.

Surface drilling in 2007 will begin with further definition of mineral inventory on the Chivo Shoot followed by drilling in the Pino and Cuchara areas as well as reconnaissance exploration targets generated by IMPACT's geological and prospecting team.

VETA GRANDE (ZACATECAS) SILVER PROJECT, MEXICO

Introduction

On July 10, 2006, IMPACT announced a Letter Option Agreement to acquire the Veta Grande Silver Project in the historic Zacatecas Silver District of Mexico. On September 28th IMPACT announced the signing of a Comprehensive Agreement under effectively the same terms to purchase the Veta Grande Silver Project over a maximum of four years for US$1,120,000 and 500,000 shares. The project includes a 200 tonne-per-day processing plant and certain surface rights. The project is located 500 km northwest of Mexico City. Access is by paved highways that run through the district. Infrastructure is good throughout the district with road networks, electric power and a trained work force.

The Agreement

IMPACT has acquired four mining concessions and a four-year option from a private Mexican vendor to purchase, a 200 tpd processing plant and associated surface rights. Under the agreement, IMPACT may purchase the assets for US$1,120,000 and 500,000 shares in stages, as follows, plus commit to US$700,000 in work expenditures (US$350,000 in each of the first two years).

IMPACT paid US$10,000 on signing of the Letter Option Agreement. On signing of the Comprehensive Agreement and receipt of regulatory approvals, IMPACT paid US$370,000 and 100,000 shares to the vendor, for which IMPACT acquired a 25% interest in any Net Revenues from material processed through the plant. Of this amount, US$330,000 has been used to pay off existing debt on the processing plant. After 18 months, additional payments of US$200,000 and 100,000 shares will earn IMPACT a total 40% interest in any Net Revenues from material processed through the plant. After 36 months, further payments of US$240,000 and 200,000 shares will earn IMPACT a total 60% interest in any Net Revenues from material processed through the plant. After 48 months, additional payments of US$300,000 and 100,000 shares will earn IMPACT a 100% interest in the project with no underlying royalties. IMPACT may accelerate the payments and work commitments at any time after the first 18 months and upon completion of the cash and share payments will earn a 100% interest in the project. Under the agreement, the Mexican vendor may mine and process material from the properties until IMPACT exercises its purchase option.

The Project

The Veta Grande Project consists of mining concessions, surface rights and a 200 tpd processing plant. The last production through the plant was in 2003.

Four mining concessions and one concession application comprise the mineral rights. Two of the initial targets on the concessions are the Cristian and San Pascual Mines. The Cristian Mine was last in production on a small scale in 2003. The shaft was flooded and IMPACT could not access the workings, but samples





from surface dumps returned 310g/t silver, 24.2% lead and 8.0% zinc from a high grade stockpile and 93g/t silver, 0.43% lead and 1.4% zinc from a low grade waste dump. The San Pascual Mine last saw production about 20 years ago. The shaft was flooded, but a representative sample of the dump around the shaft assayed 875g/t silver. A representative sample from the dump beside the nearby Pirul shaft assayed 525g/t silver. Planned work at these and other sites controlled by IMPACT will consist of exploration and evaluation, followed by drilling. The 200 tpd processing plant was built in 2000 and last operated in 2003. IMPACT engineers are carrying out an assessment of the plant and associated facilities as part of IMPACT's due diligence work. The surface rights to the area around the plant are also included in the agreement.

Zacatecas Joint Venture

In October, IMPACT announced a new joint venture with Yale Resources for three projects (San Sabino, Salvador and San Jose) in the Zacatecas district. Subsequent to year end the Zacatecas concession (immediately adjacent to the Salvador concession) was purchased and added to the joint venture. This agreement allows Yale to acquire a 65% interest in the properties by reimbursing to IMPACT the property purchase costs and spending a minimum of US$100,000 on exploration including a 500-meter drill program on each property within 18 months. Yale will then have an option to increase its interest to 80% in each property by paying IMPACT US$125,000 in either cash or shares, at IMPACT's discretion. IMPACT is the operator and retains a 20% working interest in each project. Drilling of the San Jose and Salvador/Zacatecas concessions commenced subsequent to year end. Drilling is in progress and results are pending.

IMPACT is currently developing a base of operations around the Veta Grande processing plant in Zacatecas. By partnering with others to take on work commitments, IMPACT is significantly accelerating its growth strategy in Zacatecas while still retaining significant interests in a continuously growing portfolio of projects. Including concessions acquired subsequent to the year end, IMPACT has optioned or acquired seventeen concessions in the Zacatecas district.

Future Plans

The Zacatecas Silver District is one of the largest historic silver districts in the world with past production estimated at 1.2 billion ounces. The Veta Grande Silver Project and other Zacatecas property acquisitions represents an initial foothold in the core of the district from which IMPACT plans to leverage itself to become the district's dominant player. IMPACT has begun due diligence, exploration and engineering work to evaluate the production potential of the properties and the processing plant. IMPACT has also begun evaluating and acquiring other concessions in the district.

Management is pleased to have acquired a foothold position in one of the great historic silver mining districts of Mexico. It anticipates that the Zacatecas Silver District will grow to become an important part of IMPACT's silver profile that in time may add significantly to the Company's ongoing silver production from the Royal Mines of Zacualpan Silver Project in central Mexico.

Mamatla

In February 2007, the Company acquired a 100% interest in the 200 km2 Mamatla mining district through an auction held by the Mexican Geological Survey. IMPACT's winning bid was US$200,000 payable over two years plus a 1% NSR production royalty payable to the Mexican Geological Survey. Mamatla is IMPACT's third district-scale project. It is located immediately southwest of and adjacent to IMPACT's Royal Mines of Zacualpan Silver Project and production facilities in central Mexico. This acquisition increases IMPACT's mineral concession holdings in the region by 160% to a total of 325 km2.

The Mamatla Project is host to both epithermal vein systems and volcanogenic massive sulphide (VMS) deposits. IMPACT's initial interest lies in the silver and gold epithermal vein systems which were not the primary focus of past exploration work. The VMS mineralization varies from copper and gold rich systems to zinc, lead, gold and silver rich systems. The Mamatla project covers the same stratigraphy as the Campo Morado VMS belt where Farallon Resources has announced a production decision on the G-9 VMS deposit (5.57 million tonnes grading 7.3%Zn, 1.0%Pb, 1.3%Cu, 186g/t Ag and 2.8g/t Au). The G-9 VMS deposit is located along trend 45km southwest of Mamatla.

In the 1990s, Valerie Gold Resources carried out extensive VMS exploration on the eastern half of the Mamatla district. Later, TVX Gold Inc. carried out a small exploration program on a limited part of the area for bulk tonnage epithermal precious metal deposits. This exploration identified over 70 VMS and epithermal prospects including many old mine workings. Some of the main prospects identified are Aurora I, Aurora II, Capire, Sara Ridge, Velixta, Yerba Buena, Tlanipla, Los Mantos, and Cruz Blanca.

A major difference between IMPACT's plans for the Mamatla Project and those of Valerie Gold in the 1990s is that IMPACT owns and operates the 500-tonne-per-day Zacualpan processing plant within trucking distance of several of the Mamatla deposits and prospects, which significantly lowers the economic threshold for potential future production decisions.

Historic Exploration Results – Vms Zones

Among the 70 mineral prospects known on the Mamatla concession, the most significant identified to date are the Aurora I and the nearby Capire Prospects.

Aurora I is a VMS deposit that in part appears to have been overprinted by epithermal silver mineralization. In the auction bid document publicly released by the Mexican Geological Survey, the Aurora deposit is described with an indicated resource of 194,000 tonnes grading 1.28g/t gold, 180g/t silver, 2.13% lead and 4.45% zinc.

The **Capire** mine workings are located less than 1km west of Aurora I. The workings consist of six old adits and more than 20 old shafts found over an area measuring 1000m by 200m. In the auction bid document publicly released by the Mexican Geological Survey, the Capire deposit is described with an indicated resource of 1,154,500 tonnes grading 0.22g/t gold, 73g/t silver, 0.45% lead and 1.13% zinc in a near surface zone with potential for open pit mining and open for expansion.

IMPACT has not independently verified the resource estimates noted above for the Mamatla project and the estimates are not compliant with NI 43-101 requirements, therefore they should not be relied upon. However IMPACT believes the historical resource estimates provide an indication of the potential of the Mamatla Project, are clearly relevant to IMPACT's decision to purchase the project and relevant to IMPACT's plans for further exploration work.

George Gorzynski, P.Eng., a Qualified Person under the meaning of Canadian National Instrument 43 101, is responsible for the technical information described in this Management Discussion and Analysis for the Royal Mines of Zacualpan Silver Project and the Veta Grande (Zacatecas) Silver Project. Details on sampling methods and other information on the projects can be found in IMPACT's 2006 news releases.

LOS RANCHOS PROJECTS, DOMINICAN REPUBLIC

The Dominican Republic continues to attract interest from the industry with the ongoing activities of Barrick Resources, and Falconbridge as well as a number of juniors including Unigold, Globestar, Linear, Energold and Everton. The exploration concessions in the Dominican Republic held by IMPACT constitute a block of applications for exploration concessions and one granted concession covering highly favourable stratigraphy in the eastern part of the Los Ranchos formation. The area has been tectonically active in the past with numerous faults and cross-faults, which IMPACT believes offers the opportunity for mineralization. IMPACT's block of concessions is located some 100km east of Barrick Gold's Pueblo Viejo gold deposit and hosted in the same rock formation.

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian National Instrument 43 101, is responsible for the technical information described in this Management Discussion and Analysis for the Dominican Republic Projects.

INVESTOR RELATIONS

IMPACT has regularly attended a number of investors' conferences in Canada along with engaging the services of an investor relations representative to assist in developing the Company's profile. In October, the Company provided its first analysts tour of operations of the Zacualpan project, a program it repeated in early 2007 and intends to repeat over the course of the next year. Energold Drilling Corp. a significant shareholder in the Company provided additional services including personnel to assist in the investor relations activities.

FINANCIAL DISCUSSION

Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and the actual results may differ from results based upon these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Management's critical accounting estimates apply to the assessment for the impairment of resource properties and property, plant and equipment, as well as the valuation of other assets and liabilities such as inventories and future income tax liabilities as well as accounting for income and resource taxes, depletion and amortization of mineral reserves and employee social benefit costs.

Risk Factors

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

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

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

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

IMPACT only has a short history of profitable operations. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

The consolidated financial statements for the year ended December 31, 2006 have been prepared on the basis of accounting principles applicable to a going concern. This assumes that IMPACT will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

IMPACT's financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate because management believes that the recent private placement financings completed by the Company, together with the anticipated exercise of "in the money" share purchase warrants in 2007, mitigate any adverse conditions and events that might raise doubt about the validity of the going concern assumption used for these financial statements. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets, liabilities, the reported income and expenses and the balance sheet classifications used.

Selected Annual Information

Description	2006	2005	2004
Total revenues	$ 7,005,793	N/A	N/A
Net income (loss)	$ 972,822	$ (486,270)	$ (320,251)
Net income (loss) per share-Basic	$ 0.03	$ (0.02)	$ (0.02)
Net income (loss per share -Diluted	$ 0.02	$ (0.02)	$ (0.02)
Total assets	$ 17,722,893	$ 3,767,288	$ 2,101,548
Total long-term financial liabilities	$ 1,075,350	$ 270,206	$ 97,117
Dividends declared	N/A	N/A	N/A

As can be seen from the table of selected annual information above, the Company has transformed itself during the past year. It has done so, through its capital finance raising activities and its purchase of the Royal Mine of Zacualpan assets. The Company has progressed from being an early stage exploration and development company into being a full mining development company with an active mining operation and a substantial resource property asset base centered around two key silver mining areas in Mexico. The Company is also well financed for its current stage of operations and expects to be able to raise all the funds that it requires in the short term to support its existing operations from the exercise of "in the money" share purchase warrants that expire later this year.

Accounting for the Zacualpan Acquisition

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 tonnes of lead and 100 tonnes 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.

The purchase method of accounting must be used to account for all business combinations and the acquirer, in a business combination, must 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 the acquisition of MPZ the Company is required to 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. While this lost opportunity cost was significant at January 16, 2006 it became even more significant after that date because of the substantial increase in metal prices that occurred in the early months of 2006. The Company's best estimate was 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 mine and to sell the same quantity at the spot market prices in affect at January 16, 2006, the date of acquisition, it would have realized approximately US$1.294 million more than it will do under its forward

sales delivery contractual commitments. This foregone revenue and MPZ's obligation to make good on the delivery obligation represent contingent consideration which the Company took 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 $4,858,212 has been allocated to Zaculapan 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
Total Purchase Price		2,439,700
Identifiable Net Assets Acquired		
Accounts receivable and prepaid expenses		126,676
Inventory		174,701
Property, plant and equipment		240,087
Resource properties		180,093
		721,557
Current liabilities		(374,356)
Forward sales contract liability		(2,164,773)
		(2,539,129)
Net Identifiable Assets and Liabilities		(1,817,572)
Future Income Taxes		(600,940)
Residual Purchase Price Allocated to Resource Properties	$	4,858,212

Results of Operations

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

Quarter	Revenues	Net Income (loss)	Net Income (Loss) per Share*	Diluted Net income (Loss) Per Share*	Total Assets	Total Long-term Liabilities
4th 2006	2,025	142	0.00	0.00	17,723	1,075
3rd	1,873	215	0.01	0.00	16,738	470
2nd	1,965	428	0.01	0.01	17,793	363
1st	1,143	188	0.01	0.01	10,141	269
4th 2005	Nil	(131)	(0.01)	(0.01)	3,767	270
3rd	Nil	(66)	(0.00)	(0.00)	2,599	250
2nd	Nil	(182)	(0.01)	(0.01)	2,664	225
1st	Nil	(107)	(0.01)	(0.01)	2,438	63

* These numbers have been rounded to two decimal places.

The Company's income statement includes the consolidation of operations of the Zacualpan mine in Mexico since January 16th, 2006. As a result, the comparison to the prior year's quarters, while required, may not be appropriate.

The Company completed the acquisition of the Zacualpan mine in January, the details of which are described more completely above. In addition to the cash and share outlays, MPZ had a smelter contract that included fixed pricing for the delivery of specific quantities of certain metals for a period expiring July 31, 2006. Under Canadian Generally Accepted Accounting Principals ("GAAP") in an acquisition the difference between the fixed prices and the market price as well as any projected shortfalls in delivery are deemed part of the acquisition price and are to be capitalized. This resulted in a write-up of the initial purchase price by

$1,817,572 together with a provision for future income taxes of $600,940 attributed to resource assets, and the set-up of a forward sales contract liability for $2,164,773. A portion of the acquisition cost will be amortized over the expected life of the mine, whereas the liability will be amortized over the remaining contract life resulting in a timing differential. Because this acquisition was made with the primary purpose of acquiring unrestricted access to the total exploration potential of the MPZ properties and the entire Zacualpan silver mining district, the Company plans to allocate half of its acquisition cost to deferred mineral exploration and development costs to recognize its investment made in the over 300 potential exploration targets that it has identified on the properties that it acquired with the purchase of the shares of MPZ.

The results of this treatment meant the company enjoyed a small profit in each quarter of 2006 despite the extensive restructuring of the underground and surface workings. The current programs underway are designed to develop immediate mining targets and to enhance future production. This means incurring significant expenditures at present and experiencing lower grades as development muck is put through the mill for future benefit.

Mine Operating Earnings for the Fifty Weeks ended December 31, 2006

Average mill throughput during the year was 196 tons per day. Revenues (net smelter returns) calculated under GAAP for the fifty week period from January 16, 2006 were $7,005,793. The Company incurred operating costs of $4,059,500 for the fifty weeks ended December 31, 2006 before amortization and depletion expenses of $539,466. Mine operating earnings for the fifty week period were $2,406,827 but would have been significantly greater had the Company not been committed to its forward sales contract with Met-Mex Penoles. Depreciation and depletion related to the mine and its' acquisition cost was $539,466 for the first fifty weeks of the Company's mine ownership. On site operating costs were $59.55 per tonne of ore processed through the mill, before depletion and amortization costs. General and administrative expenses for the year were $825,000 which was net of a foreign exchange gain of about $87,000. The Company recorded a loss of $970,693 on its forward sales contract to its date of close at the end of July 2006. Had the Company not been bound to honour this contract its income would have been considerably greater. Overall, management is pleased to report that the Company earned a net income of $972,822 for its year ended December 31, 2006, its first year of operations of the Royal Mines.

General, Administrative and Other Expenses

Administrative expenses for the twelve months were $825,415 compared to $494,081 for the similar period in 2005. This comparison is not necessarily appropriate however, since in 2005 the Company was not involved in active mining operations. The total general, administrative and other expenses for the fourth quarter of 2006 were not significantly impacted by foreign exchange fluctuations in the translation of the Company's Mexican owned assets into Canadian dollars. Exchange rate translation fluctuations will continue each quarter and may have a significant impact on future quarterly reported general and administrative expenses. Total general and administrative expenses reported for the quarter were $241,112 including $1,135 with respect to foreign exchange. Excluding foreign exchange, G&A expenses are running at approximately $225,000 per quarter. Some comments with respect to specific items of costs for the year are as follows:

Accounting and audit costs charged to general and administrative expense have increased by $94,587 from 2005. This relates to increased audit services and support work in connection with activities related to the Zacualpan purchase as well as higher overall audit costs related to changing audit regulations and governance practices. We had underestimated our actual 2005 audit costs and have made a higher accrual provision for audit costs for 2006 which accounts for the significant change in our reported costs. We expect that these costs will continue to increase in 2007 as a result of the continuing imposition of new financial reporting and regulatory requirements.

Legal costs charged to general and administrative expenses in 2006 were $104,866 compared to $46,033 in 2005. These costs include costs associated with the initial financing and acquisition of the Zacualpan Mine as well as costs associated with the purchase acquisitions that the Company has carried out in exercising its various options on its lease to purchase agreements and legal costs associated with our Zacatecas option Agreement and property title reviews.

Office salaries and services costs increased by $139,146 and management fees by $31,268 in 2006 compared to 2005 as a result of the increased level of staff and services support required in connection with our acquisition and operation of the Zacualpan silver property and our other exploration efforts in Mexico around the Zacatecas area. During the comparative 2005 year, we did not have any active mining operations. We expect that these expenses may increase again significantly in 2007 as we continue to increase the scale of our operations of mining and mineral exploration activities in Mexico in the coming year.

Transfer agent and filing fees increased by $34,572 during the year primarily due to higher activity levels in shareholder transactions and recent financings which have increased the total number of shares outstanding. These costs will likely continue to increase as outstanding share options and warrants are exercised over the next six to twelve months.

The cost related to maintaining investor relations declined marginally by $4,836 compared to 2005. Costs in 2006 included the services of one consultant and expenditures related to investor conventions and mail-outs. We expect to significantly increase our expenditures in the first half of 2007 as we highlight our achievements to the investment community.

With the increase in activity related to the Zacualpan operations including meeting financial regulatory reporting requirements, other administrative costs including office and sundry, rent, and administrative travel costs was $68,927 more than the comparative period in 2005. These costs are anticipated to rise more modestly over the next year.

Resource Property Expenditures

Zacualpan

Exploration expenditures related to Zacualpan for the twelve months of 2006 were $1,648,474 compared to $1,024,813 in 2005. Expenditures taken together for wages and consulting, vehicles, travel and accommodation, and assaying were $623,432 for the year ended December 31, 2006 down slightly from the comparative amount spent in these cost areas in 2005. The major elements of cost increase were expenditures related to exploration drilling and development activities. During the year $536,083 was spent on exploration drilling and $296,092 on mine development. Drilling expenditures in the prior year were $197,713 and no monies were spent on mine development as the Company did not acquire its mining properties until January 16th of 2006. No exploration drilling activity was carried out in the fourth quarter of 2006 as the Company was awaiting the availability of a diamond drill to start on a new drill program. A drill has now been obtained under contract and new exploration drilling is expected to commence on the property in late April of 2007. The Company has announced plans for a minimum 10,000 meter drilling program in 2007, much of which will be focused on various advanced to early stage targets in the Zacualpan area. The Company capitalizes surface exploration and amortizes it on a mine by mine basis. Underground exploration primarily in active mining areas is expensed as incurred.

The Company has recorded as part of its deferred exploration costs a provision for future income taxes of $192,866 for the year ended December 31, 2006, compared to $173,089 during the prior year. The Company expects that its 2007 exploration expenditures on the Zaculapan property will continue at their current rate exceeding its 2006 expenditures as it proceeds to explore some of its initial more promising exploration targets.

Zacatecas

During 2006, the Company also recorded $138,902 in deferred exploration costs with respect to its newly acquired Zacatecas properties. As of the time of writing this MD&A the Company has announced that it has acquired 100% interests in 17 property concessions in the Zacatecas Silver District. These acquisitions are part of the Company's strategy of building its property portfolio of mineral concessions in the Zacetacas area to provide future mineral supplies to feed the Veta Grande processing mill plant which the Company has the option to purchase. In mid March of 2007, the Company commenced an initial exploration drilling program on several of these properties. Assay results from this drilling have not yet been received.

Liquidity and Capital Resources

At December 31, 2006, the Company had working capital of $4,830,268 compared to $1,117,282 at December 31, 2005. During the year the Company completed two private placements raising a total of approximately $10,300,000, net of expenses, of which $1,046,000 was recorded in 2005. The funds from the first private placement were used as part of the purchase of the Zacualpan mines and the leasehold interests. In the second quarter, IMPACT completed an additional private placement of $8.03 million. These funds were used to acquire the leased mill facility, certain mining and mobile equipment, to upgrade current operations, to conduct exploration and to increase the Company's overall working capital position. Funds raised from the private placements were augmented by the exercise of options and share purchase warrants by Company shareholders. During the year, the Company also raised $103,800 on the exercise of 620,000 share purchase options and $1,110,250 on the exercise of 2,900,000 share purchase warrants. In total, 1,057,500 new shares were issued upon the exercise of warrants and stock options during the fourth quarter to raise $415,100 in new share capital during the quarter. The Company expects that if its shares continue to trade at, or above, recent market price levels almost all outstanding share purchase warrants will be exercised over the next seven months prior to their expiry thereby raising additional equity capital for the Company of approximately $7.0 million to fund its future mine development and exploration activites.

Subsequent to the third quarter end, 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.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 10, 2007.

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at April 10, 2007	40,278,642		
Employee stock options	365,000	$ 0.13	October 20, 2008
	375,000	$ 0.15	May 12, 2009
	626,750	$ 0.42	April 13, 2010
	35,000	$ 1.45	February 6, 2008
Warrants	2,725,000	$ 0.50	July 5, 2007
	584,000	$ 1.20	October 6, 2007
	3,708,546	$ 1..30	October 6, 2007
Fully Diluted at April 10, 2007	48,697,938		

Transactions with Related Parties

Energold Drilling Corp. owns 6,610,001 shares of IMPACT and due to management and directors in common, it is considered a related party.

Under a management services agreement dated October 2004, Energold recovers direct labour costs like mineral exploration or public relations at specified daily charge-out rates plus 15% overheads. Energold also recovers miscellaneous charges plus 15%, on the basis of IMPACT's actual usage. Investor relations' activities are assisted by Energold's staff and consist of dissemination of information to shareholders and prospective investors through brochures, quarterly reports, industry conventions, annual reports and press releases. Administrative services fees of $5,011 (2005 - $8,360) were charged by Energold for the year to December 31st. As at December 31, 2006, the balance owed to Energold with respect to its recoverable management service costs was $35,270 (2005 -$11,629).

During the year IMPACT signed an agreement with Energold, for the latter to provide diamond drilling services to IMPACT. Energold received fees in the amount of $533,534 during the year (2005 - $183,020) for contract drilling services performed in Mexico at the Zacualpan concessions. These services were provided in the normal course of business operations at similar rates that would be offered to any other mining company.

During the year ended 2006, fees in the amount of $162,358 (2005 - $96,684) were paid or accrued to two directors and one officer of the Company, of which $87,008 is shown in various administrative expenditures on the income statement, and $75,350 is shown in resource properties.

Changes in Accounting Policies

The consolidated financial statements for the year ended December 31, 2006 followed the same accounting policies and methods of application as in the prior year's annual financial statements.

Off-balance Sheet Arrangements

The Company had no off-balance sheet arrangements in place as at December 31, 2006.

Financial Instruments and Other Instruments

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

Disclosure Controls And Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined by the Canadian Securities Administrators (CSA), as of December 31, 2006. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

After reviewing our overall Company's internal controls and financial reporting and disclosure systems, management is satisfied that as at December 31, 2006 the Company has designed, established and is operating reasonable overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting except for the extension and imposition by the Company of its internal control system on its newly acquired Mexican subsidiaries.

Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT has approved the year end financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

Additional Information

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

On Behalf of the Board of Directors,

Frederick W. Davidson
President, CEO

April 10, 2007

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 December 31, 2006.

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.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders and their report follows.

F.W. Davidson
President and Chief Executive Officer

R. S. Younker
Chief Financial Officer

April 16, 2007

Auditors' Report

To the Shareholders of IMPACT Silver Corp.

We have audited the balance sheet of IMPACT Silver Corp. as at December 31, 2006 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 5, 2006.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver BC

April 16, 2007

Consolidated Balance Sheets

STATEMENT 1

As at December 31 (Canadian Dollars)	2006	2005
ASSETS		
Current		
Cash and term deposits	$ 3,969,819	$ 1,196,932
Accounts receivable and prepaid expenses	1,624,260	22,709
Inventory	330,688	–
	5,924,767	1,219,641
Property, Plant and Equipment (Note 6)	2,113,668	16,951
Resource Properties Schedule (Note 4)	9,684,458	2,530,696
	$ 17,722,893	$ 3,767,288
LIABILITIES		
Current		
Accounts payable	$ 1,059,229	$ 90,730
Due to related party (Note 7)	35,270	11,629
	1,094,499	102,359
Future Income Tax Liability (Note 12)	1,075,350	270,206
	2,169,849	372,565
Commitment (Note 15)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	15,382,377	8,437,288
Warrants (Note 8(b))	4,222,385	–
Contributed Surplus (Note 8(c))	314,845	296,820
Deficit Statement 2	(4,366,563)	(5,339,385)
	15,553,044	3,394,723
	$ 17,722,893	$ 3,767,288

ON BEHALF OF THE BOARD:

"F.W. Davidson"
Director

"G. Gorzynski"
Director

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

Consolidated Statements of Income and Deficit

STATEMENT 2

For the Years Ended December 31 (Canadian Dollars)	2006	2005
Revenue	$ 7,005,793	$ –
Expenses		
Operating costs	4,059,500	–
Amortization and depletion	539,466	–
	4,598,966	–
Mine Operating Earnings	2,406,827	–
General and Administrative Expenses		
Accounting and audit	136,063	41,476
Amortization	10,165	2,874
Foreign exchange	(86,698)	(166)
Insurance	73,124	–
Investor relations	66,089	70,925
Legal	104,866	46,033
Management fees and consulting	61,598	30,330
Office and sundry	35,065	11,774
Office salaries and services	188,365	49,219
Rent	33,023	9,000
Stock-based compensation expense (Note 9(b))	105,831	190,877
Transfer agent and filing fees	64,960	30,388
Travel and accommodation	32,964	11,351
	825,415	494,081
Income Before the Following	1,581,412	(494,081)
Other Income (Expenses)		
Interest income	110,243	8,107
Loss on forward sales contract	(970,693)	–
Other income	252,280	–
Write-off of resource properties	(420)	(296)
	(608,590)	7,811
Net Income (Loss) for the Year	972,822	(486,270)
Deficit – Beginning of year	(5,339,385)	(4,853,115)
Deficit – End of Year	$ (4,366,563)	$ (5,339,385)
Earnings (Loss) Per Share – Basic	0.03	(0.02)
– Diluted	0.02	(0.02)
Weighted Average Number of Shares Outstanding – Basic	35,611,966	19,817,560
Weighted Average Numbers of Options Outstanding	1,286,551	1,290,589
Weighted Average Number of warrants outstanding	3,581,212	1,644,452
Weighted Average Number of Shares Outstanding – Diluted	40,479,729	22,752,601

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

Consolidated Statements of Cash Flows

STATEMENT 3

For the Years Ended December 31 (Canadian Dollars)	2006	2005
Cash Resources Provided By (Used In)		
Operating Activities		
Income (loss) for the year	$ 972,822	$ (486,270)
Items not affecting cash		
Amortization and depletion	549,631	2,874
Loss on forward sales contract	970,693	–
Stock-based compensation expense	105,831	190,877
Write-off of resource properties	420	296
Changes in non-cash working capital	(3,777,661)	14,572
	(1,178,264)	(277,651)
Investing Activities		
Acquisition of Minera El Porvenir de Zacualpan, net of cash acquired (Note 5)	(2,260,200)	–
Acquisition of Property, plant and equipment	(2,101,086)	(17,255)
Acquisition of Resource properties	(2,257,372)	(958,548)
	(6,618,658)	(975,803)
Financing Activities		
Advances (repayments) from related party	23,641	(12,240)
Share capital issued	10,545,328	698,175
Shares to be issued	840	1,046,000
	10,569,809	1,731,935
Net Increase (Decrease) in Cash	2,772,887	478,481
Cash position – Beginning of year	1,196,932	718,451
Cash Position – End of Year	$ 3,969,819	$ 1,196,932

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

Consolidated Schedules of Resource Properties

SCHEDULE

For the Years Ended December 31 (Canadian Dollars)	2006	2005
Zacatecas Properties, Mexico (Notes 4(e))		
Acquisition cost	$ 781,709	$ –
Deferred exploration costs		
Assaying	10,047	–
Field administration and expenses	40,369	–
Future income taxes (Note 12)	11,338	–
Travel and accommodation	12,703	–
Vehicles	854	–
Wages and consulting	63,591	–
	138,902	–
	920,611	–
Zacualpan Mine and Concessions, Mexico (Note 4(d))		
Acquisition cost	5,097,937	118,464
Deferred exploration costs		
Assaying	81,248	128,868
Development	296,093	–
Drilling	536,083	197,713
Field administration , legal and expenses	87,007	103,169
Future income taxes (Note 12)	192,866	173,089
Travel and accommodation	71,584	58,653
Vehicles	46,341	38,800
Wages and consulting	337,252	324,521
	1,648,474	1,024,813
Amortization and depletion	(445,478)	–
Recoveries	(67,990)	–
	6,232,943	1,143,277
Other Properties, Dominican Republic (Notes 4(b)(c))		
Deferred exploration costs		
Field administration	208	4,121
Travel and accommodation	–	4,229
Vehicles	–	1,316
Wages and consulting	420	10,633
	628	20,299
Write-off of resource properties	(420)	–
	208	20,299
Costs for the Year	7,153,762	1,163,576
Balance – Beginning of year	2,530,696	1,367,120
Balance – End of Year	$ 9,684,458	$ 2,530,696

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

Notes to Consolidated Financial Statements

December 31, 2006 and 2005 (Canadian Dollars)

1. NATURE OF OPERATIONS

IMPACT Silver Corp. and its subsidiaries (collectively, "IMPACT" or the "Company") are engaged in silver mining and related activities including exploration, development and mineral processing in Mexico and Dominican Republic. The Company's major products are silver and base metals sold in the form of zinc and lead concentrates. The Company is also active in the exploration of silver, precious metals and other mineral resources on its properties located in Mexico and the Dominican Republic.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. The recovery of the Company's investment in these resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves on these properties and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Jade Oil Corporation ("Jade"), 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. The Company has determined that it does not have any variable interest entities as at December 31, 2006 and 2005. All significant inter-company balances have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid investments with the original term to maturity of three months or less, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk or change in value.

Mineral Operations

The Company has acquired interests in a number of mineral properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable, with the exception of the Guadalupe and San Ramon mines at Zacualpan, Mexico which the Company acquired with its purchase of the shares of MPZ. The recoverability of amounts capitalized for mineral properties is normally dependent upon the existence of economically recoverable reserves in its mineral properties, the ability of the Company to arrange appropriate financing to complete the development of its properties, confirmation of the Company's interest in its underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition of these interests.

Amounts shown as mineral properties have been capitalized on an area of interest basis and include direct costs of acquiring, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

The accumulated costs of mineral properties that are developed to the stage of commercial production are amortized using the units of production basis.

Mineral Property Titles

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, except for certain exploration concessions in the Dominican Republic where exploration concessions have been reapplied for in the normal course of business.

Property Option Payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its mineral interests in good standing.

Asset Impairment

Management periodically reviews the carrying value of its mineral properties and mining assets. A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of reserves, anticipated future prices, anticipated future costs of exploring, developing and operating a producing mine, expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and their carrying values are appropriate.

If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as mineral properties represent costs incurred to date and do not necessarily reflect present or future values.

Income (Loss) per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Management’s Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period reported. Significant areas requiring the use of management estimates include assumptions and estimates relating to determining defined ore bodies, reserves value beyond proven and probable mine life, fair values used to establish the purchase price allocation, fair values for purposes of impairment analysis, reclamation obligation, non-cash stock-based compensation and warrants, valuation allowances for future income tax assets, and future income tax liabilities. Actual results could differ from these estimates.

Share Capital

i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value .

2. SIGNIFICANT ACCOUNTING POLICIES **Share Capital** (continued)

iii) The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on relative fair values as follows: the fair value of common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Stock-based Compensation

The Company applies the fair value method of accounting for all stock options granted. Under this method, stock-based compensation on options granted to employees, directors and consultants is recorded as an expense in the period the options are vested, based on the estimated fair value at the measurement date using the Black-Scholes Option Pricing Model.

Translation of Foreign Currencies

The Company has determined that all of its subsidiaries are integrated; therefore, monetary items are translated at the rate of exchange in effect at the balance sheet date, non monetary items are translated at historic exchange rates and revenue and expense items are translated at the average rate prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in the year they occur. For 2006 there was a foreign exchange gain of $86,698 (2005 – 166).

Asset Retirement Obligations

The Company accounts for asset retirement obligations ("ARO") by recognizing the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company has determined that it has no material ARO's at December 31, 2006 and 2005.

Inventories

Materials and supplies are currently valued at the lower of average cost and replacement cost. In-process and finished goods inventories, including ore stockpiles when applicable, are valued at the lower of average production cost or net realizable value. In-process inventory costs consist of direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization of mining interests.

Revenue Recognition

Revenues are currently recognized on estimated net smelter returns, shipping weights and assay results when concentrates are delivered FOB the smelter's refinery in Mexico. Net smelter liquidation settlements for each concentrate shipment are determined in accordance with the smelter contract, when the final weights, sampling, assays and batch treatment charges have been determined. Final settlements are based upon monthly arithmetic average prices of the month following delivery of the concentrate shipment to the smelter. Settlement prices for contained zinc and lead are based upon LME spot prices. Silver is settled based upon the arithmetic average of the Comex 1st position and the London spot U.S. equivalent prices. Initial revenue accruals on concentrate sales are adjusted based upon final settlements.

Property, Plant and Equipment

Plant and equipment is recorded at cost and is amortized using a straight-line method over the assets expected useful life, not exceeding ten years. All vehicles, including mine mobile equipment as well as office furniture and equipment are amortized on a declining balance at rates varying from 10% to 30% annually.

3. 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 December 31, 2006, the Company holds an equivalent of CAD$1,887,377 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, currency or credit risks arising from the financial assets The carrying value of these financial assets approximates their fair value, unless otherwise noted.

4. RESOURCE PROPERTIES

a) Details are as follows:

	2006	2005
PMSA Concessions – Dominican Republic		
Acquisition	$ 497,000	$ 497,000
Exploration and development	356,666	356,458
	853,666	853,458
MMP Concessions – Dominican Republic		
Acquisition costs	85,000	85,000
Exploration	28,121	28,121
	113,121	113,121
Zacualpan Concessions – Mexico		
Acquisition costs	5,317,457	219,520
Exploration	2,016,531	1,074,391
Future income taxes	463,072	270,206
	7,797,060	1,564,117
Zacatecas Properties – Mexico		
Acquisition costs	781,709	–
Exploration	127,564	–
Future income taxes	11,338	–
	920,611	–
Other Properties		
Exploration	7,099	6,679
Accumulated write-off	(7,099)	(6,679)
	–	–
	$ 9,684,458	$ 2,530,696

b) PMSA Agreement

By various agreements dated October 22, 1996 to July 15, 1999 and effective August 20, 1999, the Company acquired 100% of the shares of the Dominican Republic registered company PMSA. PMSA has exploration concessions located in various parts of the Cordillera Oriental in the Dominican Republic, including the El Brujo concession.

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

c) MMP Agreement

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

Under the terms of the agreements, the Company issued 425,000 shares for a value of $85,000. MMP's only asset,

4. RESOURCE PROPERTIES c) MMP Agreement (continued)

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.

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 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 5).

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.

e) Zacatecas Agreements

Under an agreement dated July 10, 2006, 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$1,120,000 (US$469,300 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 separate purchase agreements, the Company acquired eleven mineral concessions in the Zacatecas area during 2006. No further payments or commitments exists for these concessions.

5. 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.

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 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 $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
		2,439,700
Identifiable Net Assets Acquired		
Accounts receivable and prepaid expenses		126,676
Inventory		174,701
Property, plant and equipment		240,087
Resource properties		180,093
		721,557
Accounts payable		(374,356)
Forward sales contract liability		(2,164,773)
		(2,539,129)
Net Identifiable Assets and Liabilities		(1,817,572)
Future income tax assets		(600,940)
Residual Purchase Price Allocated to Resource Properties	$	4,858,212

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2006	December 31, 2005
Mine equipment	$ 717,943	$ –
Mobile equipment	532,913	–
Office furniture and equipment	83,356	32,332
Plant equipment	342,389	–
Surface rights	734,128	–
Vehicles	194,730	9,991
	2,605,459	42,323
Accumulated amortization	(491,791)	(25,372)
Net Book Value	$ 2,113,668	$ 16,951

7. DUE TO RELATED PARTY

As at December 31, 2006, an amount of $35,270 (2005 - $11,629) 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.

8. SHARE CAPITAL

a) Details are as follows:

	Number	Amount
Authorized:		
Unlimited common shares without par value		
Issued and outstanding:		
Balance – December 31, 2004	17,165,022	$ 6,630,513
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	3,509,166	645,425
Value assigned to options exercised	–	24,100
Balance – December 31, 2005	23,639,188	8,437,288
Private placements	10,935,000	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	620,000	103,800
Share purchase warrants exercised	2,900,000	1,110,250
Shares returned to treasury	(200,000)	(60,500)
Fair value of warrants issued	–	(4,037,061)
Shares issue costs – shares issued for finders' fees	1,084,000	(842,400)
Share issue costs – other	–	(520,928)
Value assigned to options exercised	–	87,806
Value assigned to warrants exercised	–	182,882
	39,478,188	15,381,537
Allotted and fully paid:		
Shares to be issued	2,000	840
Balance – December 31, 2006	39,480,188	$ 15,382,377

b) Warrants

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

	Number of warrants	Amount
Balance, December 31, 2005 and 2004	–	–
Private placement (i)	3,125,000	$ 949,348
Agent compensation warrants (i)	250,000	75,948
Issue costs (i)	500,000	90,715
Private placement (ii)	3,650,000	2,788,671
Agent compensation warrants (ii)	292,000	223,094
Issue costs (ii)	584,000	277,491
Exercise of warrants	(635,000)	(182,882)
Balance, December 31, 2006	7,766,000	$ 4,222,385

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, December 31, 2004	$ 130,043
Fair value of stock options issued	190,877
Value assigned to options exercised	(24,100)
Balance, December 31, 2005	296,820
Fair value of stock options issued	105,831
Value assigned to options exercised	(87,806)
Balance, December 31, 2006	**$ 314,845**

d) As at December 31, 2006, the Company has 375,000 shares in escrow. Subsequent to the year end, these shares were released with the consent of the regulatory authorities.

e) 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.

f) 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.

g) 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 December 31, 2006, 635,000 of these warrants had been exercised.

8. SHARE CAPITAL (continued)

h) 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.

9. 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 December 31, 2006 and the changes for the years ended on these dates is as follows:

	Number	Weighted Average Exercise Price
At December 31, 2004	1,555,000	0.15
Granted	760,000	0.41
Exercised	(250,000)	0.21
Forfeited	(25,000)	0.31
At December 31, 2005	2,040,000	0.24
Granted	35,000	1.45
Exercised	(620,000)	0.17
Forfeited	(1,250)	0.42
At December 31, 2006	**1,453,750**	**0.30**

The following table summarizes information about the stock options outstanding at December 31, 2006:

Number Outstanding December 31, 2005	Issued	Exercised	Forfeited	Number Outstanding December 31, 2006	Exercise Price Per Share	Expiry Date
780,000	–	(390,000)	–	390,000	$0.13	October 20, 2008 (i)
75,000	–	(75,000)	–	–	$0.20	August 31, 2006 (i)
475,000	–	(100,000)	–	375,000	$0.15	May 12, 2009 (i)
710,000		(55,000)	(1,250)	653,750	$0.42	April 13, 2010 (i)
–	35,000	–	–	35,000	$1.45	February 6, 2007(ii)
2,040,000	35,000	(620,000)	(1,250)	1,453,750	$0.13-$1.45	February 6, 2007 – April 13, 2010

i) All the options are fully vested at December 31, 2006.

ii) As of December 31, 2006, 21,875 options are vested.

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.

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 $105,831 (2005 - $190,877) for the year ended December 31, 2006, based on a grading vesting schedule using the assumptions 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.

10. RELATED PARTY TRANSACTIONS

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

a) During the year ended December 31, 2006, fees in the amount of $162,358 (2005 – $96,684) were paid or accrued to two directors of the Company, of which $87,008 is shown in various administrative expenditures on the income statement, and $75,350 is shown in mineral properties.

b) During the year ended December 31, 2006, an administrative fee of $5,011 (2005 – $8,360) was paid to a shareholder 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 significant shareholder of the Company, 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 significant shareholder of the Company at a price of $0.30 per unit. Each unit consists of one common share and one share purchase warrant. One share purchase warrant entitles the holder to acquire one common share at a price of $0.30 per share for the first year and $0.35 per share in the second year up to December 9, 2006. Prior to December 9, 2005, the related party exercised its option to purchase 405,000 common shares.

e) During the year ended December 31, 2006, fees in the amount of $533,534 (2005 – $183,020) 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.

11. 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.

12. INCOME TAXES

a) The Company has, as of December 31, 2006, incurred non-capital losses for tax purposes of approximately $433,671. They may be carried forward and used to reduce taxable income of future years. These losses expire as follows:

		Amount
2010	$	13,671
2011		170,000
2015		250,000
	$	433,671

The Company has incurred certain exploration and development expenses of approximately $3,157,599, which may be carried forward indefinitely.

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

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

		2006		2005
Future tax assets	$	–	$	–
Future tax liability	$	1,075,350	$	270,206

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

Future Tax Assets		2006		2005
Tax rate		34.12%		35.6%
Losses carried forward	$	433,671	$	780,000
Mineral property costs		3,157,599		885,016
Undepreciated capital cost in excess of net book value of equipment		2,469		6,408
		3,593,739		1,671,424
Future tax liability				
Acquisition of MPZ		(600,940)		–
Mineral property costs		(474,410)		(270,206)
		(1,075,350)		(270,206)
Valuation allowance		(2,518,389)		(1,401,218)
	$	–	$	–

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized in the foreseeable future. The Company's future income tax liabilities are a result of the acquisition of MPZ and expenditures incurred by the Canadian parent company on properties owned by the Mexican subsidiaries.

c) The reconciliation of income taxes attributable to continuing operations at statutory rates to the income tax expense is as follows:

	2006	2005
Net income (loss) for the year	$ 972,822	$ (486,270)
Income tax expense (recovery) at statutory rates	331,927	(165,915)
Amortization and depletion	7,731	1,023
Unrealized foreign exchange gain	(29,581)	(59)
Stock-based compensation expense	36,110	67,952
Other	142	105
Recognized tax losses	(346,329)	–
Valuation allowance	–	96,894
	$ –	$ –

13. SEGMENTED INFORMATION

Details at December 31 are as follows:

	2006	2005
Revenue by geographic area		
Mexico	$ 7,005,793	$ –
Net income (loss) by geographic area		
Caribbean	$ (208)	$ –
Canada	(317,759)	(490,991)
Mexico	1,290,789	4,721
	$ 972,822	$ (486,270)
Assets by geographic area		
Caribbean	$ 966,788	$ 966,579
Canada	3,251,208	1,596,703
Mexico	13,504,897	1,204,006
	$ 17,722,893	$ 3,767,288
Property, plant and equipment by geographic area		
Canada	$ 18,849	$ 16,951
Mexico	2,094,819	–
	$ 2,113,668	$ 16,951

14. 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.

15. 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.

16. COMPARATIVE FIGURES

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

17. SUBSEQUENT EVENTS

a) 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.

b) In March 2007, the Company entered into a contract with a significant shareholder of the Company for a 10,000 meter drill program on its Mexican silver projects.

c) 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 (Note 8d).

Management

Frederick W. Davidson
President, CEO, Director

George A. Gorzynski
VP Exploration, Director

Richard S. Younker
CFO

H. Walter Sellmer
Director

Victor A. Tanaka
Director

Richard J. Mazur
Director

Auditors

PriceWaterhouse Coopers LLP
250 Howe Street 7th Floor
Vancouver BC V6C 3S7

Solicitors

DuMoulin Black LLP
10th Floor – 595 Howe Street
Vancouver BC V6C 2T5

Transfer Agent

Pacific Corporate Trust Company
510 Burrard Street
Vancouver BC V6C 3B9

Head Office

900 – 543 Granville Street
Vancouver BC Canada V6C 1X8

Telephone 604.681.9501
Fax 604.681.6813

Email inquiries@impactsilver.com
Website www.impactsilver.com

PHOTOGRAPHY R. W. DAVIDSON
ADDITIONAL PHOTOGRAPHY THE IMPACT SILVER TEAM
DESIGN AND LAYOUT SPEAK DESIGN INC.

Disclaimer

George Gorzynski, P. Eng., a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information described in this Management Discussion and Analysis for the Mexican Projects.

Nigel Hulme, P. Geo., a Qualified Person under the meaning of Canadian National Instrument 43-101, is responsible for the technical information described in this Management Discussion and Analysis for the Dominican Republic Projects.

IMPACT SILVER CORP.





TSX-V : IPT

www.impactsilver.com