

IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
IMPACT Silver Corp.

Opinion

We have audited the accompanying consolidated financial statements of IMPACT Silver Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year ended. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition of Minera Latin American Zinc ("MLAZ")

As outlined in Note 4 to the consolidated financial statements, the Company completed the acquisition of MLAZ which holds a 100% interest in the Plomosas Mine. The Company accounted for the business acquisition using the acquisition method under IFRS 3 in accordance with the accounting policy as more fully described in Note 3 to the consolidated financial statements.

The principal considerations for our determination that the acquisition of MLAZ as a key audit matter are that there were significant estimates and judgements made by management when assessing the fair value of the assets acquired and liabilities assumed based on their respective fair value at the date of acquisition. Management used a discounted cashflow model to determine the fair value of depletable mineral interests acquired. This required management to make significant estimates and assumptions related to future commodity prices, quantities of resources, expected future production costs and capital expenditures based on the life of mine plans, discount rate and the in-situ resource multiples implied within the value of transactions by other market participants to determine the fair value of non-depletable mineral interest. This in turn led to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of the fair value of the assets and liabilities acquired.



To address this key audit matter, we performed the following procedures:

- Reviewing the share purchase agreement to understand key terms and conditions and assessing accounting treatment including the assessment of the basis for the determination that the acquisition was a business combination.
- Evaluating management's assessment of the fair value of net assets acquired.
- Utilizing our valuation specialists to review and assess the reasonableness of the valuation methodology and certain key assumptions and estimates included in the valuation report provided by management's expert.

Assessment of Impairment of Property, Plant and Equipment ("PP&E Assets")

As described in Note 9 to the consolidated financial statements, the carrying amount of the Company's PP&E Assets was \$32,569,080 as of December 31, 2023. As more fully described in Note 2 to the consolidated financial statements, the Company determines whether an impairment indicator is identified, and if so, management tests for impairment. The Company determined there was an indicator of impairment, being net assets exceeding the Company's market capitalization.

The test for impairment of the PP&E Assets, specifically the Guadalupe Mine and Capire Mine, necessitates the determination of the recoverable amount of the combined components of the cash-generating units ("CGUs") to which the Guadalupe Mine and Capire Mine belongs. The Plomosas Mine was newly acquired during fiscal 2023 whereby the Company allocated the purchase price to the identifiable net assets on the basis of the fair value at acquisition date and the Company continued to develop the Plomosas mine since acquisition. As at December 31, 2023, no events or circumstances indicate that the Plomosas Mine was impaired. The recoverable amount is the higher of value in use and fair value less costs to sell and requires management judgement and estimation on key internal value variable inputs and external market conditions such as: estimated reserves, expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, and discount rates for net present value calculations. The recoverable amount as at December 31, 2023 exceeded the carrying value, and as a result, no impairment loss was recorded for the year then ended.

The principal considerations for our determination that the assessment of impairment of the PP&E Assets is a key audit matter are potential variances between management's assumptions and estimations, and the market conditions, could have a material effect in the future on the Company's financial position and results of operations. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of the impairment test.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures include, among others:

- Obtaining an understanding of the key controls over management's process in assessing impairment indicators and on determining the recoverable amount of the CGUs related the Guadalupe Mine and Capire Mine.
- Evaluating the appropriateness of the discounted cash flow model ("DCF") on the CGUs related to the Guadalupe Mine and Capire Mine, including utilizing our internal valuation expert to assess appropriateness of the model and the discount rate applied.
- Testing the completeness and accuracy of underlying data and significant assumptions of the DCF, including assessment of discount rate, and evaluating the consistency with external market and industry data for future commodity prices and foreign exchange rates, recent actual mine production results, operating costs and capital expenditures, and reserve estimates.

Assessment of Impairment Indicators of Exploration and Evaluation Assets ("E&E Assets")

As described in Note 10 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was \$37,811,650 as of December 31, 2023. As more fully described in Note 2 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.

The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the assets' carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the E&E Assets through discussion and communication with management.
- Obtaining, through legal counsel, confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

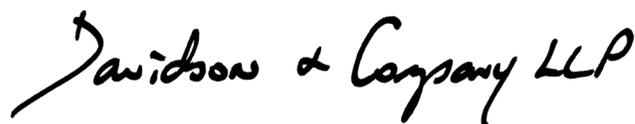
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year ended and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Catherine Tai.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 12, 2024

Management's Responsibility for Financial Reporting

The accompanying financial statements of IMPACT Silver Corp. ("the Company") have been prepared by management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and within the framework of the summary of material accounting policies in these consolidated financial statements, and reflect management's best estimate and judgment based on currently available information.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is accurate and reliable.

The Audit Committee of the Board of Directors meets periodically with management and with the Company's independent auditors to review the scope and results of their annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

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

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

"J. Huang" Chief Financial Officer

April 12, 2024

IMPACT Silver Corp.

Consolidated Statements of Financial Position

As at December 31

(Canadian dollars)

| ASSETS | 2023 | 2022 |
|--|----------------------|---------------|
| Current | | |
| Cash | \$ 8,279,200 | \$ 15,251,161 |
| Trade and other receivables (Note 5) | 3,854,897 | 1,746,367 |
| Inventories (Note 6) | 2,079,269 | 1,137,682 |
| Investments | 90,000 | 240,000 |
| | 14,303,366 | 18,375,210 |
| Value added taxes receivable | 332,163 | 493,077 |
| Right of Use Assets (Note 7) | 91,842 | 168,468 |
| Property, plant and equipment (Note 9) | 32,569,080 | 23,184,736 |
| Exploration and evaluation assets (Note 10) | 37,811,650 | 26,574,023 |
| Due on the acquisition of Minera Latin American Zinc (Note 4) | 3,470,095 | - |
| | \$ 88,578,196 | \$ 68,795,514 |
| LIABILITIES | | |
| Current | | |
| Trade payables and accrued liabilities | \$ 6,669,648 | \$ 1,874,865 |
| Lease liabilities (Note 8) | 68,921 | 80,549 |
| | 6,738,569 | 1,955,414 |
| Lease liabilities (Note 8) | - | 67,294 |
| Reclamation provision (Note 12) | 1,008,210 | 732,067 |
| Deferred income tax liabilities (Note 15) | 6,698,287 | 4,207,903 |
| | 14,445,066 | 6,962,678 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 94,947,950 | 82,241,813 |
| Warrants (Note 14(c)) | 2,980,914 | 467,913 |
| Contributed surplus | 11,306,243 | 10,838,330 |
| Accumulated other comprehensive income (loss) | 238,033 | (3,940,454) |
| Accumulated deficit | (35,340,010) | (27,774,766) |
| | 74,133,130 | 61,832,836 |
| | \$ 88,578,196 | \$ 68,795,514 |

Nature of operations (Note 1)

ON BEHALF OF THE BOARD:

“F.W. Davidson” _____, Director

“P. Tredger” _____, Director

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

IMPACT Silver Corp.
Consolidated Statements of Income (loss)
For Years Ended December 31
(Canadian dollars)

| | 2023 | 2022 |
|--|-----------------------|----------------|
| Revenues | \$ 20,761,634 | \$ 16,335,788 |
| Expenses | | |
| Operating expenses <i>(Note 13)</i> | 21,347,143 | 15,114,777 |
| Amortization and depletion | 1,815,291 | 1,389,993 |
| | 23,162,434 | 16,504,770 |
| Mine operating loss | (2,400,800) | (168,982) |
| General and administrative expenses | | |
| Accounting, audit and legal | 766,002 | 173,071 |
| Amortization | 27,327 | 20,273 |
| Investor relations, promotion and travel | 667,931 | 111,313 |
| Management fees and consulting | 790,381 | 702,877 |
| Office, rent, insurance and sundry | 538,163 | 379,884 |
| Office salaries and services | 1,298,018 | 1,055,097 |
| | 4,087,822 | 2,442,515 |
| Operating loss | (6,488,622) | (2,611,497) |
| Other income (expenses) | | |
| Finance cost | (85,389) | (69,171) |
| Finance income | 480,421 | 265,407 |
| Foreign exchange gain (loss) | 429,936 | (7,869) |
| Other income | 13,195 | 55,854 |
| Gain on disposal of assets | 66,234 | - |
| Write-down of exploration and evaluation assets <i>(Note 10)</i> | - | (222,182) |
| | 904,397 | 22,039 |
| Loss before taxes | (5,584,225) | (2,589,458) |
| Current income tax expense <i>(Note 15)</i> | 8,121 | 28,400 |
| Deferred income tax expense <i>(Note 15)</i> | 1,972,898 | 544,929 |
| Net loss | \$ (7,565,244) | \$ (3,162,787) |
| Loss per share – basic and diluted | \$ (0.04) | \$ (0.02) |
| Weighted average number of shares outstanding – basic and diluted | 180,702,423 | 147,277,171 |

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Income (loss)

For Years Ended December 31

(Canadian dollars)

| | 2023 | 2022 |
|---|-----------------------|-----------------------|
| Net loss | \$ (7,565,244) | \$ (3,162,787) |
| Other comprehensive loss | | |
| Items that may be subsequently reclassified to profit or loss | | |
| Cumulative translation adjustment | 4,281,854 | 4,252,493 |
| Items that will not be subsequently reclassified to profit or loss | | |
| Loss on investments | (103,367) | (85,000) |
| Comprehensive (loss) income | \$ (3,386,757) | \$ 1,004,706 |

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

IMPACT Silver Corp.

Consolidated Statements of Changes in Shareholders' Equity For Years Ended December 31

(Canadian dollars)

| | Shares Outstanding | Share Capital (\$) | Warrants (\$) | Contributed Surplus (\$) | Accumulated Other Comprehensive Income (loss) (\$) | Accumulated Deficit (\$) | Total Shareholders' Equity (\$) |
|---|-----------------------|--------------------------|------------------|--------------------------------|--|--------------------------------|--|
| Balance at December 31, 2021 | 145,381,485 | 81,122,078 | 2,666,279 | 8,897,500 | (8,107,947) | (24,611,979) | 59,965,931 |
| Net loss for the year | - | - | - | - | - | (3,162,787) | (3,162,787) |
| Warrants exercised | 2,706,225 | 1,066,194 | (238,995) | - | - | - | 827,199 |
| Options exercised | 100,000 | 53,541 | - | (18,541) | - | - | 35,000 |
| Warrants expired | - | - | (1,959,371) | 1,959,371 | - | - | - |
| Cumulative translation adjustments | - | - | - | - | 4,252,493 | - | 4,252,493 |
| Loss on investments | - | - | - | - | (85,000) | - | (85,000) |
| Balance at December 31, 2022 | 148,187,710 | 82,241,813 | 467,913 | 10,838,330 | (3,940,454) | (27,774,766) | 61,832,836 |
| Net loss for the year | - | - | - | - | - | (7,565,244) | (7,565,244) |
| Shares issued for acquisition of Minera Latin American Zinc, net (Note 4) | 11,441,647 | 3,684,468 | - | - | - | - | 3,684,468 |
| Shares issued in relation to private placement | 53,945,339 | 12,506,418 | - | - | - | - | 12,506,418 |
| Share issue costs | - | (623,682) | - | - | - | - | (623,682) |
| Warrants issued in relation to private placement | - | (2,861,067) | 2,980,914 | - | - | - | 119,847 |
| Warrants expired | - | - | (467,913) | 467,913 | - | - | - |
| Cumulative translation adjustments | - | - | - | - | 4,281,854 | - | 4,281,853 |
| Loss on investments | - | - | - | - | (103,367) | - | (103,367) |
| Balance at December 31, 2023 | 213,574,696 | 94,947,950 | 2,980,914 | 11,306,243 | 238,033 | (35,340,010) | 74,133,130 |

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

IMPACT Silver Corp.
Consolidated Statements of Cash Flows
For Years Ended December 31
(Canadian dollars)

| Cash resources provided by (used in) | 2023 | 2022 |
|---|---------------------|----------------------|
| Operating activities | | |
| Net loss | \$ (7,565,244) | \$ (3,162,787) |
| Items not affecting cash | | |
| Amortization and depletion | 1,842,618 | 1,410,266 |
| Gain on disposal of assets | (66,234) | - |
| Deferred income tax expense | 1,972,898 | 544,929 |
| Accretion expense | 75,805 | 53,268 |
| Write-down of exploration and evaluation assets | - | 222,182 |
| Unrealized (gain) loss on foreign exchange | (815,201) | 34,947 |
| Changes in non-cash working capital | | |
| Trade and other receivables | (834,170) | (263,311) |
| Income taxes receivable | (13,062) | 3,020 |
| Inventories | (606,368) | 69,765 |
| Trade payables and accrued liabilities | (582,038) | (698,653) |
| Income taxes payable | (2,885) | (18,961) |
| | (6,593,881) | (1,805,335) |
| Investing activities | | |
| Cash acquired on acquisition <i>(Note 4)</i> | 163,936 | - |
| Acquisition of Minera Latin American Zinc <i>(Note 4)</i> | (4,031,400) | - |
| Proceeds on the sale of investments | 46,634 | - |
| Proceeds on the sales of long-lived assets | - | 100,000 |
| Additions of long-lived assets | (8,456,743) | (4,889,985) |
| | (12,277,573) | (4,789,985) |
| Financing activities | | |
| Repayment of lease liability | (103,089) | (97,293) |
| Proceeds from exercise of warrants | - | 827,199 |
| Proceeds from exercise of stock options | - | 35,000 |
| Proceeds from private placement, net | 12,002,582 | - |
| | 11,899,493 | 764,906 |
| Net change in cash | (6,971,961) | (5,830,414) |
| Cash at the beginning of the year | 15,251,161 | 21,081,575 |
| Cash at the end of the year | \$ 8,279,200 | \$ 15,251,161 |

The following table details additional supplementary cash flow information at December 31:

| | 2023 | 2022 |
|---|-------------|-------------|
| Cash received for interest income | \$ 480,412 | \$ 265,407 |
| Cash paid for income taxes | \$ 21,219 | \$ 44,581 |
| Accrued in accounts payable and accrued liabilities for long-lived assets | \$ 53,622 | \$ 167,467 |

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

1. Nature of operations

IMPACT Silver Corp. and its subsidiaries (collectively, “IMPACT” or the “Company”) are engaged in silver, zinc and lead mining and related activities including exploration, development and mineral processing in Mexico. The Company operates a series of mines near Zacualpan in the State of Mexico and in Guerrero State as well as in the State of Chihuahua, and produces silver, lead, zinc and gold sold in the form of lead and zinc concentrates. The registered address of the Company is 303 – 543 Granville Street, Vancouver, British Columbia.

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 exploration and evaluation assets comprise a significant portion of the Company’s assets. The recovery of the Company’s investment in these exploration and evaluation assets and the attainment of profitable operations are dependent upon future commodity prices, the ongoing discovery and development of economic ore on these properties and the ability to arrange sufficient financing to bring the ore estimates into production.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, political conflict in other regions, and supply chain disruptions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and its effect on the Company’s business or ability to raise funds.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable future. The Company estimates that it has adequate financial resources for the next twelve months.

2. Basis of Preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) applicable to the preparation of these financial statements.

The consolidated financial statements were authorised for issue by the Board of Directors on April 12, 2024.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

2. Basis of Preparation - continued

c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates.

Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring the use of management estimates include, but are not limited to the following:

- grade and tonnage estimates;
- asset carrying values and impairment analysis;
- reclamation provisions; and
- valuation of inventory.

Asset carrying values and impairment analysis

Each asset or cash generating unit (“CGU”) is evaluated every reporting date to determine whether there are any indications of impairment. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, and life-of-mine estimates. The determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, grade and tonnage estimates, operating costs, taxes, reclamation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or a previous impairment charge may be reversed with the impact recorded in the consolidated statements of income (loss).

Grade and tonnage balances are estimates of the amount of mineral that can be mined by the Company. The estimate of grade and tonnages is prepared and reviewed by professional geologists, engineers and members of the Company’s management. Changes in the grade and tonnage estimates may impact the impairment of property, plant and equipment analysis and amortization of assets.

Reclamation provisions

Reclamation provisions are a consequence of mining, and the majority of reclamation provisions are incurred over the life of the mine. The Company’s accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current restoration standards and techniques.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

2. Basis of preparation- *continued*

c) Use of estimates and judgments - *continued*

The initial reclamation provisions together with changes, other than those arising from the discount applied in establishing the net present value of the provision, are capitalized within property, plant and equipment and depreciated over the lives of the assets to which they relate. The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites, local inflation rates and exchange rates when liabilities are anticipated to be settled in Mexican pesos. The expected timing of expenditure can also change, for example, in response to changes in mineral grade and tonnage estimates or production rates or economic conditions. As a result, there could be significant adjustments to the reclamation provision which would affect future financial results.

Valuation of inventory

Stockpiled ore and finished goods are valued at the lower of cost and net realizable value ("NRV"). NRV is calculated as the estimated price at the time of sale based on prevailing and future metal prices less estimated future production costs to convert the inventory into saleable form and associated selling costs. The determination of future sales price, production and selling costs requires significant assumptions that may impact the stated value of the Company's inventory.

Accounting for acquisitions

Determining the fair value of assets acquired and liabilities assumed and resulting goodwill, if any, requires that management make certain judgements and estimate taking into account information available at the time of acquisition about future events, including, but not restricted to, future metal prices, estimates of mineral reserves and resources acquired, expected future production costs and capital expenditures based on the life of mine plans, long-term foreign exchange rates, discount rates, and in-situ multiples to determine non-depletable mineral property. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, are retrospectively adjusted when the final measurements are determined if related to conditions existing at the date of acquisition (within one year of acquisition).

Going Concern

When making the going concern assessment, management takes into consideration the existing and anticipated effects of the current macroeconomic and geopolitical uncertainties on the Company's activities. These effects may result in material uncertainties that cast doubt on the Company's ability to operate as a going concern. In assessing whether the going concern assumption is appropriate, management consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

2. Basis of preparation- continued

d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. All intercompany transactions and balances are eliminated on consolidation. These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, comprising:

| Subsidiary ⁽¹⁾ | Incorporation Location | Nature of operations |
|---|------------------------|------------------------|
| Minera Impact Silver de Mexico, S.A. de C.V. ("MISM") | Mexico | Mining Service Company |
| Minera Aguila Plateada, S.A. de C.V. ("MAP") | Mexico | Mining/Exploration |
| Minera El Porvenir de Zacualpan, S.A. de C.V. ("MPZ") | Mexico | Mining/Exploration |
| Minera Laureles, S.A. de C.V. ("ML") | Mexico | Mining/Exploration |
| Minera Latin American Zinc, S.A.P.I. de C.V. ("MLAZ") | Mexico | Mining/Exploration |

1. On January 1, 2022 Chalco Services Inc. was amalgamated with Impact Silver Corp.

3. Material Accounting Policy Information

a) Revenue recognition

The Company follows the guidance under IFRS 15 *Revenue from Contracts with Customers* and

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations; and
- recognize revenue when or as a performance obligation is satisfied.

The Company satisfies its performance obligation and revenue is recognized at the point in time when the product is delivered, which is typically once the concentrate arrives at the location specified by the customer. The Company considers that control has passed when there is a present obligation to pay from the customer's perspective; physical possession, legal title and the risks and rewards of ownership have all passed to the customer; and the customer has accepted the concentrate.

In order to determine the transaction price, revenue from contracts with customers is measured by reference to the forward price for the commodities for the expected quotation period and the Company's best estimate of contained metal at the date revenue is recognized. Concentrate is provisionally priced whereby the selling price is subject to final adjustment at the end of a period normally being 30 to 60 days after delivery to the customer as defined in the sales contract. The final price is based on the market price at the relevant quotation point stipulated in the contract.

At each reporting date, the receivable is marked to fair value based on the forward selling price for the quotation period stipulated in the contract. The change in fair value of the receivable subsequent to the date of revenue recognition is recognized within 'Revenue' on the statements of income (loss).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

b) Cash

Cash includes cash at banks and on hand. Cash subject to restrictions is excluded.

c) Inventories

Materials and supplies are valued at the lower of average cost and NRV. NRV is the estimated selling price less applicable selling expenses. 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.

d) Investments

Investments in equity securities are classified as fair value through other comprehensive income ("FVTOCI") because the Company does not hold these securities for the purpose of trading. Equity securities are valued at fair value, using quoted market prices, and with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

e) Exploration and evaluation expenditures

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquiring the rights to explore;
- researching and analyzing historical exploration data;
- gathering exploration data through topographical, geological, geochemical and geophysical activities;
- exploratory drilling, trenching and sampling;
- determining and interpreting the tonnage and grade of the resource;
- surveying transportation and infrastructure requirements; and,
- compiling pre-feasibility and feasibility studies.

Capitalization of exploration and evaluation expenditures commence on acquisition of a beneficial interest or option in mineral rights. No amortization is charged during the exploration and evaluation phase as the asset is not available for use.

Exploration, development and field support costs directly related to mineral resources are deferred until the property to which they relate is developed for production, determined to be commercially viable, sold, abandoned or subject to a condition of impairment. Exploration and evaluation expenditures are transferred to mining assets when the technical feasibility and commercial viability of a mineral resource has been demonstrated and a development decision has been made and all necessary mine development permits issued. The aggregate costs related to abandoned mineral claims are charged as an expense within the consolidated statements of income (loss) at the time of any abandonment or when it has been determined that there is evidence of an impairment.

Recoverability of the carrying amount of any exploration and evaluation expenditure is dependent on successful development and commercial exploitation or alternatively, sale of the respective area of interest.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

e) Exploration and evaluation expenditures - *continued*

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.

f) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and applicable impairment losses. Plant and mine equipment is amortized on a declining balance at rates varying from 10% to 33 1/3% annually. Vehicles and office furniture and equipment are amortized on a declining balance at rates varying from 10% to 30% annually.

Cost includes the purchase price and directly attributable costs to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. When an item of property, plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Subsequent costs are recognized in the carrying amount of an item of property, plant and equipment when the cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognized in the consolidated statement of income (loss) as an expense is incurred.

An item of property, plant and equipment and any significant parts initially recognized is derecognized upon disposal or when no future economic benefits are expected from its continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of income (loss).

Depreciation methods, useful lives and residual values are reassessed each reporting date, and any changes arising from the assessment are applied prospectively.

Components

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspections and overhaul expenditures, are capitalized and the component replaced is recorded as a disposal. The costs of day-to-day servicing, commonly referred to as "repairs and maintenance", are recognized in the consolidated statement of income (loss) as an expense, as incurred.

Commercially viable mineral resource exploration and evaluation expenditures

Exploration and evaluation expenditures are transferred to mining assets when they are determined to be technically feasible and commercially viable, a development decision has been made, and all necessary mine development permits have been issued. The deferred exploration and evaluation expenditures are amortized over the useful life of the ore body following achievement of commercial production. Administration costs and other exploration costs that do not relate to any specific property are expensed, as incurred.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

f) Property, plant and equipment - *continued*

The acquisition, development and deferred exploration and evaluation expenditures are depleted on a units-of-production basis over the estimated economic life of the ore body following commencement of production. The commencement of commercial production is deemed to occur on a determination made by management with reference to factors such as the asset's ability to operate at its designed capacity over a reasonable period of time.

g) Asset impairment

Management reviews the carrying value of its exploration and evaluation assets and mining assets at each reporting date or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of asset that generates cash inflows from other assets or groups of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Recoverable amount is the higher of an asset or CGU's fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). In assessing VIU, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which future cash flows have not been adjusted. FVLCD is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis between knowledgeable, willing parties, less costs of disposal. FVLCD is primarily derived using discounted post-tax cash flow techniques, which incorporates market participant assumptions.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset for CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income (loss). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

For exploration and evaluation assets, indications include but are not limited to expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, and if the entity has decided to discontinue exploration activity in the specific area.

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, and ongoing expense of maintaining exploration and evaluation assets and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated. This re-evaluation determines if future exploration is warranted and if 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 exploration and evaluation assets represent costs incurred to date and do not necessarily reflect present or future values.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

g) Asset impairment - *continued*

An impairment loss recognized in prior years for long-lived assets shall be reversed only if there has been a significant change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. This reversal is recognized in the consolidated statement of income (loss) and is limited to the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. After such a reversal, any amortization charge is adjusted prospectively.

h) Leases

At inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is measured at cost, which is comprised of:

- The initial measurement of the lease liability
- Lease payments made at or before the commencement date less lease incentives
- Initial direct costs incurred
- Decommissioning costs

The right-of-use asset is depreciated using the straight-line method over the earlier of the term of the lease or the useful life of the asset determined on the same basis as the Company's property, plant and equipment.

The lease liability is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using either the implicit rate of the lease or the Company's incremental borrowing rate when the implicit rate cannot readily be determined. Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments
- Variable payments linked to an index or rate
- Expected payments for residual value guarantee
- Purchase option, extension option or termination option when the Company is reasonably certain to exercise

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

i) Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

i) **Business combinations** - *continued*

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration of the acquisition over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in profit or loss immediately. Goodwill may also arise as a result of the requirement under IFRS to record a deferred tax liability on the excess of the fair value of the acquired assets over their correspondence tax bases, with the corresponding offset recorded as goodwill.

j) **Income (loss) per share**

Basic income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted income (loss) per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting period.

k) **Share based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and 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. The directors, subject to the policies of the TSX Venture Exchange, may determine and impose terms upon how each grant of options shall become vested.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. The fair value is recognized as expense with a corresponding increase in equity. At each reporting date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

l) **Warrants**

The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative values as follows: the fair value of the 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 Option Pricing Model.

m) **Income taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statement of income (loss). Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for tax payable with regard to previous periods.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

m) **Income taxes** - *continued*

Deferred taxes are recorded using the statement of financial position liability method, whereby, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the asset can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, which intend to either settle its current tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously in each future period, in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

n) **Foreign currency translation**

The functional currency for each of the Company's subsidiaries and associates is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of IMPACT Silver Corp., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currencies for the subsidiaries of IMPACT are as follows:

- Mexican pesos for Minera Impact Silver de Mexico S.A. de C.V., Minera Aguila Plateada S.A. de C.V., Minera El Porvenir de Zacualpan S.A. de C.V., Minera Laureles, S.A. de C.V., and Minera Latin American Zinc, S.A.P.I. de C.V.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

n) Foreign currency translation - *continued*

- (ii) Income and expenses for each statement of comprehensive income (loss) are translated at an average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in this separate component of equity through other comprehensive income (loss).

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in the consolidated statement of income (loss).

o) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recognized at fair value.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial instruments consist of cash, concentrate trade receivables, other receivables, investments, trade payables and lease obligations. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at fair value through profit and loss ("FVTPL"). Investments are designated as FVTOCI and measured at fair value as determined by reference to quoted market prices. Trade payables and lease obligations are measured at amortized cost.

A financial asset is derecognized when the contractual right to the asset's cash flows expires or if the Company transfers the financial asset and all risks and rewards of ownership to another entity. A financial liability is derecognized when the obligation under the liability is discharged, canceled or expired. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

p) Reclamation provisions

The Company recognizes provisions for constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of assets. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The associated reclamation costs are capitalized as part of the carrying amount of the related long-lived asset and amortized using units of production basis.

Certain pronouncements have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee that are effective for accounting periods beginning on or after January 1, 2024. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these material accounting policies.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

4. Acquisition of Minera Latin American Zinc

On April 3, 2023, the Company completed a Share Purchase Agreement (the “MLAZ” agreement) to purchase all the outstanding shares of Minera Latin American Zinc, S.A.P. I. de CV (“MLAZ”), which holds 100% interest in the Plomosas zinc-lead-silver mine in the state of Chihuahua, northern Mexico.

Under the terms of the MLAZ agreement, the Company paid a total purchase price of US\$6 million of which one-half was in cash and one-half in shares of the Company. Contractual restrictions have been applied to 75% of the shares released in three equal tranches, every six months, over 18 months from closing (October 3, 2023; April 3, 2024; October 3, 2024).

For accounting purposes, the MLAZ acquisition was accounted for as a business combination using the acquisition method of accounting, whereby the purchase price is allocated to the identifiable assets and liabilities on the basis of the fair value at acquisition date.

As part of the MLAZ agreement, the Company agreed to pay the vendors a 12% net profit royalty on production from the Plomosas project. This contingent consideration requires significant estimates by management and includes the evaluation of factors such as revenue, operating costs and capital expenditures to estimate future cashflows. Based on these factors, as well as only the historical indicated mineral resource estimate and historical production information available at the time of acquisition, the Company has estimated the 12% net profit royalty to be CDN\$1,344.

As of the date of these consolidated financial statements, the Company finalized its full and detailed assessment of the fair value of net assets of MLAZ acquired.

The allocation of the purchase price, based on management’s estimates of the fair value of assets acquired and liabilities assumed in Canadian dollars at April 3, 2023 is as follows:

Fair value of consideration:

| | | |
|--|----|------------------|
| Cash payment | \$ | 4,031,400 |
| Fair value of 11,441,647 common shares issued by the Company | | 4,462,242 |
| Discount for lack of marketability | | (777,774) |
| Working capital adjustment | | (3,531,266) |
| 12% net profit royalty | | 1,344 |
| Total purchase price | \$ | <u>4,185,946</u> |

Provisional fair value of assets and liabilities acquired:

| | | |
|--|----|------------------|
| Cash | | 163,936 |
| Accounts receivable and prepaid expenses | | 784,697 |
| Inventories | | 179,437 |
| Property, plant and equipment | | 2,593,252 |
| Exploration and evaluation assets | | 5,810,743 |
| Accounts payable and accrued liabilities | | (4,966,368) |
| Provision for site reclamation and closure | | (379,751) |
| Net assets acquired | \$ | <u>4,185,946</u> |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

4. Acquisition of Minera Latin American Zinc - continued

The working capital adjustment of US\$2.6 million (revalued to Canadian dollars at period end rate), contains contingent liabilities and other amounts subject to settlement. The vendors have agreed to escrow their net profit royalty as security for part of the contingent liabilities.

The legal and consulting fees incurred on the acquisition of MLAZ totaled \$146,774.

The results from operations of MLAZ from April 3, 2023 forward are included in these consolidated financial statements. From the closing date of the acquisition on April 3, 2023 to December 31, 2023, MLAZ contributed revenue of \$534,081 and net loss of \$2,341,430 to the Company's results. If the acquisition occurred on January 1, 2023, based on unaudited information, management estimates that revenue would have increased by \$449,862 and net loss would have increased by \$1,959,207.

5. Trade and other receivables

The following table details the composition of trade and other receivables at December 31:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Value added taxes receivable – current portion | \$ 2,057,743 | \$ 432,004 |
| Trade and other receivables | 953,213 | 1,003,621 |
| Prepays | 843,941 | 310,742 |
| Total trade and other receivables | <u>\$ 3,854,897</u> | <u>\$ 1,746,367</u> |

6. Inventories

The following table details the composition of inventories at December 31:

| | <u>2023</u> | <u>2022</u> |
|------------------------|---------------------|---------------------|
| Materials and supplies | \$ 1,434,238 | \$ 746,997 |
| Stockpile inventory | 27,091 | 102,207 |
| Concentrate inventory | 617,940 | 288,478 |
| Total inventories | <u>\$ 2,079,269</u> | <u>\$ 1,137,682</u> |

The amount of write-down of inventories to net realizable value during year ended December 31, 2023 was \$0.5 million (December 31, 2022 - nil) relating to concentrate inventory.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

7. Right-of-use assets

Details are as follows:

| | Land and Buildings |
|----------------------------------|-------------------------------|
| Balance at December 31, 2021 | \$ 266,738 |
| Amortization | (102,574) |
| Foreign exchange movement | 4,304 |
| Balance December 31, 2022 | 168,468 |
| Additions | 23,742 |
| Amortization | (104,303) |
| Foreign exchange movement | 3,935 |
| Balance December 31, 2023 | \$ 91,842 |

8. Lease Liabilities

Details are as follows:

| | |
|----------------------------------|---------------|
| Balance at December 31, 2021 | \$ 243,825 |
| Interest | 15,920 |
| Repayments | (113,213) |
| Foreign exchange movement | 1,311 |
| Balance December 31, 2022 | 147,843 |
| Additions | 23,742 |
| Interest | 9,876 |
| Repayments | (112,965) |
| Foreign exchange movement | 425 |
| Balance December 31, 2023 | 68,921 |
| Less: current portion | (68,921) |
| Non-current lease liabilities | \$ - |

The Company's leased assets are for land and buildings. The lease liabilities were discounted at the Company's incremental borrowing rate. The weighted average rate applied for leases was 8%.

The expected timing of undiscounted lease payments at December 31, 2023 is as follows:

| | |
|--------------------|------------------|
| Less than one year | \$ 70,936 |
|--------------------|------------------|

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

9. Property, plant and equipment

a) Details are as follows:

| | Plant and mine equipment (\$) | Vehicles (\$) | Office furniture and equipment (\$) | Surface rights (\$) | Mining Assets (\$) | Total (\$) |
|--|--|------------------|---|---------------------------|--------------------------|-----------------------|
| Cost | | | | | | |
| Balance at December 31, 2021 | 9,471,563 | 569,664 | 280,440 | 1,020,097 | 29,111,022 | 40,452,786 |
| Additions | 415,636 | 102,318 | 20,826 | - | 1,895,274 | 2,434,054 |
| Transfer from exploration and evaluation assets | - | - | - | - | 163,637 | 163,637 |
| Change in reclamation estimate | - | - | - | - | (73,891) | (73,891) |
| Foreign exchange movement | 1,137,934 | 67,894 | 14,947 | 121,576 | 2,935,927 | 4,278,278 |
| Balance at December 31, 2022 | 11,025,133 | 739,876 | 316,213 | 1,141,673 | 34,031,969 | 47,254,864 |
| Acquisition of Minera Latin American Zinc (<i>Note 4</i>) | 2,146,649 | 37,208 | 29,644 | - | 379,751 | 2,593,252 |
| Additions | 1,453,842 | 68,330 | 80,465 | - | 4,200,473 | 5,803,110 |
| Disposals | - | - | (880) | - | - | (880) |
| Change in reclamation provision | - | - | - | - | (292,339) | (292,339) |
| Foreign exchange movement | 1,535,367 | 100,561 | 21,807 | 142,771 | 3,833,935 | 5,634,441 |
| Balance at December 31, 2023 | 16,160,991 | 945,975 | 447,249 | 1,284,444 | 42,153,789 | 60,992,448 |
| Accumulated amortization | | | | | | |
| Balance at December 31, 2021 | 7,029,553 | 420,543 | 201,664 | - | 12,980,626 | 20,632,386 |
| Amortization for the year | 405,324 | 54,188 | 27,450 | - | 907,956 | 1,394,918 |
| Foreign exchange movement | 849,482 | 50,120 | 12,657 | - | 1,130,565 | 2,042,824 |
| Balance at December 31, 2022 | 8,284,359 | 524,851 | 241,771 | - | 15,019,147 | 24,070,128 |
| Amortization for the year | 599,442 | 81,355 | 48,686 | - | 984,761 | 1,714,244 |
| Foreign exchange movement | 1,076,999 | 71,770 | 17,505 | - | 1,472,722 | 2,638,996 |
| Balance at December 31, 2023 | 9,960,800 | 677,976 | 307,962 | - | 17,476,630 | 28,423,368 |
| Net book value | | | | | | |
| At December 31, 2022 | 2,740,774 | 215,025 | 74,442 | 1,141,673 | 19,012,822 | 23,184,736 |
| At December 31, 2023 | 6,200,191 | 267,999 | 139,287 | 1,284,444 | 24,677,159 | 32,569,080 |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

9. Property, plant and equipment – continued

b) Impairment tests

The Company performed an impairment test on the Guadalupe and Capire property, plant and equipment that resulted in no impairment charge for 2023. The Plomosas Mine was newly acquired during fiscal 2023 whereby the Company allocated the purchase price to the identifiable net assets on the basis of the fair value at acquisition date and the Company continues to develop the Plomosas mine after acquisition. As at December 31, 2023, no events or circumstances indicate that the Plomosas Mine was impaired. The recoverable amount for the property, plant and equipment impairment testing has been assessed by reference to the fair value less cost of disposal (FVLCD) that was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. FVLCD is based on the cash flows expected to be generated from the mines included within the cash generating units (CGUs); being the Guadalupe mining complex and Capire. The date that mining will cease depends on a number of variables, including estimated recoverable resources and the forecast selling prices for such production. For Capire, it is assumed that mining operations will recommence in 2025. Cash flows have been projected for eight years.

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. Long-term commodity prices are determined by reference to external market forecasts. For the December 31, 2023 impairment assessment, the metal price assumptions in US\$ were as follows:

- Gold (per ounce) \$1,926 - \$2,200
- Silver (per ounce) \$19.90 - \$24.05
- Copper (per pound) \$3.90 - \$4.68

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2023 impairment assessment, the average mineral grade assumptions were as follows:

- Gold (grams per tonne) 1.8 for Guadalupe and 3.4 for Capire
- Silver (grams per tonne) 112 for Guadalupe and 81.5 for Capire
- Copper (%) 0.4 for Capire

Exchange rate assumptions

The projected cash flows used in impairment testing are significantly affected by changes in exchange rates. Long-term exchange rates are determined by reference to external market forecasts. For the December 31, 2023 impairment assessment, the average exchange rate assumptions were as follows:

- US dollars \$1.23
- Mexican pesos \$0.06

Operating Costs and Capital Expenditures

Operating costs and capital expenditures are based on internal management forecasts. Cost assumptions incorporate management experience and expertise, current operating costs, the nature and location of each operation and the risks associated with each operation. Future capital expenditure is based on management's best estimate of required future capital requirements. All committed and anticipated capital expenditures adjusted for future cost estimates have been included in the projected cash flows.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

9. Property, plant and equipment – continued

c) Impairment test - continued

Discount Rates

The rates are based on the weighted average cost of capital specific to each CGU and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU for which cash flows have not already been adjusted. These rates are based on the weighted average cost of capital for similar mining companies and were calculated based on management's estimates. A post-tax discount rate of 11.8% was used for the impairment tests.

Sensitivity Analysis

The impairment test is particularly sensitive to changes in commodity prices, exchange rates and ore grade. Adverse changes to these key assumptions may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and long-term price assumptions as at December 31, 2023. An impairment charge may result if assumptions changed as follows:

- Average long-term forecast silver prices were to decrease 5%
- Average long-term forecast gold prices were to decrease 6%
- Average forecast US dollar exchange rates to Mexican peso were to decrease 3%
- Average forecast Mexican pesos exchange rates to Canadian dollar were to increase above 3%
- Silver grade mined and milled were to decrease 3% per tonne
- Gold grade mined and milled were to decrease 8% per tonne

10. Exploration and evaluation assets

Details are as follows:

| | | |
|--|-----------|-------------------|
| Balance at December 31, 2021 | \$ | 22,481,941 |
| Additions | | 3,182,804 |
| Recoveries | | (340,000) |
| Transfer to mining assets | | (163,637) |
| Write-down | | (222,182) |
| Foreign exchange | | 1,635,097 |
| Balance at December 31, 2022 | | 26,574,023 |
| Acquisition of Minera Latin American Zinc (Note 4) | | 5,877,182 |
| Additions | | 2,913,207 |
| Foreign exchange | | 2,447,238 |
| Balance at December 31, 2023 | \$ | 37,811,650 |

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2023 was \$nil (December 31, 2022 - \$0.2 million).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

11. Key management personnel compensation

Key management includes the Chief Executive Officer, Chief Financial Officer, Vice-President Exploration and Board of Directors and Audit Committee members. The remuneration of directors and other members of key management personnel is as follows:

| | 2023 | 2022 |
|--------------------------------|-------------|-------------|
| Salaries and fees | \$ 791,863 | \$ 618,600 |
| Share-based payments | - | - |
| Total compensation | \$ 791,863 | \$ 618,600 |
| Amounts payable at December 31 | \$ 85,833 | \$ 75,277 |

12. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's development of the open pit Capire mine and mill, and the Plomosas mine. The total undiscounted amount of the estimated costs required to settle the provision are \$1,651,996 (2022 – \$1,282,972). The estimated net present value of the reclamation provision was calculated using an inflation factor of 4.2% (2022 – 4.5%) and discounted using a Mexican risk-free rate of 9.4% (2022 – 9.4%). Settlement of the liability may extend up to 14 years in the future.

Additions to the reclamation provision were as follows:

| | 2023 | 2022 |
|--|--------------|-------------|
| Reclamation provision, beginning of the year | \$ 732,067 | \$ 669,043 |
| Acquisition of Minera Latin American Zinc (Note 4) | 379,751 | - |
| Foreign exchange movement | 112,926 | 83,646 |
| Accretion of reclamation provision | 75,805 | 53,269 |
| Revisions to estimated cash flows | (292,339) | (73,891) |
| Total reclamation provision, end of the year | \$ 1,008,210 | \$ 732,067 |

13. Expenses by nature

The following table details the nature of operating expenses at December 31:

| | 2023 | 2022 |
|--------------------------|---------------|---------------|
| Production costs | \$ 11,647,976 | \$ 8,151,427 |
| Administration | 98,052 | 918,074 |
| Transportation | 769,040 | 507,915 |
| Wages and salaries | 8,832,075 | 5,537,361 |
| Total operating expenses | \$ 21,347,143 | \$ 15,114,777 |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

14. Equity

a) Share capital

Authorised share capital consists of an unlimited number of common shares without par value.

On May 3, 2023, the Company closed a non-brokered private placement financing which was completed in 2 tranches:

- On April 19, 2023, a total of 30,903,012 units were issued for aggregate gross proceeds of \$8,343,813. The Company paid certain registered dealers a cash commission of \$198,305 and granted 734,461 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.35 until April 19, 2025.
- On May 3, 2023, a total of 2,454,092 units were issued for aggregate gross proceeds of \$662,605. The Company paid certain registered dealers a cash commission of \$24,016 and granted 88,950 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.35 until May 3, 2025.

Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.35 per warrant share for a period of 24 months from the date of issuance.

On December 22, 2023, the Company closed a non-brokered private placement. A total of 20,588,235 units were issued at a price of \$0.17 per unit for aggregate gross proceeds of \$3,500,000. Each unit consists of one common share and one half of one common share purchase warrant. Each full warrants entitles the holder to purchase one common share at a price of \$0.22 per share for a period of 24 months form the date of issuance. The Company paid certain registered dealers a cash commission of \$58,000 and granted 341,298 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.22 until December 22, 2025.

b) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Under the terms of the Company's fixed stock option plan, the maximum number of shares reserved for issuance is 10% of the issued shares of the Company or 12,936,917 shares. Options granted must be exercised no later than five years from date of grant or extension 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 TSX Venture Exchange on the last trading day preceding the grant.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

14. Equity – continued

b) Stock options - continued

A summary of the Company's stock options as at December 31, 2022 and the changes for the years ended on these dates is as follows:

| | Number | Weighted Average Exercise Price (\$) |
|---|------------------|---|
| At January 1, 2022 | 7,220,000 | 0.55 |
| Exercised | (100,000) | 0.35 |
| Expired | (1,060,000) | 0.35 |
| Forfeited | (50,000) | 0.48 |
| At December 31, 2023 and December 31, 2022 | 6,010,000 | 0.59 |

The following table summarizes information about the stock options outstanding at December 31, 2023:

| Exercise Price Per Share | Number of Options Outstanding | Weighted Average Remaining Life (Years) | Number of Options Exercisable | Expiry Date |
|--------------------------------|----------------------------------|---|----------------------------------|------------------|
| \$0.36 | 1,750,000 | 0.82 | 1,750,000 | October 24, 2024 |
| \$0.90 | 2,010,000 | 2.05 | 2,010,000 | January 18, 2026 |
| \$0.48 | 2,250,000 | 2.77 | 2,250,000 | October 8, 2026 |
| | 6,010,000 | 1.96 | 6,010,000 | |

c) Warrants

A summary of the Company's warrants as at December 31, 2023 and the changes for the years ended on these dates is as follows:

| | Number | Weighted Average Exercise Price (\$) |
|-----------------------------|-------------------|---|
| At January 1, 2022 | 18,561,513 | 0.63 |
| Exercised | (2,706,225) | 0.31 |
| Expired | (10,976,954) | 0.82 |
| At December 31, 2022 | 4,878,334 | 0.39 |
| Additions | 44,815,930 | 0.32 |
| Expired | (4,878,334) | 0.39 |
| At December 31, 2023 | 44,815,930 | 0.32 |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

14. Equity – continued

c) Warrants - continued

The fair value of each warrant granted is estimated at the time of grant using the Black-Scholes option pricing model with assumptions as follows:

| Date Granted | April 19 2023 | May 3 2023 | Dec 22 2023 |
|---------------------------------|------------------|---------------|----------------|
| Expiry Date | April 19 2025 | May 3 2025 | Dec 22 2025 |
| Number of warrants granted | 31,637,473 | 2,543,042 | 10,635,415 |
| Risk-free interest rate | 3.94% | 3.59% | 4.02% |
| Expected dividend yield | Nil | Nil | Nil |
| Expected share price volatility | 72.106% | 71.342% | 72.756% |
| Expected warrant life in years | 1.5 | 1.5 | 1.5 |

Pricing models require the input of highly subjective assumptions including the expected share price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

15. Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|-------------------|
| Loss before income taxes | \$ (5,584,225) | \$ (2,589,458) |
| Canadian federal and provincial income tax rates | 27% | 27% |
| Income tax (expense) based on the above rates | \$ (1,507,741) | \$ (699,154) |
| Increase (decrease) due to: | | |
| Non-deductible expenses | 107,498 | 322,294 |
| Losses and temporary differences for which a deferred tax asset has not been recognized | 1,124,819 | 353,678 |
| Expiry of tax losses | 1,106,230 | 1,022,476 |
| Changes in estimate of deferred tax assets | 1,598,536 | 403,208 |
| Difference between foreign and Canadian tax rates | (120,850) | (36,974) |
| Deferred taxes in respect of Mexican royalty | (47,471) | (1,003,997) |
| Foreign exchange and other | (280,002) | 211,798 |
| Income tax expense | <u>\$ 1,981,019</u> | <u>\$ 573,329</u> |

Total income tax expense consists of:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------|---------------------|-------------------|
| Current income tax expense | \$ 8,121 | \$ 28,400 |
| Deferred income tax expense | 1,972,898 | 544,929 |
| | <u>\$ 1,981,019</u> | <u>\$ 573,329</u> |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

15. Income taxes - continued

The composition of deferred income tax assets and liabilities are as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|---------------------|---------------------|
| Deferred income tax assets | | |
| Non-capital losses | \$ 5,083,872 | \$ 5,951,024 |
| Current assets and liabilities | <u>1,214,057</u> | <u>13,819</u> |
| Total deferred tax assets | \$ 6,297,929 | \$ 5,964,843 |
| Deferred income tax liabilities | | |
| Property, plant and equipment | \$ 7,027,535 | \$ 6,001,657 |
| Exploration and evaluation assets | <u>5,715,176</u> | <u>3,929,279</u> |
| Other | <u>253,505</u> | <u>241,810</u> |
| Total deferred income tax liabilities | \$ 12,996,216 | \$ 10,172,746 |
| Deferred income tax liabilities, net | <u>\$ 6,698,287</u> | <u>\$ 4,207,903</u> |

The deferred income tax assets and liabilities are represented on the balance sheet as follows:

| | <u>2023</u> | <u>2022</u> |
|--------------------------|------------------|------------------|
| Deferred tax assets | \$ - | \$ (845,194) |
| Deferred tax liabilities | <u>6,698,287</u> | <u>5,053,097</u> |
| | \$ 6,698,287 | \$ 4,207,903 |

The composition of deferred tax expense is as follows:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|------------------|------------------|
| Deferred income tax assets | | |
| Non-capital losses (recovery) | \$ 1,599,005 | \$ (8,465) |
| Other | <u>(118,311)</u> | <u>269,618</u> |
| Deferred income tax liabilities | | |
| Property, plant and equipment | \$ 287,798 | \$ 76,191 |
| Exploration and evaluation assets | <u>222,448</u> | <u>(130,342)</u> |
| Other | <u>(18,042)</u> | <u>337,927</u> |
| Deferred income tax expense | \$ 1,972,898 | \$ 544,929 |

Continuity of changes in the Company's net deferred tax positions is as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|----------------|
| Deferred income tax liability | | |
| Balance at January 1 | \$ 4,207,904 | \$ 3,298,993 |
| Deferred income tax expense during the year | <u>1,972,898</u> | <u>544,930</u> |
| Changes due to foreign currency translation | <u>517,485</u> | <u>363,980</u> |
| Balance at December 31 | \$ 6,698,287 | \$ 4,207,903 |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

15. Income taxes – continued

The unrecognized deferred tax asset is as follows:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|----------------------|---------------------|
| Non-capital losses | \$ 14,670,878 | \$ 7,016,225 |
| Capital losses | 209,942 | 209,942 |
| Property, plant and equipment | 323,215 | 195,818 |
| Exploration and evaluation assets | 3,046,901 | 1,054,710 |
| Unrecognized deferred tax asset | <u>\$ 18,250,936</u> | <u>\$ 8,476,695</u> |

The non-capital losses have expiry dates while the remainder of the unrecognized deferred tax assets have no expiry dates.

As at December 31, 2023, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

The future expiration of taxes and the potential tax benefit of the losses are as follows:

| <u>Expiry Year</u> | <u>Canada</u> | <u>Mexico</u> | <u>Total</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| 2024 | \$ - | \$ 4,398,763 | \$ 4,398,763 |
| 2025 | - | 1,173,363 | 1,173,363 |
| 2026 | - | 435,606 | 435,606 |
| 2027 | 73,316 | 5,291,029 | 5,364,345 |
| 2028 | 141,907 | 5,615,639 | 5,757,546 |
| 2029 | 415,894 | 3,409,068 | 3,824,962 |
| 2030 | 1,266,681 | 2,937,608 | 4,204,289 |
| 2031 | 1,137,299 | 1,494,690 | 2,631,989 |
| 2032 | 1,598,366 | 936,287 | 2,534,653 |
| 2033 | 1,877,272 | 4,351,998 | 6,229,270 |
| 2034 | 1,485,486 | - | 1,485,486 |
| 2035 | 984,102 | - | 984,102 |
| 2036 | 1,207,916 | - | 1,207,916 |
| 2037 | 1,277,877 | - | 1,277,877 |
| 2038 | 1,084,178 | - | 1,084,178 |
| 2039 | 1,577,306 | - | 1,577,306 |
| 2040 | 1,984,102 | - | 1,984,102 |
| 2041 | 1,503,912 | - | 1,503,912 |
| 2042 | 1,515,891 | - | 1,515,891 |
| 2043 | 1,822,803 | - | 1,822,803 |
| | <u>\$ 20,954,308</u> | <u>\$ 30,044,051</u> | <u>\$ 50,998,359</u> |
| Capital losses No expiry date | <u>\$ 1,555,124</u> | | |

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

16. Capital management

The Company considers items included in shareholders' equity as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to continue to explore financing opportunities, to provide an adequate return to shareholders and to support any growth plans.

To effectively manage the entity's capital requirements, the Company has in place a process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there is sufficient cash to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company is not subject to externally imposed capital requirements. There was no change in the Company's approach to capital management for the years presented.

17. Financial instruments

Financial instrument risk exposure

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, currency, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of cash flow of its operations would warrant such hedging activities.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are currently with Trafigura Mexico, S.A. de C.V. As a result, the Company has a significant concentration of credit risk exposure to this company at any one time, but is satisfied that this company has an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$8.3 million) and trade and other receivables (\$3.9 million).

Interest rate risk

The Company is exposed to interest rate risk on its cash. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and any short term investments mature and the proceeds are invested at lower interest rates.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

17. Financial instruments - continued

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc and gold are sold in U.S. dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2023, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in U.S. dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2023, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.2 million decrease or increase in the Company's net income for the year ended December 31, 2023.

Commodity price risk

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include silver, lead, zinc, and gold. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. The Company has elected not to actively manage its exposure to metal prices at this time.

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. A 10% change in silver prices would have increased or decreased the Company's trade accounts receivable balance as at December 31, 2023 by \$0.1 million (2022 \$0.1 million).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2023

(Canadian dollars)

18. Segmented information

The Company has one operating segment and two reportable segments based on geographic area:

- i) Mexico – This part of the business includes the Company’s mining operations and exploration properties
- ii) Canada – This part of the business includes head office and group services

The segments are determined based on the reports reviewed by the Chief Executive Officer (who is considered the Chief Operating Decision Maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Details at December 31 are as follows:

| | 2023 | 2022 |
|--|----------------|----------------|
| Revenues by geographic area | | |
| Mexico | \$ 20,761,634 | \$ 16,335,788 |
| Net loss by geographic area | | |
| Mexico | \$ (6,011,399) | \$ (1,798,547) |
| Canada | (1,553,845) | (1,364,240) |
| | \$ (7,565,244) | \$ (3,162,787) |
| Assets by geographical area | | |
| Mexico | \$ 81,422,539 | \$ 54,194,954 |
| Canada | 7,155,657 | 14,600,560 |
| | \$ 88,578,196 | \$ 68,795,514 |
| Property, plant and equipment by geographical area | | |
| Mexico | \$ 32,530,174 | \$ 23,132,579 |
| Canada | 38,906 | 52,157 |
| | \$ 32,569,080 | \$ 23,184,736 |

All current tax expense within the year is related to operations in Mexico.
