

IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2024 and 2023



Independent Auditor's Report

To the Shareholders of IMPACT Silver Corp.

Opinion

We have audited the consolidated financial statements of IMPACT Silver Corp. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRS Accounting Standards).

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 Group 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 is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group has incurred a mine operating loss of \$2.2 million, a net loss of \$9.8 million, and had cash outflows from operating activities of \$8.8 million. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 2 b) to the consolidated financial statements, which explains that certain comparative information for the year ended December 31, 2023, and as at January 1, 2023, has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended December 31, 2023, excluding adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 12, 2024.

As part of our audit of the consolidated financial statements for the year ended December 31, 2024, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2023. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

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 period. 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Acquisition of Minera Latin American Zinc in the prior period

Description of the key audit matter

Refer to Note 2 d) - *Use of estimates and judgments*, Note 4 - *Acquisition of Minera Latin American Zinc*

The Group acquired an operating mine during the year ended December 31, 2023, which was accounted for as a business combination in accordance with the requirements of IFRS 3 *Business Combinations*.

Due to assumptions utilized in calculating the fair value of acquired assets (including exploration assets and contingent consideration) and assumed liabilities, there is a risk associated with management's judgments and estimates made in the business combination, including possible management bias in fair value allocations.

We have therefore considered this a Key Audit Matter due to the judgment involved in accounting for the transaction and with respect to the estimation uncertainty related to fair value assessments.

How the key audit matter was addressed in the audit

- We obtained and reviewed management's analysis of the accounting treatment in accordance with IFRS, corroborating key facts to supporting evidence.
- We obtained and reviewed the share purchase agreement to understand key terms and conditions and assessed the accounting treatment including management's assessment of the basis for the determination that the acquisition was a business combination.
- We evaluated management's assessment of the fair value of net assets acquired.
- We utilized our internal valuation specialists to review and assess the reasonableness of the valuation methodology and certain key assumptions and estimates included in the valuations report provided by management's external expert.
- We reviewed the adequacy of the disclosures in the financial statements, including disclosures related to significant judgments and estimates.



Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the 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 identified above 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 the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 period 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 Bryndon Kydd.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

May 5, 2025

IMPACT Silver Corp.

Consolidated Statements of Financial Position

As at

(Canadian dollars)

	December 31, 2024	December 31, 2023 Restated (Note 2(b))	January 1, 2023 Restated (Note 2(b))
ASSETS			
Current			
Cash	\$ 7,062,715	\$ 8,279,200	15,251,161
Trade and other receivables (Note 5)	3,448,289	1,999,056	1,746,367
Income taxes receivable (Note 17)	118,515	123,477	-
Inventories (Note 6)	2,004,245	2,079,269	1,137,682
Investments	179,009	90,000	240,000
	12,812,773	12,571,002	18,375,210
Value added taxes receivable (Note 5)	1,586,144	2,064,527	493,077
Right of use assets (Note 7)	248,213	91,842	168,468
Property, plant and equipment (Note 9)	34,108,064	38,692,387	23,829,158
Deferred income tax asset (Note 17)	2,398,889	-	2,317,725
Due on the acquisition of Minera Latin American Zinc (Note 4)	-	3,470,095	-
	\$ 51,154,083	\$ 56,889,853	45,183,638
LIABILITIES			
Current			
Trade payables and accrued liabilities	\$ 3,695,960	\$ 6,669,652	1,872,650
Lease liabilities (Note 8)	163,652	68,921	80,549
	3,859,612	6,738,573	1,953,199
Lease liabilities (Note 8)	87,481	-	67,294
Reclamation provision (Note 11)	1,986,678	2,038,737	1,775,072
Deferred income tax liabilities (Note 17)	2,890,945	1,146,234	-
	8,824,716	9,923,544	3,795,565
SHAREHOLDERS' EQUITY			
Share capital	101,375,443	94,947,950	82,241,813
Warrants (Note 12 (c))	5,291,969	2,980,914	467,913
Contributed surplus	11,306,243	11,306,243	10,838,330
Accumulated other comprehensive income (loss)	(5,220,576)	(1,620,242)	(3,940,453)
Accumulated deficit	(70,423,712)	(60,648,556)	(48,219,530)
	42,329,367	46,966,309	41,388,073
	\$ 51,154,083	\$ 56,889,853	45,183,638
Nature of operations (Note 1)			
Subsequent events (Note 22)			
Contingency (Note 21)			

ON BEHALF OF THE BOARD:

"F.W. Davidson", Director

"J. Meiklejohn", 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)

	2024	2023 Restated (Note 2(b))
Revenues (Note 13)	\$ 31,901,378	\$ 20,761,634
Expenses		
Operating expenses (Note 14)	30,985,313	21,353,403
Amortization and depletion	3,107,070	1,887,019
	34,092,383	23,240,422
Mine operating loss	(2,191,005)	(2,478,788)
General and administrative expenses (Note 16)	4,162,325	4,170,033
Exploration and project expenses (Note 15)	4,600,939	2,836,434
Accretion expense (Note 11)	176,342	185,815
Finance expense	29,912	9,786
Finance income	(237,528)	(480,421)
Foreign exchange gain	(335,133)	(429,935)
Gain on derecognition of financial liabilities and provisions	(349,419)	-
Gain on disposal of assets	-	(66,234)
Other income	46,300	(13,397)
	8,093,738	6,212,081
Loss before taxes	(10,284,743)	(8,690,869)
Current income tax expense (Note 17)	130,206	8,121
Deferred income tax (recovery) expense (Note 17)	(639,793)	3,730,036
Net loss	\$ (9,775,156)	\$ (12,429,026)
Other comprehensive loss	(9,775,156)	(12,429,026)
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustment	(3,754,662)	2,423,578
Items that will not be subsequently reclassified to profit or loss		
Gain (loss on investments)	154,328	(103,367)
Comprehensive loss	(13,375,490)	(10,108,815)
Loss per share – basic and diluted	\$ (0.04)	\$ (0.07)
Weighted average number of shares outstanding – basic and diluted	234,399,565	180,702,423

-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, 2022 – Restated (<i>Note 2(b)</i>)	148,187,710	82,241,813	467,913	10,838,330	(3,940,453)	(48,219,530)	41,388,073
Net loss for the year	-	-	-	-	-	(12,429,026)	(12,429,026)
Shares issued for acquisition of Minera Latin American Zinc, net (<i>Note 4</i>)	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	-	-	-	-	2,423,578	-	2,423,578
Loss on investments	-	-	-	-	(103,367)	-	(103,367)
Balance at December 31, 2023 – Restated (<i>Note 2(b)</i>)	213,574,696	94,947,950	2,980,914	11,306,243	(1,620,242)	(60,648,556)	46,966,309
Net loss for the year	-	-	-	-	-	(9,775,156)	(9,775,156)
Shares issued in relation to private placement	33,234,852	9,087,645	-	-	-	-	9,087,645
Share issue costs	-	(658,908)	-	-	-	-	(658,908)
Warrants issued in relation to private placement	-	(2,184,470)	2,345,855	-	-	-	161,385
Warrants exercised	619,074	183,226	(34,800)	-	-	-	148,426
Cumulative translation adjustments	-	-	-	-	(3,754,662)	-	(3,754,662)
Gain on investments	-	-	-	-	154,328	-	154,328
Balance at December 31, 2024	247,428,622	101,375,443	5,291,969	11,306,243	(5,220,576)	(70,423,712)	42,329,367

- 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)

		2024	2023 Restated (Note 2(b))
Cash resources provided by (used in)			
Operating activities			
Net loss	\$	(9,775,156)	\$ (12,429,026)
Items not affecting cash			
Amortization and depletion		3,234,130	2,002,817
Gain on derecognition of financial liabilities and provisions		(349,419)	-
Gain on disposal of assets		-	(66,234)
Deferred income tax (recovery) expense		(639,793)	3,730,036
Non-cash option payment received		(240,000)	-
Accretion expense		176,342	185,815
Changes in non-cash working capital			
Trade and other receivables		(1,523,125)	(834,170)
Income taxes receivable		(16,666)	(13,062)
Inventories		(138,524)	(606,368)
Trade payables and accrued liabilities		363,330	(582,037)
Income taxes payable		104,318	(2,885)
		<u>(8,804,563)</u>	<u>(8,615,114)</u>
Investing activities			
Cash acquired on acquisition (Note 4)		-	163,936
Acquisition of Minera Latin American Zinc (Note 4)		-	(4,031,400)
Due on the acquisition of Minera Latin American Zinc (Note 4)		1,113,779	-
Proceeds on the sale of investments		305,318	46,634
Acquisition of property, plant and equipment		<u>(2,035,290)</u>	<u>(5,730,961)</u>
		(616,193)	(9,551,791)
Financing activities			
Repayment of lease liability		(401,451)	(103,089)
Proceeds from exercise of warrants		148,426	-
Proceeds from private placement, net		<u>8,590,124</u>	<u>12,002,582</u>
		8,337,099	11,899,493
Effect of exchange rates on cash		<u>(132,828)</u>	<u>(704,549)</u>
Net change in cash		(1,216,485)	(6,971,961)
Cash at the beginning of the year		<u>8,279,200</u>	<u>15,251,161</u>
Cash at the end of the year	\$	7,062,715	\$ 8,279,200

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

	2024	2023
Cash received for interest income	\$ 237,528	\$ 480,421
Cash paid for income taxes	\$ 9,674	\$ 21,219
Non-cash option payments	\$ 240,000	\$ -
Accrued in accounts payable and accrued liabilities for long-lived assets	\$ -	\$ 53,622

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(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 a mine in the State of Chihuahua. The Company 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. IMPACT's common shares are publicly traded on the TSX Venture Exchange ("TSXV") under the symbol of "IPT", on the Frankfurt Stock Exchange ("FSE") under the symbol "IKL" and on the OTCQB under the symbol "ISVLF".

Going concern

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.

During the year ended December 31, 2024, the Company incurred a mine operating loss of \$2.2 million, a net loss of \$9.8 million, and cash outflows from operating activities of \$8.8 million. At December 31, 2024, IMPACT had unrestricted cash and cash equivalents of \$7.1 million. Internally generated cash flows may not be sufficient to cover the Company's working capital and capital investment needs. These factors give rise to material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company is currently considering and pursuing various alternatives for future financing requirements, including but not limited to equity financing, debt financing or other means depending on market conditions and other relevant factors. This would enable the Company to ensure its ability to fund its committed capital investment, exploration programs and working capital requirements throughout 2025, as well as anticipated growth and development. The Company's ability to continue as a going concern is dependent on its ability to secure additional financing and/or to generate cash flows from operations. While the Company has successfully obtained financing in the past, there is no assurance that it will be able to do so in the future, or that such financing will be on terms acceptable to the Company.

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").

The consolidated financial statements were authorised for issue by the Board of Directors on May 2, 2025.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

2. Basis of Preparation - *continued*

b) Restatement of prior year's comparatives

The following adjustments have been recorded in the restated consolidated financial statements for December 31, 2023:

- i) In 2024, the Company changed its accounting policy for exploration and evaluation costs. The Company believes that the new policy is more prudent, better aligns with common industry practice, and makes the financial statements more relevant to the decision-making needs of the users. Effective January 1, 2024, exploration, acquisition, and field support costs directly related to mineral resources will be expensed through the consolidated statements of income (loss) as they are incurred, until the technical feasibility and commercial viability of extracting a mineral resource has been established.

This change in policy has been applied retrospectively, resulting in a decrease in exploration and evaluation assets of \$37,811,650, there was an increase in the deficit of \$29,408,269, and a decrease in accumulated other comprehensive income of \$2,592,638. This includes an exploration expense of \$2,836,434 which was recorded in the consolidated statements of loss and comprehensive loss in 2023.

Of the decrease in exploration and evaluation assets \$26,571,807 is from periods prior to January 1, 2023.

- ii) During the year ended December 31, 2024, the Company identified an error related to the allocation of the purchase price for the acquisition of Minera Latin American Zinc that should have been allocated to mining assets in property, plant and equipment instead of exploration and evaluation assets. The error resulted in a decrease to exploration and evaluation assets of \$5,810,743 and an increase to property, plant and equipment of \$5,810,743.
- iii) During the preparation of the 2024 year end consolidated financial statements, the Company identified an error related to surface rights included in property, plant and equipment that should have been derecognized prior to January 1, 2023. The error resulted in a decrease to property, plant and equipment of \$447,738, and an increase to the deficit of \$398,583 and a decrease in accumulated other comprehensive income of \$49,155.

Of the decrease in property, plant and equipment \$398,583 is from periods prior to January 1, 2023.

- iv) During the year ended December 31, 2024, the Company identified an error related to property, plant and equipment for the reclamation provision for the Guadalupe mine which should have been recorded prior to 2023. The error resulted in an increase to property, plant and equipment of \$760,347, an increase to the reclamation liability of \$1,030,527, and an increase to accumulated other comprehensive income of \$12,478.

Of the increase to property, plant and equipment \$1,043,005 is from periods prior to January 1, 2023.

- v) The tax effect on the above adjustments resulted in the Company recording a decrease in deferred income tax liabilities of \$5,552,053 which was related to retrospectively expensing exploration and evaluation costs, a decrease in the deficit of \$4,738,488, and an increase in accumulated other comprehensive income of \$783,518. This includes a deferred income tax expense of \$1,496,013 which was recorded in the consolidated statements of loss and comprehensive loss in 2023, and includes \$261,126 related to the reclamation provision in property, plant and equipment, and \$1,234,887 is related to retrospectively expensing exploration and evaluation costs.

Of this, \$6,264,502 in deferred income taxes was recovered from periods prior to January 1, 2023. There was also a decrease recorded to the deficit of \$5,214,859 and an increase to accumulated other comprehensive income of \$1,049,643 from periods prior to January 1, 2023.

- vi) In 2024 the Company identified an error in the classification between current and non-current value added taxes (VAT) receivable. As a result, current VAT was decreased by \$1,732,364 and non-current VAT was increased by \$1,732,364.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

2. Basis of Preparation – *continued*

b) Restatement of prior year's comparatives - *continued*

The effects of the restatement on the individual line items within the Company's consolidated statement of financial position as at December 31, 2023, and the consolidated statement of comprehensive loss for the year ended December 31, 2023, are summarized below:

	As previously reported	To January 1, 2023 Adjustments	2023 Adjustments	As Restated
Consolidated Statements of Financial Position				
Accounts receivable	\$ 3,731,420	\$ -	\$ (1,732,364)	\$ 1,999,056
Property, plant and equipment	\$ 32,569,080	\$ 644,422	\$ 5,478,885	\$ 38,692,387
Non-current VAT	\$ 332,163	\$ -	\$ 1,732,364	\$ 2,064,527
Exploration and evaluation assets	\$ 37,811,650	\$ (26,571,807)	\$ (11,239,843)	\$ -
Deferred income tax liabilities related to exploration and evaluation assets	\$ 6,698,287	\$ (6,264,502)	\$ 712,449	\$ 1,146,234
Deferred income tax liabilities related to property, plant and equipment	\$ -	\$ (261,126)	\$ 261,126	\$ -
Reclamation provision	\$ 1,008,210	\$ 1,043,005	\$ (12,478)	\$ 2,038,737
Accumulated other comprehensive income (loss)	\$ 238,033	\$ 2,215	\$ (1,860,490)	\$ (1,620,242)
Accumulated deficit	\$ (35,340,010)	\$ (20,444,762)	\$ (4,863,784)	\$ (60,648,556)
Consolidated Statements of Loss and Comprehensive Loss				
Depreciation	\$ 1,842,618	\$ -	\$ 160,199	\$ 2,002,817
Exploration and project expense	\$ -	\$ -	\$ 2,836,434	\$ 2,836,434
Accretion	\$ 75,805	\$ -	\$ 110,010	\$ 185,815
Deferred income tax expense related to exploration and evaluation assets	\$ 1,972,898	\$ -	\$ 1,496,012	\$ 3,468,910
Deferred income tax expense related to property, plant and equipment	\$ -	\$ -	\$ 261,126	\$ 261,126
Net loss	\$ (7,565,244)	\$ -	\$ (4,863,782)	\$ (12,429,026)
Total comprehensive loss	\$ (3,386,757)	\$ -	\$ (6,722,058)	\$ (10,108,815)
Loss per share, basic and diluted	\$ (0.04)	\$ -	\$ (0.03)	\$ (0.07)
Consolidated Statements of Changes in Equity				
Net loss for the year	\$ (7,565,244)	\$ -	\$ (4,863,782)	\$ (12,429,026)
Total equity	\$ 74,133,130	\$ (20,705,889)	\$ (6,460,932)	\$ 46,966,309
Consolidated Statements of Cashflows				
Operating activities				
Net loss for the year	\$ (7,565,244)	\$ -	\$ (4,863,782)	\$ (12,429,026)
Accretion	\$ 75,805	\$ -	\$ 110,010	\$ 185,815
Deferred income tax expense	\$ 1,972,898	\$ -	\$ 1,757,138	\$ 3,730,036
Cash provided by operating activities	\$ (6,593,881)	\$ -	\$ (2,021,233)	\$ (8,615,114)
Additions of long-lived assets	\$ (8,456,743)	\$ -	\$ 2,725,782	\$ (5,730,961)
Investing activities	\$ (12,277,573)	\$ -	\$ 2,725,782	\$ (9,551,791)
Effect of exchange rates on cash	\$ (815,201)	\$ -	\$ 110,652	\$ (704,549)

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

2. Basis of Preparation - *continued*

c) 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.

Certain comparative figures used in these financial statements have been reclassified in order to conform with the financial presentation adopted in the current year.

d) 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 revision 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:

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).

Mineral resource estimates

Judgements about the amount of mineral resources that can be economically and legally extracted from the Company's properties are made by management using a range of geological, technical and economic factors. 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 or independent qualified consultants. The Company includes inferred resources in mineral resource estimates.

Changes in judgements surrounding reserves and resources may impact the carrying values of plant, property and equipment (Note 9), reclamation and rehabilitation provisions and timing (Note 11), recognition of deferred income tax amounts (Note 15), and amortization and depletion (Note 9).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

2. Basis of Preparation - *continued*

d) Use of estimates and judgments - *continued*

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. For example, 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.

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 concentrate inventory 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 estimates 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 exploration and evaluation assets. 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 considers 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, 2024

(Canadian dollars)

2. Basis of Preparation - *continued*

d) Use of estimates and judgments - *continued*

Value-added tax ("VAT") receivable

Timing of collection of VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Company assesses the recoverability of the VAT receivable and its classification as current or non-current at each reporting date. This is impacted by several factors, including the status of discussions with the tax authorities, and current interpretation of relevant tax legislation. Changes in these estimates can materially affect the amount recognized and classification, and could result in an increase in other expenses recognized.

Income taxes

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to the expiry of those deductions. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

e) 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 Latin American Zinc, S.A.P.I. de C.V. ("MLAZ")	Mexico	Mining/Exploration

1. On August 31, 2024 Minera Laureles, S.A. de C.V. was amalgamated with Minera Aguila Plateada, S.A. de C.V.

Minera El Porvenir, S.A. de C.V. operates the Guadalupe Production Centre and Minera Latin American Zinc, S.A.P.I. de C.V. operates the Plomosas Production Centre. Minera Aguila Plateada, S.A. de C.V. owns the Capire Production Centre, which is currently on care and maintenance.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

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 net of smelter costs 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 trade 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).

b) Cash

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

c) Inventories

Production inventories

Ore in stockpiles and concentrate inventory are valued at the lower of weighted average cost and NRV. Costs include direct production costs including mining, crushing and processing and allocated indirect costs, including depreciation, depletion and amortization. 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 inventories to saleable form.

Stockpiled ore inventory represents ore that has been extracted from the mine and is available for further processing. Concentrate inventory represents metals in their final stage of production prior to sale, including dried concentrates at our operations and finished goods in transit.

Materials and supplies

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

d) 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.

Exploration, development and field support costs directly related to mineral resources are expensed as they are incurred.

Exploration and evaluation expenditures are transferred to mining assets in property, plant and equipment 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.

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 up to the carrying value with any difference being recorded in the Statement of Other Comprehensive Income. The Company does not accrue the estimated costs of maintaining its resource properties in good standing.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated amortization and applicable impairment losses. Plant and mine equipment are amortized 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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information – *continued*

e) Property, plant and equipment - *continued*

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.

Once 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 exploration and evaluation expenditures are transferred to mining assets. All subsequent costs relating to the construction, installation, or completion of a mine are also capitalized.

The Company assesses the stage of each mine under development to determine when an asset reaches the stage when it is in the condition to be capable of operating in a manner intended by management (“commercial production”). Determining when an asset has achieved commercial production is a matter of judgement. Depending on the specific facts and circumstances, the following factors may indicate that commercial production has commenced:

- All major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
- A reasonable period of testing of the mine plant and equipment has been completed;
- The ability to produce saleable product (e.g., the ability to produce ore within specifications);
- The mine or mill has reached a predetermined percentage of design capacity;
- Mineral recoveries are at or near the expected production level; and
- The ability to sustain ongoing production of ore (i.e. the ability to continue to produce ore at a steady or increasing level).

Mining assets are amortized on a unit of production basis over the economic life of the ore body following achievement of commercial production. The economic life is based on the current reserves and resources for the property and therefore involves significant judgement by the Company's qualified persons.

f) Asset impairment

Management reviews the carrying value of its 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 assets 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 or 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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

f) Asset impairment – *continued*

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.

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, and anticipated future costs of exploring, developing, operating and maintaining a producing mine. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. 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 mining assets represent costs incurred to date and do not necessarily reflect present or future values.

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.

g) 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

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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

h) 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.

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 is recognized as a mining asset in property, plant and equipment. 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. An exploration and evaluation asset 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 an exploration and evaluation asset.

i) 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.

j) 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.

k) 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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

l) Income taxes

Provision for income taxes consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statements 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.

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.

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. The estimation of the recoverability of deferred tax assets is based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to the expiry of those deductions. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred income tax provisions or recoveries could be affected.

Deferred tax assets and liabilities are offset only 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.

m) 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 currency for the subsidiaries of IMPACT, including 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., is the Mexican peso.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

m) Foreign currency translation - *continued*

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;
- (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).

n) 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, trade receivables, other receivables, investments, trade payables and lease obligations. Cash and other receivables are measured at amortized cost. 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, accruals 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).

o) 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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

3. Material Accounting Policy Information - *continued*

p) New IFRS accounting standards and amendments effective for the current year

The International Accounting Standards Board issued amendments to IAS 1 – Presentation of Financial Statements effective for accounting periods beginning on or after January 1, 2024. The amendments are regarding the classification of liabilities as current or non-current. The Company has reviewed the updated standard and determined that it does not materially affect IMPACT in the current reporting period.

q) New accounting standards issued but not yet effective

In August 2023, the IASB issues Amendments to IAS 21 – Lack of Exchangeability. The amendments are effective for annual reporting periods beginning on or after January 1, 2025, and will not have a material impact on the Company's consolidated financial position. The Company is currently assessing the impact of all these changes on the consolidated financial statements.

In April 2024, the IASB issued IFRS 18 – Presentation and Disclosure of Financial Statements, which replaces IAS 1 – Presentation of Financial Statement. The new standard is effective for reporting periods beginning on or after January 1, 2027 and requires retrospective application.

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7. Application of the standard is effective for accounting periods beginning on or after January 1, 2026.

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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

4. Acquisition of Minera Latin American Zinc - *continued*

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:	Restated - (Note 2(b))
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>
 Fair value of assets and liabilities acquired:	
Cash	163,936
Accounts receivable and prepaid expenses	784,697
Inventories	179,437
Property, plant and equipment	8,403,995
Accounts payable and accrued liabilities	(4,966,368)
Provision for site reclamation and closure	(379,751)
Net assets acquired	<u>\$ 4,185,946</u>

The working capital adjustment of US\$2.6 million (Cdn\$3.5 million) which was due from the vendor at April 3, 2023, contained contingent liabilities and other amounts subject to settlement. During 2024, a liability of US\$1.1 million (Cdn\$2.2 million) was resolved in the Company's favour, and a contingent liability of US\$0.8 million (Cdn\$1.0 million) was settled. As a result, the Company recovered a total of US\$1.9 million (Cdn\$2.4 million) which was applied against the working capital adjustment.

On December 15, 2024, an agreement to settle the working capital adjustment between the vendor and the Company was signed which extinguished the long-term receivable of US\$2.6 million (Cdn\$3.5 million) along with all claims, counterclaims and related liabilities. As part of the settlement the Company received US\$0.8 million (Cdn\$1.1 million).

The legal and consulting fees incurred on the acquisition of MLAZ totaled \$141,464.

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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

5. Trade and other receivables

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

	2024	2023 Restated (Note 2(b))
Value added taxes receivable – current portion	\$ 860,011	\$ 175,000
Trade and other receivables	2,046,562	980,115
Prepays	541,716	843,941
Total trade and other receivables	<u>\$ 3,448,289</u>	<u>\$ 1,999,056</u>
Value added taxes receivable – non-current portion	<u>\$ 1,586,144</u>	<u>\$ 2,064,527</u>

6. Inventories

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

	2024	2023
Materials and supplies	\$ 1,399,773	\$ 1,434,238
Stockpile inventory	10,614	27,091
Concentrate inventory	593,858	617,940
Total inventories	<u>\$ 2,004,245</u>	<u>\$ 2,079,269</u>

The amount of write-down of inventories to net realizable value during year ended December 31, 2024 was \$nil (December 31, 2023 - \$0.5 million) relating to concentrate inventory. The amount of inventories recognized as an expense during the year ended December 31, 2024 was \$30,985,313 (December 31, 2023 - \$21,353,403).

7. Right-of-use assets

Details are as follows:

Balance at December 31, 2022	\$ 168,468
Additions	23,742
Amortization	(104,303)
Foreign exchange movement	3,935
Balance December 31, 2023	<u>91,842</u>
Additions	626,784
Amortization	(425,585)
Foreign exchange movement	(44,828)
Balance December 31, 2024	<u>\$ 248,213</u>

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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(Canadian dollars)

8. Lease Liabilities

Details are as follows:

Balance at December 31, 2022	\$	147,843
Additions		23,742
Interest		9,876
Repayments		(112,965)
Foreign exchange movement		425
Balance December 31, 2023		68,921
Additions		626,784
Interest		29,912
Repayments		(431,363)
Foreign exchange movement		(43,121)
Balance December 31, 2024		251,133
Less: current portion		163,652
Non-current lease liabilities	\$	87,481

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 11%.

The expected timing of undiscounted lease payments at December 31, 2024 is as follows:

Less than one year	\$	167,067
One to five years		103,594
	\$	270,661

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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9. Property, plant and equipment

Details are as follows:

	Plant and mine equipment (\$)	Office furniture and equipment (\$)	Surface rights (\$)	Mining Assets (\$)	Total (\$)
Cost					
Balance at December 31, 2022	11,025,133	1,056,089	743,662	35,074,978	47,899,862
Acquisition of Minera Latin American Zinc (Note 4)-Restated (Note 2(b))	2,146,649	66,852	-	6,190,494	8,403,995
Additions	1,453,843	148,795	-	4,187,993	5,790,631
Disposals	-	(880)	-	-	(880)
Change in reclamation provision	-	-	-	(532,779)	(532,779)
Foreign exchange movement	1,535,367	122,368	92,998	3,964,366	5,715,099
Balance at December 31, 2023 - Restated (Note 2(b))	16,160,992	1,393,224	836,660	48,885,052	67,275,928
Additions	1,072,242	174,027	-	789,022	2,035,291
Change in reclamation provision	-	-	-	10,911	10,911
Foreign exchange movement	(2,004,710)	(167,173)	(95,138)	(4,739,262)	(7,006,283)
Balance at December 31, 2024	15,228,524	1,400,078	741,522	44,945,723	62,315,847
Accumulated amortization					
Balance at December 31, 2022	8,284,359	766,622	-	15,019,147	24,070,128
Amortization for the year	599,442	130,041	-	1,144,933	1,874,416
Foreign exchange movement	1,076,999	89,275	-	1,472,723	2,638,997
Balance at December 31, 2023	9,960,800	985,938	-	17,636,803	28,583,541
Amortization for the year	792,873	141,842	-	1,686,721	2,621,436
Foreign exchange movement	(1,217,123)	(114,358)	-	(1,665,713)	(2,997,194)
Balance at December 31, 2024	9,536,550	1,013,422	-	17,657,811	28,207,783
Net book value					
At December 31, 2023	6,200,192	407,286	836,660	31,248,249	38,692,387
At December 31, 2024	5,691,974	386,656	741,522	27,287,912	34,108,064

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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9. Property, plant and equipment – *continued*

In 2024, the Kena area, adjacent to the existing Guadalupe mine, was determined to be technically feasible and commercially viable. As it is considered to be a mine under development, \$0.7 million in exploration and evaluation costs and development expenses were capitalized as a mining asset during the year (2023- \$nil). The Kena Mine is a non-depletable asset in 2024. Depletion will begin when the mine reaches commercial production.

10. 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:

	2024		2023	
Salaries and fees	\$	961,900	\$	791,863
Total compensation	\$	961,900	\$	791,863
Amounts payable at December 31	\$	165,617	\$	85,833

11. Reclamation provision

The Company's reclamation provision is an estimate of the environmental restoration obligations and closure costs associated with the Company's mines, processing facilities and development sites. The total undiscounted amount of the estimated costs required to settle the provision are \$3,420,515 (2023 – \$3,174,704). This obligation is updated annually for any changes to the life of mine.

Movements in the reclamation provision were as follows:

	Guadalupe		Plomosas		Capire		Total
Balance, December 31, 2022- Restated – (Note 2(b))	\$	1,043,005	\$	-	\$	732,067	\$ 1,775,072
Additions		-		379,751		-	379,751
Accretion		110,010		-		75,805	185,815
Changes in estimate		(252,919)		(196,754)		(95,584)	(545,257)
Foreign exchange movement		130,431		19,401		93,524	243,356
Balance, December 31, 2023 – Restated – (Note 2(b))	\$	1,030,527	\$	202,398	\$	805,812	\$ 2,038,737
Accretion		85,232		18,290		72,820	176,342
Changes in estimate		49,713		204,749		(243,551)	10,911
Foreign exchange movement		(117,550)		(24,444)		(97,318)	(239,312)
Balance, December 31, 2024	\$	1,047,922	\$	400,993	\$	537,763	\$ 1,986,678

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

11. Reclamation provision - *continued*

	Guadalupe	Plomosas	Capire
Anticipated settlement date	2033	2038	2040
Undiscounted value	\$ 1,656,564	\$ 863,122	\$ 1,362,958
Estimated life of mine (years)	8.5	13.5	16.0
Discount rate (%)	9.29	10.50	10.57
Inflation rate (%)	4.40	4.37	4.25

12. Equity

a) Share capital

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

On June 7, 2024, the Company closed a non-brokered private placement financing which was completed in 2 tranches:

- On May 17, 2024, a total of 26,014,002 units were issued for aggregate gross proceeds of \$7,128,659. The Company paid certain registered dealers a cash commission of \$317,943 and granted 1,158,562 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.34 until May 17, 2026.
- On June 7, 2024, a total of 7,220,850 units were issued for aggregate gross proceeds of \$1,958,986. The Company paid certain registered dealers a cash commission of \$47,498 and granted 169,638 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.34 until June 7, 2026.

Of the total units issued, 11,423,526 units consist of one common share and one-half warrant, and 21,811,326 units consist of one common share and one warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.34 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 warrant entitles the holder to purchase one common share at a price of \$0.22 per share for a period of 24 months from 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.

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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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(Canadian dollars)

12. Equity – continued

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.

The expected volatility is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on the Bank of Canada marketable bonds with a remaining term equal to the stock options' expected life. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

A summary of the Company's stock options as at December 31, 2024 and the changes for the years ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2023 and January 1, 2024	6,010,000	0.59
Expired	(1,750,000)	0.36
Forfeited	(325,000)	0.67
At December 31, 2024	3,935,000	0.68

The following table summarizes information about the stock options outstanding at December 31, 2024:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$0.90	1,860,000	1.05	1,860,000	January 18, 2026
\$0.48	2,075,000	1.77	2,075,000	October 8, 2026
	3,935,000	1.43	3,935,000	

c) Warrants

A summary of the Company's warrants as at December 31, 2024 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2023	4,878,334	0.39
Issued	44,815,930	0.32
Expired	(4,878,334)	0.39
At December 31, 2023	44,815,930	0.32
Issued	28,855,487	0.34
Exercised	(619,074)	0.24
At December 31, 2024	73,052,343	0.33

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

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12. 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	May 17 2024	June 7 2024
Expiry Date	April 19 2025	May 3 2025	Dec 22 2025	May 17 2026	June 7 2026
Number of warrants granted	31,637,473	2,543,042	10,635,415	21,928,657	6,926,830
Risk-free interest rate	3.94%	3.59%	4.02%	4.31%	4.03%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil
Expected share price volatility	72.106%	71.342%	72.756%	75.021%	75.349%
Expected warrant life in years	1.5	1.5	1.5	2.0	2.0

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.

Subsequent to year end, the Company extended the expiry date for the April 19, 2023 and the May 3, 2023 warrants (Note 22).

13. Revenue

The Company's revenue is attributable to Zacualpan and Plomosas (Note 20).

	2024	2023
Lead-silver concentrate	\$ 24,485,558	\$ 20,265,700
Zinc-silver concentrate	7,415,820	495,934
Total revenue	\$ 31,901,378	\$ 20,761,634

The Company sells 100% of its concentrate to one customer in Mexico.

14. Operating expenses by nature

The Company's operating expenses are attributable to Zacualpan and Plomosas (Note 20).

	2024	2023
Production costs	\$ 13,857,184	\$ 9,032,899
Environmental tax	124,254	98,081
Transportation	5,250,378	3,387,758
Wages and salaries	11,753,497	8,834,665
Total operating expenses	\$ 30,985,313	\$ 21,353,403

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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15. Exploration expenses

	2024	2023
Labour	\$ 1,475,538	\$ 1,012,813
Permits & Fees	448,290	580,809
Drilling	2,223,173	758,658
Supplies & Other	693,938	484,154
Option Payments	(240,000)	-
Total exploration expenses	\$ 4,600,939	\$ 2,836,434

16. General and administrative expenses

	2024	2023
Accounting, audit & legal	\$ 854,591	\$ 766,002
Amortization	127,060	115,798
Investor relations, promotion & travel	682,646	667,931
Management fees & consulting	1,043,755	790,381
Office, rent, insurance & sundry	482,801	531,903
Office salaries & services	971,472	1,298,018
Total general and administrative expenses	\$ 4,162,325	\$ 4,170,033

17. 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:

	2024	2023- restated (Note 2(b))
Loss before income taxes	\$ (10,284,743)	\$ (8,690,869)
Canadian federal and provincial income tax rates	27%	27%
Income tax (expense) based on the above rates	\$ (2,776,881)	\$ (2,346,535)
Increase (decrease) due to:		
Non-deductible expenses	(265,702)	372,303
Losses and temporary differences for which a deferred tax asset has not been recognized	272,109	1,124,819
Expiry of tax losses	1,020,954	1,106,230
Changes in estimate of deferred tax assets	1,783,331	4,002,117
Difference between foreign and Canadian tax rates	(312,601)	(193,305)
Deferred taxes in respect of Mexican royalty	(35,820)	(47,471)
Foreign exchange and other	(194,977)	(280,001)
Income tax expense	\$ (509,587)	\$ 3,738,157

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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17. Income taxes - *continued*

Total income tax expense consists of:

	2024	2023- restated (Note 2(b))
Current income tax expense	\$ 130,206	\$ 8,121
Deferred income tax expense	(639,793)	3,730,036
	<u>\$ (509,587)</u>	<u>\$ 3,738,157</u>

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

	2024	2023- restated (Note 2(b))
Deferred income tax assets		
Non-capital losses	\$ 3,840,155	\$ 5,083,872
Current assets and liabilities	2,246,529	1,214,057
Total deferred tax assets	<u>\$ 6,086,684</u>	<u>\$ 6,297,929</u>
Deferred income tax liabilities		
Property, plant and equipment	\$ 6,285,745	\$ 7,027,535
Exploration and evaluation assets	-	163,123
Other	292,995	253,505
Total deferred income tax liabilities	<u>\$ 6,578,740</u>	<u>\$ 7,444,163</u>
Deferred income tax liabilities, net	<u>\$ 492,056</u>	<u>\$ 1,146,234</u>

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

	2024	2023- restated (Note 2(b))
Deferred tax assets	\$ 2,398,889	\$ -
Deferred tax liabilities	(2,890,945)	(1,146,234)
	<u>\$ 492,056</u>	<u>\$ (1,146,234)</u>

The composition of deferred tax expense is as follows:

	2024	2023- restated (Note 2(b))
Deferred income tax assets		
Non-capital losses (recovery)	\$ 147,835	\$ 1,599,005
Other	(45,297)	(118,311)
Deferred income tax liabilities		
Property, plant and equipment	\$ 51,182	\$ 287,798
Exploration and evaluation assets	(654,951)	1,979,586
Other	(138,562)	(18,042)
Deferred income tax expense	<u>\$ (639,793)</u>	<u>\$ 3,730,036</u>

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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(Canadian dollars)

17. Income taxes – *continued*

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

	2024	2023- restated (Note 2(b))
Deferred income tax liability		
Balance at January 1	\$ 1,146,234	\$ (2,317,725)
Deferred income tax expense during the year	(639,793)	3,730,036
Changes due to foreign currency translation	(14,385)	(266,077)
Balance at December 31	<u>\$ 492,056</u>	<u>\$ 1,146,234</u>

The unrecognized deferred tax asset is as follows:

	2024	2023- restated (Note 2(b))
Non-capital losses	\$ 17,103,617	\$ 14,670,878
Capital losses	384,982	209,942
Property, plant and equipment	235,461	323,215
Exploration and evaluation assets	4,136,245	5,465,662
Unrecognized deferred tax asset	<u>\$ 21,860,305</u>	<u>\$ 20,669,697</u>

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

Deferred tax liabilities of approximately \$103,000 (2023 – \$nil) have not been recognized on the repatriation of earnings from foreign subsidiaries where the Company controls the timing of the reversal of the temporary differences, but it is probable that such differences will not reverse in the foreseeable future.

As at December 31, 2024, 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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

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17. Income taxes – *continued*

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

Expiry Year	Canada	Mexico	Total
2025	\$ -	\$ 380,123	\$ 380,123
2026	-	425,726	425,726
2027	73,316	4,948,438	5,021,754
2028	141,907	10,564,725	10,706,632
2029	883,789	3,041,648	3,925,437
2030	1,266,681	2,100,312	3,366,993
2031	1,137,299	1,460,788	2,598,087
2032	1,598,366	478,122	2,076,488
2033	1,877,272	2,697,269	4,574,541
2034	1,485,486	10,399,255	11,884,741
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	1,822,617	-	1,822,617
2044	1,373,152	-	1,373,152
	<u>\$ 22,795,169</u>	<u>\$ 36,496,406</u>	<u>\$ 59,291,575</u>
Capital losses			
No expiry date	<u>\$ 2,851,718</u>		

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Notes to the Consolidated Financial Statements

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(Canadian dollars)

18. 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.

19. 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 taxes receivable. 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 has not recorded any allowance against its trade receivables because to date all balances owed have been settled in full when due (typically within 60 days of submission), and because of the nature of the counterparty.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$7.1 million) and trade and other receivables (\$3.4 million), VAT and income taxes receivable (\$1.7 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

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19. 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, 2024, 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, 2024, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.3 million decrease or increase in the Company's net income for the year ended December 31, 2024.

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. Assuming the same rate of production a 10% change in commodity prices would have increased or decreased the Company's trade accounts receivable balance as at December 31, 2024 by \$0.2 million (2023 \$0.1 million).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk through its planning and budgeting process to determine the cash flows required to meet its operating and growth objectives. The Company has cash at December 31, 2024 of \$7.1 million, and current assets exceeded current liabilities by \$9.0 million, in order to meet short-term business requirements. Trade payables have contractual maturities of approximately 30 to 90 days, or are due on demand and are subject to normal trade terms. The current portions of lease obligations are due within 12 months of the consolidated statement of financial position date.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

20. Segmented information

The Company has a corporate head office in Canada and two reportable operating segments in Mexico. The operating 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.

The Zacualpan segment includes mines from the Guadalupe and Capire production centres in the State of Mexico and neighbouring Guerrero state, Mexico. The Plomosas segment includes the mine located in the State of Chihuahua, Mexico. The Plomosas mine was acquired on April 3, 2023 and began limited operations late 2023.

As at and for the year ended December 31, 2024:

	Zacualpan (Mexico)		Plomosas (Mexico)		Corporate (Canada)		Total
Revenue	\$	22,925,354	\$	8,976,024	\$	-	\$ 31,901,378
Operating expenses		(19,543,363)		(11,441,950)		-	(30,985,313)
Amortization and depletion		(2,042,599)		(1,064,471)		-	(3,107,070)
Mine operating income (loss)		1,339,392		(3,530,397)		-	(2,191,005)
General and administrative expenses		(786,543)		(498,907)		(2,876,875)	(4,162,325)
Exploration and project expense		(1,968,320)		(2,632,619)		-	(4,600,939)
Other income (expense)		151,062		265,816		252,649	669,526
Current and deferred income tax expense		608,045		-		(98,458)	509,587
Net loss	\$	(656,364)	\$	(6,396,107)	\$	(2,722,684)	\$ (9,775,156)
Total Assets	\$	29,496,306	\$	15,674,426	\$	5,983,351	\$ 51,154,083
Property, plant & equipment	\$	22,053,670	\$	12,024,199	\$	30,195	\$ 34,108,064

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2024

(Canadian dollars)

20. Segmented information - *continued*

As at and for the year ended December 31, 2023 – restated (*Note 2(b)*):

	Zacualpan		Plomosas		Corporate		Total
Revenue	\$	20,227,554	\$	534,080	\$	-	\$ 20,761,634
Cost of Sales		(19,229,194)		(2,124,209)		-	(21,353,403)
Amortization		(1,611,240)		(275,779)		-	(1,887,019)
Mine Operating Loss		(612,880)		(1,865,908)		-	(2,478,788)
General and administrative expenses		(937,465)		(409,309)		(2,823,259)	(4,170,033)
Exploration and project expense		(1,377,109)		(1,459,325)		-	(2,836,434)
Other income (expense)		97,695		356,342		340,349	794,386
Current and deferred income tax expense		(3,738,543)		386		-	(3,738,157)
Net loss	\$	(6,568,302)	\$	(3,377,814)	\$	(2,482,910)	\$ (12,429,026)
Total Assets	\$	30,313,729	\$	19,420,366	\$	7,155,758	\$ 56,889,853
Property, plant & equipment	\$	25,873,722	\$	12,779,759	\$	38,906	\$ 38,692,387

21. Contingency

A former employee of MLAZ is claiming unjustified dismissal in a legal action against that company. The total amount of the claim is Mexican Pesos 1.4 million of which approximately one-half has been accrued in MLAZ at December 31, 2024.

22. Subsequent events

- i) Subsequent to year end, the Company extended the expiry dates of 30,903,012 share purchase warrants from April 19, 2025 to October 19, 2026, and of 2,454,092 share purchase warrants from May 3, 2025 to November 3, 2026. All the terms of these warrants, including the exercise price of \$0.35 per common share, remain the same.
- ii) Subsequent to year end, the Company announced a non-brokered private placement for gross proceeds of \$5.0 million consisting of a LIFE offering for \$1.75 million consisting of up to 8,750,000 units at a price of \$0.20 per unit, and a standard offering for \$3.25 million consisting of up to 18,055,556 units at \$0.18 per unit.

Each LIFE unit will consist of one common share of the Company and one half common share purchase warrant. Each full warrant, entitles the holder to purchase one full common share at a price of \$0.26 per share for 24 months.

Each standard unit will consist of one common share of the Company and one full warrant, entitling the holder to purchase one full common share at a price of \$0.24 per share for 36 months.