

IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

Management’s Responsibility for Financial Reporting

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

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

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

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

“F. W. Davidson” President and Chief Executive Officer

“J. Huang” Chief Financial Officer

March 22, 2023

IMPACT Silver Corp.

Consolidated Statements of Financial Position

As at December 31

(Canadian dollars)

ASSETS	2022		2021	
Current				
Cash	\$	15,251,161	\$	21,081,575
Trade and other receivables (Note 4)		1,746,367		1,736,262
Inventories (Note 5)		1,137,682		1,071,797
Investments		240,000		85,000
		18,375,210		23,974,634
Value added taxes receivable		493,077		-
Right of Use Assets (Note 6)		168,468		266,738
Property, plant and equipment (Note 8)		23,184,736		19,820,400
Exploration and evaluation assets (Note 9)		26,574,023		22,481,941
	\$	68,795,514	\$	66,543,713
LIABILITIES				
Current				
Trade payables and accrued liabilities	\$	1,874,865	\$	2,365,921
Lease liabilities (Note 7)		80,549		89,228
		1,955,414		2,455,149
Lease liabilities (Note 7)		67,294		154,597
Reclamation provision (Note 11)		732,067		669,043
Deferred income tax liabilities (Note 14)		4,207,903		3,298,993
		6,962,678		6,577,782
SHAREHOLDERS' EQUITY				
Share capital		82,241,813		81,122,078
Warrants (Note 13(c))		467,913		2,666,279
Contributed surplus		10,838,330		8,897,500
Accumulated other comprehensive loss		(3,940,454)		(8,107,947)
Accumulated deficit		(27,774,766)		(24,611,979)
		61,832,836		59,965,931
	\$	68,795,514	\$	66,543,713

Nature of operations (Note 1)

Subsequent event (Note 18)

ON BEHALF OF THE BOARD:

“F.W. Davidson” _____, Director

“P. Tredger” _____, Director

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

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

	2022	2021
Revenues	\$ 16,335,788	\$ 17,699,122
Expenses		
Operating expenses <i>(Note 12)</i>	15,114,777	12,971,946
Amortization and depletion	1,389,993	1,301,335
	16,504,770	14,273,281
Mine operating (loss) income	(168,982)	3,425,841
General and administrative expenses		
Accounting, audit and legal	173,071	224,311
Amortization	20,273	40,880
Investor relations, promotion and travel	111,313	72,768
Management fees and consulting	702,877	316,226
Office, rent, insurance and sundry	379,884	344,475
Office salaries and services	1,055,097	743,661
Share-based payments <i>(Note 13(b))</i>	-	1,471,725
	2,442,515	3,214,046
Operating (loss) income	(2,611,497)	211,795
Other income (expenses)		
Finance cost	(69,171)	(56,135)
Finance income	265,407	206,157
Foreign exchange loss	(7,869)	(87,695)
Other income	55,854	35,445
Write-down of exploration and evaluation assets <i>(Note 9)</i>	(222,182)	(33,451)
	22,039	64,321
(Loss) income before taxes	(2,589,458)	276,116
Current income tax expense <i>(Note 14)</i>	28,400	173,209
Deferred income tax (recovery) <i>(Note 14)</i>	544,929	648,242
Net loss	\$ (3,162,787)	\$ (545,335)
Loss per share – basic and diluted <i>(Note 13(d))</i>	\$ (0.02)	\$ (0.00)
Weighted average number of shares outstanding – basic and diluted	147,277,171	144,617,071

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

IMPACT Silver Corp.

Consolidated Statements of Comprehensive Income (loss)

For Years Ended December 31

(Canadian dollars)

	2022	2021
Net loss	\$ (3,162,787)	\$ (545,335)
Other comprehensive loss		
Items that may be subsequently reclassified to profit or loss		
Cumulative translation adjustment	4,252,493	(1,060,669)
Items that will not be subsequently reclassified to profit or loss		
Loss on investments	(85,000)	-
Comprehensive income (loss)	\$ 1,004,706	\$ (1,606,004)

-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 Loss (\$)	Accumulated Deficit (\$)	Total Shareholders' Equity (\$)
Balance at December 31, 2020	141,410,247	79,325,168	2,954,251	7,523,552	(7,047,278)	(24,066,644)	58,689,049
Net loss for the year	-	-	-	-	-	(545,335)	(545,335)
Share-based payments	-	-	-	1,471,725	-	-	1,471,725
Share issue costs	-	(2,512)	-	-	-	-	(2,512)
Warrants exercised	3,741,238	1,566,295	(287,972)	-	-	-	1,278,323
Options exercised	230,000	233,127	-	(97,777)	-	-	135,350
Cumulative translation adjustments	-	-	-	-	(1,060,669)	-	(1,060,669)
Balance at December 31, 2021	145,381,485	81,122,078	2,666,279	8,897,500	(8,107,947)	(24,611,979)	59,965,931
Net loss for the year	-	-	-	-	-	(3,162,787)	(3,162,787)
Warrants exercised	2,706,225	1,066,194	(238,995)	-	-	-	827,199
Options exercised	100,000	53,541	-	(18,541)	-	-	35,000
Warrants expired	-	-	(1,959,371)	1,959,371	-	-	-
Cumulative translation adjustments	-	-	-	-	4,252,493	-	4,252,493
Loss on investments	-	-	-	-	(85,000)	-	(85,000)
Balance at December 31, 2022	148,187,710	82,241,813	467,913	10,838,330	(3,940,454)	(27,774,766)	61,832,836

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

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

Cash resources provided by (used in)	2022	2021
Operating activities		
Net loss	\$ (3,162,787)	\$ (545,335)
Items not affecting cash		
Amortization and depletion	1,410,266	1,342,215
Share-based payments	-	1,471,725
Deferred income tax expense (recovery)	544,929	648,242
Accretion expense	53,268	42,909
Write-down of exploration and evaluation assets	222,182	33,451
Unrealized (gain) loss on foreign exchange	34,947	(75,580)
Changes in non-cash working capital		
Trade and other receivables	(263,311)	147,647
Income taxes receivable	3,020	(1,402)
Inventories	69,765	111,271
Trade payables and accrued liabilities	(698,653)	(172,244)
Income taxes payable	(18,961)	22,692
	(1,805,335)	3,025,591
Investing activities		
Proceeds on the sales of long-lived assets	100,000	50,000
Additions of long-lived assets	(4,889,985)	(3,697,490)
	(4,789,985)	(3,647,490)
Financing activities		
Repayment of lease liability	(97,293)	(93,238)
Proceeds from exercise of warrants	827,199	1,275,811
Proceeds from exercise of stock options	35,000	135,350
	764,906	1,317,923
Net change in cash	(5,830,414)	696,024
Cash at the beginning of the year	21,081,575	20,385,551
Cash at the end of the year	\$ 15,251,161	\$ 21,081,575

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

	2022	2021
Cash received for interest income	\$ 265,407	\$ 206,157
Cash paid for income taxes	\$ 48,922	\$ 1,402

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

1. Nature of operations

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on exploration and evaluation assets comprise a significant portion of the Company’s assets. The recovery of the Company’s investment in these exploration and evaluation assets and the attainment of profitable operations are dependent upon future commodity prices, the ongoing discovery and development of economic ore on these properties and the ability to arrange sufficient financing to bring the ore estimates into production.

There are many external factors that can adversely affect general workforces, economies and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic, political conflict in other regions, and supply chain disruptions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and its effect on the Company’s business or ability to raise funds.

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

2. Basis of Preparation

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 22, 2023.

b) Basis of measurement

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

2. Basis of Preparation - *continued*

c) Use of estimates and judgments

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

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

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

Asset carrying values and impairment analysis

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

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

Reclamation provisions

Reclamation provisions are a consequence of mining, and the majority of reclamation provisions are incurred over the life of the mine. The Company’s accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation to reflect known developments,

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

2. Basis of preparation- *continued*

d) Use of estimates and judgments - *continued*

e.g. updated cost estimates and revisions to the estimated lives of operations. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current restoration standards and techniques.

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

Valuation of inventory

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

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”) ⁽¹⁾	Mexico	Mining/Exploration
Minera El Porvenir de Zacualpan, S.A. de C.V. (“MPZ”)	Mexico	Mining/Exploration
Minera Laureles, S.A. de C.V. (“ML”)	Mexico	Mining/Exploration

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies

a) Revenue recognition

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

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

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

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

b) Cash

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

c) Inventories

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

d) Investments

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies - continued

e) Exploration and evaluation expenditures

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

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

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

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

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

Property option payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

f) Property, plant and equipment

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

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

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies - continued

f) Property, plant and equipment - continued

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

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

Components

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

Commercially viable mineral resource exploration and evaluation expenditures

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

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

g) Asset impairment

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

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

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies - continued

g) Asset impairment - continued

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

A decision to abandon, reduce or expand a specific project is based upon many factors including general and specific assessments of grade and tonnage estimates, anticipated future metal prices, anticipated future costs of exploring, developing and operating a producing mine, and ongoing expense of maintaining exploration and evaluation assets and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven grade and tonnage estimates. However, properties which have not demonstrated suitable mineral concentrations at the conclusion of each phase of an exploration program are re-evaluated. This re-evaluation determines if future exploration is warranted and if their carrying values are appropriate. If any area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the period of abandonment or determination that the carrying value exceeds its fair value. The amounts recorded as exploration and evaluation assets represent costs incurred to date and do not necessarily reflect present or future values.

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

h) Leases

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

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

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

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

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

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

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

h) **Leases - continued**

Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

i) **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.

l) **Income taxes**

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

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

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies – continued

l) Income taxes - continued

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

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

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

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 currencies for the subsidiaries of IMPACT are as follows:

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

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each statement of comprehensive income 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).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

3. Significant accounting policies – continued

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

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

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.

4. Trade and other receivables

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

	2022	2021
Value added taxes receivable – current portion	\$ 1,003,621	\$ 935,620
Trade and other receivables	432,004	550,843
Prepays	310,742	249,799
Total trade and other receivables	\$ 1,746,367	\$ 1,736,262

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

Unaudited

5. Inventories

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

	2022		2021
Materials and supplies	\$ 746,997	\$	488,951
Stockpile inventory	102,207		89,895
Concentrate inventory	288,478		492,951
Total inventories	\$ 1,137,682	\$	1,071,797

The amount of write-down of inventories to net realizable value during year ended ended December 31, 2022 was \$0.01 million (December 31, 2021 - nil) relating to concentrate inventory.

6. Right-of-use assets

Details are as follows:

	Land and Buildings
Balance at January 1, 2021	\$ 103,475
Additions	261,775
Amortization	(96,554)
Foreign exchange movement	(1,958)
Balance at December 31, 2021	266,738
Additions	-
Amortization	(102,574)
Foreign exchange movement	4,304
Balance December 31, 2022	\$ 168,468

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

7. Lease Liabilities

Details are as follows:

Balance at January 1, 2021	\$ 78,669
Interest	9,711
Repayments	(102,949)
Additions	261,775
Foreign exchange movement	(3,381)
Balance at December 31, 2021	243,825
Interest	15,920
Repayments	(113,213)
Foreign exchange movement	1,311
Balance December 31, 2022	147,843
Less: current portion	80,549
Non-current lease liabilities	\$ 67,294

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

The expected timing of undiscounted lease payments at December 31, 2022 is as follows:

Less than one year	\$ 101,467
One to five years	56,745
	\$ 158,212

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

8. Property, plant and equipment

a) Details are as follows:

	Plant and mine equipment (\$)	Vehicles (\$)	Office furniture and equipment (\$)	Surface rights (\$)	Mining Assets (\$)	Total (\$)
Cost						
Balance at January 1, 2021	9,287,104	498,017	232,246	1,052,133	28,116,715	39,186,215
Additions	470,315	86,812	51,844	-	1,826,239	2,435,210
Change in reclamation estimate	-	-	-	-	(112,170)	(112,170)
Foreign exchange movement	(285,856)	(15,165)	(3,650)	(32,036)	(719,762)	(1,056,469)
Balance at December 31, 2021	9,471,563	569,664	280,440	1,020,097	29,111,022	40,452,786
Additions	415,636	102,318	20,826	-	1,895,274	2,434,054
Transfer from exploration and evaluation assets	-	-	-	*	163,637	163,637
Change in reclamation estimate	-	-	-	-	(73,891)	(73,891)
Foreign exchange movement	1,137,934	67,894	14,947	-	3,057,503	4,278,278
Balance at December 31, 2022	11,025,133	739,876	316,213	1,020,097	34,153,545	47,254,864
Accumulated amortization						
Balance at January 1, 2021	6,887,506	401,125	174,837	-	12,420,151	19,883,619
Amortization for the year	355,524	31,166	29,969	-	834,986	1,251,645
Foreign exchange movement	(213,477)	(11,748)	(3,142)	-	(274,511)	(502,878)
Balance at December 31, 2021	7,029,553	420,543	201,664	-	12,980,626	20,632,386
Amortization for the year	405,324	54,188	27,450	-	907,956	1,394,918
Foreign exchange movement	849,482	50,120	12,657	-	1,130,565	2,042,824
Balance at December 31, 2022	8,284,359	524,851	241,771	-	15,019,147	24,070,128
Net book value						
At December 31, 2021	2,442,010	149,121	78,776	1,020,097	16,130,396	19,820,400
At December 31, 2022	2,740,774	215,025	74,442	1,020,097	19,134,398	23,184,736

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

8. Property, plant and equipment – *continued*

b) Impairment tests

The Company performed an impairment test on property, plant and equipment that resulted in no impairment charge for 2021. The recoverable amount for the property, plant and equipment impairment testing has been assessed by reference to the fair value less cost of disposal (FVLCD) that was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. FVLCD is based on the cash flows expected to be generated from the mines included within the cash generating units (CGUs); being the Guadalupe mining complex and Capire. The date that mining will cease depends on a number of variables, including estimated recoverable resources and the forecast selling prices for such production. For Capire, it is assumed that mining operations will recommence in 2024. Cash flows have been projected for eight years.

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal pricing. Long-term commodity prices are determined by reference to external market forecasts. For the December 31, 2022 impairment assessment, the metal price assumptions in US\$ were as follows:

- Gold (per ounce) \$1,656 - \$1,792
- Silver (per ounce) \$22.12 - \$23.86
- Copper (per pound) \$3.80 - \$4.78

Grade assumptions

The projected cash flows used in impairment testing are significantly affected by changes in mineral grade assumptions. For the December 31, 2022 impairment assessment, the average mineral grade assumptions were as follows:

- Gold (grams per tonne) 1.8
- Silver (grams per tonne) 112
- Copper (%) 0.3

Exchange rate assumptions

The projected cash flows used in impairment testing are significantly affected by changes in exchange rates. Long-term exchange rates are determined by reference to external market forecasts. For the December 31, 2022 impairment assessment, the average exchange rate assumptions were as follows:

- US dollars \$1.24
- Mexican pesos \$0.06

Operating Costs and Capital Expenditures

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

8. Property, plant and equipment – *continued*

c) Impairment test - *continued*

Discount Rates

The rates are based on the weighted average cost of capital specific to each CGU and the currency of the cash flows generated. The weighted average cost of capital reflects the current market assessment of the time value of money, equity market volatility and the risks specific to the CGU for which cash flows have not already been adjusted. These rates are based on the weighted average cost of capital for similar mining companies and were calculated based on management's estimates. A post-tax discount rate of 9.8% was used for the impairment tests.

Sensitivity Analysis

The impairment test is particularly sensitive to changes in commodity prices, exchange rates and ore grade. Adverse changes to these key assumptions may result in impairment. The Company has performed a sensitivity analysis for silver based upon current operating costs, exchange rate assumptions, and long-term price assumptions as at December 31, 2022. An impairment charge may result if assumptions changed as follows:

- Average long-term forecast silver prices were to fall below US\$20.50
- Average forecast US dollar exchange rates were to decrease below \$0.84
- Average forecast Mexican pesos exchange rates were to increase above \$0.04
- Silver grade mined and milled were to fall below 120 grams per tonne

9. Exploration and evaluation assets

Details are as follows:

Balance at January 1, 2021	\$	21,871,603
Additions		1,269,902
Recoveries		(135,000)
Write-down		(33,451)
Foreign exchange		(491,113)
<u>Balance at December 31, 2021</u>		<u>22,481,941</u>
Additions		3,182,804
Recoveries		(340,000)
Transfer to mining assets		(163,637)
Write-down		(222,182)
Foreign exchange		1,635,097
<u>Balance at December 31, 2022</u>	\$	<u>26,574,023</u>

The amount of write-down of exploration and evaluation assets during the year ended December 31, 2022 was \$222,182 (December 31, 2021 - \$33,451).

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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:

	2022		2021
Salaries and fees	\$ 618,600	\$	506,152
Share-based payments	-		901,614
Total compensation	\$ 618,600	\$	1,407,766

11. Reclamation provision

The Company's reclamation provision is an estimate of the net present value of the reclamation costs arising from the Company's development of the open pit Capire mine and mill. The total undiscounted amount of the estimated costs required to settle the provision are \$1,282,972 (2021 – \$1,200,939). The estimated net present value of the reclamation provision was calculated using an inflation factor of 4.5% (2021 – 3.9%) and discounted using a Mexican risk-free rate of 9.4% (2021 – 7.6%). Settlement of the liability may extend up to 13 years in the future.

Additions to the reclamation provision were as follows:

	2021		2021
Reclamation provision, beginning of the year	\$ 669,043	\$	761,228
Foreign exchange movement	83,646		(22,924)
Accretion of reclamation provision	53,269		42,909
Revisions to estimated cash flows	(73,891)		(112,170)
Total reclamation provision, end of the year	\$ 732,067	\$	669,043

12. Expenses by nature

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

	2022		2021
Production costs	\$ 8,151,427	\$	6,690,704
Administration	918,074		896,540
Transportation	507,915		417,314
Wages and salaries	5,537,361		4,967,388
Total operating expenses	\$ 15,114,777	\$	12,971,946

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

13. Equity

a) Share capital

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

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.

On January 18, 2021, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,110,000 shares of the Company. The options are exercisable on or before January 18, 2026 at a price of \$0.90 per share. Options vested 100% on the date granted.

On October 8, 2021, the Company granted stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,300,000 shares of the Company. The options are exercisable on or before October 8, 2026 at a price of \$0.48 per share. Options vested 100% on the date granted.

The Black Scholes Option Pricing Model was used to estimate the fair value of stock options for calculating stock-based compensation expense. The Company recognized a stock-based compensation expense and an increase to contributed surplus based on a grading vesting schedule using the following assumptions:

Date Granted	January 18, 2021	October 8, 2021
Number of options granted	2,110,000	2,300,000
Risk-free interest rate	0.14%	0.60%
Expected dividend yield	Nil	Nil
Expected share price volatility	84.516%	80.312%
Expected option life in years	2.50	2.50

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.

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

13. Equity – continued

b) Stock options - continued

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the year ended December 31, 2022 is \$nil (December 31, 2021 – \$1,471,725).

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

	Number	Weighted Average Exercise Price (\$)
At January 1, 2021	4,610,000	0.57
Granted	4,410,000	0.68
Exercised	(230,000)	0.59
Expired	(1,470,000)	0.98
Forfeited	(100,000)	0.90
At December 31, 2021	7,220,000	0.55
Exercised	(100,000)	0.35
Expired	(1,060,000)	0.35
Forfeited	(50,000)	0.48
At December 31, 2022	6,010,000	0.59

The following table summarizes information about the stock options outstanding at December 31, 2022:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$0.36	1,750,000	1.82	1,750,000	October 24, 2024
\$0.90	2,010,000	3.05	2,010,000	January 18, 2026
\$0.48	2,250,000	3.77	2,250,000	October 8, 2026
	6,010,000	2.96	6,010,000	

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

13. Equity – continued

c) Warrants

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

	Number	Weighted Average Exercise Price (\$)
At January 1, 2021	22,302,751	0.58
Exercised	(3,741,238)	0.34
At December 31, 2021	18,561,513	0.63
Exercised	(2,706,225)	0.31
Expired	(10,976,954)	0.82
At December 31, 2022	4,878,334	0.39

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 16 2020
Expiry Date	April 16 2023
Number of warrants granted	6,666,634
Risk-free interest rate	0.34%
Expected dividend yield	Nil
Expected share price volatility	79.48%
Expected warrant life in years	1.5

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

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

13. Equity – continued

d) Earnings (loss) per share

Details of the calculation of loss per share are set out below:

	2022	2021
Net loss attributable to shareholders	\$ (3,162,787)	\$ (545,335)
Weighted average number of shares outstanding - basic and diluted	147,277,171	144,617,071
Loss per share – basic and diluted	\$ (0.02)	\$ (0.00)

14. 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:

	2022	2021
Income (loss) before income taxes	\$ (2,589,458)	\$ 276,116
Canadian federal and provincial income tax rates	27%	27%
Income tax (expense)recovery based on the above rates	\$ (699,154)	\$ 74,551
Increase (decrease) due to:		
Non-deductible expenses	322,294	506,681
Losses and temporary differences for which a deferred tax asset has not been recognized	353,678	351,926
Expiry of tax losses	1,022,476	-
Changes in estimate of deferred tax assets	403,208	(225,431)
Difference between foreign and Canadian tax rates	(36,974)	93,381
Deferred taxes in respect of Mexican royalty	(1,003,997)	315,608
Foreign exchange and other	211,798	(295,265)
Income tax expense	\$ 573,329	\$ 821,451

Total income tax expense consists of:

	2022	2021
Current income tax expense	\$ 28,400	\$ 173,209
Deferred income tax (recovery) expense	544,929	648,242
	\$ 573,329	\$ 821,451

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

14. Income taxes - continued

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

	<u>2022</u>	<u>2021</u>
Deferred income tax assets		
Non-capital losses	\$ 5,951,024	\$ 5,351,660
Other	-	86,559
Current assets and liabilities	<u>13,819</u>	<u>255,253</u>
Total deferred tax assets	\$ 5,964,843	\$ 5,693,472
Deferred income tax liabilities		
Property, plant and equipment	\$ 6,001,657	\$ 5,334,030
Exploration and evaluation assets	3,929,279	3,658,435
Other	<u>241,810</u>	<u>-</u>
Total deferred income tax liabilities	\$ 10,172,746	\$ 8,992,465
Deferred income tax liabilities, net	<u>\$ 4,207,903</u>	<u>\$ 3,298,993</u>

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

	<u>2022</u>	<u>2021</u>
Deferred tax liabilities	\$ 4,207,903	\$ 3,298,993

The composition of deferred tax (recovery) expense is as follows:

	<u>2022</u>	<u>2021</u>
Deferred income tax assets		
Non-capital losses (recovery)	\$ (8,465)	\$ 9,477
Other	269,618	429,544
Deferred income tax liabilities		
Property, plant and equipment	\$ 76,191	\$ 358,178
Exploration and evaluation assets	(130,342)	(62,397)
Other	<u>337,927</u>	<u>(86,560)</u>
Deferred income tax (recovery) expense	\$ 544,929	\$ 648,242

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

	<u>2022</u>	<u>2021</u>
Deferred income tax liability		
Balance at January 1	\$ 3,298,993	\$ 2,713,220
Deferred income tax expense during the year	544,930	648,242
Changes due to foreign currency translation	<u>363,980</u>	<u>(62,469)</u>
Balance at December 31	\$ 4,207,903	\$ 3,298,993

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

14. Income taxes – continued

The unrecognized deferred tax asset is as follows:

	<u>2022</u>	<u>2021</u>
Non-capital losses	\$ 7,016,225	\$ 6,024,394
Capital losses	209,942	209,941
Property, plant and equipment	195,818	224,380
Exploration and evaluation assets	1,054,710	1,054,710
Unrecognized deferred tax asset	<u>\$ 8,476,695</u>	<u>\$ 7,513,425</u>

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

As at December 31, 2022, the Company has tax losses for income tax purposes in Canada which may be used to reduce future taxable income. The income tax benefit of these losses, if any, have not been recorded in these consolidated financial statements because of the uncertainty of their recovery.

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

<u>Expiry Year</u>	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
2023	\$ -	\$ 3,363,169	\$ 3,163,169
2024	-	928,179	928,179
2025	-	763,651	763,651
2027	73,316	-	73,316
2028	141,907	-	141,907
2029	415,894	979,216	1,395,110
2030	1,266,681	-	1,266,681
2031	1,137,299	-	1,137,299
2032	1,598,366	134,835	1,733,201
2033	1,877,272	-	1,877,272
2034	1,485,486	-	1,485,486
2035	984,102	-	984,102
2036	1,207,916	-	1,207,916
2037	1,277,877	-	1,277,877
2038	1,084,178	-	1,084,178
2039	1,577,306	-	1,577,306
2040	1,984,102	-	1,984,102
2041	1,503,912	-	1,503,912
2042	1,515,906	-	1,515,906
	<u>\$ 19,131,520</u>	<u>\$ 6,169,050</u>	<u>\$ 25,300,570</u>
Capital losses No expiry date	<u>\$ 1,555,124</u>		

IMPACT Silver Corp.

Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

15. Capital management

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.

16. Financial instruments

Financial assets and liabilities

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

Financial instrument risk exposure

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with Mexican refining and smelting companies for the refining and sale of its silver, lead, zinc and gold contained in its lead and zinc concentrates. All contracts are currently with Trafigura Mexico, S.A. de C.V. As a result, the Company has a significant concentration of credit risk exposure to this company at any one time, but is satisfied that this company has an adequate credit rating as determined by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$15.3 million) and trade and other receivables (\$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

December 31, 2022

(Canadian dollars)

16. 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, 2022, 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, 2022, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.2 million decrease or increase in the Company's net income for the year ended December 31, 2022.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. A 10% change in silver prices would have increased or decreased the Company's trade accounts receivable balance as at December 31, 2022 by \$0.1 million (2021 \$0.1 million).

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Notes to the Consolidated Financial Statements

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(Canadian dollars)

17. Segmented information

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

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

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

Details at December 31 are as follows:

	2022	2021
Revenues by geographic area		
Mexico	\$ 16,335,788	\$ 17,699,122
Net income (loss) by geographic area		
Mexico	\$ (1,798,547)	\$ 2,300,550
Canada	(1,364,240)	(2,845,885)
	\$ (3,162,787)	\$ (545,335)
Assets by geographical area		
Mexico	\$ 54,194,954	\$ 47,791,460
Canada	14,600,560	18,752,253
	\$ 68,795,514	\$ 66,543,713
Property, plant and equipment by geographical area		
Mexico	\$ 23,132,579	\$ 19,760,847
Canada	52,157	59,553
	\$ 23,184,736	\$ 19,820,400

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

18. Subsequent event

On February 9, 2023, the Company entered into a share purchase and sale agreement to acquire Minera Latin America Zinc, S.A.P. I de C.V., which holds a 100% interest in the Plomosas zinc-lead-silver mine in the state of Chihuahua, northern Mexico.

The purchase price is US\$6 million, which consists of a minimum of US\$3 million cash with the balance in shares of the Company, plus a 12% net profit interest royalty to the vendor. Completion of this transaction is anticipated on or before April 7, 2023.
