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# IMPACT SILVER 2022 ANNUAL REPORT



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**IMPACT SILVER CORP**

# **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)

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

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

	<b>2022</b>	2021
<b>Net loss</b>	<b>\$ (3,162,787)</b>	\$ (545,335)
<b>Other comprehensive loss</b>		
<b>Items that may be subsequently reclassified to profit or loss</b>		
Cumulative translation adjustment	<b>4,252,493</b>	(1,060,669)
<b>Items that will not be subsequently reclassified to profit or loss</b>		
Loss on investments	<b>(85,000)</b>	-
<b>Comprehensive income (loss)</b>	<b>\$ 1,004,706</b>	\$ (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)
<b>Balance at December 31, 2022</b>	<b>148,187,710</b>	<b>82,241,813</b>	<b>467,913</b>	<b>10,838,330</b>	<b>(3,940,454)</b>	<b>(27,774,766)</b>	<b>61,832,836</b>

- 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)*

<b>Cash resources provided by (used in)</b>	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
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
	<b>(1,805,335)</b>	<b>3,025,591</b>
<b>Investing activities</b>		
Proceeds on the sales of long-lived assets	100,000	50,000
Additions of long-lived assets	(4,889,985)	(3,697,490)
	<b>(4,789,985)</b>	<b>(3,647,490)</b>
<b>Financing activities</b>		
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
	<b>764,906</b>	<b>1,317,923</b>
<b>Net change in cash</b>	<b>(5,830,414)</b>	<b>696,024</b>
Cash at the beginning of the year	<b>21,081,575</b>	<b>20,385,551</b>
<b>Cash at the end of the year</b>	<b>\$ 15,251,161</b>	<b>\$ 21,081,575</b>

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

	<b>2022</b>	<b>2021</b>
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)

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### 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.

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### 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)

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### 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)

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### 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 <sup>(1)</sup>	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”) <sup>(1)</sup>	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.

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 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)

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### 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)

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### 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)

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### 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)

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### 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)

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### 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)

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### 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.

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### 4. Trade and other receivables

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

	<b>2022</b>	<b>2021</b>
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	<b>\$ 1,746,367</b>	<b>\$ 1,736,262</b>

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

Unaudited

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### 5. Inventories

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

	<b>2022</b>		<b>2021</b>
Materials and supplies	\$ 746,997	\$	488,951
Stockpile inventory	102,207		89,895
Concentrate inventory	<b>288,478</b>		492,951
Total inventories	<b>\$ 1,137,682</b>	\$	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.

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### 6. Right-of-use assets

Details are as follows:

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

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 7. Lease Liabilities

Details are as follows:

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

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	<b>\$ 101,467</b>
One to five years	<b>56,745</b>
	<b>\$ 158,212</b>

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

# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 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)

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### 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

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### 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).

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 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:

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

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### 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:

	<b>2021</b>		<b>2021</b>
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

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### 12. Expenses by nature

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

	<b>2022</b>		<b>2021</b>
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

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 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)

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### 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
<b>At December 31, 2022</b>	<b>6,010,000</b>	<b>0.59</b>

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
	<b>6,010,000</b>	<b>2.96</b>	<b>6,010,000</b>	

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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(Canadian dollars)

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### 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
<b>At December 31, 2022</b>	<b>4,878,334</b>	<b>0.39</b>

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)

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### 13. Equity – continued

#### d) Earnings (loss) per share

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

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

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### 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:

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

Total income tax expense consists of:

	<b>2022</b>	2021
Current income tax expense	<b>\$ 28,400</b>	\$ 173,209
Deferred income tax (recovery) expense	<b>544,929</b>	648,242
	<b>\$ 573,329</b>	\$ 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	\$ 4,207,903	\$ 3,298,993

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)

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### 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.

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### 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)

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### 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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# IMPACT Silver Corp.

## Notes to the Consolidated Financial Statements

December 31, 2022

(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.

**IMPACT Silver Corp.**  
**Form 51-102F1**  
**Management's Discussion and Analysis**  
**For the Twelve Months Ended December 31, 2022**

**INTRODUCTION**

*This Management's Discussion and Analysis ("MD&A") is for the year ended December 31, 2022 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 22, 2023 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).*

*This document contains forward-looking statements. Please refer to "NOTE REGARDING FORWARD-LOOKING STATEMENTS."*

**CORPORATE OVERVIEW**

IMPACT controls the majority of two large mineral districts totalling 211 km<sup>2</sup> in central Mexico: the Royal Mines of Zacualpan Silver District and the Capire Mineral District adjacent to and southwest of the Zacualpan district. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over 16 years.

IMPACT has been considered one of the purest silver producers. Currently, IMPACT's primary production metal is silver and with over 90% of its revenues generated by silver it is highly leveraged to the silver price.

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing ten sites from exploration drilling to development and mining. IMPACT has produced over 12 million ounces of silver since 2006 and generated approximately \$241 million in revenues. As a result, a significant portion of over \$71 million in capital expenditures and exploration on the properties has been funded by operations, and the company still has no long-term debt.

During the last half of 2022, the Company experienced inflationary pressure on supplier prices, an increase in the labour union compensation terms, and a stronger Mexican Peso. In addition, the Company incurred additional consulting costs of \$0.4 million in response to increased compliance requirements and requests by the Mexican tax authorities. The result was to negatively affect cashflow and income. At the same time, the Company continued its focus on exploration and development of the district, spending \$4.9 million on these programs and drilling approximately 22,000 meters ("m") in 2022.

In response to the declining silver price and rising costs, the Company initiated a hiring freeze as well as an initial round of layoffs during the year. The Company has decided to defer a number of non-critical projects and reduce the budget for exploration.

After receiving proceeds from the exercise of warrants and options of \$0.9 million during the year, the Company remains well funded with cash of \$15.3 million at December 31, 2022. Although cash was down from \$21 million at December 31, 2021, \$4.9 million of the decrease is related to the extensive exploration and development program at Zacualpan. Working capital at December 31, 2022 remained strong at \$16.4 million.

## **Plomosas Mine Agreement**

Subsequent to the year end, the Company's strong working capital position provided the opportunity for it to enter into a conditional Share Purchase and Sale Agreement with (the "Sales Agreement") with Consolidated Zinc Limited ("CNL") on February 9, 2023 to purchase all of the outstanding shares of that company's Mexican subsidiary, Minera Latin American Zinc S.A.P. I de CV ("MLAZ") which holds a 100% interest in the Plomosas operating zinc-lead-silver mine in the state of Chihuahua., Northern Mexico.

The acquisition will expand IMPACT's production profile from one to two producing operations: the Plomosas zinc-lead-silver district in northern Mexico, and the Royal Mines of Zacualpan silver-lead-zinc - gold district in central Mexico.

The purchase price of US\$6-million consists of a minimum US\$3-million in cash and the balance in IMPACT shares, plus a 12% net profit interest royalty to CNL. Subject to the release of certain condition precedents, completion of the transaction is anticipated on or before April 7, 2023.

CNL reported that Plomosas had JORC mineral resources of 215,000 tonnes grading 13.5 per cent zinc, 6.3 per cent lead and 34.0 grams per tonne ("g/t") silver indicated, and 772,000 tonnes grading 13.1% zinc, 3.0% lead and 19.0 g/t silver inferred, at a 3% zinc cut-off at December, 2021 (*see Cautionary Statement below*\*). IMPACT plans a drill program in 2023 to infill and test extensions of the known mineralization.

Plomosas is host to high-grade mineralization. Historical mining is in the global upper quartile for zinc grade with approximately 2.5 million tonnes mined since 1943 grading 15 to 25% zinc, 2 to 7% lead and 40 to 60 g/t silver with low deleterious elements (*see Cautionary Statement below*\*\*).

## **Overall, during 2022**

During the year there were 152,862 tonnes milled at the Zacualpan complex, up 5% from 145,458 in 2021, while silver grades in both 2022 and 2021 averaged 159 g/t. In 2022 silver production was 632,862 oz compared to 617,686 oz in 2021, with 157,381 oz produced in Q4 2022 (Q4 2021 - 162,869 oz).

Silver sales for 2022 were 644,843 oz, (2021 - 633,952 oz) and revenue per tonne was \$105.39 compared to \$119.04 in 2021. Revenue per tonne sold in the current Q4 2022 was \$106.94 (Q4 2021 - \$116.67). During the quarter the price of silver was lower than the same period in 2021 by over US\$2.00 per ounce, impacting both revenue and earnings. Direct costs per tonne for the 4<sup>th</sup> quarter 2022 were \$99.79, up \$2.00 per tonne from the comparable period in 2021. In addition to the inflationary impact on operating expenses, the increase in the cost per tonne was in part a result of the Company's increased exploration and development at the Guadalupe and San Ramon mines which was expensed during the year. These costs are expected to continue in the near future as the mine is engaged in a significant program of exploration and development, but are anticipated to have a positive impact on grade and tonnage later in 2023.

As a result, mine operating loss for 2022 was \$0.2 million down from mine operating income of \$3.4 million in 2021. After non-cash costs including amortization and depreciation, and deferred income taxes, the Company incurred an accounting net loss of \$3.2 million compared to net loss of \$0.5 million in 2021. Comprehensive income for the year was \$1.0 million, compared to a loss of \$1.6 million in 2021.

During Q1 2021, the Company optioned approximately 1,100 hectares of its Zacualpan S.E. concession to Pantera Silver Corp. ("Pantera"). Pantera paid the Company \$50,000 and issued 200,000 shares valued at \$85,000. This agreement is subject to a 1% net smelter return in favour of IMPACT. In Q1 2022, Pantera made a payment of \$100,000 in cash, and issued the Company 1.0 million treasury shares valued at \$240,000. Pantera is required to make option payments totaling \$300,000 in cash, issue the Company 3.5 million in shares and complete a minimum of \$1.4 million in work on the project over the next three years, to acquire 100% of the project. The parties are in discussion to defer certain obligations a further year.

With trading on the various stock exchanges, IMPACT is recognized as a medium cost producer, highly leveraged to the price of silver. To date the Company believes the market has not attributed significant value to its extensive land position and its exploration potential. Starting in 2021, the Company committed to a major exploration program including a considerable drill program focused on the greenfield potential of its large land package. In 2021 the results from four successful drill programs totalling over 17,000 m with its own drills were announced during the year. In 2022 the Company has conducted a drill program that exceeded 22,000 meters, initially focusing on development of brownfield targets and then progressing to greenfield targets in the recent part of the year. In areas where it will not be able to focus over the next two years, the Company will continue to look to potential partnerships to further accelerate discovery.

Recent legislation by the Mexican government has resulted in the reorganization of the activities of the company's Mexican subsidiaries in order to comply with what the Company's advisers understand are the new requirements in both employment and taxation. Like many other companies in Mexico, IMPACT has not determined the full effect of the legislation upon operating costs and net income, but as a result the Company wrote down potential deferred tax recoveries in 2022 as well as 2021.

IMPACT's key initiatives for the year 2023 and beyond:

1. Continue extensive development of the Guadalupe mine, including the newly developed Pachuqueno area while optimizing production with a focus on maximizing cash flows from its other mining operations. This work has been accompanied by upgrading of the underground railroad facility and an extensive underground drilling program that has identified a number of veins in the immediate area. Further development is also occurring at the San Ramon mine, as the new stope San Ramon South is being developed and opening of the historic Alacran gold-silver mine.
2. During 2022, IMPACT conducted an aggressive exploration program, including a diamond drill program that was in excess of 22,000 m. The program was focused on discovery and definition of additional high-grade silver and gold zones for near and longer-term mining. With the current success combined with the operational efficiencies of its own drills, the Company plans a number of additional programs during 2023 which, depending on the price of silver, could approach an additional 10,000 m of drilling across the Company's extensive land package.
3. Subject to the completion of the acquisition of the Plomosas mine, IMPACT plans to further expand production there in a two-phase program, initially by rehabilitating the current facilities and infrastructure. The objective is to initially reach 150 to 200 tpd of production while conducting an exploration and drill program that could anticipate a further increase in production.
4. Subject to market conditions and current technical studies including ore sorting as well as expanding the current pilot plant and infrastructure, IMPACT is looking to potentially restart production at the Capire open pit mine in a suitable metal price environment.
5. Where prudent, the Company will continue to expand its ESG activities focusing on community and environmental issues.
6. IMPACT will continue its staged review of other opportunities for advanced development and mining opportunities in Mexico and elsewhere.

IMPACT is a reporting issuer in British Columbia and Alberta. The Company's shares trade on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL.

## Financial Overview

During the fourth quarter, the company experienced higher mill throughput with lower silver grades, which resulted in production of 157,381 oz of silver, compared to 162,869 oz silver in Q4-2021. Sales during the same period were 166,590 oz in 2022, compared to Q4-2021 154,224 oz.

- Mine operating income before amortization and depletion<sup>1</sup> for Q4 2022 was \$0.3 million (Q4 2021 \$0.6 million income), and for the year was \$1.2 million.
- Cash used in operations for the quarter was \$0.6 million compared to cash generated from operations of \$0.2 million in Q4 2021.
- After investing \$0.6 million in exploration expenditures and mining assets during the quarter, the cash position remained strong at \$15.3 million with working capital of \$16.4 million.
- Net loss for Q4 2022 was \$1.1 million compared to net loss of \$0.5 million in Q4 2021.

## Production and Sales Highlights

### Guadalupe Production Complex

The Company is continuing its strategy utilising capacity at its Guadalupe processing plant to focus on lower cost, higher grade production. Consequently, despite the development muck from ongoing work, the Company was able to mine more tonnes in 2022 than the comparative period in 2021 but at the equivalent grade.

In late 2021, the Company started to expand its exploration and development into new areas that appear to provide higher margins. The mining activity is becoming more focused on the Guadalupe mine and other areas accessed from that shaft, with Guadalupe tonnage providing approximately 55% of the mill feed in Q4 2022. A substantial underground development program at Guadalupe is continuing which includes the refurbishment of the mineshaft at the Guadalupe mine, and extending the current shaft to the 235 level that will provide access to a new area the Kena vein. The extensive track system on the 195 level that accesses the Pachuqueno section of the mine is being upgraded. Both projects will provide for considerably higher capacity with lower associated hauling costs. Drilling both from surface and underground is continuing to expand this area on the numerous veins identified to date.

At the San Ramon mine, development continues to access the newly identified south zone. While development continues, San Ramon is providing approximately 12% of the feed to the mill.

Preliminary engineering studies indicate that tailings pond #1 can be increased in size adding at least one to two additional years of tailings. Work continues on a third tailings facility with a provisional life of nine years of operations at the Guadalupe mill complex.

### Capire Project

Previous 43-101 studies on the Capire deposit have been evaluated with an inhouse review using the experience of the test mining toward the potential restart of operations. Other studies are being conducted with regard to critical infrastructure to determine optimum plant size for Capire operations. Also, as the result of lab scale studies, a bulk sample of 1,400 kilograms of material selected by the Company's consultant from the Capire open pit was shipped for testing to a Canadian laboratory using state of the art X-Ray transmission ("XRT") pre-concentration processing technology. XRT technology is a process that recognizes and sorts rocks based on the specific atomic density of the material. XRT sorts ore grade material from waste reducing

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<sup>1</sup> Mine operating income before amortization and depletion is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance. See "Non-IFRS MEASURES".

the amount of material to be processed during the milling process as well as tailings. The bulk sample results have been positive and the Capire zone is being reviewed for optimization in light of potential processing with XRT. The Company is currently evaluating the impact of XRT upon both capital and operating costs, recoveries and the ultimate mineable size of the zone and the current pilot plant.

The objectives of these studies are to improve the possible operating margins through reduced processing costs to minimize sensitivity of operations from metal price fluctuations, and to potentially increase throughput at the current Capire plant.

During the fourth quarter, IMPACT completed the drill programs on two nearby exploration targets at Aurora 2 and Manto Rico. For results from the Aurora 2 drilling (see IMPACT news release dated February 16, 2023).

## PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Years Ended December 31		
	2022	2021	% Change	2022	2021	% Change
Total tonnes (t) milled	<b>39,720</b>	36,625	+8%	<b>152,862</b>	145,458	+5%
Tonnes produced per day	<b>432</b>	398	+9%	<b>419</b>	399	+5%
Silver production (oz)	<b>157,381</b>	162,869	-3%	<b>632,862</b>	617,686	+2%
Lead production (t)	<b>51</b>	60	-16%	<b>227</b>	250	-9%
Gold production (oz)	<b>82</b>	78	+5%	<b>297</b>	295	+1%
Silver sales (oz)	<b>166,590</b>	154,224	+8%	<b>644,843</b>	633,952	+2%
Lead sales (t)	<b>57</b>	56	+2%	<b>238</b>	236	+1%
Gold sales (oz)	<b>79</b>	71	+11%	<b>281</b>	283	-1%
Average mill head grade –silver g/t	<b>150</b>	172	-13%	<b>159</b>	159	0%
Revenue per tonne sold <sup>2</sup>	<b>106.94</b>	116.67	-8%	<b>105.39</b>	119.04	-11%
Direct costs per production tonne <sup>2</sup>	<b>99.79</b>	97.79	+2%	<b>97.49</b>	86.44	+13%

## MINE PRODUCTION

### Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground / open pit mines on epithermal silver (-zinc-lead) veins feed the central Guadalupe processing plant rated at 535 tonnes per day. Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Work continues on a third tailings dam which will have a provisional life of nine years of operations at the Guadalupe mill complex.

### Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This underground mine restarted commercial production in September 2018 after a hiatus of five years and is now the largest producing mine on the

<sup>2</sup> Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See "NON-IFRS MEASURES".

property. Production comes from multiple veins on multiple levels in the largest vein cluster known on the property. During the fourth quarter of 2022, the Guadalupe Mine provided 55% (Q4 2021 – 57%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 156 to 159 g/t silver. Production during Q4 2022 was from the Lipton, Liptonia, San Lorenzo and several Pachuqueno area veins on Levels 0, 40, 110, 140, 175 and 235. With its lower cost structure, the Company has expanded production from Guadalupe, upgraded the shaft and underground railroad infrastructure, and is upgrading other infrastructure in the mine to access additional veins for mining.

### **San Ramon Silver Mine**

The San Ramon Mine is located five kilometres southeast of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In September 2021, the Company finished mining the San Ramon Deeps zone and began development and mining of the San Ramon South zone which was discovered in early 2021. During the fourth quarter of 2022, San Ramon South provided 13% (Q4 2021 – 8%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 158 to 167 g/t silver. Production during Q4 2022 was from Levels 7 and 8 in the San Ramon South zone.

### **Veta Negra Silver Mine**

The Veta Negra mine is a small open pit operation which commenced production in September 2019. It is located four kilometres northwest of the Guadalupe mill. The mine contributes a silver-rich feed to the Guadalupe mill from a near surface bulk tonnage zone. During the fourth quarter of 2022, the Veta Negra Mine provided 11% (Q4 2021 – 8%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during the quarter ranged from 165 to 175 g/t silver. Exploration is continuing to determine the full potential of the Veta Negra Zone and other nearby zones.

### **Cuchara Silver Mine**

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the fourth quarter of 2022, the Cuchara Mine provided 19% (Q4 2021 – 27%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill. Current production is mainly from the Milmaravillas and Jazmin veins. Monthly average mining grades at Cuchara during the quarter ranged from 132 to 150 g/t silver.

### **Alacran Gold-Silver Mine**

The Alacran Gold-Silver Mine is a new operation on a historic mine located three kilometres south of the Guadalupe mill. IMPACT began redevelopment of the mine during the fourth quarter and trucked minor feed to the Guadalupe mill from development muck in preparation for commercial mining. The mine will contribute a gold-silver feed to the Guadalupe mill. Initial production is from the San Margarito Vein. Average mining grades of development muck at Alacran during the quarter ranged from 2.2 to 2.8 g/t gold and 20 to 31 g/t silver.

### **Capire Processing Plant and Mine**

The Capire Production Centre is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic (“VMS”) base and precious metal deposit. VMS mineralization in the Capire district is predominantly silver-rich with zinc and lead credits occurring in small massive sulphide lenses enveloped in disseminated mineralization.

In Q2 2013, IMPACT announced the commissioning of the Capire open pit mine and completion of construction of the 200-tpd pilot plant. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potentially larger operation in the future. The work performed increased the Company’s knowledge about the metallurgy of minerals in both districts and has helped define operating costs at Capire. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes,

hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economical at that time. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended.

After the shutdown, the Capire plant was reconfigured as a bulk test processing facility for gold and copper mineralization from the Carlos Pacheco South Zone in the Noche Buena Mine. The results of this test work at Capire and later at the Guadalupe mill, demonstrated good gold recoveries from Carlos Pacheco South mineral when mixed with Zacualpan silver mineral.

The Capire plant is currently on care and maintenance. Company engineers are reviewing Capire for potential restart of operations. The Company is also assessing the potential of an ore sorting system to upgrade the mineral feed at low cost to the Capire mill.

### *Capire Mineral Resource*

On January 18, 2016, IMPACT announced NI43-101 mineral resources for the Capire Zone as follows and then filed a supporting technical report on [www.sedar.com](http://www.sedar.com) on March 3, 2016.

Total Resource at US Dollar per Tonne Cutoffs - Inferred and Unoxidized								
Cutoff	Inferred Mineral Resources							
US\$/t	Tonnes	US\$/t	g Ag/t	%Zn	%Pb	Oz Ag	lbs Zn	lbs Pb
10	4,465,000	36.20	44.21	0.72	0.31	6,346,000	71,183,000	30,212,000
15	3,450,000	43.24	53.03	0.85	0.37	5,881,000	64,914,000	28,072,000
20	2,707,000	50.37	62.22	0.98	0.43	5,414,000	58,444,000	25,755,000
25	2,177,000	57.19	71.06	1.10	0.49	4,974,000	52,766,000	23,522,000
<b>30</b>	<b>1,786,000</b>	<b>63.74</b>	<b>79.49</b>	<b>1.22</b>	<b>0.54</b>	<b>4,563,000</b>	<b>47,975,000</b>	<b>21,423,000</b>
35	1,490,000	69.96	87.65	1.33	0.59	4,199,000	43,692,000	19,504,000
40	1,242,000	76.47	96.20	1.45	0.65	3,842,000	39,596,000	17,666,000
45	1,035,000	83.30	105.37	1.56	0.70	3,507,000	35,693,000	15,905,000
50	859,000	90.69	115.49	1.69	0.75	3,189,000	31,983,000	14,203,000
60	636,000	103.31	133.60	1.88	0.84	2,732,000	26,339,000	11,793,000
70	489,000	114.89	150.72	2.04	0.92	2,370,000	22,034,000	9,909,000
80	381,000	126.33	167.97	2.20	0.99	2,057,000	18,455,000	8,338,000
90	294,000	138.53	187.15	2.34	1.07	1,772,000	15,194,000	6,966,000

The reported resource (“Base Case”) cutoff grade is US\$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates (“MDA”) of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) standards, definitions and guidelines. The resources were estimated by inverse distance cubed (“ID<sup>3</sup>”) and checked the estimate with inverse distance to the 4<sup>th</sup> power, kriging, and nearest neighbour.

The table presents the inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3 metres by 3 metres by 3 metres. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US\$30/t lying within a pit optimized using \$31/oz silver, \$1.51/lb zinc, and \$1.69/lb lead. MDA considered a US\$30/t cutoff to be appropriate at the time for production using IMPACT’s 200 t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed “reasonable prospects for eventual economic extraction” at the time which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43-101. There is additional mineralization too deep to fulfill the criteria of “reasonable prospects for eventual economic extraction” within an open pit, but



that may be available for potential underground development. For further details on the Capire mineral resource see IMPACT's news release dated January 18, 2016.

## **EXPLORATION**

Mines on epithermal veins that were drilled and built by the IMPACT team on the property include the Cuchara Silver Mine (currently in operation), San Ramon Mine (currently in operation), the Veta Negra open pit mine (currently in operation), Alacran Gold-Silver Mine (currently starting up production), San Patricio (Chivo) Silver Mine (operated 2017-2018), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), the Noche Buena Silver Mine (operated 2010-2014) and the Mirasol Silver Mine (operated 2014-2017), as well as the Capire VMS open pit silver mine (being assessed for restart of operations). Exploration is continuing with the goal of finding and developing new mines for the Company. Recent exploration highlights were as follows:

### *Drilling*

During the first quarter, IMPACT announced drill results from the Veta Negra Mine area and extensions including 257 g/t silver over 19.8 metres and 487 g/t silver over 12.97 metres (see IMPACT news release dated February 7, 2022 for details). Subsequent to year end 2022, IMPACT announced 2022 drill results from other areas. At La Luz, on the northwest extension of the Guadalupe Mine, drill results included 239 g/t silver over 1.7 metres and at the San Antonio zinc prospect, drill results included 2.3% zinc over 3.85 metres (see IMPACT news release dated January 4, 2023 for details). At Aurora 2, north of the Capire open pit, drill results included 128 g/t silver, 0.42 g/t gold, 0.76% lead and 1.84% zinc over 7.5 metres (see IMPACT news release dated February 16, 2023 for details).

### *Exploration Field Work*

IMPACT crews are continuing to explore some of the 5,000+ old mine workings and prospects in the districts as well as exploring new areas to define drill targets. Exploration targets are defined and prioritized using a very large computer database compiled over many years from historical maps and other technical data on the project. During the quarter, fieldwork was highlighted by continued exploration on Veta Negra Mine area targets, the Noche Norte area southwest of Veta Negra, Muneca Vein on the southeast extension of the Guadalupe mine, and a new vein discovery east of the Cuchara Mine.

## **FUTURE PLANS**

### **Mining Plans**

At Zacualpan in the near term, the Company is optimizing silver production, ramping up gold production from the Alacran Mine, and continues evaluation of the potential restart of the Capire open pit silver mine. At the Plomosas mine in northern Mexico, the Company is planning toward its assumption of the operations on or before April 7, 2023 (see IMPACT news release dated February 9, 2023 for details).

### **Exploration Plans**

The Company is continuing exploration with the goal of putting some of the 5,000+ compiled old mine workings in the Zacualpan and Capire districts on track to drilling and potential production. The Company is continuing surface and underground drilling programs utilizing Company owned drills to build tonnes for mining. Upcoming drilling and exploration work is planned for the Renovacion Vein east of the Alacran Mine, targets north of the Veta Negra Mine, San Ramon South extensions and a new vein discovery east of the Cuchara Mine.

IMPACT has a track record of successful exploration and rapid mine development. The Company's long-term vision sees potential for establishing multiple mills throughout the two districts, each fed by multiple mines producing silver-lead-zinc as well as gold.

*George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person as defined under Canadian National Instrument 43-101, approved the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project and the Capire Mineral District (except information related to the Capire mineral resources) and the Plomosas project. Steven Ristorcelli, C.P.G. (U.S.A.), Principal Geologist for Mine Development Associates and a Qualified Person under the meaning of Canadian National Instrument 43-101, approved the Capire mineral resource estimate and directly related information in this MD&A. Details of the technical information in this MD&A are available in Company news releases posted on the Company website at [www.IMPACTSilver.com](http://www.IMPACTSilver.com) and on [www.sedar.com](http://www.sedar.com).*

*Cautionary Statement: The Company's decision to place a mine into production, expand a mine, make other production related decisions or otherwise carry out mining and processing operations, is largely based on internal non-public Company data and reports based on exploration, development and mining work by the Company's geologists and engineers. The results of this work are evident in the discovery and building of multiple mines for the Company, and in the track record of mineral production and financial returns of the Company since 2006. Under NI43-101 the Company is required to disclose that it has not based its production decisions on NI43-101-compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.*

*\* Plomosas mineral resources are reported by Consolidated Zinc Ltd. (CZL:ASX) on their website (<https://www.consolidatedzinc.com.au>) under the Australian JORC (2012) Code as mineral resources "depleted as at December 2021" based on an independent report in compliance with JORC (2012) by Shaun Searle of Ashmore Advisory Pty Ltd. IMPACT's Qualified Person has reviewed but not verified in detail these current reported mineral resources and is only reporting them as material recent mineral resources reported by CZL and available in the public record. IMPACT believes the estimates are relevant and reliable, given they are reported to Australian JORC standards; however, IMPACT's Qualified Person has not done sufficient work to classify them as current Canadian NI 43-101 mineral resources.*

*\*\* Reference: Alexandri, A. Gonzalez, H., & Salas, H. (2022). Plomosas Project (CZL), Field Visit Report. IMPACT Silver Corp. private report on field visits and compilation of historic and recent data, 56 pages.*

## **SAFETY, SOCIAL AND ENVIRONMENTAL POLICY**

IMPACT recognizes that exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and carries out reclamation on sites disturbed by its activities. As primarily an underground mining situation, surface disturbance from mining has been minimal in the past.

While IMPACT has always considered its responsibility to the community and the environment, in 2023 it initiated its first annual report on those activities which is now available on the Company's website. [www.impactsilver.com](http://www.impactsilver.com)

### **Operations:**

The exploration drills used and owned by IMPACT are modular diamond drill rigs which minimize the area of disturbance due to their small size and mobility. These drills rigs require little in the way of drill pads or access trails and the Company engages the local community for logistical support and assistance as part of the drill crew. All drill sites are reclaimed. Besides increasing our flexibility, the drill programs and keeping environmental disturbance to a minimum, they have proved extremely cost effective.

Tailings dams are engineered to stringent standards. The tailings themselves are benign and 100% of mine water is either recycled or lost to evaporation. In 2021, the Company, as part of a periodic review, engaged

independent engineers to conduct a study on the status of the current Guadalupe tailings impoundment and are following the recommendations.

Construction of tailings pond number 3 is continuing which will accommodate approximately 9 years of production from the Guadalupe mill complex. The site has now been fully permitted and cleared.

#### Environmental

In 2022, the trees planted as part of preparation for the new tailings facility number 3, were part of a larger program to improve areas of past historical district wide physical disturbance. For each tree removed, the Company planted a further 7 trees. In conjunction with the municipality and the Technological Baccalaureate Center, the Company planted approximately 6,000 trees of various indigenous species in 2021. A further 10,000 trees are to be planted during 2022/2023.

On the mine's property surrounding the current tailings facilities and the complex's support facilities, the Company, working with local farmers, planted 833 agave plants. The Company maintains a greenhouse for nurturing the initial plants before being transferred to the field. Plans for the next 12 months are for a further 3,000 agaves to be planted. According to the Company's consultants, agave plants have the ability to reduce and isolate large quantities of atmospheric CO<sub>2</sub>. They produce more biomass above and below ground than most other plant species. Estimates are they can absorb and store the dry weight equivalent of 30 to 60 tons of CO<sub>2</sub> per hectare per year. Once established they do not require irrigation and are not sensitive to rising global temperatures and drought. Agave also provides a cash crop for the local farmers as well as livestock feed.

The Company is currently reviewing its' power usage, which is sourced primarily from the national Mexican power grid. The studies include sustainable alternatives incorporating LED lighting and solar panels, for at least part of the power demand. In 2021 a test site was established to provide electricity to the mine administrative building with solar panels. This program is anticipated to expand after the rainy season, and will supply other service buildings once suitable locations have been found for the panels. While reducing the mine's carbon footprint, it is anticipated the solar power produced will also generate economic savings.

#### Social Responsibility

The Company keeps community members informed of its activities and works with the communities to address local concerns. The employment of most workers from the local communities fosters understanding, and direct involvement in the Company's operations. Over the last several years the mine has focused on two strategies to assist the local communities. The first is to up-grade infrastructure which may have been neglected by senior government levels in the past. The Company continues to provide tools, materials and supplies while the communities provide labour. During the year it has upgraded roads, and built a new school, as well as a badly needed health clinic. The Company has also built soccer fields, basketball courts and other facilities for local communities.

The second strategic need is to help ensure water both potable and for irrigation to a number of individual farmers and communities. This includes building water tanks and providing plastic pipes for water storage and distribution.

In the late summer of 2022, earthquake drills were practiced across Mexico and the mine received recognition for its use of the mine rescue team and ambulance in the district as the primary resource in the event of a natural disaster. These safety, social and environmental programs continued through the remainder of the year.

During the current year the Company has taken on geology and engineering students for coop semesters to provide them, under supervision, with the essential experience that is so important in their studies.

## COVID-19

Like much of Mexico, the local communities in the district have experienced COVID -19. Early in 2021, the mine established strict protocols with regards to its employees, and provided essential information to them and their families. All employees are monitored when they come to the plant site and mine sites, and those suspected of having been exposed to a COVID-19 related event are sent to the local hospital for testing and required to isolate at home. To date this has kept the impact of COVID-19 upon staff and operations to a minimum.

### Operational Impact

The Company has educated its employees and contract personnel to maintain high standards related to environmental and safety issues and they are continually reminded to uphold these standards.

The Company has social, environmental, and other policies related to its operations and promotes a culture for working safely. It has long term and effective relations with its Union, as well as local contractors and personnel that it works with. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and the local communities. The mining operation has a safety committee, and employs a safety officer to implement and supervise the safety program. In the event of an emergency, the Company maintains a trained mine rescue team, and keeps a paramedic and onsite ambulance on standby.

## INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations, and attends investment and mining related conferences that have been online during the pandemic. With the changes occurring in the marketplace and the economy, the Company continues to strengthen its presence via social media and other online marketing, and in the last few months of 2022 began to attend some in-person conferences again.

The Company has also revised its website to assist stakeholders in understanding its activities and the potential of the entire Royal Mines of Zacualpan district. To ensure full disclosure, prior to COVID-19 closures, the Company regularly brought investment advisers and sophisticated investors to its mine site for industrial tours. When suitable it will once again do so. In the interim, it has prepared video presentations of some of its operations and exploration activities available under “Media” on the Company’s website ([www.IMPACTSilver.com](http://www.IMPACTSilver.com)).

## FINANCIAL DISCUSSION

### Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31	
	2022	2021
Revenue	\$ 4,412	\$ 4,027
Net loss	\$ (1,065)	\$ (541)
Loss income – basic and diluted	\$ (0.01)	\$ (0.00)

Net loss for the fourth quarter of 2022 was impacted by the following factors:

- Revenue for Q4 2022 was \$4.4 million compared to \$4.0 million in 2021, on 166,590 oz of silver sold, up 8% from 154,224 sold in Q4 2021. Although tonnes milled were higher by 3,095 in Q4 2022 over the comparable period in 2021, the silver grade was lower at 150 g/t compared to 172 g/t in Q4 2021, resulting in revenue per tonne sold decreasing to \$106.94 compared to \$116.67 in Q4 2021. In

addition to lower grades during the quarter, the price of silver was down over 9% compared to Q4 2021.

- Mining operating loss was \$0.1 million in Q4 2022 compared to income of \$0.5 million in Q4 2021 with revenue per tonne lower on reduced silver prices and grade, and cost per production tonne increasing to \$99.79 from \$97.79 in Q4 2021. The increase in costs was the result of inflationary pressures on supplier prices, wages and a stronger Mexican peso, plus ongoing development and drilling expenditures in active mines which were expensed during the period.
- General and administrative costs were \$0.5 million compared to \$1.0 million in Q4 2021. In Q4 2021 there was share-based expense of \$0.5 million with no comparable expense in 2022.
- The Company recorded income and deferred tax expense of \$0.4 million in Q4 2022 compared to a recovery of \$0.2 million in Q4 2021, due to the expiry and changes in estimates of tax losses in Mexico.
- There was a foreign exchange loss of \$0.1 million in Q4 2022 compared to a foreign exchange gain of \$0.1 million in 2021.

### Summary of Year to Date Results

All figures are in thousands of Canadian dollars except earnings per share.

In thousands except for earnings per share	Twelve months ended December 31		
	2022	2021	2020
Revenue	\$ 16,336	\$ 17,699	\$ 15,578
Net income (loss)	\$ (3,163)	\$ (545)	\$ 2,301
Earnings (loss) per share – basic and diluted	\$ (0.02)	\$ (0.00)	\$ 0.02
Total assets	\$ 68,796	\$ 66,544	\$ 64,832

Net loss for the twelve months ended December 31, 2022 was impacted by the following factors:

- The Company earned revenue of \$16.3 million during year ended December 31, 2022 compared to \$17.7 million in 2021. Although the grade was the same as in 2021, revenue per tonne sold decreased to \$105.39 in 2022 compared to \$119.04 in the same period in 2021 due to a 13.6% decline in silver prices.
- Mine operating loss was \$0.2 million in 2022 compared to mine operating income of \$3.4 million in the same period of 2021. The decrease in operating income was due to lower revenue in 2022 based on declining silver prices. Direct costs per tonne increased to \$97.49 from \$86.44 in 2021, due to increased inflationary pressures on supplier costs, wages and a stronger Mexican peso, as well as additional costs related to development and drilling in active mines in 2022.
- General and administrative costs were \$2.4 million in 2022 compared to \$3.2 million in 2021. In 2021 there was share-based payments expense of \$1.5 million with no comparable expense in 2022. Consulting fees and salaries rose in 2022 by \$0.6 million in 2022 over 2021 due to increased Mexican government compliance requirements and requests.
- The Company had deferred and current income tax expense in 2022 of \$0.6 million compared to a \$0.8 million in the comparable period of 2021, due to the expiry and changes of estimates of tax losses in Mexico.

## OTHER FINANCIAL INFORMATION

### Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters.

**For the Three Months Ended**  
(\$ in thousands except for earnings per share)

	Dec 31 2022	Sept 30 2022	June 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	June 30 2021	Mar 31 2020
Revenue	4,412	3,794	3,501	4,629	4,026	4,081	4,216	5,376
Net (loss) income	(1,065)	(1,243)	(795)	(60)	(541)	35	218	(257)
Earnings (loss) per share – Basic and Diluted*	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	0.00	0.00	(0.00)
Total assets	68,796	69,257	66,781	66,781	66,544	66,306	66,546	65,070
Total liabilities	6,963	7,181	6,306	6,384	6,578	6,323	6,505	6,219

### Liquidity, Financial Position and Capital Resources

#### Working Capital and Cash Flow

During the year ended December 31, 2022:

- At December 31, 2022 the Company had cash of \$15.3 million, down \$5.8 million from December 31, 2021.
- Working capital at December 31, 2022 was \$16.4 million compared to \$21.5 million at December 31, 2021.
- In 2022, the Company invested \$4.9 million (2021 - \$3.6 million) in long-lived assets, of which \$2.7 million was allocated to exploration expenditures and \$2.2 million to property, plant and equipment including mining assets.
- The Company used cash flows from operating activities of \$1.8 million compared to generating cash flows of \$3.0 million in 2021.
- In 2022 the Company received proceeds of \$0.9 million from the exercise of warrants and stock options. In the comparative period in 2021, the Company received \$1.4 million on the exercise of warrants and stock options.
- In 2022, 10,976,954 warrants expired.
- In 2022, the Company received a cash payment of \$100,000 and 1.0 million treasury shares from Pantera valued at \$240,000 pursuant to the option agreement on part of its Zacualpan SE concession signed in Q4 2020. In 2021, the Company received \$50,000 in cash and 200,000 shares valued at \$85,000 from Pantera.

During the three months ended December 31, 2022:

- For the three months ended December 31, 2022, the Company used cash flows from operating activities of \$0.6 million compared to generating cash flows of \$0.2 million in 2021.
- In Q4 2022, the Company invested \$0.6 million (2021 - \$0.7 million) in exploration expenditures and property, plant and equipment including mining assets.

### Outstanding Share Data

The following common shares and convertible securities were outstanding at August 25, 2022:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	148,187,710		
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,010,000	\$0.90	January 18, 2026
Stock options	2,250,000	\$0.48	October 8, 2026
Warrants	4,878,334	\$0.385	April 16, 2023
Fully diluted	<u>159,076,044</u>		

All of the 6,010,000 stock options outstanding have vested.

## FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

### 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 fair value through profit or loss. Investments are designated as fair value through other comprehensive income 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 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 with currently with Trafigura Mexico S.A de C.V. and previously with Samsung C&T Corp. As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time but is satisfied that these companies have adequate credit ratings 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.

#### 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 US 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 US 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

Due to the recent volatility in silver prices, the Company is assessing the impact and direction in silver prices over the short and long term. Should the prices decline, the Company's operating results could be adversely impacted, and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets. The Company is addressing these issues with the objective of lowering production costs and mining higher-grade mineralization.

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 from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2022 by \$0.1 million (2021 - \$0.1 million).

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and other factors such as commodity prices and foreign exchange rates, which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. Conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been mine revenues, the capital markets and project financing. The Company has been and will continue to be dependent upon adequate financing and investor support to meet its long-term growth objectives.

### **POLITICAL, REGULATORY AND SECURITY ISSUES**

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining legislation and regulations. Permission must also be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, in carrying out its mining and exploration activities, the Company may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment, or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. Furthermore, social, criminal, and political unrest may exist within a region covered by the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the



operating activities of the Company. From time-to-time, government regulatory agencies may review the books and records of the Company, which may result in changes in the Company's operating results.

## COVID-19

On March 2020, the World Health Organization declared COVID-19 as a global pandemic. This contagious disease outbreak, which has continued to spread, and the related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date there have been no material adverse effects on the Company's business, but the ultimate effect on the Company's cash flows and operations is uncertain and difficult to predict at this time.

## APPROVAL

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

## SUPPLEMENTARY INFORMATION

Revenue per tonne sold and direct costs per tonne produced are measures that the Company believes are key indicators of performance and allow for more direct comparison of revenues and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2022	2021	2022	2021
Operating expenses	\$ 4,143,229	\$ 3,397,534	\$ 15,114,777	\$ 12,971,946
Add (deduct): operating expenses for Capire	(5,696)	(41,527)	(8,487)	(129,715)
Add (deduct): inventory	(173,694)	225,392	(203,523)	(269,280)
Direct costs	\$ 3,963,839	\$ 3,581,399	\$ 14,902,767	\$ 12,572,951
Tonnes milled	39,720	36,625	152,862	145,458
Direct costs per tonne	\$ 99.79	\$ 97.79	\$ 97.49	\$ 86.44
Revenue	\$ 4,411,865	\$ 4,026,523	\$ 16,335,788	\$ 17,699,122
Tonnes sold	41,254	34,511	155,003	148,683
Revenue per tonne sold	\$ 106.94	\$ 116.67	\$ 105.39	\$ 119.04

## NON-IFRS MEASURES

The non-IFRS measures presented do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other issuers. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-IFRS measures the Company uses in assessing performance:

Mine operating earnings before amortization and depletion is a measure that the Company believes provides additional information regarding how the Company's operations are performing. This measure is calculated as revenues less operating expenses, excluding amortization and depletion.

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2022	2021	2022	2021
Revenue	\$ 4,411,865	\$ 4,026,523	\$ 16,335,788	\$ 17,699,122
Operating expenses	4,143,229	3,397,534	15,114,777	12,971,946
Mine operating (loss) earnings before amortization and depletion	\$ 268,636	\$ 628,989	\$ 1,221,011	\$ 4,727,176

The Company's method of calculating these non-IFRS measures may differ from other entities, and accordingly, may not be comparable to measures used by other entities. Investors are cautioned, however, that these measures should not be construed as an alternative to measures determined in accordance with IFRS as an indicator of the Company's performance.

#### NOTE REGARDING FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; pandemics; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company does not undertake to update forward-looking statements or forward-looking information, except as required by law. Additional information relating to IMPACT is on the Company website at [www.IMPACTSilver.com](http://www.IMPACTSilver.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's decision to place a mine into production, expand a mine, make other production related decisions or otherwise carry out mining and processing operations, is largely based on internal non-public Company data and reports based on exploration, development and mining work by the Company's geologists and engineers. The results of this work are evident in the discovery and building of multiple mines for the Company and in the track record of mineral production and financial returns of the Company since 2006. Under NI 43-101 the Company is required to disclose that it has not based its production decisions on NI 43-101 compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

On behalf of the Board of Directors,

“Frederick W. Davidson”

President and Chief Executive Officer

March 22, 2023