IMPACT SILVER CORP

2023 ANNUAL REPORT

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IMPACT SILVER CORP.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
IMPACT Silver Corp.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Acquisition of Minera Latin American Zinc ("MLAZ")

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 12, 2024

Management's Responsibility for Financial Reporting

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

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

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

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

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

"J. Huang" Chief Financial Officer

April 12, 2024

IMPACT Silver Corp.
Consolidated Statements of Financial Position
As at December 31
(Canadian dollars)

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

Nature of operations *(Note 1)*

ON BEHALF OF THE BOARD:

"F.W. Davidson"____________________, Director
"P. Tredger"________________________, Director

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

IMPACT Silver Corp.

Consolidated Statements of Income (loss)
For Years Ended December 31
(Canadian dollars)

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

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

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

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

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

IMPACT Silver Corp.

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

(Canadian dollars)

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

IMPACT Silver Corp.

Consolidated Statements of Cash Flows
For Years Ended December 31
(Canadian dollars)

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

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

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

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

1. Nature of operations

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

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

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

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

2. Basis of Preparation

a) Statement of compliance

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

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

b) Basis of measurement

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

2. Basis of Preparation - *continued*

c) **Use of estimates and judgments**

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

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

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

Asset carrying values and impairment analysis

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

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

Reclamation provisions

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

2. Basis of preparation- *continued*

c) **Use of estimates and judgments -** *continued*

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

Valuation of inventory

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

Accounting for acquisitions

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

Going Concern

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

2. Basis of preparation- *continued*

d) Basis of consolidation

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

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

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

3. Material Accounting Policy Information

a) Revenue recognition

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

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

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

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

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

b) **Cash**

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

c) **Inventories**

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

d) **Investments**

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

e) **Exploration and evaluation expenditures**

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

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

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

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

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

3. Material Accounting Policy Information - *continued*

e) **Exploration and evaluation expenditures** - *continued*

Property option payments

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

f) **Property, plant and equipment**

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

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

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

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

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

Components

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

Commercially viable mineral resource exploration and evaluation expenditures

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

3. Material Accounting Policy Information - *continued*

f) **Property, plant and equipment** - *continued*

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

g) **Asset impairment**

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

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

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

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

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

3. Material Accounting Policy Information - *continued*

g) **Asset impairment** - *continued*

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

h) **Leases**

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

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

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

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

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

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

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

i) **Business combinations**

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

3. Material Accounting Policy Information - *continued*

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

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

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

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

k) **Share based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. The directors, subject to the policies of the TSX Venture Exchange, may determine and impose terms upon how each grant of options shall become vested.

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

l) **Warrants**

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

m) **Income taxes**

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

3. Material Accounting Policy Information - *continued*

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

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

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

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

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

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

n) **Foreign currency translation**

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

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

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

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

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

3. Material Accounting Policy Information - *continued*

n) **Foreign currency translation** - *continued*

(ii) Income and expenses for each statement of comprehensive income (loss) are translated at an average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

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

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

o) **Financial instruments**

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

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

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

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

p) **Reclamation provisions**

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

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

4. Acquisition of Minera Latin American Zinc

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

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

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

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

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

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

Fair value of consideration:		
Cash payment	$	4,031,400
Fair value of 11,441,647 common shares issued by the Company		4,462,242
Discount for lack of marketability		(777,774)
Working capital adjustment		(3,531,266)
12% net profit royalty		1,344
Total purchase price	$	4,185,946
Provisional fair value of assets and liabilities acquired:		
Cash		163,936
Accounts receivable and prepaid expenses		784,697
Inventories		179,437
Property, plant and equipment		2,593,252
Exploration and evaluation assets		5,810,743
Accounts payable and accrued liabilities		(4,966,368)
Provision for site reclamation and closure		(379,751)
Net assets acquired	$	4,185,946

(Canadian dollars)

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

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

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

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

5. Trade and other receivables

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

		2023		2022
Value added taxes receivable – current portion	**$**	**2,057,743**	$	432,004
Trade and other receivables		**953,213**		1,003,621
Prepaids		**843,941**		310,742
Total trade and other receivables	**$**	**3,854,897**	**$**	1,746,367

6. Inventories

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

		2023		2022
Materials and supplies	**$**	**1,434,238**	$	746,997
Stockpile inventory		**27,091**		102,207
Concentrate inventory		**617,940**		288,478
Total inventories	**$**	**2,079,269**	**$**	1,137,682

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

(Canadian dollars)

7. Right-of-use assets

Details are as follows:

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

8. Lease Liabilities

Details are as follows:

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

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

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

Less than one year	**$**	**70,936**

(Canadian dollars)

9. Property, plant and equipment

a) Details are as follows:

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

9. Property, plant and equipment – *continued*

b) **Impairment tests**

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

The key assumptions used to determine FVLCD are as follows:

Pricing assumptions

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

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

Grade assumptions

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

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

Exchange rate assumptions

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

- US dollars $1.23
- Mexican pesos $0.06

Operating Costs and Capital Expenditures

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

(Canadian dollars)

9. Property, plant and equipment – *continued*

c) **Impairment test** - *continued*

Discount Rates

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

Sensitivity Analysis

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

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

10. Exploration and evaluation assets

Details are as follows:

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

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

(Canadian dollars)

11. Key management personnel compensation

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

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

12. Reclamation provision

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

Additions to the reclamation provision were as follows:

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

13. Expenses by nature

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

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

14. Equity

a) Share capital

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

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

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

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

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

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

b) Stock options

The Company has established a stock option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Under the terms of the Company's fixed stock option plan, the maximum number of shares reserved for issuance is 10% of the issued shares of the Company or 12,936,917 shares. Options granted must be exercised no later than five years from date of grant or extension or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange on the last trading day preceding the grant.

(Canadian dollars)

14. Equity – *continued*

b) **Stock options -** *continued*

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

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

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

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

c) **Warrants**

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

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

(Canadian dollars)

14.Equity – *continued*

c) **Warrants** - *continued*

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

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

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

(Canadian dollars)

15. Income taxes

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

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

Total income tax expense consists of:

		2023		2022
Current income tax expense	**$**	**8,121**	$	28,400
Deferred income tax expense		**1,972,898**		544,929
	$	**1,981,019**	$	573,329

(Canadian dollars)

15. Income taxes - *continued*

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

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

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

	2023	2022
Deferred tax assets	**$ -**	$ (845,194)
Deferred tax liabilities	**6,698,287**	5,053,097
	$ 6,698,287	$ 4,207,903

The composition of deferred tax expense is as follows:

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

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

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

(Canadian dollars)

15. Income taxes – *continued*

The unrecognized deferred tax asset is as follows:

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

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

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

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

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

16. Capital management

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

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

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

17. Financial instruments

Financial instrument risk exposure

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

Credit risk

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

Interest rate risk

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

17. Financial instruments - *continued*

Currency risk

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

Commodity price risk

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

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

(Canadian dollars)

18.Segmented information

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

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

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

Details at December 31 are as follows:

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

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

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Twelve Months Ended December 31, 2023

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the twelve months ended December 31, 2023 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at April 12, 2024 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2023 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.sedarplus.ca.

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

CORPORATE OVERVIEW

IMPACT Silver Corp. is recognized as an intermediate miner with strength across the value chain including production, growth and exploration activities. The Company maintains an extensive land position in Mexico with tremendous exploration potential both at the legacy, silver-rich Royal Mines of Zacualpan assets as well as the recently acquired Plomosas zinc-lead-silver property. The Company maintains an aggressive exploration program using its own diamond drills to continue to feed and expand its operations while providing shareholders with meaningful resource upside potential across the Company.

IMPACT controls the majority of three extensive mineral districts in Mexico. The Company's ongoing strategy is to acquire near to production situations with substantial exploration potential. The Company's legacy producing assets, known as the Royal Mines of Zacualpan Silver-Gold District, are located in central Mexico where the Company has been in production for 18 years. Nearby, the Company owns the Capire Mineral District adjacent to and southwest of the Zacualpan district which together total 211 km^2. In Q2 2023 the Company added a third mining district known as Plomosas, located in northern Mexico, just 150 km northeast of the city of Chihuahua. Plomosas, described as a Carbon Replacement Deposit ("CRD"), is a producing, high-grade zinc-lead-silver mine. In April 2023, the Company commenced significant upgrades to the mill and associated infrastructure and restarted limited production at the mine late in the year. During Q3 2023, the Company also began its initial, phase 1 drill program at Plomosas. This program is expected to expand in the near future when the Company takes delivery of an additional drill rig. Field programs that were designed to test a number of additional targets on the balance of the property were carried out through the balance of 2023 and are ongoing.

IMPACT has typically been considered a near pure play on silver with ongoing production across an extensive mining district at Zacualpan. Currently, IMPACT's primary production metal is silver, by both volume and sales, and is therefore highly leveraged to silver prices. With the Plomosas mine restarting normal production in 2024, the Company's production profile will include substantial levels of zinc.

Since 2006, the Company has conducted aggressive exploration programs that have led into meaningful development and production activities, with ten sites having been developed along this value chain to date. Over that period, IMPACT has produced more than 12.6 million ounces of silver and generated more than $261 million in revenues. As a result, a sizable portion of the more than $82 million in capital expenditures and exploration on the properties has been funded by operations.

To combat industry-wide cost pressures from inflation and a strong Mexican peso, the Company maintains aggressive cost controls and production efficiencies. Management is assessing potential changes in mining processes and new technologies to improve margins and offset higher supplier and labour costs. The Company has deferred a number of non-critical projects to offset higher costs.

At December 31, 2023, the Company has cash of $8.3 million, no long-term debt and working capital of $7.6 million.

Plomosas Acquisition

On April 3, 2023, the Company closed a Share Purchase and Sale Agreement (the "Sales Agreement") with Yari Minerals Ltd., ("Yari") of Australia, previously Consolidated Zinc Limited ("CZL"), to purchase all of the outstanding shares of their Mexican subsidiary, Minera Latin American Zinc S.A.P. I. de C.V. ("MLAZ") which holds a 100% interest in the Plomosas zinc-lead-silver mine in the state of Chihuahua, Northern Mexico. The mine is subject to a 1% net smelter royalty.

The total purchase price was US$6.0 million consisting of US$3.0 million in cash with the balance in IMPACT shares, plus a 12% net profit interest royalty payable to Yari. Certain adjustments in the price of the acquisition are currently under negotiation.

Plomosas – High-Grade Zinc Production Start-up

The acquisition provides the Company with additional resources and potential as it expanded IMPACT's production profile from one to two producing operations. Plomosas adds significant metal diversification through its high-grade zinc-lead-silver deposit as well as exciting exploration potential across the property's largely under explored terrain.

We believe that our multi-decade experience building mines in Mexico, combined with our strong balance sheet, will allow IMPACT to capture significant upside from this timely acquisition and become a leading high-grade zinc producer in an established mining region in northern Mexico.

Due to concerns about the transferability of surface titles, permits, and licences the Company was obliged to purchase the shares of MLAZ to affect the purchase. Since acquisition, the Company has spent considerable time and money on upgrades as the mill, mobile equipment and infrastructure were in a state of disrepair. Further, the Company has had to address the existing mining plans and underground development, and make considerable improvements for safety and future operations. A significant part of the former has been rehabilitated or replaced, and the redesign of the underground mining plan is underway. Administratively, the Company has had to deal with a number of previously unpaid suppliers, as well as issues with regulators and litigations resulting from previous activities. While most of the latter is either resolvable or recoverable , the time, effort and cost has been considerable to the Company.

On October 23, 2023, the Company announced that it had commenced limited start-up production at the Plomosas mine and anticipates growing production levels through the balance of 2024. Management believes that it has the potential to increase the size of the operation in a cost-effective manner by further expanding the plant and mill along with a multi-phase drilling program, the first of which is ongoing. Rehabilitation efforts included:

Mill:

- Rebuilt approximately 50% of the floatation circuit
- Replacing and repairing pumps, cyclones and electrical components
- Replaced the secondary cone crusher
- Rebuilt the conveyor system to improve efficiency and overall operation
- Moved and rebuilt the ball mill on a completely new, solid foundation
- Expanded the concentrate patio to allow for increased volume

Management will make modifications and adjustments as needed as it targets design processing capacity of approximately 200 tonnes per day ("tpd") in 2024.

Mine Site:

- Currently rehabilitating work areas and commencing surveying in the underground mine including dewatering down to level nine
- Replacing and rehabilitating underground equipment including mobile vehicles such as scoop trams and underground trucks
- Developing a mine plan as additional stopes are accessed

Infrastructure and Mine Administration:

- Reconnection and upgrading of the electrical system and power grid across the operation
- Re-established the onsite laboratory to modern standards and initiated metallurgical studies
- Rebuilt and replaced surface vehicles for above ground activity and supervision
- Invested in safety equipment and implemented protocols to bring site to industry standards
- Upgraded site offices including IT systems, computer hardware and software

Above Ground Investment:

- Commenced drill program with Company owned drill and supplies: arrival of a second Company drill is pending
- Engaged a leading technical geological consultant and began a program to assess property wide exploration potential
- Completed phase 1 of the expansion of the existing tailings pond and initiated studies for further expansion to ensure sufficient capacity to meet ongoing production growth

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, on the U.S. on the OTCQB as ISVLF and on the Frankfurt Stock Exchange under the symbol IKL.

Year in Review – 2023

In 2023, the Company saw a substantial change in production mix with increases in gold and lead production from its legacy production assets at the Royal Mines of Zacualpan along with early stage, but limited zinc volumes coming from the Plomosas high-grade zinc-lead-silver mine in Q4-23. The costs and revenues associated with this limited start-up at Plomosas were recorded in the income statement as required under IFRS. Previously, start-up costs and related revenues would have been capitalized until economic production was achieved.

At Zacualpan, the Company milled 147,444 tonnes, down 4% from 152,862 tonnes in 2022. The average mill head grade on a silver equivalent basis improved by 1% to 160 g/t from 159 g/t in 2022. Silver production overall increased by 1% to 637,514 oz from 632,862 oz in 2022. However, gold production increased significantly to 776 oz compared to 297 oz in 2022, while lead production increased by 34% to 305 tonnes from 227 tonnes in 2022. Overall silver sales decreased 1% to 636,655 oz in 2023, while gold and lead sales increased by 178% to 780 oz and 22% to 290 tonnes in 2023, respectively.

Throughout 2023, the Company's achievements include:

- The acquisition of the Plomosas high-grade zinc mine in Chihuahua State, northern Mexico
- Continuing rehabilitation of the Plomosas mine and commenced start-up of restricted mining operations in late 2023
- Substantial drilling activities at Zacualpan and Plomosas for the purpose of adding feed for mining and processing
- Signing of a battery and solar power generation agreement with Bell Internacional (equipment provided by Tesla Inc.) estimated to provide more than 85% of Plomosas' energy needs with implementation planned for mid-2024

- Adding tailings capacity at the Guadalupe processing complex at Zacualpan, including work on a third tailings facility with a provisional life of nine years
- Closing two non-brokered, private placements for $9.0 million and $3.5 million
- Commencement of shares trading on the U.S. OTCQB Exchange under the symbol ISVLF

Throughout the year, the Company dealt with ongoing inflationary pressures across the Zacualpan operations. Profit margins remain pressured due to higher supplier pricing and increased labour and union-related compensation, as well as other operating and administrative costs. Exchange rate pressures continued to negatively impact margins as the Mexican peso strengthened considerably throughout 2023. Higher gold production during the period helped partially offset lower overall tonnage and ongoing cost pressures.

Financial Highlights

- Revenue in 2023 was $20.8 million, a 27% increase from $16.3 million in 2022
- After investing $8.5 million in exploration expenditures and mining assets during the year, the cash position remained strong at year end at $8.3 million with working capital of $7.6 million.
- Net loss in 2023 was $7.6 million (which included $2.3 million incurred by MLAZ to bring operations online), compared to $3.2 million in 2022.
- The Company has no long-term debt.

Q4 2023 Review

During the quarter, the Company milled a total of 35,825 tonnes of mill feed at the Guadalupe complex, down from 39,720 tonnes in Q4 2022. The quarter typically begins as a seasonally wet period which carries with it unpredictable production levels. Transport costs from some of the Company's mines were higher than usual due to wet weather deteriorated roads at times, over longer hauling distances while processing wet material tends to lower efficiencies in the mill.

Silver production from the Guadalupe complex during the period was 156,430 oz compared to 157,381 oz in Q4 2022. Contributions from lead and gold saw production increases on a year over year basis of 23% and 27%, respectively. The average silver grade in Q4 2023 was 160 g/t compared to 150 g/t in Q4 2022. Despite lower mill throughput, additional gold production helped contribute to a significant increase in revenue per tonne sold to $135.80 compared to $106.94 in Q4 2022. There was a 53% increase in quarterly direct costs per tonne to $152.38 compared to $99.79 in Q4 2022. This was due to several factors including inflation across the value chain, foreign exchange pressures from the strengthening Mexican peso, annual Christmas pay, as well as ongoing underground drilling and development costs which were expensed. The pressures from foreign exchange and inflation are expected to moderate in the coming year.

At the Plomosas mine, the Company recommenced limited production operations in October 2023, after a substantial rehabilitation program since the acquisition of the mine in April 2023. In Q4 2023, the Plomosas mine milled a total of 3,774 tonnes with head grades for zinc of 13.8%, lead of 6.6% and silver of 46.8 g/t , with typical start-up pauses throughout the period to review and optimize processes. In accordance with current IFRS standards, unlike the former prescribed treatment, the revenue and costs for the Plomosas operations were required to be included in the Q4 results, even though it had not yet reached what the Company considered to be normalized production levels. Revenue from Plomosas for Q4-23 was $0.5 million with costs of $2.1 million. For the period April 3 to September 30, 2023, the operating costs were capitalized as pre-production costs as there was no revenue generated during that period. The costs in the fourth quarter are not representative as they include extraordinary costs associated with bringing operations online, as well as extra costs associated with the ongoing upgrade of the facilities, and repairs and maintenance.

Financial Overview

- Revenue in Q4 2023 was $5.4 million (which included $0.5 recorded by MLAZ for the quarter), up from $4.4 million in Q4 2022
- Mine operating loss before amortization and depletion was $2.1 million in the quarter, compared to income of 0.3 million in Q4 2022, $1.8 million of which was from additional start-up costs required to bring Plomosas online
- The Company raised $3.5 million from a non-brokered private placement in December 2023.
- $1.1 million was invested in long-lived assets during the quarter.
- The net loss in Q4 2023 was $4.9 million compared to net loss of $1.1 million in Q4 2022. The increase in the loss was primarily due the increase in the provision for deferred income taxes of $1.7 million as well as the inclusion of the Plomosas start-up operating costs.

In April 2023, the government of Mexico announced that it had passed new mining legislation for the next generation of mining companies operating in country. The Company expects its existing operations to be mostly unaffected by this new legislation and IMPACT continues to operate with the aim of doing so profitably while maintaining leading Environmental Social and Governance ("ESG") programs and standards. Management is exploring options to establish significant carbon-reducing infrastructure initiatives that could materially lead the way towards a higher ESG and more profitable operating cost profile.

Production and Mine Site Review

Zacualpan - Guadalupe Production Complex

The Company is continuing its strategy to optimize production and cost control at its Guadalupe processing plant. Amidst a higher cost profile in the quarter due to ongoing inflationary pressures and a strong Mexican peso, costs increased on a per tonne basis. The pressures from foreign exchange and inflation are expected to moderate in the coming year. There was a 30% increase to revenue per tonne on a year over year basis primarily due to a 22% and 178% increase in lead and gold sales, respectively. There remains a focus on mining higher grade material combined with added gold production and recoveries that have positively impacted results and helped offset temporarily reduced silver sales.

Mine management has been running a focused program of definition and step-out drilling in the Guadalupe Mine while developing additional feed at the San Ramon, Cuchara and Veta Negra mines. The historic Alacran mine, recently brought back into limited production, contains elevated levels of gold mineralisation that have helped improve the overall grade for the operation for the year. Ongoing work is being performed with the Alacran mineralization to improve recoveries and economics. The Company's strategy of focused exploration and efficient milling at Zacualpan has helped offset against high inflation and costs associated with running the operation, as well as negative foreign exchange pressures over the last year.

Plomosas Project

Following the acquisition of the Plomosas high grade zinc-lead-silver mine in 1H 2023, the Company was focused on rehabilitating the mine, plant and equipment, and commenced limited start-up operations in late 2023. Production ramp up is expected later in 2024, with management working to optimize mining and production efficiencies. Management anticipates reaching design throughput capacity by the end of 2024. Meanwhile, the average mill head grade on a zinc equivalent basis was 18% in December, which is amongst the top-tier across the zinc industry, worldwide.

The 3,019 hectares property covers extensive carbonate replacement deposit-type zinc-lead-silver mantos (beds). The previous operator reported an historic JORC-compliant mineral resource of 215,000 tonnes grading 13.5% zinc, 6.3% lead and 34.0 g/t silver (indicated), and 772,000 tonnes grading 13.1% zinc, 3.0% lead and 19.0 g/t silver (inferred). To date, just 600m of the 6km strike length has been actively explored, thereby offering meaningful exploration potential and upside. A robust drilling program will be ongoing throughout 2024 with the intention of defining and expanding the size and quality of the historical resource.

Subsequent to year end 2023, the Company entered into a contract with the Mexican-Canadian engineering company Bell Internacional and its sub-contractor Tesla Inc., to convert 85%+ of the mine's electricity needs to battery and solar power. As part of the infrastructure upgrades it is expected that this will result in a meaningful and positive impact on profit margins and carbon emissions, as power is one of the two highest operating costs alongside labour.

Capire Project

Previous 43-101 studies on the Capire deposit have been evaluated with an inhouse review using the experience of the earlier 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 laboratory scale studies, a bulk sample of 1,400 kilograms of material selected by the Company's consultant from the Capire open pit was previously 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 the amount of material to be processed and the costs 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 Company has also drilled and is evaluating the significance of the nearby Aurora 2 zone to the project.

The objectives of these studies at Capire are to improve the possible operating margins through reduced processing costs to minimize sensitivity of operations to metal price fluctuations.

PRODUCTION AND SALES: ZACUALPAN -GUADALUPE MILL

	For the Three Months Ended December 31			For the Twelve Months Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Total tonnes (t) milled	**35,825**	39,720	-10%	**147,444**	152,862	-4%
Tonnes produced per day	**389**	432	-10%	**404**	419	-4%
Silver production (oz)	**156,430**	157,381	-1%	**637,514**	632,862	+1%
Lead production (t)	**62**	51	+23%	**305**	227	+34%
Gold production (oz)	**104**	82	+27%	**776**	297	+161%
Silver sales (oz)	**153,390**	166,590	-8%	**636,655**	644,843	-1%
Lead sales (t)	**62**	57	+9%	**290**	238	+22%
Gold sales (oz)	**109**	79	+38%	**780**	281	+178%
Average mill head grade –silver g/t	**160**	150	+6%	**160**	159	+1%
Revenue per tonne sold[1]	**135.80**	106.94	+27%	**136.62**	105.39	+30%
Direct costs per production tonne[1]	**152.38**	99.79	+53%	**130.58**	97.49	+34%

[1] 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".

MINE PRODUCTION

IMPACT owns two mining operations in Mexico. The Company has been operating the Royal Mines of Zacualpan Silver-Gold Mine since 2006, and on April 3, 2023, announced completion of its acquisition of the Plomosas Zinc-Lead-Silver Mine.

ROYAL MINES OF ZACUALPAN DISTRICT

At the Royal Mines of Zacualpan Silver-Gold District in central Mexico, several underground mines and an open pit mines on epithermal silver-gold (-zinc-lead) veins feed the central Guadalupe processing plant which has a rated capacity of 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 property. Production comes from multiple veins on multiple levels in the largest vein cluster known on the property. During the fourth quarter of 2023, the Guadalupe Mine provided 54% (Q4 2022 – 55%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 164 to 178 g/t silver. Production during Q4 2023 was from the Lipton, Liptonia, San Lorenzo and Kena area veins on Levels 40, 100, 110, 140, 175, 215 and 235. With its lower cost structure, the Company is expanding production from Guadalupe, by further upgrading the shaft and underground railroad infrastructure, and is adding 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 2023, San Ramon South provided 16% (Q4 2022 – 13%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 166 to 168 g/t silver. Production during Q4 2023 was from Levels 6, 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 2023, the Veta Negra Mine provided 10% (Q4 2022 – 11%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during the quarter ranged from 163 to 174 g/t silver.

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 2023, the Cuchara Mine provided 16% (Q4 2022 – 19%) 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 La Blanca veins. Monthly average mining grades at Cuchara during the quarter ranged from 155 to 160 g/t silver.

Alacran Gold-Silver Mine

The Alacran Gold-Silver Mine is located three kilometres south of the Guadalupe mill. IMPACT began redevelopment of the mine during the fourth quarter of 2022 with first commercial mining in March 2023. During the fourth quarter of 2023, the Alacran mine produced 4% of feed to the Guadalupe mill before production was temporarily suspended in late October 2023 and metallurgical studies initiated to improve gold recoveries. The mine contributes a gold-silver feed to the Guadalupe mill. Recent production was from the San Margarito Vein. Average mining grades at Alacran during October 2023 were 2.65 g/t gold and 63 g/t silver.

Capire Processing Plant and Mine

The Capire Production Centre is located 16 kilometres southwest of the Guadalupe Production Centre. 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 test open pit mine and completion of construction of the 200-tpd pilot plant but in February 2014 suspended operations mainly due to low silver prices and low silver grades. 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.sedarplus.ca 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
30	**1,786,000**	**63.74**	**79.49**	**1.22**	**0.54**	**4,563,000**	**47,975,000**	**21,423,000**
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 diluted resources and 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.

Zacualpan Exploration

Mines on epithermal veins that were drilled and built by the IMPACT team on the Zacualpan 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 (production temporarily suspended), 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 Zacualpan drill results from greenfields drilling targets including at the San Antonio zinc prospect, where drill results included 2.3% zinc over 3.85 metres (see IMPACT news release dated January 4, 2023 for details). Step out drilling at Aurora 2, north of the Capire open pit, 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 Zacualpan and Capire 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. Upcoming drilling and exploration work are planned for the south extensions of the Guadalupe Mine and former Chivo 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.

PLOMOSAS PROJECT

On April 3, 2023, IMPACT announced completion of its acquisition of the Plomosas Zinc-Lead-Silver Mine located 150 km northeast of Chihuahua City, northern Mexico. On October 23, 2023, after carrying out a program of extensive upgrading to mining, equipment, and processing facilities as well as hiring of new technical and supervisory staff, IMPACT announced restart of operations and shipment of first concentrate. Plans are to next ramp up operations to the plant design capacity and associated increase in revenue by late 2024.

Plomosas is host to high-grade mineralization. The previous owner, Yari, reported Plomosas JORC-compliant mineral resources[1] of 215,000 tonnes grading 13.5% zinc, 6.3% lead and 34.0 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 cutoff at December 2021. IMPACT has begun a surface drill program to infill and test extensions of the known mineralization.

The district was discovered in 1832 and has recently seen small scale mining. Historical mining is in the global upper quartile for zinc grade with approximately 2.5 million tonnes mined since 1943 grading 15-25% zinc, 2-7% lead and 40-60 g/t silver with low deleterious elements[2].

The mine and mill were last in production from September 2018 until late 2022. In 2021, the previous owner processed 31,695 tonnes producing 2,442 tonnes of zinc concentrate and 599 tonnes of lead concentrate. Mine access is by a ramp reaching a depth of 250m below surface and old shafts that can be refurbished[2]. Mine development and dewatering are continuing as activity expands underground. Mineral is fed to a refurbished 200 tonne per day conventional flotation plant. The Plomosas Property is subject to an underlying 1% Net Smelter Royalty.

Exploration

On January 17, 2024, subsequent to 2023 year end, IMPACT announced first drill results from surface exploration drilling at Plomosas including 6.9 metres (true width) of 10.22% Zinc, 5.43% Lead and 27.7g/t Silver on the south extension of the Tres Amigos Zone. Drilling is continuing to extend the Tres Amigos Zone with plans for initial drill programs on other explorations targets on the property in 2024.

The 3,019 hectare property covers extensive carbonate replacement deposit-type ("CRD") zinc-lead-silver mantos (beds) mainly hosted in carbonates (limestones, marbles). Exploration potential at Plomosas is exceptional with only 600m of the 6,000m long CRD structure assessed by modern exploration plus other exploration targets including untested copper-gold targets to the northwest. Exploration of greenfield targets on the property has commenced with mapping and sampling of historic prospects. Regionally Plomosas lies in the same mineral belt as some of the largest CRD deposits in the world[2]. (Reference to these nearby projects is for information purposes only and there are no assurances that Plomosas will achieve similar results.)

MINING PLANS

At Zacualpan in the near term, the Company is optimizing silver and gold production, and continues evaluation of the potential restart of the Capire open pit silver mine.

At the Plomosas mine, the Company recently announced restart of operations and shipment of first concentrate (see IMPACT news release dated October 23, 2023 for details) with plans to achieve mill design capacity of 200 tpd by late 2024 and for potential expansion.

QP Statements: 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 Project, 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 and on www.sedarplus.ca.

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.

Footnotes:
1. Plomosas mineral resources were reported by Consolidated Zinc Ltd. (CZL:ASX) (now Yari Minerals Ltd.) 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.

2. 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 conducts reclamation on sites disturbed by its activities. As a primarily underground mining operator, surface disturbances from mining activity have been minimal.

While IMPACT has always considered its resp0nsibility 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.

Zacualpan Operational, Environmental and Social:

The exploration surface 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 which minimizes surface disturbances, and the Company engages the local community for logistical support and assistance as part of the drill crew. All drill sites are reclaimed after use. Besides increasing our flexibility while keeping environmental disturbances to a minimum, the drill programs, utilizing Company-owned drills, have proved to be very 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 Guadalupe (Zacualpan) tailings impoundment and are continuing to follow their recommendations.

Work on tailings pond facility #3 is continuing, which is projected to accommodate approximately nine years of production from the Guadalupe mill complex in the future. The site has now been fully permitted and cleared.

In 2022, trees were planted as part of preparation for the new tailings facility #3, and part of a larger program to improve areas of past historical activity. In conjunction with the municipality and the Technological Baccalaureate Center, the Company planted approximately 6,000 trees of various indigenous species over the last two years. A further 10,000 trees are expected to be planted over the next year or so.

In areas surrounding the mine's property, tailings facilities and the complex's support facilities, the Company, collaborating with local farmers, planted approximately 1,000 agave plants. The Company maintains a greenhouse for nurturing the initial plants before being transferred to the field. Plans are in place for a further 3,000 agaves to be planted over the next year or so. According to the Company's consultants, agave plants can reduce and isolate large quantities of atmospheric CO_2. 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_2 per hectare per year. Once established, they do not require regular irrigation and are relatively insensitive to rising global temperatures and drought. Agave also provides a cash crop for 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. Studies are being conducted that 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 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 for the Company.

The Company keeps community members informed of its activities and collaborates with the communities to address local concerns. The employment of most workers from local communities helps to foster understanding, and direct involvement in the Company's operations. Over the last several years the Company has focused on two strategies to assist the local communities. The first is to improve infrastructure which may have been neglected by government in the past. The Company continues to provide tools, materials and supplies while the communities provide labour for community projects. The Company continues to upgrade roads and has 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 access, both potable and for irrigation, to a number of individual farmers and nearby communities. This includes building water tanks and providing plastic pipes for water storage and distribution.

In late summer 2022, earthquake drills were practiced across Mexico and the Zacualpan team 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 are ongoing and a source of pride for the Company.

In the past and during the current year, the Company has taken on geology and engineering students for co-op semesters to provide them, under supervision, with essential work experience that is integral to their studies.

Plomosas Operational, Environmental and Social:

At Plomosas, plans are in place to further expand the existing tailings pond and concurrently, a new larger tailings pond is in the design stage. These efforts will provide additional capacity to re-establish and grow output at the mill in the near-term while providing the Company with substantial tailings capacity for future production increases.

The Company educates its new employees and contract personnel as to its high standards related to environmental and safety issues which is reinforced on a regular basis to ensure compliance.

The mine is located in a desert environment that is sparsely occupied and will require a sensitive program to enhance the environmental and social situation. The Company is also reviewing the opportunity to make Plomosas a sustainable mining operation and in 2023 signed a commitment with Bell Internacional (equipment provided by Tesla Inc.) to convert 85%+ of the mine's electricity to battery and solar power. This project, with implementation planned for mid-2024, will reduce carbon emissions as well as costs.

The Company has social, environmental, and other policies related to its operations and promotes a culture for working safely. It has an established an effective relationship with the mine's 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 effect on local communities. The mining operation employs a safety officer to implement and supervise the safety program and currently first aid facilities are being initiated at the mine.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations and attends investment and mining related conferences. With the changes occurring in the marketplace and the economy, the Company continues to also strengthen its presence via social media and other online marketing.

The Company has also revised its website to assist stakeholders in understanding its activities and the potential of the entire Royal Mines of Zacualpan and Plomosas districts. The Company has prepared video presentations of some of its operations and exploration activities which are available for viewing under the "Media" section on the Company's website (www.IMPACTSilver.com).

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share		Three months ended December 31		
		2023		2022
Revenue	**$**	**5,389**	$	4,412
Net loss	**$**	**(4,902)**	$	(1,065)
Loss per share– basic and diluted	**$**	**(0.02)**	$	(0.01)

Net loss for the fourth quarter of 2023 was impacted by the following factors:

- In Q4-23, the operating costs and revenue from the limited start-up of production at Plomosas were included for the first time. Previously, for the period from April 3 to September 30, 2023, the operating costs were capitalized as pre-production costs as no production revenue had been generated. Revenue from MLAZ for Q4-23 was $0.5 million and start up operating costs were $2.1 million. Revenue per tonne was $141.51 based on tonnes milled.

- Revenue for Q4-23 from the Guadalupe complex was $4.9 million, an increase from $4.4 million in 2022. Although tonnes milled decreased 10% from Q4-22 and silver sales were down 8%, there was an increase of 38% in gold sales, 10% higher silver prices, and an increase of 6 % for silver grade over the comparative period in 2022. Revenue was also impacted by an increase in the value of the Mexico peso over the Canadian dollar between the two periods.

- Mining operating loss was $2.6 million in Q4 2023 compared to $0.1 million in Q4 2022, of which $1.8 million was from Plomosas. Revenue per tonne at Guadalupe was up by 27% to $135.80 compared to $106.94 in the fourth quarter last year, due in part to increased gold sales. Direct costs per tonne at Guadalupe were up 53% to $152.38 from $99.79 in Q4 2022. The stronger Mexican peso affected the revenue per tonne and direct costs per tonne during the period. Tonnes milled during the quarter decreased 10% to 35,825 from 39,720 in Q4 2022.

- General and administrative costs in Q4-23 were $1.2 million compared to $0.5 million in Q4 2022. During the quarter legal, audit and accounting increased by $0.1 million, consulting costs increased by $0.2 million, and office salaries and services increased by $0.1 million over the same period in the prior year. Investor relations costs increased by $0.2 million in the fourth quarter of 2023 compared to 2022, relating to the private placement financing completed in December.

- The Company recorded a provision for deferred taxes of $1.7 million in Q4 2023 compared $0.4 million in Q4 2022.

- There was a foreign exchange gain of $0.4 million in Q4 2023 compared to $0.1 million in Q4 2022 resulting from the fluctuating US dollar and Mexican peso. Finance income from interest on short term cash investments remained steady at $0.1 million in the fourth quarters of 2023 and 2022.

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	
	2023	2022
Revenue	$ **20,762**	$ 16,336
Net loss	$ **(7,565)**	$ (3,163)
Loss per share – basic and diluted	$ **(0.04)**	$ (0.02)

Net loss for the twelve months ended December 31, 2023 was impacted by the following factors:

- Revenue for the year was $20.8 million compared to $16.3 million in 2022. This included $0.5 million from the start-up revenue from Plomosas and $20.3 million from the Guadalupe complex. During the year, Guadalupe's revenue per tonne sold increased to $136.62 compared to $105.39 on 7% higher silver prices, and gold sales which increased 178%. Tonnes milled decreased to 147,444 from 152,862 in 2022. During the year, Plomosas processed 3,774 tonnes at an average mill head grade of 13.8% zinc with revenue per tonne of $141.51 based on tonnes milled.

- The mine operating loss was $2.4 million in 2023 compared to $0.2 million in 2022, of which $1.8 million was from Plomosas as it started operating on a limited basis in Q4-23. Previously, for the period from April 3 to September 30, 2023, the operating costs in MLAZ were capitalized as pre-production costs as no production revenue had been generated.

- Revenue per tonne at Guadalupe was 30% higher than in the same period in 2022 due to increased gold production sales, as well as a stronger Mexican peso. Direct costs per tonne at Guadalupe increased 34% to $130.58 in 2023 compared to $97.49 in 2022, of which 17.5% was due to the value of the Mexican peso increasing against the Canadian dollar over 2022.

- General and administrative costs increased to $4.1 million in the twelve months of 2023 compared to $2.4 million in 2022, most of which was due to the additional costs incurred by the Company on private placements in Q2 and Q4, as well as the acquisition of MLAZ and ongoing activities concerning that mine. The costs related to the acquisition of MLAZ, along with the promotional costs relating to the financings, have been expensed. For the twelve months ended December 31,2023, investor relations, promotion and travel was $0.7 million (2022 -$0.1 million), legal, audit and accounting was $0.8 million (2022 -$0.2 million), office salaries and services was $1.3 million (2022 -$1.1 million), and office, rent, insurance and sundry was $0.5 million (2022 -$0.4 million).

- The Company recorded a provision for deferred taxes of $2.0 million in 2023 compared to $0.4 million in 2022.

- Finance income from interest on short term cash investments was $0.5 million compared to $0.3 million in 2022. There was a foreign exchange gain of $0.4 million in 2023 compared to a loss of $0.01 million in 2022 resulting from the fluctuating US dollar and Mexican peso.

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 2023	Sept 30 2023	June 30 2023	Mar 31 2023	Dec 31 2022	Sept 30 2022	June 30 2022	Mar 31 2022
Revenue	5,389	4,767	5,492	5,114	4,412	3,794	3,501	4,629
Net (loss) income	(4,902)	(1,480)	(853)	(330)	(1,065)	(1,243)	(795)	(60)
Earnings (loss) per share – Basic and Diluted*	(0.02)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)
Total assets	88,578	88,161	89,187	71,959	68,796	69,257	66,781	66,781
Total liabilities	14,445	12,463	12,523	7,525	6,963	7,181	6,306	6,384

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

During the year ended December 31, 2023:

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

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

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

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

    As of the date of the December 31, 2023 consolidated financial statements, the determination of the fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized. The actual fair values of the assets and liabilities may differ materially from the amounts disclosed in the preliminary fair value below and are subject to change within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date.

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

The results from operations of Minera Latin American Zinc from April 3, 2023 forward are included in the December 31, 2023 consolidated financial statements. From the closing date of the acquisition on April 3, 2023 to December 31, 2023, MLAZ contributed revenue of $534,081 and net loss of $2,341,430 to the Company's results.

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

  i. On April 19, 2023, a total of 30,903,012 units were issued for aggregate gross proceeds of $8,343,813. The Company paid certain registered dealers a cash commission of $198,305 and granted 734,461 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of $0.35 until April 19, 2025.

  ii. On May 3, 2023, a total of 2,454,092 units were issued for aggregate gross proceeds of $662,605. The Company paid certain registered dealers a cash commission of $24,016 and granted 88,950 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of $0.35 until May 3, 2025.

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

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

- For the twelve months ended December 31, 2023, the Company used cash flows from operating activities of $6.6 million compared to $1.8 million in 2022. This includes a temporary increase in inventory and trade and other receivables of $1.4 million, and $0.6 million was spent on the reduction of trade payables including amounts assumed on the acquisition of MLAZ, along with a $0.8 million foreign exchange impact.

- In 2023, the Company invested $8.5 million (2022 - $4.9 million) in long-lived assets, of which $2.7 million was allocated to exploration expenditures and $5.8 million to property, plant and equipment including mining assets. During the year, $4.6 million was spent to upgrade and update the property, plant and equipment of MLAZ to ready it for production, and $0.9 was spent on exploration at Plomosas.

- In the second quarter of 2023, the Company paid cash of $4 million for the acquisition of MLAZ, and acquired cash of $0.2 million on the purchase.

- During the period, the Company received net proceeds of $12.0 million from non-brokered private placements. In 2022 the Company received proceeds of $0.9 million on the exercise of warrants and stock options.

- At December 31, 2023 the Company had cash of $8.3 million compared to $15.3 million at December 31, 2022. Working capital was $7.6 million compared to $16.4 million at December 31, 2022.

During the three months ended December 31, 2023:

- The Company used cash flows from operating activities of $2.8 million in Q4 2023 compared to using $0.6 million in 2022.

- In Q4-23 the Company closed a non-brokered private placement financing in which 20,588,235 units were issued for aggregate gross proceeds of $3,500,000.

- During the fourth quarter, the Company invested $1.1 million (Q4 2022 - $0.6 million) in long-lived assets, of which $0.3 million was spent on property, plant and equipment including mining assets. Investment in exploration expenditures for the group totaled $0.8 million, primarily spent at MLAZ's Plomosas property.

Outstanding Share Data

The following common shares and convertible securities were outstanding at April 12, 2024:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	213,574,696		
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	31,637,473	$0.35	April 19. 2025
Warrants	2,543,042	$0.35	May 3, 2025
Warrants	10,635,415	$0.22	December 22, 2025
Fully diluted	264,400,626		

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 though 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. 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 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 ($8.3 million) and trade and other receivables ($3.9 million).

Interest rate risk

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

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, 2023, 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, 2023, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate $0.2 million decrease or increase in the Company's net income for the period ended December 31, 2023.

Commodity price risk

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

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. 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, 2023 by $0.1 million (2022 - $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. T he 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.

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 Zacualpan:

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2023	2022	**2023**	2022
Operating expenses	**$ 5,396,806**	$ 4,143,229	**$ 19,222,934**	$ 15,114,777
(Deduct): operating expenses for Capire	**(1,019)**	(5,696)	**(28,969)**	(8,487)
Add (deduct): inventory	**63,262**	(173,694)	**58,658**	(203,523)
Direct costs	**$ 5,459,049**	$ 3,963,839	**$ 19,252,623**	$ 14,902,767
Tonnes milled	**35,825**	39,720	**147,444**	152,862
Direct costs per tonne	**$ 152.38**	$ 99.79	**$ 130.58**	$ 97.49
Revenue	**$ 4,854,945**	$ 4,411,865	**$ 20,227,554**	$ 16,335,788
Tonnes sold	**35,752**	41,254	**148,057**	155,003
Revenue per tonne sold	**$ 135.80**	$ 106.94	**$ 136.62**	$ 105.39

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	
	2023	2022	**2023**	2022
Revenue	**$ 5,389,025**	$ 4,411,865	**$ 20,761,634**	$ 16,335,788
Operating expenses	**7,521,015**	4,143,229	**21,347,143**	15,114,777
Mine operating earnings before amortization and depletion	**$ (2,131,990)**	$ 268,636	**$ (585,509)**	$ 1,221,011

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; community relations, criminal activity, 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 and on SEDAR at www.sedarplus.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

April 12, 2024