

IMPACT SILVER CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2022 and 2021

Unaudited

NOTICE OF NO REVIEW BY AUDITOR

In accordance with National Instrument 51 – 102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators **WE HEREBY GIVE NOTICE THAT** the condensed consolidated interim financial statements which follow this notice have not been reviewed by an auditor.

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Financial Position

(Canadian dollars)

Unaudited

ASSETS	June 30, 2022	December 31, 2021
Current		
Cash	\$ 18,379,392	\$ 21,081,575
Trade and other receivables (Note 3)	2,167,875	1,736,262
Inventories (Note 4)	1,211,466	1,071,797
Investments	180,000	85,000
	21,938,733	23,974,634
Right-of-use assets (Note 5)	214,237	266,738
Property, plant and equipment (Note 7)	21,474,494	19,820,400
Exploration and evaluation assets (Note 8)	23,657,884	22,481,941
	\$ 67,285,348	\$ 66,543,713
LIABILITIES		
Current		
Trade payables and accrued liabilities	\$ 1,955,064	\$ 2,365,921
Lease liabilities (Note 6)	84,032	89,228
	2,039,096	2,455,149
Lease liabilities (Note 6)	109,973	154,597
Reclamation provision	715,730	669,043
Deferred income tax liabilities	3,506,882	3,298,993
	6,371,681	6,577,782
SHAREHOLDERS' EQUITY		
Share capital	82,241,813	81,122,078
Warrants (Note 11(c))	2,427,284	2,666,279
Contributed surplus	8,878,959	8,897,500
Accumulated other comprehensive loss	(7,166,951)	(8,107,947)
Accumulated deficit	(25,467,438)	(24,611,979)
	60,913,667	59,965,931
	\$ 67,285,348	\$ 66,543,713

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.

Condensed Consolidated Interim Statements of Income (Loss) For the Three and Six Months Ended June 30

(Canadian dollars)

Unaudited

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenues	\$ 3,501,370	\$ 4,215,562	\$ 8,129,990	\$ 9,591,422
Cost of sales				
Operating expenses (Note 10)	3,470,509	2,895,618	7,039,704	6,326,712
Amortization and depletion	375,953	311,290	686,204	589,453
	3,846,462	3,206,908	7,725,908	6,916,165
Mine operating (loss) income	(345,092)	1,008,654	404,082	2,675,257
General and administrative expenses				
Accounting, audit and legal	71,874	53,351	112,283	105,754
Amortization	5,191	11,537	7,699	22,325
Investor relations, promotion and travel	46,420	13,282	62,443	28,385
Management fees and consulting	121,556	44,240	226,633	122,450
Office, rent, insurance and sundry	83,342	74,134	186,079	195,712
Office salaries and services	270,408	180,395	553,807	362,832
Share-based payments (Note 11(b))	-	-	-	943,511
	598,791	376,939	1,148,944	1,780,969
Operating (loss) income	(943,883)	631,715	(744,862)	894,288
Other income (expenses)				
Finance cost	(17,317)	(11,573)	(34,730)	(23,592)
Finance income	44,895	29,994	63,588	63,786
Foreign exchange gain (loss)	81,912	(113,792)	(8,444)	(30,794)
Other income (expense)	1,134	(6,993)	(2,826)	(15,118)
Write-down of exploration and evaluation assets	-	(33,451)	-	(33,451)
	110,624	(135,815)	17,588	(39,169)
(Loss) income before taxes	(833,259)	495,900	(727,274)	855,119
Current income tax expense	10,042	36,353	12,082	128,334
Deferred income tax expense (recovery)	(48,046)	241,108	116,103	765,687
Net (loss) income	\$ (795,255)	\$ 218,439	\$ (855,459)	\$ (38,902)
(Loss) income per share – (Note 11(d))				
Basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding				
Basic and diluted	147,178,037	144,441,166	146,351,540	146,308,767

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Comprehensive Income For the Three and Six Months Ended June 30

(Canadian dollars)

Unaudited

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Net (loss) income	\$ (795,255)	\$ 218,439	\$ (855,459)	\$ (38,902)
Other comprehensive (loss) income				
Items that may be subsequently reclassified to profit or loss				
Cumulative translation adjustment	696,390	463,562	1,085,996	(936,581)
Items that will not be subsequently reclassified to profit or loss				
(Loss) gain on investments	(125,000)	10,000	(145,000)	-
Comprehensive (loss) income	\$ (223,865)	\$ 692,001	\$ 85,537	\$ (975,483)

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the Three Months Ended June 30

(Canadian dollars)

Unaudited

	Shares Outstanding	Share Capital (\$)	Warrants (\$)	Contributed Surplus (\$)	Accumulated Other Comprehensive Income (\$)	Retained Deficit (\$)	Total Shareholders' Equity (\$)
Balance at January 1, 2021	141,410,247	79,325,168	2,954,251	7,523,552	(7,047,278)	(24,066,644)	58,689,049
Net loss for the period	-	-	-	-	-	(38,902)	(38,902)
Share-based compensation expense	-	-	-	943,511	-	-	943,511
Warrants exercised	6,672,272	1,528,815	(279,556)	-	-	-	1,249,259
Stock options exercised	230,000	233,127	-	(97,777)	-	-	135,350
Cumulative translation adjustments	-	-	-	-	(936,581)	-	(936,581)
Balance at June 30, 2021	145,312,519	81,087,110	2,674,695	8,369,286	(7,983,859)	(24,105,546)	60,041,686
Balance at January 1, 2022	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 period	-	-	-	-	-	(855,459)	(855,459)
Warrants exercised	2,706,225	1,066,194	(238,995)	-	-	-	827,199
Stock options exercised	100,000	53,541	-	(18,541)	-	-	35,000
Cumulative translation adjustments	-	-	-	-	1,085,996	-	1,085,996
Loss on investments	-	-	-	-	(145,000)	-	(145,000)
Balance at June 30, 2022	148,187,710	82,241,813	2,427,284	8,878,959	(7,166,951)	(25,467,438)	60,913,667

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

IMPACT Silver Corp.

Condensed Consolidated Interim Statements of Cash Flows For the Three and Six Months Ended June 30

(Canadian dollars)

Unaudited

Cash resources provided by (used in)	For the three months ended June 30		For the six months ended June 30	
	2022	2021	2022	2021
Operating activities				
Net (loss) income	\$ (795,255)	\$ 218,439	\$ (855,459)	\$ (38,902)
Items not affecting cash				
Amortization and depletion	381,144	322,827	693,903	611,778
Share-based payments	-		-	943,511
Deferred income tax (recovery) expense	(48,046)	241,108	116,103	765,687
Accretion expense	13,103	10,651	25,807	21,449
Write-down of exploration and evaluation assets	-	33,451	-	33,451
Unrealized gain on foreign exchange	28,526	54,353	25,875	(57,889)
Changes in non-cash working capital				
Trade and other receivables	555,856	428,763	(335,752)	56,538
Income taxes receivable	(5,795)		(9,631)	(1,387)
Inventories	(199,514)	(239,492)	(107,812)	235,446
Trade payables	38,906	(26,672)	(454,143)	(249,846)
Income taxes payable	7,397	11,928	(11,075)	15,308
	(23,678)	1,055,356	(912,184)	2,335,144
Investing activities				
Proceeds on sale of long-lived assets	-	-	100,000	50,000
Acquisition of long-lived assets	(1,444,776)	(877,358)	(2,701,833)	(1,707,292)
	(1,444,776)	(877,358)	(2,601,833)	(1,657,292)
Financing activities				
Repayment of lease liability	(25,298)	(20,519)	(50,365)	(43,043)
Proceeds from the exercise of stock options	35,000	-	35,000	135,350
Proceeds from exercise of warrants	705,679	498,489	827,199	1,249,259
	715,381	477,970	811,834	1,341,566
Net change in cash	(753,073)	655,968	(2,702,183)	2,019,418
Cash - Beginning of period	19,132,465	21,749,001	21,081,575	20,385,551
Cash - End of period	\$ 18,379,392	\$ 22,404,969	\$ 18,379,392	\$ 22,404,969

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

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

1. Nature of operations

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that the current exploration and development programs will result in ongoing profitable mining operations. The investment in and expenditures on exploration and evaluation assets comprise a significant portion of the Company’s assets. The recovery of the Company’s investment in these exploration and evaluation assets and the attainment of profitable operations are dependent upon future commodity prices, the ongoing discovery and development of economic ore on these properties and the ability to arrange sufficient financing to bring the ore estimates into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

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

Statement of compliance

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. All material intercompany balances have been eliminated. The accounting policies applied in the preparation of these unaudited condensed financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2021.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

2. Basis of Preparation – continued

As all the disclosures required by IFRS are not included, these interim statements should be read in conjunction with the audited financial statements of IMPACT Silver Corp. (“the Company”) for the year ended December 31, 2021.

Except when otherwise stated, all amounts are presented in Canadian (“CDN”) dollars, which is the presentation currency of the Company.

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on August 25, 2022.

3. Trade and other receivables

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

	June 30, 2022	December 31, 2021
Value added taxes receivable	\$ 917,812	\$ 935,620
Trade and other receivables	950,875	550,843
Prepays	299,188	249,799
	<u>\$ 2,167,875</u>	<u>\$ 1,736,262</u>

4. Inventories

The following table details the composition of inventories at:

	June 30, 2022	December 31, 2021
Materials and supplies	\$ 689,769	\$ 488,951
Stockpile inventory	279,076	89,895
Concentrate inventory	242,621	492,951
	<u>\$ 1,211,466</u>	<u>\$ 1,071,797</u>

The amount of write-down of inventories to net realizable value during the six months ended June 30, 2022 was \$0.05 million (June 30, 2021 - \$nil) relating to concentrate inventory.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

5. Right-of-use assets

Details are as follows:

	Land
Balance at January 1, 2021	\$ 103,475
Additions	261,775
Amortization	(96,554)
Foreign exchange movement	(1,958)
Balance at December 31, 2021	266,738
Amortization	(53,796)
Foreign exchange movement	1,295
Balance at June 30, 2022	\$ 214,237

6. Lease Liabilities

Details are as follows:

Balance at January 1, 2021	\$ 78,669
Interest	9,711
Repayments	(102,949)
Additions	261,775
Foreign exchange movement	(3,381)
Balance at December 31, 2021	243,825
Interest	8,931
Repayments	(59,296)
Foreign exchange movement	545
Balance at June 30, 2022	194,005
Less: current portion	84,032
Non-current lease liabilities	\$ 109,973

The Company's leased assets are for office leases and land. The lease liabilities were discounted at the Company's incremental borrowing rate. The weighted average rate applied for leases was 8.0%.

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

6. Lease Liabilities - continued

The expected timing of undiscounted lease payments is as follows:

	June 30, 2022	December 31, 2021
Less than one year	\$ 104,429	\$ 112,244
One to five years	108,830	157,825
	\$ 213,259	\$ 270,069

7. Property, plant and equipment

Details are as follows:

	Plant and Mine equipment (\$)	Vehicles (\$)	Office furniture and equipment (\$)	Surface rights (\$)	Mining Assets (\$)	Total (\$)
Cost						
Balance at January 1, 2021	9,287,104	498,017	232,246	1,052,133	28,116,715	39,186,215
Additions	470,315	86,812	51,844	-	1,826,239	2,435,210
Change in reclamation estimate	-	-	-	-	(112,170)	(112,170)
Foreign exchange movement	(285,856)	(15,165)	(3,650)	(32,036)	(719,762)	(1,056,469)
Balance at December 31, 2021	9,471,563	569,664	280,440	1,020,097	29,111,022	40,452,786
Additions	212,401	62,607	15,503	-	1,439,334	1,729,845
Foreign exchange movement	290,634	17,340	3,817	-	780,903	1,092,694
Balance at June 30, 2022	9,974,598	649,611	299,760	1,020,097	31,331,259	43,275,325
Accumulated amortization						
Balance at January 1, 2021	6,887,506	401,125	174,837	-	12,420,151	19,883,619
Amortization for the period	355,524	31,166	29,969	-	834,986	1,251,645
Foreign exchange movement	(213,477)	(11,748)	(3,142)	-	(274,511)	(502,878)
Balance at December 31, 2021	7,029,553	420,543	201,664	-	12,980,626	20,632,386
Amortization for the period	172,883	22,849	10,422	-	440,544	646,698
Foreign exchange movement	216,964	12,800	3,233	-	288,750	521,747
Balance at June 30, 2022	7,419,400	456,192	215,319	-	13,709,920	21,800,831
Net book value						
At December 31, 2021	2,442,010	149,121	78,776	1,020,097	16,130,396	19,820,400
At June 30, 2022	2,555,198	193,419	84,441	1,020,097	17,621,339	21,474,494

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

8. Exploration and evaluation assets

Balance at January 1, 2021	\$	21,871,603
Additions		1,269,902
Recoveries		(135,000)
Write-down		(33,451)
Foreign exchange		(491,113)
Balance at December 31, 2021		22,481,941
Additions		1,013,370
Recoveries		(340,000)
Foreign exchange		502,573
Balance at June 30, 2022	\$	23,657,884

9. 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 for the three and six months ended June 30 is as follows:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Salaries and fees	\$ 155,250	\$ 116,901	\$ 310,100	\$ 235,712
Share-based compensation	-	-	-	581,310
	\$ 155,250	\$ 116,901	\$ 310,100	\$ 817,022

10. Expenses by nature

The following table details the nature of expenses within cost of goods sold for the and six three months ended June 30:

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Production costs	\$ 1,657,947	\$ 1,452,882	\$ 3,552,682	\$ 3,470,304
Administration	236,227	247,931	456,855	411,827
Transportation	116,874	60,128	227,315	209,973
Wages and salaries	1,459,461	1,134,677	2,802,852	2,234,608
	\$ 3,470,509	\$ 2,895,618	\$ 7,039,704	\$ 6,326,712

11. Equity

a) Share capital

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

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

11. Equity – continued

b) Stock options

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

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

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

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

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

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

11. Equity – continued

b) Stock options – continued

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

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the six months ended June 30, 2022 is \$nil (June 30, 2021 – \$943,511).

A summary of the Company's stock options as at June 30, 2022 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2021	4,610,000	0.57
Granted	4,410,000	0.68
Exercised	(230,000)	0.59
Expired	(1,470,000)	0.98
Forfeited	(100,000)	0.90
At December 31, 2021	7,220,000	0.55
Exercised	(100,000)	0.35
At June 30, 2022	7,120,000	0.55

The following table summarizes information about the stock options outstanding at June 30, 2022:

Exercise Price Per Share	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Expiry Date
\$0.35	1,060,000	0.22	1,060,000	September 20, 2022
\$0.36	1,750,000	2.32	1,750,000	October 24, 2024
\$0.90	2,010,000	3.56	2,010,000	January 18, 2026
\$0.48	2,300,000	4.28	2,300,000	October 8, 2026
	7,120,000	2.99	7,120,000	

IMPACT Silver Corp.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2022

(Canadian dollars)

Unaudited

11. Equity – continued

c) Warrants

A summary of the Company's warrants as at June 30, 2022 and the changes for the periods ended on these dates is as follows:

	Number	Weighted Average Exercise Price (\$)
At January 1, 2021	22,302,751	0.58
Exercised	(3,741,238)	0.34
At December 31, 2021	18,561,513	0.63
Exercised	(2,706,225)	0.31
At June 30, 2022	15,855,288	0.69

12. 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 are as follows:	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenues by geographic area				
Mexico	\$ 3,501,370	\$ 4,215,562	\$ 8,129,990	\$ 9,591,422
Net income (loss) by geographic area				
Mexico	\$ (433,425)	\$ 530,095	\$ (42,857)	\$ 1,572,326
Canada	(351,830)	(311,656)	(812,602)	(1,611,228)
	\$ (795,255)	\$ 218,439	\$ (855,459)	\$ (38,902)
Assets by geographical area				
	June 30, 2022		December 31, 2021	
Mexico	\$ 50,578,281		\$ 47,791,460	
Canada	16,707,067		18,752,253	
	\$ 67,285,348		\$ 66,543,713	
Property, plant and equipment by geographical area				
Mexico	\$ 21,413,151		\$ 19,760,847	
Canada	61,343		59,553	
	\$ 21,474,494		\$ 19,820,400	