PEÑOLES

STRENGTHENED

ANNUAL
REPORT
2020

BY THE CHALLENGES
AND LOOKING TOWARD
THE ***FUTURE***

Grupo BAL is a cluster of state-of-the-art companies that incorporates a diversified group of businesses: Profuturo (pension funds), Grupo Nacional Provincial (insurance), Peñoles (mining, metallurgical, and chemical industries), Fresnillo (mining), Grupo Palacio de Hierro (department stores), TANE (jewelry), Valmex Soluciones Financieras (financial services), Valores Mexicanos (brokerage house), Crédito Afianzador (bonds), Compañía Agropecuaria Internacional (agricultural businesses), Médica Móvil (pre-hospital care), Instituto Tecnológico Autónomo de México (education), PetroBal (exploration and hydrocarbons production), and Energía Eléctrica BAL (power generation). In each of these, we strive to reach the higher percentile in our industry as regards profitability, and to create value to all stakeholders, offering our customers exceptional products and services, supporting the personal and professional advancement of our employees and contributing to the progress of Mexico.

The COVID-19 health emergency brought a crisis for which the world was not prepared.

At Peñoles, we know that every challenge brings an opportunity; this is why we continuously prepare and adjust to circumstances, and this past year has been no exception. The changes imposed by the “new normal” compel us to be flexible—without straying from our course—and to strengthen and accelerate our ability to adapt. In this complex and changing environment, this will be our greatest strength as we look toward the future.

RESILIENCE AND ***COMMITMENT*** KEEP US

STRONG

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2020 brought us great challenges and lessons. Our Annual Report highlights the strengths that have allowed us to overcome difficulties while generating value to our stakeholders.

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We present our audited financial information in thousand US dollars.

The following abbreviations will be used throughout the report:

- **oz** = ounces
- **lb** = pounds
- **Mm^3** = million cubic meters
- **Ml** = million liters
- **Mlb** = million pounds
- **Mlbe** = million pounds equivalent
- **Moz** = million ounces
- **koz** = thousand ounces
- **t** = metric tons
- **Mt** = million metric tons
- **kt** = thousand metric tons
- **Ml** = million liters
- **US$B** = billion dollars
- **US$M** = million dollars
- **US$/t** = dollars per metric ton
- **US$/oz** = dollars per ounce
- **US¢/lb** = dollar cents per pound
- **US¢/lbe** = dollar cents per pound equivalent

ESR

EMPRESA SUSTENTABLE

cotiza en Bolsa Mexicana PE&OLES

FTSE4Good

STRENGTHENED BY OUR VISION

Peñoles, founded in 1887, is a mining group with integrated operations in smelting and refining non-ferrous metals and the production of chemicals.

133 years

of shared history, and our commitment to Mexico remains firm.

CORPORATE PROFILE

Peñoles, founded in 1887, is a mining group with integrated operations in smelting and refining non-ferrous metals and the production of chemicals. Penoles is one of the top two producers of refined silver. It is also the leading Latin American producer of refined gold and lead, and one of the world's most important producers of refined zinc and sodium sulfate.

Peñoles' shares have traded on the Mexican Stock Exchange since 1968 under the ticker symbol PE&OLES.

VISION

To be the most recognized Mexican company in its sector worldwide, for its global focus, the quality of its processes, the excellence of its people and the ethical leading of its business.

MISSION

To add value to non-renewable natural resources in a sustainable manner.

VALUES

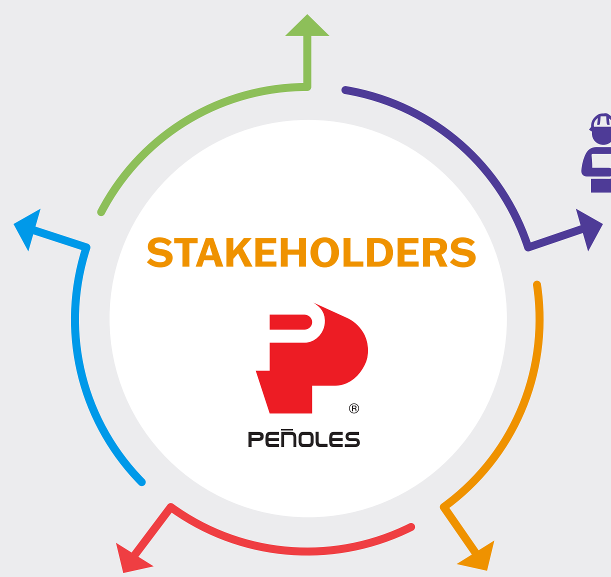
We are guided by our values of Confidence, Responsibility, Integrity and Loyalty (CRIL).

SHAREHOLDERS

Be the best medium-and long-term investment option offering competitive costs, growth and profitability, and ensuring our permanence.

SUPPLIERS

Be a strategic partner, whose business relationships are based on good commercial practices, with a deep ethical commitment and with whom we can establish mutually beneficial, long-term relationships.



EMPLOYEES

Be the best employment option that gives pride and dignity, by offering opportunities for development, respect and recognition in a safe and collaborative environment.

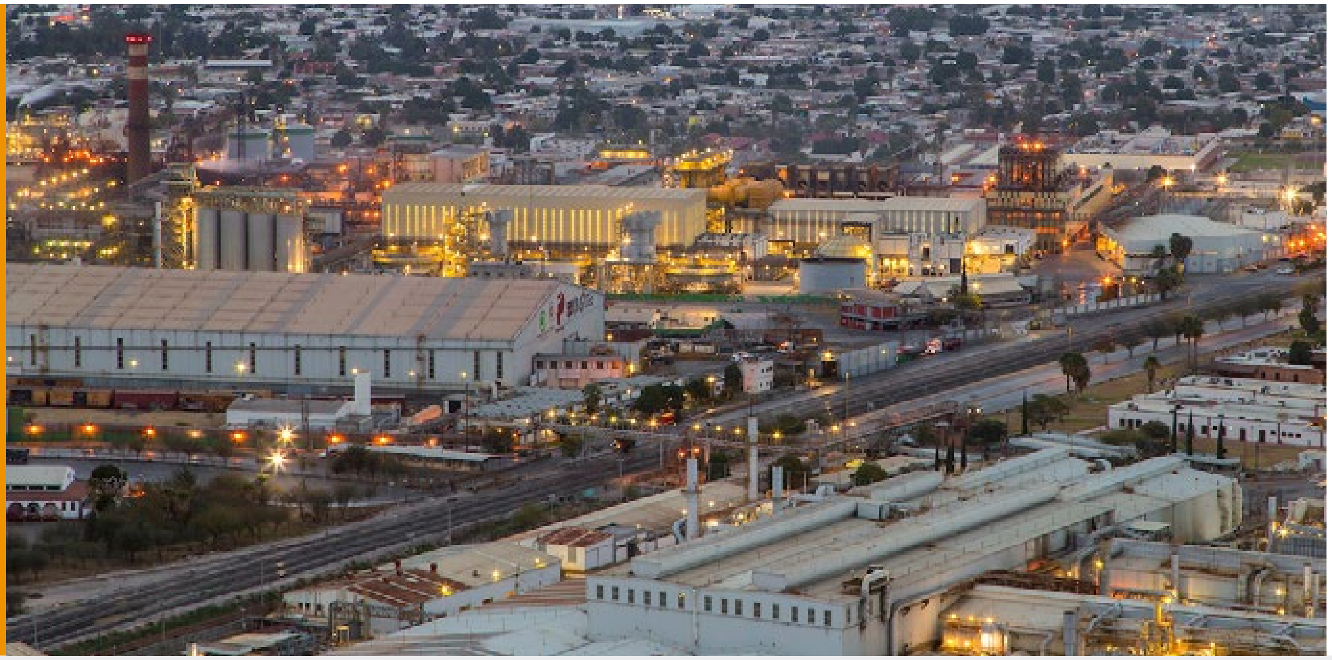
CUSTOMERS

Be a strategic partner that offers comprehensive solutions and inspires confidence to do long-term business.

COMMUNITY

Be a socially responsible company, respectful of nature, that promotes the self-development of the communities where we operate.

CORPORATE STRUCTURE



INDUSTRIAS PEÑOLES, S.A.B. DE C.V.

FRESNILLO PLC[1]

75%

- Minera Fresnillo (100%)
- Minera Penmont (100%)
- Minera Mexicana La Ciénega (100%)
- Minera Saucito (100%)
- Comercializadora de Metales Fresnillo (100%)
- Exploraciones Mineras Parreña (100%)

[1] Fresnillo plc is independently listed on the London Stock Exchange (LSE) and the Mexican Stock Exchange (BMV), and has its own board of directors, management structure and corporate governance bodies (more information at www.fresnilloplc.com).

MINAS PEÑOLES

100%

- Minera Roble (Velardeña) (100%)
- Cía. Minera Sabinas (100%)
- Minera Tizapa (51%)
- Minera Capela (100%)
- Exploraciones Mineras Peñoles (100%)
- Minera Peñoles del Perú (100%)
- Minera Peñoles de Chile (100%)

QUÍMICA MAGNA

100%

- Metalúrgica Met-Mex Peñoles (100%)
- Química del Rey (100%)
- Fertirey (100%)

INFRAESTRUCTURA PEÑOLES

100%

- Fuerza Eólica del Istmo (100%)
- Termoeléctrica Peñoles[2]
- Eólica de Coahuila[2]
- Eólica Mesa La Paz [2]

[2] *Operated by third parties, they supply electricity under long-term contracts.*

OTHERS

- Bal Holdings (100%)
- Línea Coahuila-Durango (50%)
- Servicios Administrativos Peñoles (100%)

Main subsidiaries are included.

PEÑOLES AT A GLANCE

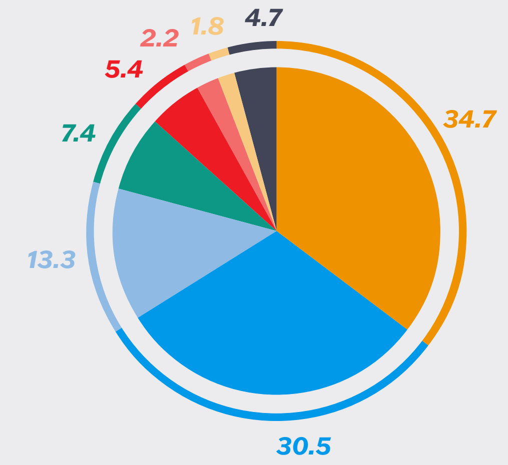
WE HAVE

A **diversified portfolio** of metal and chemical products

See more in **Financial highlights**

SALES BY PRODUCT

%



	US$ M
Gold	1,622
Silver	1,427
Zinc	622
Concentrates	347
Lead	253
Sodium sulfate	105
Copper	85
Others	211
Total	4,673

10 mining operations

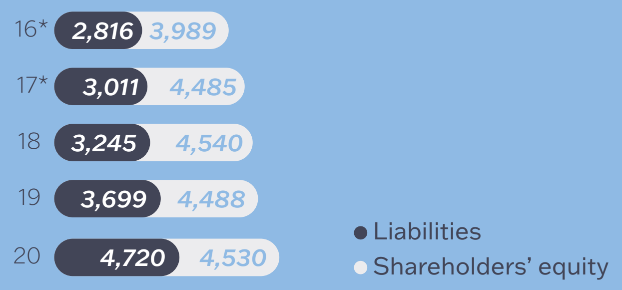
1 mining unit under construction

9 plants and facilities

21 administrative offices

A solid and **conservative balance sheet**

TOTAL ASSETS (US$ M)



* Unaudited figures.

US$ 4.67 B

in sales, **86.5%** in exports to **29** countries

PEÑOLES AT A GLANCE

WE GENERATE

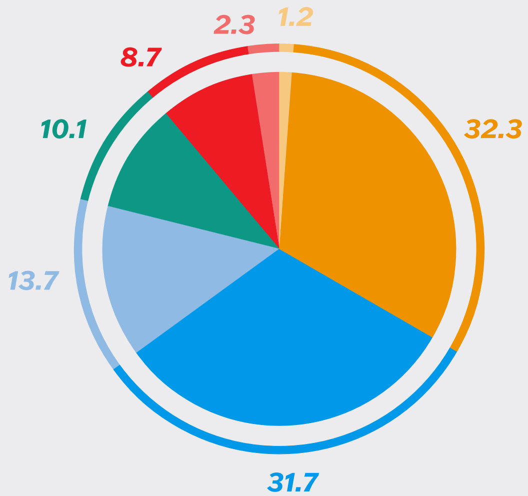
Long-term **value** for our **stakeholders**

US$ 1.46 B

EBITDA **+50.4%** than the previous year

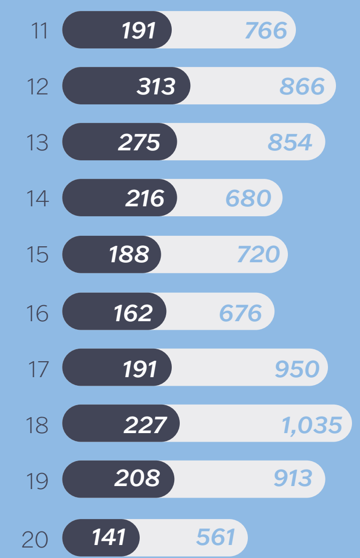
VALUE GENERATED AND DISTRIBUTED*

%



- Contractors
- Reinvestment
- Employees
- Interests
- Government
- Community and environment
- Shareholders

* *Value generated and distributed = net sales – costs and expenses (domestic and foreign). These data include operations of Industrias Peñoles and subsidiaries.*



- Exploration
- Capital expenditures

US$ 10.14 B

in investments in the past 10 years

See more in **Financial highlights and Indicators**

US$ 2.80 B

value generated **+13.9%** than the previous year

See more in **Sustainable Development Report**

29,988

direct jobs

31,478

indirect jobs

PEÑOLES AT A GLANCE

WE EXPECT

Operating and administrative **efficiency**

We created **Baluarte Minero**, a transcendental transformation to improve the company's performance

See more in **Corporate governance**

The **welfare** of our people and our communities

See more in **Our people**

We maintained compensations and jobs despite the COVID-19 health care crisis

We conducted awareness campaigns and made in-kind donations to hospitals and communities, benefiting more than **350,000 people**

We created a **Crisis Committee** to monitor, implement and follow up on mitigation actions

To reduce our **carbon footprint**

To increase our electricity portfolio from clean energy sources, which generated

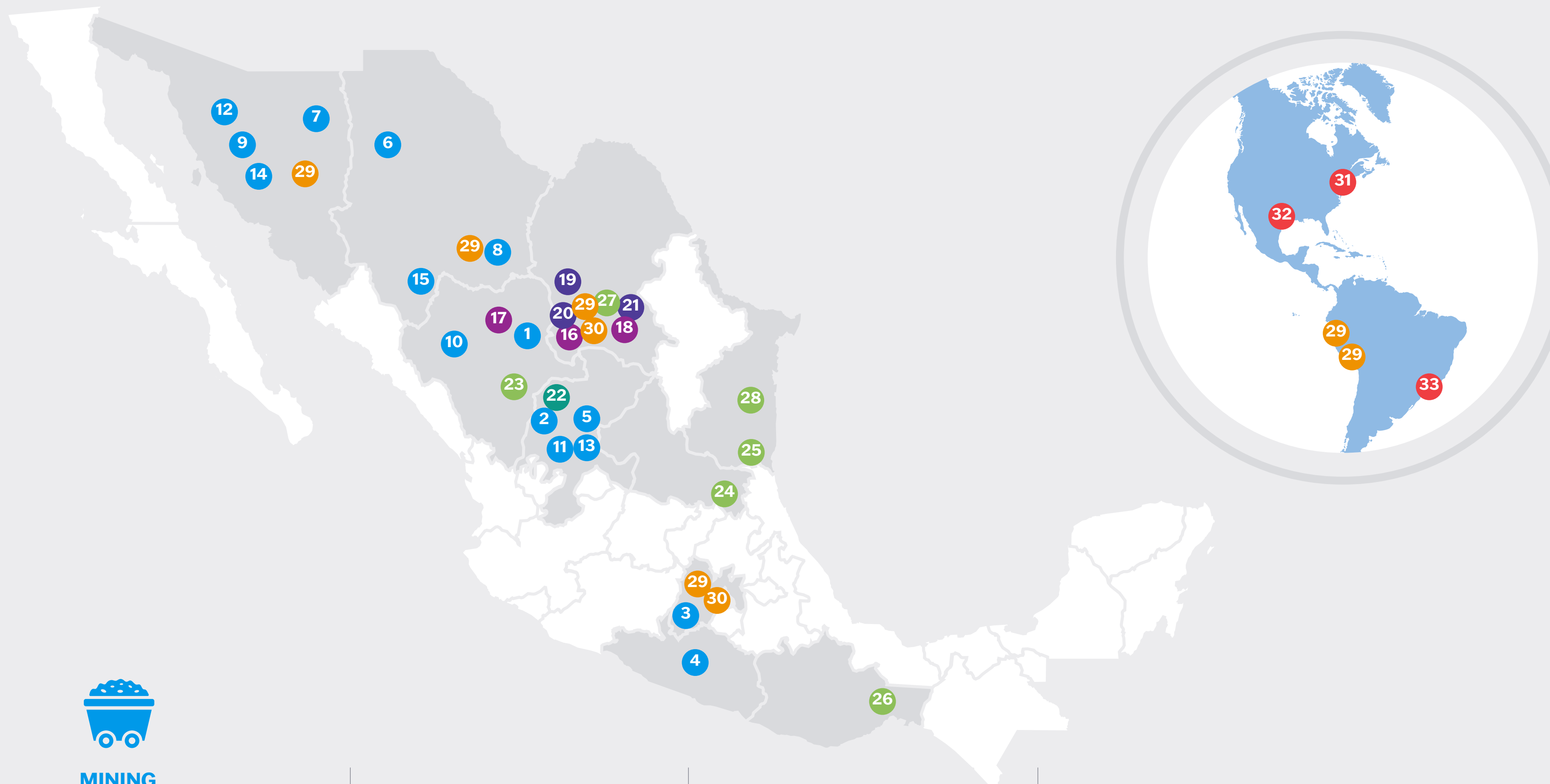
40.6%

of our consumption

See more in **Energy and technology**

OPERATIONS

Peñoles, a proud Mexican company with international presence, has been generating value and creating opportunities in the regions where it operates for more than thirteen decades.



MINING OPERATIONS

Base metals

1 Velardeña
2 Sabinas
3 Tizapa
4 Capela
5 Francisco I. Madero*
6 Bismark*
7 Milpillas*
8 Naica*

Precious metals

9 Herradura
10 Ciénega
11 Fresnillo
12 Soledad-Dipolos*
13 Saucito
14 Noche Buena
15 San Julián

*These units are not presently operating.

METALLURGICAL OPERATIONS

16 Metalúrgica Met-Mex
17 Bermejillo
18 Aleazin

PROJECTS UNDER DEVELOPMENT

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OFFICES

29 Exploration
30 Corporate headquarters

CHEMICAL OPERATIONS

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20 Fertirey
21 Industrias Magnelec

INFRASTRUCTURE

23 Línea Coahuila-Durango
24 Termoeléctrica Peñoles
25 Termimar
26 Fuerza Eólica del Istmo
27 Eólica de Coahuila
28 Eólica Mesa La Paz

COMMERCIAL OFFICES

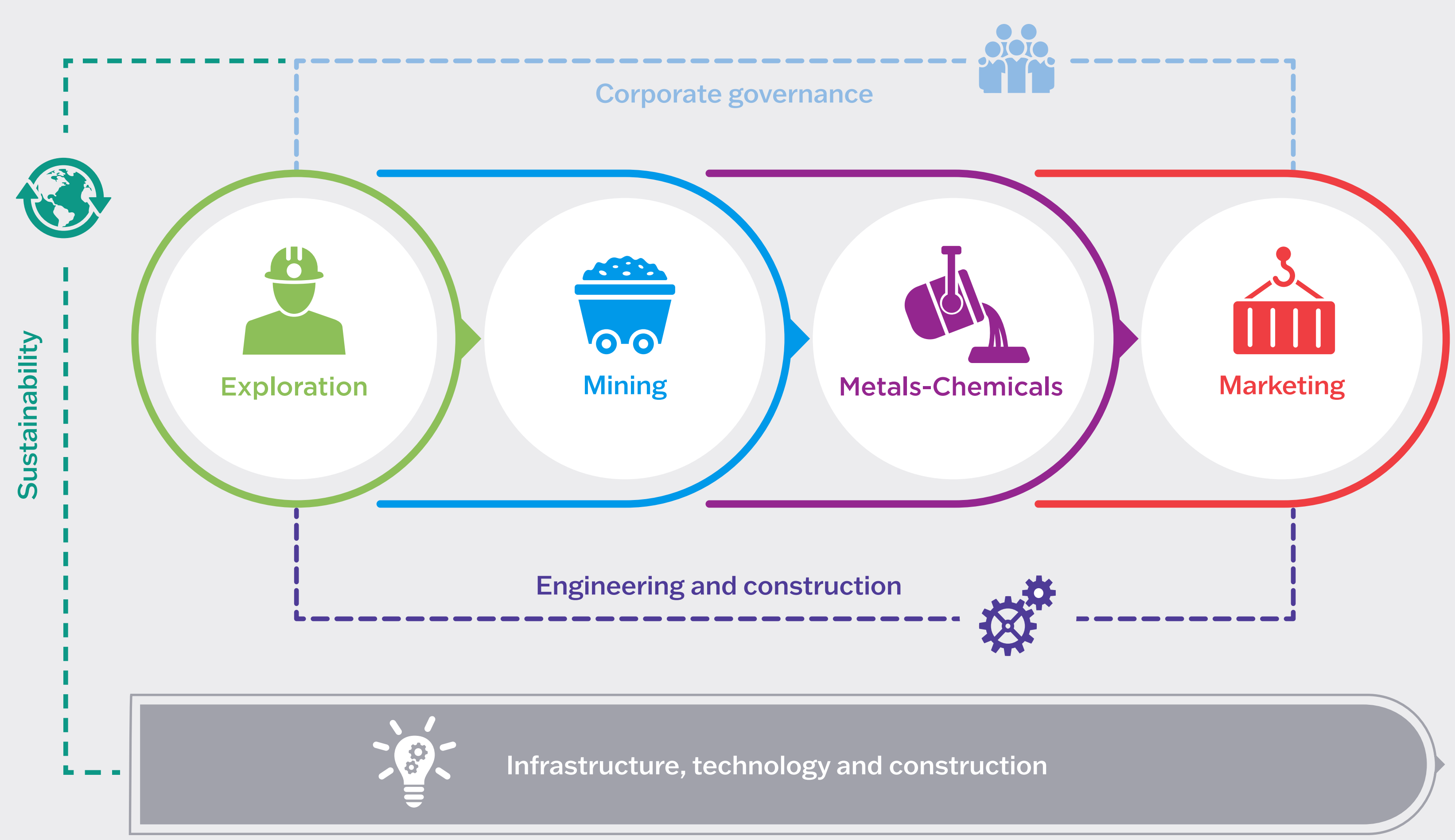
31 Bal Holdings
32 Wideco
33 Quirey do Brasil

BUSINESS MODEL

Our vertically integrated operations comprise a polymetallic portfolio from exploration through production of refined metals and additional value-added products.

We focus on being a low-cost producer and make continuous investments in exploration, capacity expansion and operational efficiency throughout the business cycle. This strategy, combined with our sustainable development initiatives, talented personnel, a healthy capital structure and strong corporate governance practices distinguishes Peñoles and enables us to add long-term value for our shareholders.

VALUE CHAIN



Peñoles will continue to manage its operations independently, with the support of technical and administrative services provided by Baluarte Minero.

STRENGTHENED BY SOLIDITY

Although net results for the year were not favorable, Peñoles is a solid company, with a prudent management, and a long track record that has enabled us to overcome obstacles.

US$ 561 M

in capital investments to sustain operations and projects.

FINANCIAL HIGHLIGHTS

US$ M	2020	2019	% chge.	2018	2017*	2016*
Net sales (1)	**4,673.3**	4,471.9	4.5	4,390.3	4,536.1	4,415.6
Gross profit	**1,249.0**	870.8	43.4	1,289.1	1,706.3	1,404.1
Exploration expenses	**141.0**	208.1	-32.2	227.0	191.2	161.6
EBITDA (2) (3)	**1,456.7**	968.7	50.4	1,286.2	1,720.0	1,473.8
Operating income (3)	**742.6**	275.0	170.0	707.1	1,185.5	948.7
Financial and exchange result	**283.8**	108.3	162.1	48.6	143.9	123.7
Controlling interest in net income (loss)	**-34.4**	35.5	-196.9	323.7	589.0	270.2
Capital expenditures	**561.3**	913.3	-38.5	1,035.3	949.6	675.9
Dividends paid to majority shareholders	**-**	155.2	n.a.	270.0	232.7	52.3
Cash and investments (4)	**1,592.7**	526.3	202.6	785.4	1,040.8	1,237.8
Property, plant and equipment, net	**4,671.6**	4,978.4	-6.2	4,746.8	4,309.3	3,879.8
Total assets	**9,250.4**	8,186.7	13.0	7,784.7	7,496.2	6,805.7
Financial debt	**2,901.6**	2,226.3	30.3	1,876.2	1,453.9	1,388.8
Deferred taxes	**-47.7**	74.2	-164.3	333.5	450.4	489.1
Total liabilities	**4,719.9**	3,698.8	27.6	3,244.8	3,011.2	2,816.4
Total shareholders' equity	**4,530.5**	4,487.9	1.0	4,539.8	4,485.0	3,989.3

** Unaudited figures.*

Figures prepared in accordance with International Financial Reporting Standards (IFRS).

(1) Includes hedging results.

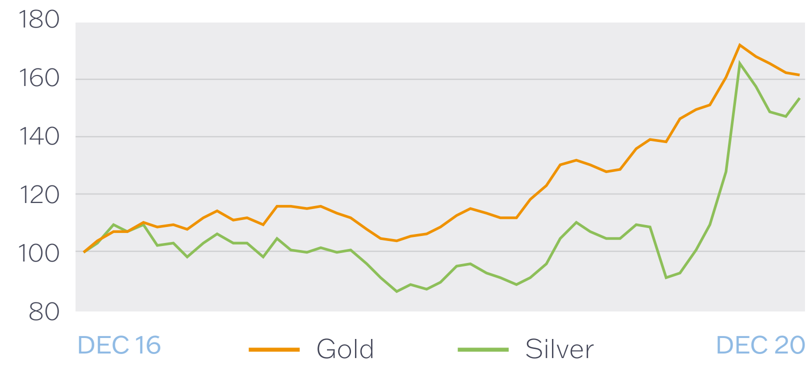
(2) Earnings before interests, taxes depreciation and amortization.

(3) Does not include other income (expense) nor impairtment loss.

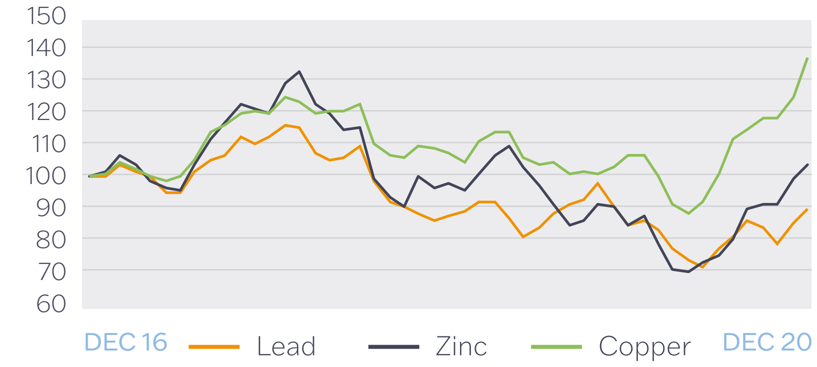
(4) Includes cash, cash equivalents and short-term investments.

FINANCIAL INDICATORS

PRECIOUS METALS INDICES
December 2016 = 100



BASE METALS INDICES
December 2016 = 100



SALES*/EBITDA
US$ M

	EBITDA	% of sales	Sales
16	1,474	33.4	4,417
17	1,720	37.7	4,568
18	1,286	29.3	4,383
19	969	21.6	4,475
20	1,457	30.9	4,708

- EBITDA
- Sales
- % of sales

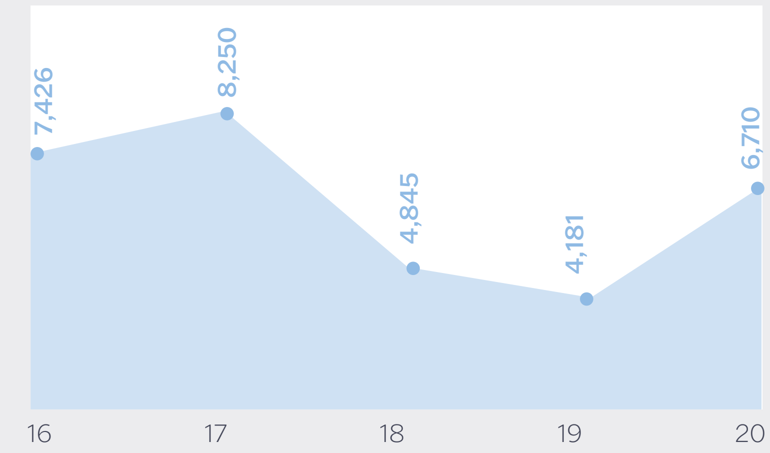
** Not including hedging results*

INVESTMENTS
US$ M

	Exploration	Capital expenditures
16	162	676
17	191	950
18	227	1,035
19	208	913
20	141	561 -37.4%

- Exploration
- Capital expenditures

MARKET CAPITALIZATION
US$ M



DEBT/CAPITALIZATION
Percentage

16	25.9
17	24.5
18	29.2
19	33.2
20	39.0

EBITDA/TOTAL DEBT
Times

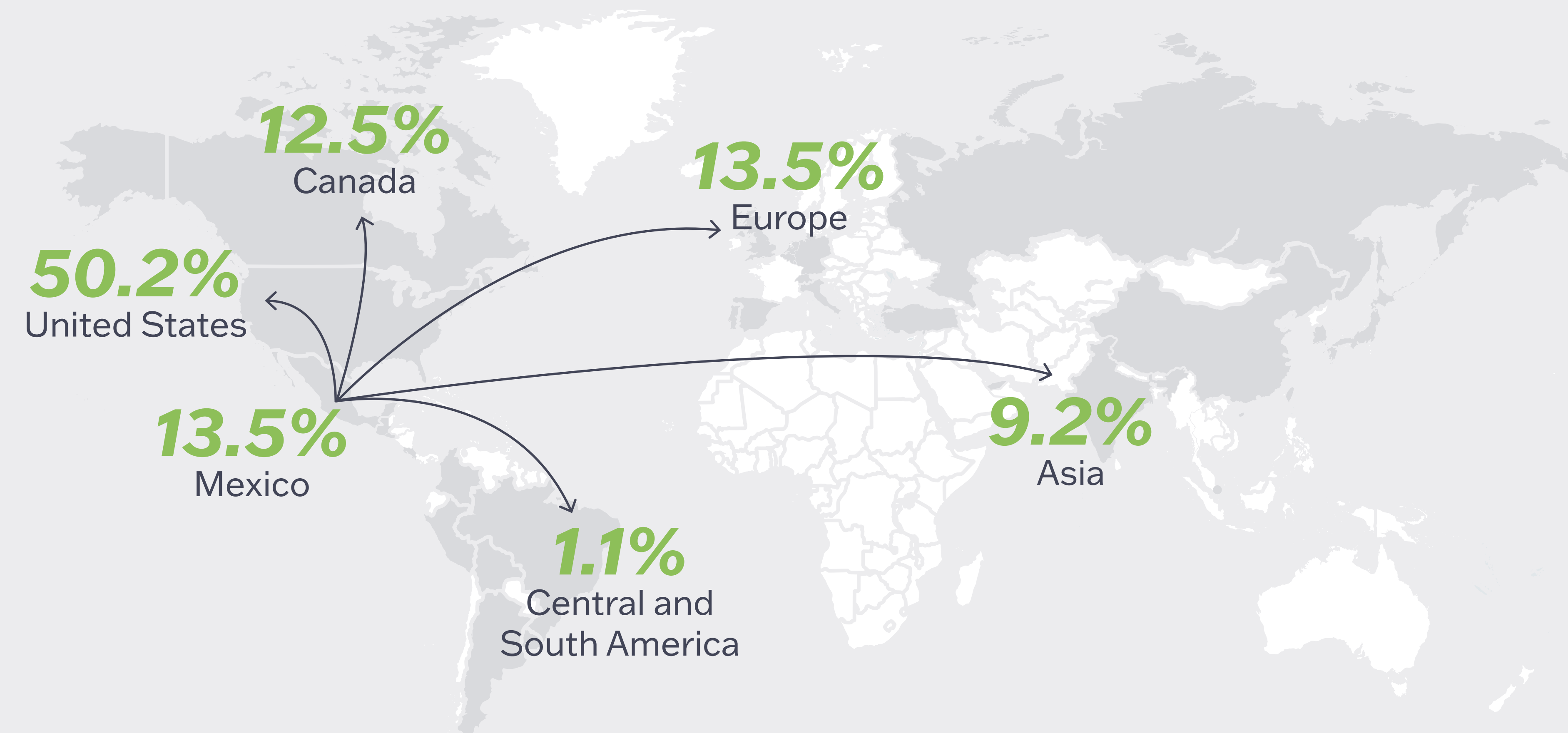
16	1.1
17	1.2
18	0.7
19	0.4
20	0.5

EBITDA/INTERESTS
Times

16	32.7
17	34.5
18	29.3
19	11.8
20	9.2

TOTAL **SALES***

* *Includes hedging results.*



Besides Mexico, we participate in other 29 markets in the Americas, Europe and Asia.

US$ 1.62 B in gold sales

US$ 1.43 B in silver sales

US$ 622 M in zinc sales

US$ 347 M in concentrates sales

US$ 4.67 B in total sales.

Gold	34.7%
United States	39.5%
Canada	36.4%
England	23.8%

Silver	30.5%
United States	90.7%
Japan	7.4%
Brazil	1.4%

Zinc	13.3%
United States	48.0%
Mexico	29.8%
Switzerland	11.3%

Concentrates	7.4%
Singapore	71.5%
Japan	13.5%
Switzerland	9.7%

Lead	5.4%
Mexico	59.5%
Switzerland	25.8%
United States	12.3%

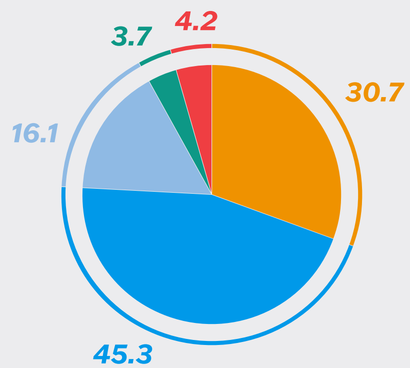
Sodium sulfate	2.2%
Mexico	89.2%
Colombia	7.0%
Brazil	2.6%

Copper	1.8%
United States	76.8%
Switzerland	22.9%
Mexico	0.3%

Other products	4.7%
Mexico	57.7%
South Korea	10.1%
Belgium	8.6%

MINING DIVISION SALES*

%

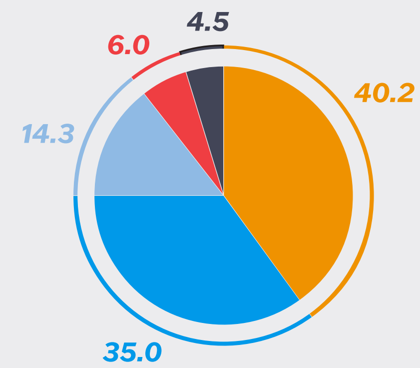


	US$ M
Gold	1,051
Silver	1,553
Zinc	554
Copper	129
Lead	143
Total	3,430

*Does not include hedging results, treatment charges nor penalties.

METALS DIVISION SALES**

%

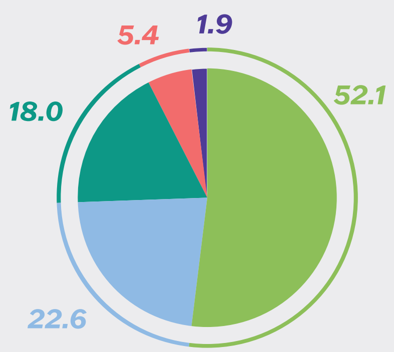


	US$ M
Gold	1,652
Silver	1,438
Zinc	587
Lead	247
Others	185
Total	4,109

** Does not include Bal Holdings.

CHEMICALS DIVISION SALES

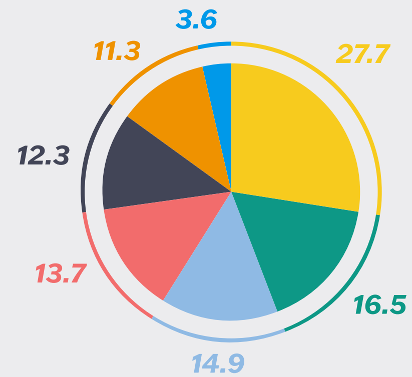
%



	US$ M
Sodium sulfate	104
Magnesium oxide	45
Ammonium sulfate	36
Magnesium sulfate	11
Others	4
Total	199

PRODUCTION COSTS

%

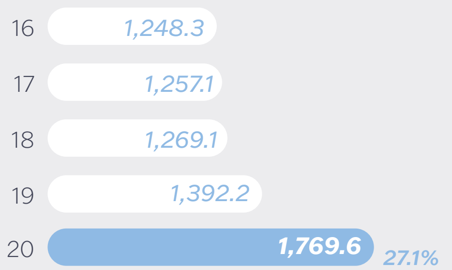


	US$ M
Depreciation and amortization	698
Contractors	416
Energy	374
Operating materials	346
Maintenance and repairs	311
Human capital	286
Other	89
Total	2,519

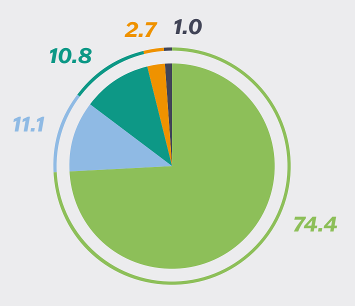
PRICES AND USES OF METALS

GOLD (LONDON)

US$/oz



%



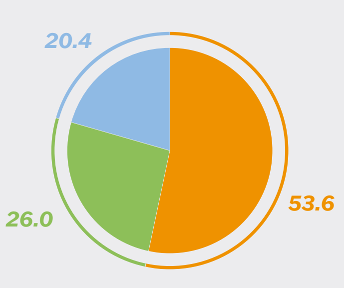
- Jewelry
- Medals and coins
- Electronics
- Industrial
- Dental and medical work

Source: GFMS Gold Survey 2020 by Refinitiv Eikon for Commodities.

SILVER (COMEX)

US$/oz

%

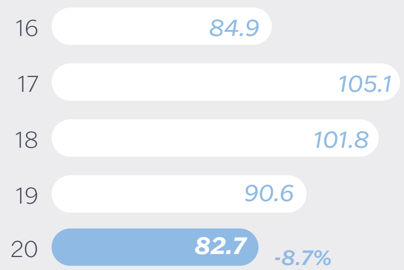


- Industrial
- Jewelry and metalwork
- Medals and coins

Source: GFMS Silver Survey 2020 by Refinitiv Eikon for Commodities.

LEAD (LME)

US¢/lb



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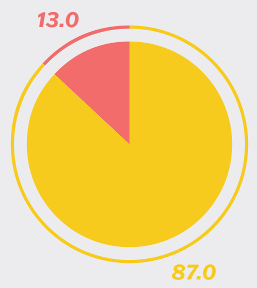
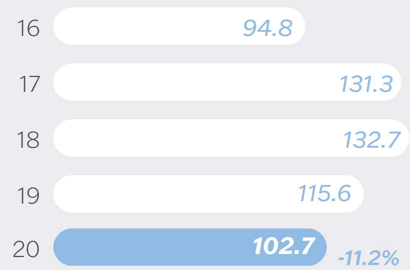


- Batteries
- Others

Source: Wood Mackenzie, 4Q-2020, Global Lead Long Term Outlook.

ZINC (LME SHG)

US¢/lb



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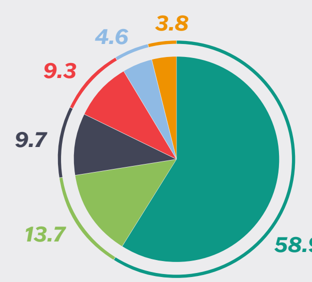
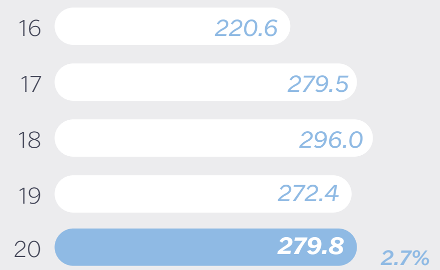


- Galvanizing
- Brass
- Oxides and chemical products
- Pressure smelting
- Semi-manufactured products
- Others

Source: Wood Mackenzie , 4Q-2020, Global Zinc Long Term Outlook.

COPPER (LME)

US¢/lb



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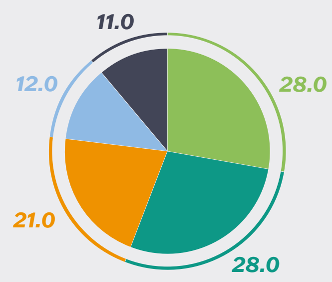


- Construction
- Electronics
- Consumer products
- Transportation
- Industrial machinery

Source: Wood Mackenzie, 4Q-2020, Global Copper Long Term Outlook.

STRENGTHENED BY CONFIDENCE

Thanks to the company's strong financial profile and the confidence of investors, we successfully placed new bond issues on international markets, enabling us to restructure debts on more favorable conditions and to strengthen our liquidity.

US$ 1.45 B

in bonds issued; US$ 782 M were used to restructure debt and the rest for corporate purposes.

ANNUAL REPORT OF THE **BOARD OF DIRECTORS** TO THE SHAREHOLDERS' MEETING, CORRESPONDING TO FISCAL YEAR 2020

Dear shareholders:

As Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on behalf of that Board, I present this report based on an analysis of the information provided by the Chief Executive Officer in his Annual Report on the company's performance, the financial and operating results obtained, and key developments in the period, as well as a report on the main activities of the Board of Directors.

2020 was one of the most difficult years in contemporary history. The new coronavirus strain that spread around the world caused the tragic and painful loss of human lives, accompanied by the worst recession since the Great Depression. Life as we knew it was irrevocably changed, and lockdown measures seriously affected production, trade and supply chains for much of the year.

As a result, metal prices dropped sharply, particularly in the first quarter of the year. The prices of industrial metals recovered gradually but could not regain the level at which they had begun 2020. Precious metal prices also dropped initially, but returned to levels higher than in the recent past.

To mitigate the impacts of this contingency, Peñoles introduced an emergency plan to avoid propagation of the virus and protect the life and health of its employees, to safeguard its assets, protect liquidity, control costs, expenses and investments, and preserve employment. Strict sanitary protocols were applied in all of our facilities, and medical and psychological support and follow-up were provided to all employees. Administrative staff and personnel with specific vulnerabilities were assigned to work from home. Meanwhile, to stand beside the rest of the nation as it dealt with the emergency, we made substantial donations of medical and personal protection equipment to hospitals and health clinics, and basic supplies and masks to the communities where we operate. We have conducted both PCR and rapid testing and carried out an extensive informational campaign regarding sanitary measures, prevention and self-care, among many other actions. Our social investment in the period, in addition to the payment of mining rights to the nation, totaled US$ 8 million. I would like to extend special thanks to our senior management and board members who voluntarily agreed to reduce their pay as an expression of solidarity with the company during the pandemic.

Clearly, the restrictions imposed to deal with the pandemic affected the pace of project execution. Startup of the Capela polymetallic mine in Guerrero was slower than planned and the unit could not reach its nameplate milling capacity until the end of the year. Construction of the tailings flotation plant at Fresnillo was completed, and will begin work of recovering silver and gold content in the third quarter of 2021. Work also continued on developing the Juanicipio project in Zacatecas, whose extracted ore was processed at Fresnillo's plant to begin producing gold and silver in concentrates while its own processing plant is targeted for completion by mid-2021. Investment in capital expenditures during the year totaled US$ 561 million, 38.5% less than in 2019.

In our exploration activities, field work was postponed at a number of projects and tasks were redirected to analyzing information on the existing portfolio and investigating new prospects. Drilling was conducted primarily at operating mines and their areas of influence, focused on strengthening our reserves. The investment in these activities totaled US$ 141 million, 32.2% less than in 2019.

Because of the sharp drop in the prices of industrial metals, low grades and high operating costs, operations at the Madero zinc mine in Zacatecas, and the Milpillas copper mine in Sonora, were suspended indefinitely. In the latter, the ore deposited at the leaching pads will continue to be processed to produce copper cathodes until its depletion. Operations at the Bismark unit were closed down definitely as planned, due to depletion of its reserves. Twelve percent of Bismark's employees were relocated to other operations and the remainder received their severance pay according to law and the respective collective bargaining agreements.

Gold mining production yielded 824,087 ounces, below production in 2019 due to a lower amount of ore deposited in the leaching pads at Herradura and Noche Buena, in turn because of the shutdowns ordered by the authorities as a result of the pandemic. Silver production totaled 62.6 million ounces, similar to the previous year, thanks to the contributions of Juanicipio and Capela. Lead grew slightly to 86,420 metric tons, thanks to production by Capela and Saucito, while zinc totaled 288,072 metric tons, slightly lower than the year before because production at Saucito and Velardeña offset the decline in production caused by closures at Madero and Bismark.

In the metals business, production of refined metal was lower than in 2019, particularly gold, where production was off by 14.0% to 957,209 ounces, attributed to lower receipts of dorés. Stabilization of processes at the newly-expanded zinc refinery continued, producing 260,943 metric tons of refined zinc. Demand for our main chemical products meanwhile ebbed amid difficult market conditions.

We devised an emergency plan to protect our people's health and safety, preserve liquidity and employment.

With the support of the company's solid financial profile and investor confidence, we were able to successfully place new bond issues on international markets totaling US$ 1.45 billion. Part of the proceeds were used to restructure debt under more favorable conditions. Peñoles issued US$ 600 million in two tranches: US$ 100 million through the reopening of a bond placed last year (for US$ 550 million expiring in 2029) and another for US$ 500 million at 30 years. Of these proceeds, US$ 300 million were used to prepay a syndicated loan (originally set to expire in 2024). Fresnillo plc meanwhile placed a US$ 850 million bond issue at 30 years and bought back US$ 481.7 million of a US$ 800 million issue expiring in 2023. The credit ratings of both issuers remained at investment grade with a stable outlook. This not only improved our long-term maturity profile but strengthened our liquidity with the additional resources—at lower cost—and the company's balance sheet maintains a prudent amount of leverage and a more comfortable maturity profile.

In our financial results for the year, sales benefited from the rise in gold and silver prices, while costs and expenses were down both because of austerity measures and because of less consumption by our operations. These benefits were offset by an increase in financial expenses relating to the bond issuance and debt prepayment, as well as impairment of assets at the Bismark, Madero and Milpillas units, where

We have undertaken a transcendental transformation to be better prepared in an ever complex and changing environment.

operations, as we mentioned above, were suspended. We also registered a correction to the tax treatment of mining work which, together with the rise in deferred taxes because of the peso's devaluation against the dollar, meant a higher tax provision for the period. In billions of dollars, sales totaled US$ 4.67, a 4.5% increase; gross income was US$ 1.25 (+43.4%), EBITDA grew to US$ 1.46 (+50.4%) and operating income was US$ 743 million (+170.0%). All this resulted in a net loss of the controlling interest of US$ 34 million for the fiscal year.

To focus on becoming more resilient amid growing uncertainty, to improve our operating and administrative efficiency and enhance the company's performance and results, we have undertaken a transcendental transformation, sustained by three pillars: 1) enriching the strategy of our mining and metallurgical businesses; 2) restructuring the organization, and 3) bringing about a change in culture. These pillars constitute the foundation to pursue our goals, both as a business and as an employer concerned about the welfare of our people and their families, and to continue contributing to the development of our beloved Mexico.

As part of the organizational restructuring, a new unit was created within Peñoles called Baluarte Minero, which will group together and reorganize the functions and structures that provide shared services (administrative and technical) to Peñoles and Fresnillo plc, to make them more effective and take advantage of all possible synergies without affecting the autonomy that each company's management should have. This restructuring does not imply additional costs; in fact, it aims at a gradual and sustainable reduction. Starting January 1, 2021, the date on which this new structure took effect, Fernando Alanís will lead the new task as CEO of Baluarte Minero, and Rafael Rebollar was appointed CEO of Industrias Peñoles. We are grateful to Fernando for his hard work, dedication and achievements as Chief Executive Officer for more than 12 years.

With this transformation, we are confident that we will be optimally prepared to face the challenges that arise in an increasingly complex, changing environment.

The Board of Directors adheres to solid corporate governance practices. In the discharge of its duties, the Board relies on the support of committees that have been created as recommended in the Code of Principles and Best Practices for Corporate Governance. The Board met five times during the 2020 fiscal year. Among the topics covered and approved during those sessions, the most important were the following:

- Implementation and follow-up of the coronavirus emergency plan.
- Reinforcement of workplace and environmental safety programs.
- Strategic Plan review and update of the risk matrix.
- Metal hedging and exchange rate program.
- Analysis and adjustments to the investment and financing program.
- Authorization for the issuance of long-term bonds by the company.
- Review of the budget for the 2020 and 2021 fiscal years.

Pursuant to the provisions in the Securities Market Law, the Audit and Corporate Governance Committee prepared its Annual Report, which is presented to this Shareholders' Meeting.

The company's financial statements were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. The foregoing comments were made on the basis of the financial statements, as well as the main accounting policies and criteria followed in preparation of the financial information, examined by the external auditors and included in this report.

Submitted herein for the consideration of this Shareholders' Meeting is a report on the main accounting policies and criteria that serve as the basis of preparation for the financial statements, and which include, among others: the basis of presentation and consolidation, significant accounting policies, and new accounting pronouncements, which were audited by the external auditors and are an integral part of this report.

In the opinion of the Board of Directors, the report presented to this Shareholders' Meeting by the Chief Executive Officer reasonably reflects the financial position and results of the company, as well as the key developments of the business during 2020.

In accordance with policies, the performance of senior executives is reviewed annually. The Nomination, Evaluation and Compensation Committee must authorize any increase in salary and benefits. Salary increases and bonuses are determined based on the results of performance evaluations. The remuneration package of senior executives is comprised of a base salary, and legal and other benefits common to the industry in Mexico. This Committee analyzed and recommended approval of the restructuring and the new appointments.

We know that every challenge brings an opportunity; this is why we continuously prepare and adjust to circumstances, and this past year has been no exception. The changes imposed by the "new normal" compel us to be flexible—without straying from our course—and to strengthen and accelerate our ability to adapt. In this complex and changing environment, this will be our greatest strength as we look toward the future.

I want to express my gratitude to the members of the Board of Directors for their dedication, commitment and valuable contributions. I would also like to thank our employees for their hard work and dedication. And I extend my appreciation to you, our shareholders, for your continued confidence in us.

Alberto Baillères

Alberto Baillères
Chairman of the Board of Directors

REPORT ON THE COMPANY'S PERFORMANCE PRESENTED BY THE **CHIEF EXECUTIVE OFFICER** TO THE BOARD OF DIRECTORS FOR THE FISCAL YEAR 2020

**Mr. Chairman,
Ladies and Gentlemen, members of the
Board of Directors**

As Chief Executive Officer of Industrias Peñoles, S.A.B. de C.V., and in accordance with the provisions of the Securities Market Law, I hereby submit for your consideration the Annual Report corresponding to the company's performance and results in the 2020 fiscal year, as well as the Financial Statements and their accompanying notes, which include the principal policies and criteria for accounting and reporting that were used in the preparation of the financial report presented herein.

After the global economy saw its slowest rate of growth in a decade the year before, 2020 brought a crisis for which the world was not prepared. The outbreak of a new coronavirus strain, COVID-19—caused by SARS-CoV-2—, which appeared late in 2019 in China and rapidly spread to the rest of the world, was declared a pandemic by the World Health Organization on March 11. The resulting change in lifestyles necessary to contain the contagion set off a deep economic recession. In addition to the pandemic, waves of social unrest in various countries, the United Kingdom's exit from the European Union, trade war between the United States and China and a contentious election in the United States were among the main events that marked the year.

The economic situation caused by the COVID-19 public health emergency led various central banks to take aggressive measures to lower interest rates and inject liquidity, and governments to introduce stimulus plans in order to mitigate the pandemic's negative effects on economic activity. After a pronounced decline, the global economy showed signs of recovery late in the year, although this has been uneven across various industries and countries.

In this context, and with industrial activity at a standstill in China between December 2019 and the first quarter of 2020, the prices of industrial metals fell, especially in the first quarter of 2020. In March, silver dropped to US$ 11.74 per ounce, but recovered strongly during the rest of the year. Zinc and lead quotations regained some of their value, but they ended the year 11.2% and 8.7% lower on average, respectively, than the year before. For copper, with better market conditions, the average price moved up slightly (2.7%). The price of silver gained 27.7%, and gold, considered a safe haven asset, increased 27.1%, buoyed by widespread uncertainty over the pandemic.

The peso-dollar exchange rate was highly volatile throughout the year. Pressured by jitters over the effects of the pandemic, it reached highs of Ps.25.12 per dollar. Finally, the peso closed the year at Ps.19.95 per dollar, an annual depreciation of 5.9%. Official inflation in Mexico meanwhile was 3.15% in the year, slightly higher than Mexican Central Bank target of 3%, causing the country's economy to shrink by 8.2%.

At the direction of the Chairman of the Board of Directors, we devised an emergency plan to mitigate the impact of the public health emergency, with a priority on protecting people's health and safety as well as their jobs. The plan focused on the following points:

- Creation of a Crisis Committee made up of the entire senior management team and the Corporate Medical Department, to continually monitor the situation, apply and follow up on the actions taken. This Committee was formed in February before the pandemic was declared.
- Protecting people related to the company through the following actions:
    - Offering facilities for work from home to as many employees as possible.
    - Awareness-raising and information about preventive measures for all personnel.
    - Setting up strict sanitary checkpoints and protocols to minimize contagion to employees, contractors and other visitors by early detection and prompt assistance.
    - Maintaining compensation levels and preserving employment.
    - Providing medical and psychological support to employees at all times.
    - Reinforcing support for communities neighboring our operations with food supplies, protection equipment and information about preventive measures, benefiting more than 350,000 people.
- Maximizing the company's liquidity by:
    - Scaling back costs, expenses and investments to cover what was strictly necessary, to sustain operations and protect people's health, and through voluntary pay cuts to senior management.
    - Taking advantage of available lines of credit without compromising the company's credit ratings.
    - Closely watching working capital investment and the client portfolio.

We established sanitary checkpoints and strict protocols in our facilities. We supported our communities, benefiting more than 350,000 people.

    - Monetizing part of the market value of metal hedge positions (influx of US$ 87.6 million).
    - Restructuring debt, increasing financing and lowering financial cost.

We also supported clinics and hospitals with donations of medical equipment and supplies and cooperated with the authorities to provide medical expertise. Additionally, with the unwavering support of our Chairman of the Board, the Mexican Mining Chamber and other companies in our industry, as well as the mining union FRENTE and other business chambers and organizations, we engaged in constant dialogue with federal, state and municipal authorities to have the mining industry classified as an essential economic activity, in order to maintain limited operations, while placing a priority on the health of our employees and surrounding communities at all times. Thanks to these efforts, the mining-metallurgy industry was declared an essential activity in late May, aligning Mexico with countries like the United States and Canada.

In the months of June, July and August we began a process of safe return to work with staggered hours for our personnel, guaranteeing all preventive measures established by the Ministry of Health, the Ministry of Labor and Social Planning, and internal protocols. Peñoles' operating units received the

Operations started at the new Capela polymetallic unit in Guerrero. Although the startup was slow, at the end of the year it reached 99% of its milling capacity.

Sanitary Safety Distinction from the Mexican Social Security Institute, making us the first company in Mexico's mining and metals industry to be recognized for its safe workplaces.

Clearly, the restrictions of the public health emergency affected our annual production. The following are the highlights of our operating and financial results for 2020. Financial figures are denominated in millions of dollars unless otherwise indicated, and changes were calculated with respect to 2019.

Capital expenditures totaled US$ 561 million (US$ 352 million or 38.5% lower than the year before). Investment in exploration came to US$ 141 million, 32.2% less than in 2019.

With on-site exploration work suspended for seven months, we focused efforts on study and analysis of information already compiled, as well as on the investigation of new prospective areas. A close-loop drilling plan and mining work plan was developed to improve the reliability of resources detected at the Reina del Cobre polymetallic project in Durango (adjacent to Velardeña), which will begin in 2021. In the last quarter of the year, we began a drilling campaign at the new Capela mine to strengthen its reserves. In our other operating units, we assembled databases and interpretation to decide on the 2021 drilling program. Fresnillo plc carried out drilling in ten areas, with interesting results in Fresnillo, Guanajuato and Peru; in the San Julián district, drilling was aimed at converting resources to reserves in the vein system to the south of this district. In Chile some drilling was performed while complying with safety protocols at all times.

In the Mining Division, the startup of the new Capela polymetallic unit in Guerrero was delayed due to sanitary restrictions that limited the number of onsite personnel and a lack of support from suppliers in the final delivery and commissioning of the main equipment. We had to rely on remote support and backup from experienced people at other of our units. Although production was not as high as expected, at the end of the year the plant had reached 99% of its milling capacity and succeeded in producing concentrates with zinc content of 53% on average, and recoveries within the expected range. One of the biggest challenges was achieving efficient separation in the lead-copper circuit; various reagents were tested to improve the grade of lead concentrate. Adjustments continue to improve copper recoveries.

In April, we announced the difficult decision to suspend operations indefinitely at the Madero zinc mine in Zacatecas and the Milpillas unit in Sonora, which produces copper cathodes, because of the steep drop in the price of these metals. High operating costs and low grades meant that for the moment these operations were no longer profitable. For now, Milpillas will continue turning out cathodic copper from the ore deposited at the leaching pads. As a result of this suspension, 267 employees were relocated to other company operations and the remaining 630 were laid off with severance according to the law and the respective union contracts. Also, and as planned, the Bismark zinc mining unit concluded its life cycle after 28 years of operations, having depleted its reserves.

For this reason, in addition to the lower amount of ore produced at Herradura and Noche Buena—after restrictions in the state of Sonora were extended to open-pit mines—the total volume of ore milled and deposited dropped 20.7% to 44.0 million metric tons. This reduced production of gold content to an annual volume that was 9.5% lower, at 824,087 ounces.

Silver mining production totaled 62.6 million ounces, a slight 0.4% lower, due to volume from Capela and development ore from the Juanicipio project (under construction) which was processed at the Fresnillo beneficiation plant. San Julián and Tizapa were able to increase their production thanks to better head grades, making up for the shortfall at Saucito resulting from lower volume processed and lower head grade at Herradura and Velardeña, because of lower grades and, at Sabinas, due to a lower volume processed.

In industrial metals, production of lead content grew by 2.5% to 86,420 metric tons, driven by production at Capela and higher head grades at Saucito. Zinc volume was off slightly (by 1.4%) to 288,072 metric tons, as the lack of production from Madero and Bismark was offset by Capela, Saucito, Fresnillo and Sabinas (all of them with higher grades), in addition to Velardeña, which milled more ore in the year.

The volume of copper produced in concentrates was similar to last year while, at Milpillas, production of copper cathodes totaled 12,444 metric tons, 44.7% less than in 2019 due to the mandatory shutdown of extraction work at the mine.

We continue to advance in adopting international standards for the design, construction, operation and closure of tailings deposits, ensuring they are properly managed in terms of capacity, safety and environmental protection, supported and supervised by a panel of experts.

We also strengthened the key-out system for locating personnel and vehicles within mines, which involves monitoring from a safe operational center.

Fresnillo plc made further progress on construction of a tailings flotation plant at the Fresnillo mine. This is the second phase of the Pyrites project, aimed at increasing silver and gold recovery from tailings at Saucito and Fresnillo. Development was also begun on the Juanicipio silver-gold mine in Zacatecas (56% owned by Fresnillo plc and 44% by MAG Silver Corp), with startup planned for the fourth quarter of 2021.

In metal operations, refined gold output fell to 957,209 ounces (-14.0%), due primarily to lower treatment of from the Herradura and Noche Buena mines. Some shippers temporarily suspended the supply of concentrates, and although the situation returned to normal around mid-year, we had some

Because of the steep drop in metals prices, high operating costs and low grades, we announced the difficult decision to suspend operations at Milpillas and Madero indefinitely.

trouble supplying the necessary amount and quality needed for mixtures to be processed at the lead smelter. With this, lead and silver production declined by 2.4% and 6.2%, to 70.6 million ounces and 111,538 metric tons, respectively, from their levels in the previous year.

In the zinc refinery, where annual production capacity was expanded to 350,000 metric tons a couple of years ago, most of the technical problems have been solved relating to balancing the processes and ensuring the correct interaction of the old (roasting) plant and the new (direct leaching) plant. This, combined with a lower volume of concentrates treated due to the contingency, caused an 8.0% reduction in refined zinc output, to 260,943 metric tons. We are confident that with the adjustments made, the zinc refinery will be working at capacity by 2021. We also successfully interconnected a project that will increase the recovery of silver content in high-grade zinc concentrates, which should add between 3 and 3.5 million ounces of silver to annual production.

Another challenge we faced was a temporary contraction in domestic refined zinc demand, although we were able to place our products on export markets.

On the energy front, our priority is to ensure the electricity for our operations at competitive costs, as well as an efficient, sustainable use of energy.

Demand also fell sharply for chemical magnesium products, mainly refractory and caustic grades. Sodium sulfate volume totaled 745,892 metric tons, 3.7% less than the year before, but magnesium sulfate broke a production record with 62,583 metric tons due to strong performance in the domestic agriculture industry.

With regards to energy, our priority is to ensure a supply for our operations at competitive costs, as well as the efficient, sustainable use of fuel and electricity. Our demand for electricity in 2020 declined by 2.7% because the increase in consumption resulting from the zinc plant expansion was offset by the suspension of work at three mines. Our portfolio of power generating plants produced enough to supply 104.7% of our own needs, including the power from the Mesa La Paz wind farm, which began producing energy in April. But we had to buy more energy from the Federal Electricity Commission, at a 14.0% higher cost, due to delays in the entry into force of new transmission agreements and migration of qualified users to the wholesale electricity market, as a result of the energy policy decreed by the Mexican authorities. For this reason, the unit cost of energy was 6.7% higher than last year (US¢ 6.86/kWh), also affected by higher transmission rates in legacy contracts, whose constitutionality is being discussed.

We remain committed to increasing the proportion of clean energy in our supply matrix, aiming at 100% renewable energy by 2028, if the change in the country's energy policy will allow us to do so. To this end, we have been analyzing alternatives for wind and solar farms near our operations. In 2020, clean energy accounted for 40.6% of our consolidated consumption.

Taking advantage of favorable conditions in financial markets, and backed by Peñoles' solid financial profile and continuing investors confidence, we were able to successfully place new bond issues on international markets under Rule 144A Reg/s totaling US$ 600 million at attractive rates, in two tranches: US$ 100 million through the reopening of a US$ 550 million bond placed in 2019 at 10 year-maturity and another for US$ 500 million at 30 years. This new issue received credit ratings of "BBB" (investment grade) from Fitch and S&P Global, with a stable outlook. The bonds issued last year maintain the same ratings. Part of the proceeds were used to prepay a US$ 300 syndicated loan originally maturing in 2024. Fresnillo plc meanwhile placed a successful US$ 850 million Rule 144A Reg/S bond issue at 30 years and bought back US$ 482 million of a US$ 800 million issue expiring in 2023. The credit ratings assigned to this issue were "BBB" from S&P Global, and "Baa2" from Moody's Investor Service, both with a stable outlook.

In financial results, our gross sales—excluding hedging results—grew 5.2% to US$ 4.72 billion, due to higher prices of gold and silver, which offset the effects of lower zinc and lead production and a drop in sales volume. Our hedging of metal prices and exchange rates, in order to reduce the risk of significant fluctuations and temper the volatility of our EBITDA, generated an opportunity cost of US$ 35 million, higher than the cost of US$ 3 million reported the year before. Including hedging results, net sales came to US$ 4.67 billion, a 4.5% increase.

The cost of goods sold was 4.9% lower, at US$ 3.42 billion, which can be attributed to: (i) the reduction in production costs caused by a slower pace of operations, cost-cutting measures, and the peso's depreciation, which benefited costs denominated in domestic currency; (ii) a credit for recognition of gold inventory at Herradura's leaching pads; and (iii) the lower cost of metal purchased from outside shippers.

General expenses totaled US$ 506 million, 15.0% less than in 2019. With this, EBITDA amounted to US$ 1.46 billion and operating income was US$ 743 million, increases of 50.4% and 170.0%, respectively, over fiscal year 2019. Net financial expense rose by 162.1% to US$ 284 million, due primarily to the contracting and restructuring of long-term debt described above. We are also reporting other net expenses of US$ 15 million, and impairment losses totaling US$ 166 million on long-lived assets at the Bismark, Milpillas and Madero units, where activities were suspended last year, as well as at Fuerza Eólica del Istmo.

Provision for income taxes totaled US$ 185 million, an increase of US$ 218 million (compared to -US$ 33 million) for various reasons, among them the voluntary adjustment to the tax treatment on outlays for mining work between 2013 and 2019, an increase in the provision for deferred taxes, and a higher tax base for the year. Thus, there was a net loss for the controlling interest in US$ 34 million for fiscal year 2020.

Although net results for the last year were negative, Peñoles remains a solid company, with prudent management and an extensive track record of overcoming difficult times, and 2020 was no exception. Peñoles maintains the best sustainable development and corporate governance practices, encourages social engagement and promotes its ethics and values at work and in everyday life. This ensures that our company can survive, adapt and prosper over time, to continue generating value for our stakeholders. All of these qualities, along with our employees, which are our most valuable asset, represent our greatest strengths as we look toward the future.

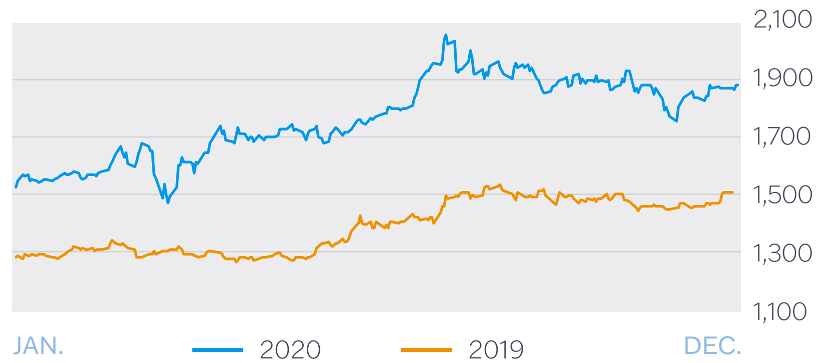
Negotiations with the various unions with which we have collective bargaining contracts have been conducted in a cordial and respectful manner, in a framework of cooperation and mutual benefit. We also continue to modernize workplaces to enhance productivity and improve the quality of life and income of our employees.

I thank the Chairman and members of the Board of Directors and Executive Committee for their confidence, unvaluable support and the privilege of leading Peñoles. I also express my gratitude to our employees for their enormous commitment, professionalism and dedication.

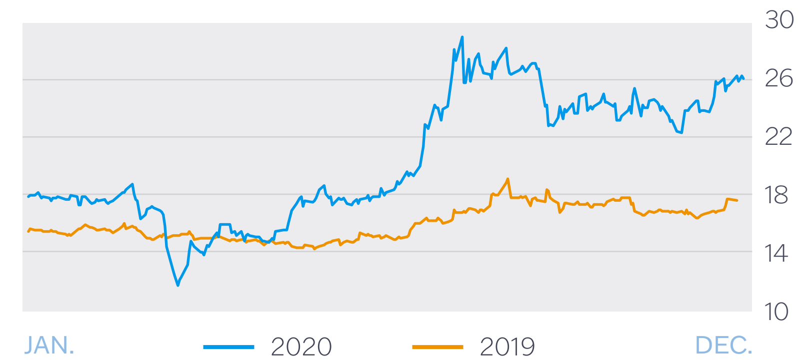
Rafael Rebollar González
Chief Executive Officer

PRICES AND EXCHANGE RATE

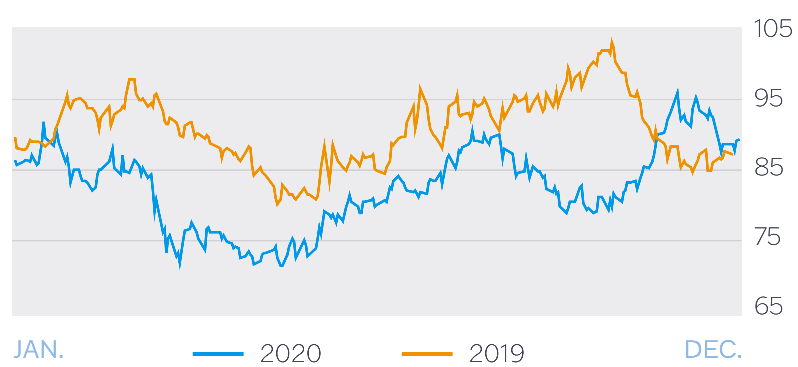
GOLD (LONDON)
US$/oz



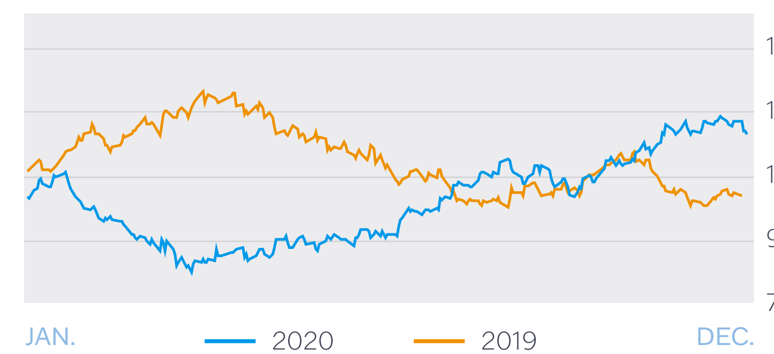
SILVER (COMEX)
US$/oz



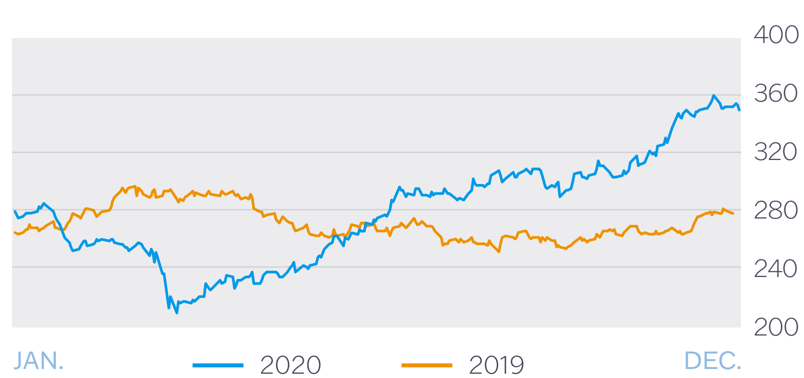
LEAD (LME)
US¢/lb



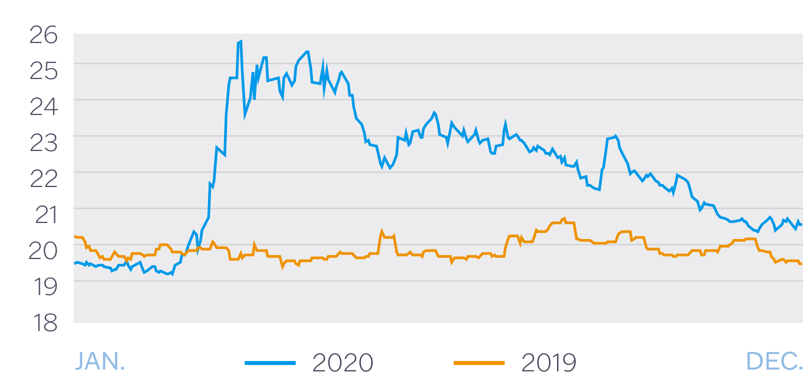
ZINC (LME SHG)
US¢/lb



COPPER (LME)
US¢/lb



OFFICIAL EXCHANGE RATE
Ps./US$



AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Industrias Peñoles, S.A.B. de C.V.
ANNUAL REPORT

Mexico City, March 1, 2021.
To the Board of Directors of Industrias Peñoles, S.A.B. de C.V.
Present.

Dear Board Members:

In accordance with the article 43 of the Securities Market Law, in my capacity as a Chairman and on behalf of the Audit and Corporate Governance Committee of Industrias Peñoles, S.A.B. of C.V. (the "Company"), as well as in compliance to our Rules of Operation, I hereby present to you the Annual Report of activities of such Committee corresponding to the 2020 fiscal year.

The Committee held seven sessions regarding the fiscal year of 2020. The main activities carried out are described below:

- We were informed about the most important projects of the Company and their progress. The labor and commercial situations arise from the Covid-19 pandemic were followed up.
- We were informed of the accounting effects derived from the closure of the mining units Bismark, Milpillas and Madero, as well as the tax management of the investments in mining works and the determination of the special mining right.
- We were informed about the new bond issues of the Company in the international markets for the total amount of US$ 1,450 million, as well as about the external limited audit of the financial statements as of March 31.
- It was reviewed that the external auditors firm, as well as the external auditor and his team, fulfilled and maintained during the term of their external audit services, the independence, personal and professional requirements, and that they had the quality control system set in the General Regulations Applicable to the Public Companies Supervised by the National Securities and Bank Commission that hire External Audit Services of Basic Financial Statements (*Disposiciones de Carácter General Aplicables a las Emisoras Supervisadas por la Comisión Nacional Bancaria y de Valores que Contratan Servicios de Auditoría Externa de Estados Financieros Básicos*) (hereinafter referred to as the "Regulations").
- We became acquainted of and followed the Annual Plan of the External Auditor, including the scope, nature and opportunity of the audit processes, the meaningful procedures that they decided to analyze, as well as the risks and key subjects that they determined. Additionally, we evaluated the performance of the firm, concluding that the firm fulfilled the necessary requirements for the execution of the assigned job, in accordance with the Regulations and regarding the additional services received, the firm accomplished the objectives assigned. Certain non-conformities that the administration expressed during the 2020 financial year, were communicated to the external auditors, which have been and continue to be addressed by the firm. In addition, during the year, the internal control observations reported in the suggestions letter were followed.
- The Annual Plan of the Internal Auditor was approved and we reviewed its quarterly reports on the status of the internal control system, the important aspects observed during the execution of the Plan, as well as the corrections made during the year and, as the case may be, those aspects that remained outstanding.
- We reviewed the Statement issued by the external auditors referred to in article 35 of the Regulations, so we knew the materiality and the tolerable error considered in their audit, the evaluated meaningful processes, the nature of the audit adjustments and their amount, as well as the conclusion that they reached. They reported that all significant audit differences observed and confirmed by the administration were incorporated into the audited financial statements.
- Each quarter we followed up the financial information of the Company. Also, the consolidated and individual financial statements prepared by the management as of December 31, 2020 were analyzed, as well as the unqualified opinion expressed by the external auditors on their opinion about them.
- We followed the legal, accounting and tax matters presented by the management as well as by the external and internal auditors during the fiscal year, and we also followed up different internal control issues related to information technology safety presented by the administration.

- We assessed the report presented by the Chief Executive Officer ("CEO") in accordance with the article 42, section II, subparagraph e) of the Securities Market Law; we consider that the information contained therein reflects in a reasonable manner the financial position and the results of the Company, due to: (i) the accounting policies and criteria applied by the Company in the preparation of the financial information, included in the notes to the audited financial statements, are adequate and sufficient, taking into consideration the specific circumstances of the Company; (ii) the certification of the people responsible for signing the financial statements, referred to in article 32 of the Regulations, was obtained and, (iii) the accounting policies and criteria have been consistently applied. Due to the above, the Committee recommends the Board of Directors to approve the consolidated and individual financial statements corresponding to the fiscal year 2020, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.

- We had no knowledge of any Shareholder, Director, Relevant Officer, employee or, in general, any third party, making observations regarding the accounting, internal controls or issues related to internal or external audit, or of complaints made during 2020 on irregularities of the management.

- The management maintained inform to the Committee about the compliance of the Code of Conduct and the complaints received through the mechanism of disclosure of undue acts and protection to informants.

- In several minutes of ordinary sessions of the Board of Directors, were included resolutions about operations and activities in which the Committee intervened in accordance with that provided in the Securities Market Law, therefore the Secretary of the Board of Directors certificated the due follow of the resolutions of the Shareholders and the Board of Directors, corresponding to the 2020 fiscal year, by the Committee. Likewise, through this Certification it was informed that, during this year, the Board of Directors did not grant any waiver in order for Directors, Relevant Officers or individuals with Power of Command, to take advantage of business opportunities for their own benefit or for that of third parties that correspond to the Company or to entities controlled by it or in which the Company has a significant influence.

- The Nomination, Compensation and Evaluation Committee of the Company submitted a report to the Committee, in which it informs that, during 2020, it reviewed the performance of the Relevant Officers without finding any remark, and that it examined the compensation packages of the CEO and the Relevant Officers which, in opinion of the Nomination, Compensation and Evaluation Committee, are in compliance with the policy approved by the Board of Directors. Likewise, the Audit and Corporate Practices Committee was informed about the organizational restructuring of the Company effective as of January 1, 2021, which was duly disclosed to the market.

Finally, it is hereby informed that the most significant transactions, entered into with related parties, subsidiaries and other affiliate companies during 2020 correspond, among others, to the sale of metals, treatment fees, concentrates purchase, energy purchase, royalties, rendering of services and revenues for financial instruments; these transactions, as informed by the management, were made at market prices and most of them have transfer pricing studies prepared by independent specialists.

On behalf of the Audit and Corporate Governance Committee,

Mr. Ernesto Vega Velasco
Chairman of the Audit and Corporate Governance Committee
Industrias Peñoles, S.A.B. de C.V.

STRENGTHENED BY OUR COMMITMENT

Restrictions resulting from the pandemic affected the pace of operations and project execution. Nevertheless, we were able to recover some of our production.

Our operations were awarded the Sanitary Safety Distinction, which endorses them as safe-work places.

EXPLORATION

Our strategy of continuous exploration is our greatest strength for driving future growth by developing new mining projects.

Peñoles' exploration team is dedicated to detect and develop polymetallic and copper deposits in Mexico and South America—mainly in Peru and Chile—where we hold concessions for over 1.2 million hectares. We also evaluate external projects in early exploration stages for possible acquisitions or partnerships, and support our mining units in generating new mineral reserves that will guarantee their continuity and growth.

We have qualified personnel as well as equipment and work systems that guarantee the quality of our studies. We rely on procedures, codes, protocols and expert personnel to ensure that our actions are carried out under strict ethical standards, respecting and supporting the communities where we operate and maintaining a culture of environmental protection.

Due to the public health emergency in 2020, it was necessary to suspend field work for seven months, a period we used to create and update protocols, manuals and work procedures, and to conduct research and laboratory studies of new prospective areas by compiling and analyzing information with predictive methods.

Consolidated investment in exploration—Peñoles and Fresnillo—totaled US$ 141 million in 2020, 32.2% lower than the previous fiscal year. Of this amount, US$ 22.7 million were allocated to new Peñoles projects, US$ 11.5 million to exploration of mines to replenish and increase reserves, and the rest to mines and projects at Fresnillo plc.

In 2020 we conducted direct exploration on six projects totaling 22,000 meters of drilling, both in the areas of influence of the current mining units and in new projects. Geological, geochemical and geophysical work also took place at 70 prospects for further exploration with drilling and subsequent assessment. Prospecting was also intensified with the assessment of 62 external projects in search of opportunities.

The most important results were obtained in the following projects:

US$ 141 M

invested in exploration of new projects and mines to increase reserves.

Reina del Cobre (Polymetallic)

Location: Cuencamé, Durango

The polymetallic skarn project is located 20 km from the Velardeña unit. As of the close of 2020, the detected (inferred) resources totaled 19 million metric tons with 1.9% of copper equivalent. Due to the depth of the ore bodies, we carried out studies and analyzed options for the development of underground mining work, in order to locate appropriate drilling positions that ensure a higher level of reliability of the resources. This work is scheduled for 2021.

Capela (Polymetallic)

Location: Teloloapan, Guerrero

We began a drilling campaign during the fouth quarter to determine the possible extension of current ore bodies, aimed at reinforcing resource inventories at this new mining unit. We expect to have enough information by the first half of 2021 to thoroughly determine whether it is feasible to conduct drilling and generate new resources.

Fortuna del Cobre (Copper)

Location: Pitiquito, Sonora

In this disseminated copper deposit, we have historic information indicating inferred resources of 10 million metric tons of ore, with 1.2% copper, in a secondary enrichment zone. Later analysis supported the feasibility of expanding the known body and detecting possible new ore bodies. We began a drilling campaign in the last quarter of the year, the preliminary results of which were attractive. We hope to have enough information in 2021 to define this project's potential.

International Exploration

With respect to our international projects portfolio, the global public health emergency prevented us from making significant progress in talks regarding the acquisition of land for future mining operations for the Racaycocha copper-gold-molybdenum project in Peru, where we maintain excellent relations with surrounding communities. Nevertheless, geological and geophysical studies were conducted in the northern part of the district, on company land, where we have obtained evidence of mineralization. Drilling will be carried out in 2021 to test its potential.

We also carried out drilling at the Laura and Campanario projects in Chile, although we did not succeed in detecting economic mineralization. In both Peru and Chile, six drilling prospects were developed, and we are evaluating opportunities in other companies' projects.

Field exploration was limited by the health emergency. We conducted studies and analysis of the collected information.

Fresnillo plc

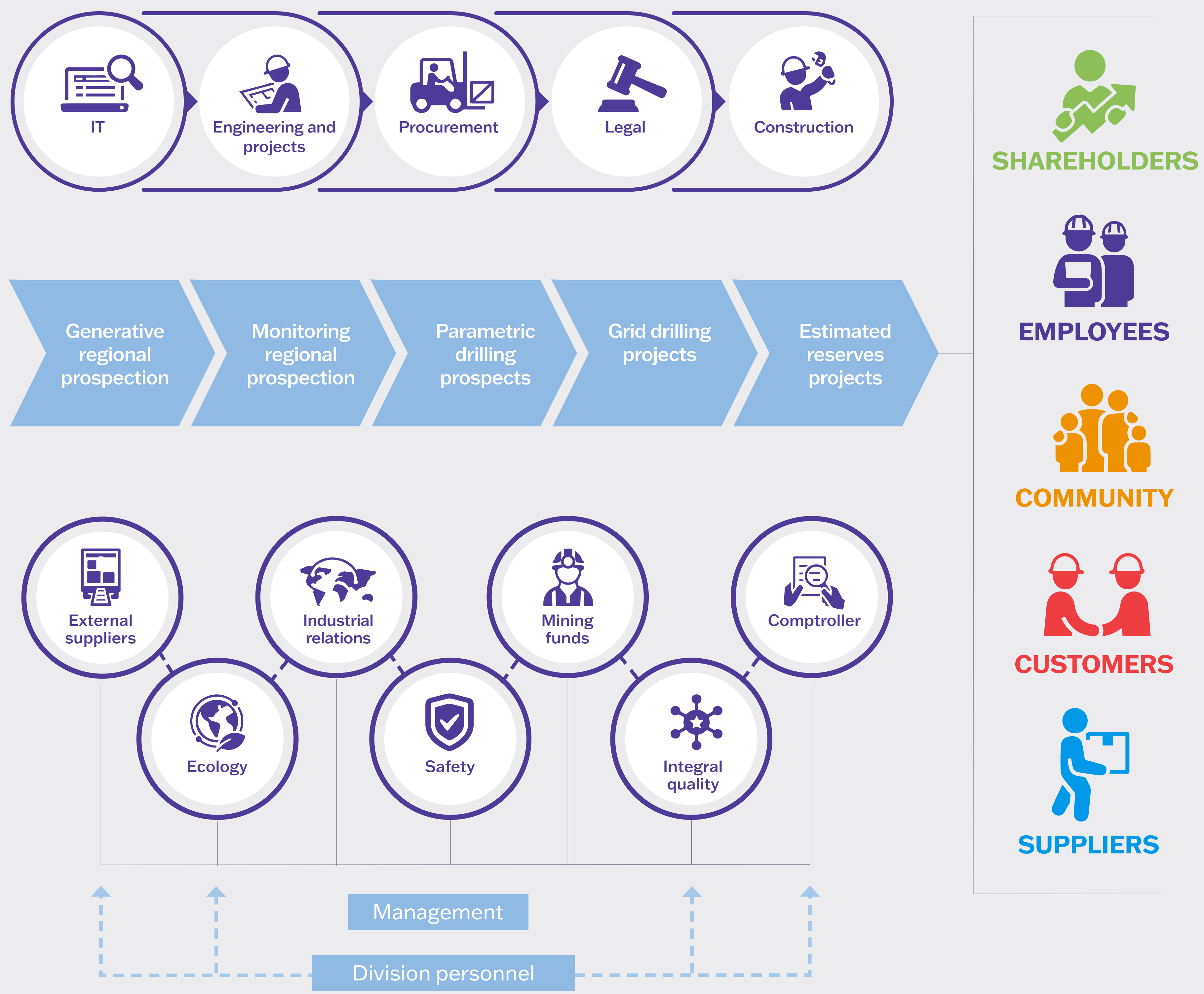
Fresnillo plc, engaged in exploration of potential deposits with gold and silver content, has mining concessions and exploration projects in Mexico, Peru and Chile. It has four advanced exploration projects—Orisyvo, Rodeo, Guanajuato and Pilarica—as well as other long-term projects.

A total of 505,000 and 177,00 meters were drilled in the mining units and exploration projects, respectively, in 2020.

Currently 13 areas are being drilled. Among those we have obtained interesting results in the San Julián and Guanajuato districts in Mexico, and in the Supaypacha project in Peru. The mapping and sampling work continues at various projects. In Orisyvo, the drilling program was completed for sampling metallurgy studies.

At regional offices in Hermosillo, Chihuahua, Zacatecas, Toluca, Lima-Peru and Santiago de Chile, exploration teams worked on selected areas that might contain silver-gold belts in Mexico, Peru, Chile and Argentina. All exploration work was conducted in strict observance of preventive protocols relating to the COVID-19 pandemic.

VALUE CHAIN IN THE EXPLORATION PROCESS

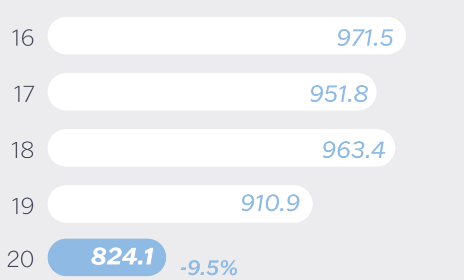


MINING

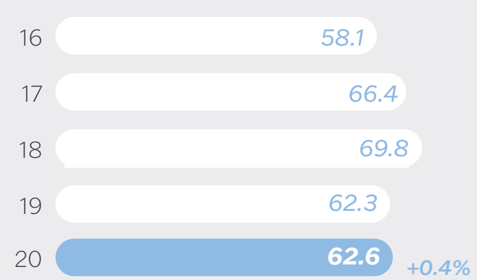
Our strength lies in the constant pursuit of improvements in productivity, efficiency and safety in our mining operations, even under difficult circumstances.

MINING **PRODUCTION**

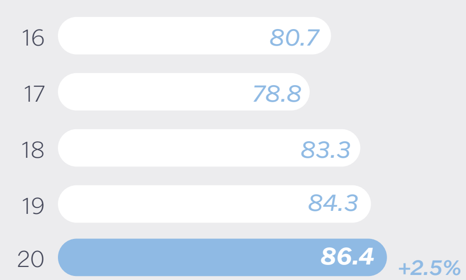
GOLD
koz



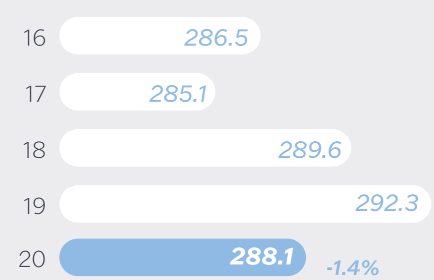
SILVER
Moz



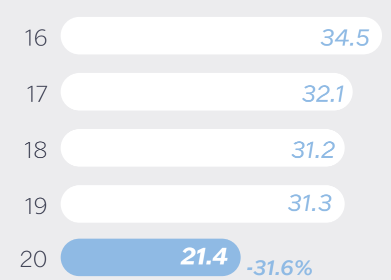
LEAD
kt



ZINC
kt

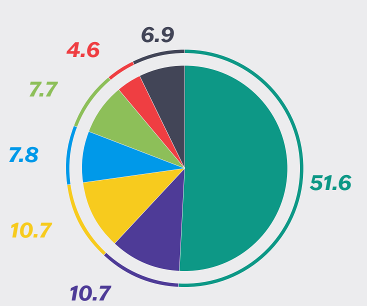


COPPER*
kt

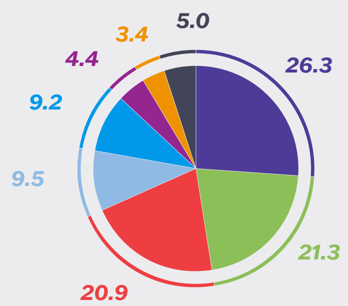


* Includes copper cathodes.

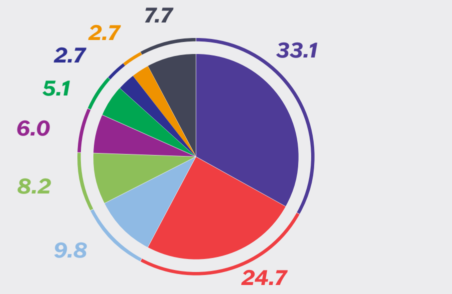
Contribution by mine
%



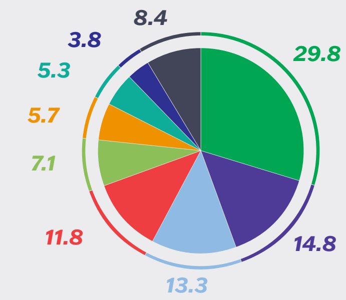
- Herradura
- Saucito
- Noche Buena
- Ciénega
- San Julián
- Fresnillo
- Others



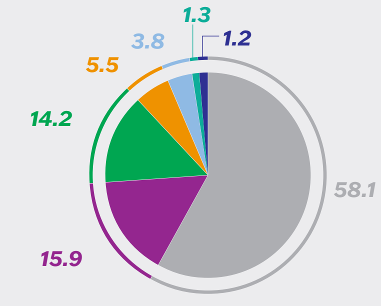
- Saucito
- San Julián
- Fresnillo
- Tizapa
- Ciénega
- Sabinas
- Capela
- Others



- Saucito
- Fresnillo
- Tizapa
- San Julián
- Sabinas
- Velardeña
- Madero
- Capela
- Others



- Velardeña
- Saucito
- Tizapa
- Fresnillo
- San Julián
- Capela
- Bismark
- Madero
- Others



- Milpillas*
- Sabinas
- Velardeña
- Capela
- Tizapa
- Bismark
- Madero

* Includes copper cathodes.

Panorámica nocturna de Capela.

We maintain the national leadership in the mining production of gold, zinc and lead and international in silver.

At the close of 2020, Peñoles had four underground mining units operating in Mexico, producing zinc, lead and copper concentrates: Velardeña in Durango; Sabinas in Zacatecas; Capela in Guerrero—whose productive life began this year—and Tizapa in the State of Mexico, in which the company owns a 51% stake.

Operations at the Madero mine in Zacatecas and the Milpillas unit in Sonora were indefinitely suspended in April due to a steep drop in zinc and copper prices combined with high operating costs and low grades. Milpillas will continue producing copper cathodes from the ore deposited in its leaching pads. Also, and as planned, after 28 years of uninterrupted operation, we began the process of closing down the Bismark unit in Chihuahua, due to depletion of its reserves.

We also consolidated the production of Fresnillo plc, a subsidiary that produces gold and silver concentrates, dorés, precipitates and other materials in seven mines: Fresnillo and Saucito, in Zacatecas; San Julián, in Chihuahua; Ciénega and San Ramón—satellite—in Durango, all of them underground mines; and Herradura and Noche Buena, two open-pit mines in Sonora.

All together, these mines position us as Mexico's largest producer of metal zinc and lead content. Furthermore, thanks to Fresnillo plc, we are the leading silver producer in the world and the largest gold producer in Mexico.

Actions in connection with COVID-19

All of our mining operations strictly followed internal protocols and the guidelines established by the Mexican Social Security Institute (IMSS) and the Ministry of Labor and Social Planning (STPS) to protect employee health. We obtained authorization to work according to the Sanitary Safety Protocol established by government agencies, and the IMSS awarded the company its Sanitary Safety distinction in recognition of our compliance with guidelines to control contagion.

Both the vulnerable personnel and administrative staff worked under the work-from-home scheme.

We established sanitary protocols and filters to access our facilities

We supported communities neighboring our operations with donations of 2,747 packages of basic food and supplies, 36,300 face masks and 1,169 containers of antibacterial gel, with a total value of Ps. 2.6 million. We also engaged ten physicians from UNAM to provide medical services and, in coordination with the authorities, we held campaigns to promote the sanitary measures necessary to prevent contagion.

We donated 50 Philips model E30 ventilators to the governments of Chihuahua and Guerrero in order to strengthen their medical infrastructure.

Two community committees were created during the year: one at Capela, in which a council of inhabitants from the mining region of Tehuixtla, Guerrero was formed to follow up on social infrastructure projects that would benefit neighboring communities; and the San Martín Health Committee in Sombrerete, Zacatecas, involving the Sabinas unit, in support of COVID-19 prevention actions.

Production and performance

Consolidated mining production (including 100% of payable production by Fresnillo plc) in 2020, and the change against the previous year, was as follows:

US$ 477 M

invested in operations and projects in the Mining Division.

	2020	2019	% chge.
Ore milled and deposited (Mt)	44.0	55.5	-20.7
Gold (oz)	824,087	910,871	-9.5
Silver (koz)	62,551	62,325	0.4
Lead (t)	86,420	84,332	2.5
Zinc (t)	288,072	292,291	-1.4
Copper (t)	8,969	8,806	1.8
Copper cathodes (t)	12,444	22,488	-44.7

The volume of ore milled and deposited was 44.0 million metric tons, 20.7% less than in the previous year due to pandemic-related restrictions and the suspension of operations at Madero, Milpillas and Bismark. Production at Herradura and Noche Buena was also affected, since in the state of Sonora, public health restrictions were extended to open pit mines. For this reason, gold production decreased by 86,785 ounces, or 9.5% compared to the previous year.

Silver production—62.6 million ounces—was similar to that of the previous year, supported by volume at Capela—which began operations in 2020—, the development ore from the Juanicipio project—which was processed at the Fresnillo plant—, and higher head grades at San Julián, Fresnillo, and Tizapa; the latter, in addition to improvements in recovery. These units offset lower production at Saucito and Sabinas due to a decline in volume processed and lower grades; at Velardeña, due to a lower head grade; Herradura, due to lower volume; and shortfalls at Madero and Bismark, resulting from the suspension of their operations.

The production of lead in concentrates grew slightly—2,070 metric tons—due to the contribution from Capela and the higher head grades obtained in Saucito, Ciénega, Sabinas and Tizapa, which offset lower grades and recoveries at Velardeña and San Julián, in addition to the absence of production from Madero and Bismark, which were out of commission for the entire period.

Production of zinc content dropped slightly—4,291 metric tons—due to the lack of production from Madero and Bismark and, to a lesser extent, lower head grades at San Julián. However, these effects were almost completely offset by the production of Saucito, Fresnillo, Sabinas and Tizapa, all four with higher grades; Velardeña, with a higher volume of ore milled and processed, and the production from the new Capela unit.

Regarding copper in concentrates, the output from Capela and Velardeña offset the lower volume from Bismark, Madero, Sabinas and Tizapa; the latter two also reported lower head grades and metallurgical recoveries. Milpillas produced a lower amount of cathodic copper because of the suspension of operations, although the ore deposited in the leaching pads will continue to be processed to produce cathodes, until it is exhausted.

Mining unit highlights

Velardeña (zinc)

Ownership: 100% Peñoles

Operation: since 2013

Location: Cuencamé, Durango

Production capacity: milling 2.31 Mt/year

Reserves (proven and probable): 14 years

Investment in 2020: US$ 8.3 M

Production	2020	2019	% chge.
Milled ore (kt)	2,688	2,441	10.1
Content			
Gold (oz)	4,743	4,979	-4.7
Silver (koz)	813	890	-8.7
Lead (t)	4,450	5,257	-15.4
Zinc (t)	85,902	82,482	4.1
Copper (t)	3,042	2,498	21.8

Velardeña is Peñoles' largest zinc mine, and it is also the second largest zinc mine in the country. Velardeña makes Durango one of the three leading zinc producing states in Mexico.

This year, a work program was drawn up to stabilize plant operations, which was optimized to 8,000 metric tons a day of milling and flotation, with which the volume of ore milled and processed hit record highs for the seventh year in a row. Due to this and to improved recoveries, metal contents of zinc and copper were higher than the production in 2019. This was not the case with gold, silver and lead, however, where production declined due to lower head grades in the ore bodies mined and lower metal recoveries.

Preparation work was carried out in the mine which increased the surface area to produce an additional 125,000 metric tons a year, guaranteeing a full year of extraction.

Work on accessing La Industria deposit continued, now with 823 meters completed and the investment of US$ 2.6 million in development work and the purchase of specialized equipment. This deposit represents 1.7 million metric tons of reserves, with average grades of 235g/t of silver and 3.2% lead. We expect the necessary work to be completed and extraction of ore to begin in the third quarter of 2021.

Improvement in 2019 safety indicators earned Velardeña the Silver Helmet distinction in the "Underground mine with more than 500 workers" category from the Mexican Mining Chamber.

Investment in 2020, expressed in millions, totaled US$ 8.3, the largest of which were the adjustments to the optimization of the processing plant (US$ 1.3), development work at La Industria (US$ 2.0) and US$ 1.4 in machinery and equipment purchases to replace two jumbo drills and a scoop tram, among others. This unit also obtained a US$ 1.2 million benefit by maximizing the useful life of the mechanical components for diesel equipment, recovering electrical cable from the mine for reuse, and electrical equipment acquired from units where operations were suspended, which resulted in a gain of US$ 0.7.

Lower production and ore milled at Sabinas is attributed primarily to the absence of personnel during the pandemic. Better zinc and lead grades offset the effects of a lower volume processed, allowing for an increase in the production of these elements over the previous year.

Sabinas (polymetallic: zinc-lead-silver-copper)

Ownership: 100% Peñoles

Operation: under Peñoles control since 1995

Location: Sombrerete, Zacatecas

Production capacity: milling 1.3 Mt/year

Reserves (proven and probable): 17 years

Investment in 2020: US$ 7.9 M

Production	2020	2019	% chge.
Milled ore (kt)	1,243	1,289	-3.6
Content			
Silver (koz)	2,780	2,850	-2.5
Lead (t)	5,187	4,936	5.1
Zinc (t)	14,135	12,801	10.4
Copper (t)	3,415	3,666	-6.8

There was some difficulty however, in attaining the projected grades of silver and copper, due to the intrinsic and operating dilution of the ore in the veins and the mismatch with the production cycle at high-grade stopes. In the case of silver, the lower grade was partially offset by higher metallurgical recoveries—rising from 87.9% in 2019 to 90.4% in 2020—because of improvements made to the lead-copper separation area of Plant 1. At Plant 2, sequential flotation was carried to recover more lead, in addition to the usual lead-copper-zinc recovery.

Concentrate quality improved meanwhile: lead grade gained 0.7 percentage points, from 42.6% in 2019 to 43.3% in 2020; silver content in copper concentrates grew 17.7% year-over-year, reaching 4,042 gr/t of concentrate.

Delays in mine preparation and infill work caused a reduction of the area prepared for ore extraction. A multi-disciplinary team was called to improve the mine's profitability and performance, conducting various studies to recheck ore reserves, improve the development of mining works and the mining cycle. As a result, an action plan was put into effect at the end of the year.

In mining work, US$ 5.8 million was invested to develop 4,200 linear meters of strategic preparation work on four ore bodies—La Noria, San Luis, ENSKN and APZ—to meet production budgets.

Another US$ 3.1 million was invested in stability studies and the start of adjustments to tailings deposits 1, 3 and 4, to reinforce operating, safety and environmental processes to bring them into line with international standards recommended by a panel of experts. This work will continue in 2021. The unit was also able to take advantage of components and spare parts from mining units where operations were suspended, resulting in savings of US$ 1.4 million in maintenance expense, and heavy equipment was acquired to boost mine productivity, for US$ 1.2 million. Finally, installation of a Vertimill® vertical grinding mill was begun which will improve the release of metals of interest to facilitate their recovery—with an investment of US$ 700,000.

Tizapa (polymetallic: zinc-lead-copper-silver-gold)

Ownership: 51% Peñoles, 39% Dowa Mining y 10% Sumitomo Corporation

Operation: since 1994

Location: Zacazonapan, State of Mexico

Production capacity: milling 950 kt/year

Reserves (proven and probable): 9 years

Investment in 2020: US$ 14.1 M

Production	2020	2019	% chge.
Milled ore (kt)	938	950	-1.2
Content			
Gold (oz)	38,875	36,091	7.7
Silver (koz)	5,973	5,783	3.3
Lead (t)	8,462	8,197	3.2
Zinc (t)	38,305	38,138	0.4
Copper (t)	808	1,286	-37.1

The volume of ore milled and beneficiated was a little lower than in 2019, primarily because of the absence of personnel due to the public health emergency. Even so, production of metal content increased for all elements.

This was due to better head grades, with the exception of copper, lower metallurgical recovery derived from the high lead-to-copper ratio in the head grades, and to the inherent complexity of the ore which made it more difficult to efficiently separate these metals. In this case, new reagents and chemical processes were applied in an effort to improve recoveries.

During the year, a total of 1,976 metric tons of high-value iron concentrates were produced and commercialized, with an average of 251 gr/t of gold and 366 gr/t of silver. The grade of silver in this concentrate was 1.7% higher than in 2019. Grades of silver and lead in lead concentrates also improved, as well as zinc in concentrates—to 50.6%, from 50.2% the year before. Additionally, metallurgical recoveries were more favorable for gold and silver, rising 4.6 and 0.9 percentage points, respectively, over 2019.

Mine preparation work represented 1.6 million metric tons, the equivalent of 1.6 years of production, meeting the goal of having at least one year of operation ready in advance. At the plant, modifications were made to the SAG mill shell and cyclone components were changed to control capacity and the size of particles in the flotation circuits, in addition to changes in the intelligent reagent dosing system.

A total of US$ 14.1 million was invested at this unit, primarily in: US$ 2.4 million in mining equipment to maintain productivity, US$ 400.000 to install the Vertimill® vertical grinding mill (at a cost of US$ 1.5 million) in order to increase recovery and quality of zinc concentrates, and US$ 700,000 for closing tailings deposits 1 and 2.

The new Capela mining unit, built with state-of-the-art technology, started up operations in February. There were some delays in the startup because of the absence of personnel during the pandemic, and because support from suppliers in commissioning plant equipment was provided remotely, and had to be reinforced with experienced staff from other mining units.

Capela (polymetallic: zinc-lead-silver-copper)

Ownership:	100% Peñoles
Operation:	since 2020
Location:	Teloloapan, Guerrero
Production capacity:	milling1.48 Mt/year
Reserves: (proven and probable):	15 years
Investment in 2020:	US$ 45.1 M

Production	2020
Milled ore (kt)	933
Content	
Gold (oz)	12,178
Silver (koz)	2,127
Lead (t)	2,335
Zinc (t)	16,412
Copper (t)	1,175

Efforts to stabilize operations at this unit succeeded in starting commercial production in June, with more than 50% of its nameplate capacity milled and processed. One of the main challenges was achieving efficient separation in the lead-copper flotation circuit, given the metallurgical complexity of the ore. To do this, testing was conducted with various reagents, which succeeded in improving lead recoveries, although we are continuing to look for solutions to increase copper recovery. By the end of the year, Capela had reached 99% of its installed capacity for milling and processing and produced high quality zinc concentrates with grades of more than 50 percent.

A local sourcing and entrepreneurial project was established for the creation of a local development ecosystem to trigger economic spillover and to encourages job creation. To this end , we gave the online workshops "Start your business" and "Improve your company" attended by 42 people from neighboring communities. This initiative resulted in 12 new business ideas and 16 companies under improvement.

Investment in Capela totaled US$ 45.1 million, which was used for installation and startup of the beneficiation plant.

Startup of Capela was slow and, although the unit could not achieve the expected production, it reached its milling capacity by the end of the year.

Francisco I. Madero (zinc)

Ownership: 100% Peñoles

Operation: from 2001 to April 2020

Location: Morelos, Zacatecas

Production capacity: milling 2.7 Mt/year

Reserves (proven and probable): 5 years

Investment in 2020: US$ 3.7 M

Production	2020	2019	% chge.
Milled ore (kt)	664	2,348	-71.7
Content			
Silver (koz)	196	747	-73.8
Lead (t)	2,350	8,905	-73.6
Zinc (t)	11,001	41,541	-73.5
Copper (t)	253	895	-71.8

Madero was once one of Mexico's largest zinc mines. In its 19 years of operation, it produced 42.8 million metric tons of ore and 985,385 metric tons of zinc metal in concentrates.

After a technical shutdown starting April 10, management made the decision to suspend operations indefinitely at this unit. This was because of the low grade of zinc that had been observed for several months, along with the high cost of extraction, milling and processing due both to the depth and hardness of the ore bodies and to the steep drop in zinc prices. For this reason, metal content produced in 2020 was significantly lower than in 2019.

Of the 544 people employed at Madero, 209 were transferred to other Peñoles and Fresnillo plc operations, nine left the company—eight through termination of their contracts and one due to retirement—and 308 unionized workers received their severance pay according to the law and the terms established in the respective collective bargaining agreements.

Production in Madero dropped because operations were suspended indefinitely in April.

Bismark (zinc and copper)

Ownership: 100% Peñoles

Operation: from 1992 to April 2020

Location: Ascensión, Chihuahua

Production capacity: milling 800 kt/year

Investment in 2020: US$ 0.3 M

Production	2020	2019	% chge.
Milled ore (kt)	374	653	-42.7
Content			
Silver (koz)	118	290	-59.3
Lead (t)	311	1,315	-76.4
Zinc (t)	15,409	24,751	-37.7
Copper (t)	275	460	-40.1

June 27, 2020 marked the last day of operations at Bismark, due to the depletion of ore reserves in the region. This closed the life cycle of the mining unit, during which time it processed 18.3 million metric tons of ore and produced 1.2 million metric tons of zinc metal in concentrates.

The closing process includes a program for recovering its assets for use at other Peñoles and Fresnillo plc operating units. At the end of the year, all of the equipment from inside the mine had been disposed of, along with 90% of the usable equipment from the processing plant. Restoration of the industrial area began, including recovery of surface ventilators so that once all the usable assets are removed, remediation activities can begin according to the established plan. In total, 1,535 items were sold to sister companies, for a total of US$ 1.1 million.

The infrastructure work built over Bismark's operating life—schools, library and other public works—were donated to neighboring communities so they can continue to be used.

Negotiations with unions were conducted respectfully, within the framework of the law, and as established in the corresponding collective bargaining contracts: 264 workers were laid off with severance pay, 40 employees were transferred to other business units, and labor relations were terminated with 17 people.

28 years

of operations at Bismark concluded due to depletion of its reserves.

From the start of operations in 2006 to the close in 2020, Milpillas milled and deposited 28.2 million metric tons of ore and produced 288,846 metric tons of copper cathodes.

Milpillas (copper cathodes)

Ownership: 100% Peñoles

Operation: from 2006 to 2020

Location: Santa Cruz, Sonora

Production capacity: 45 kt copper cathodes/year

Reserves: (proven and probable): 2 years

Investment in 2020: US$ 0.7 M

Production	2020	2019	% chge.
Deposited ore (kt)	694	2,474	-71.9
Copper cathodes (t)	12,444	22,488	-44.7

Following a technical shutdown, operations at Milpillas were suspended indefinitely on April 6. The decision was made in recognition of low ore grades and the disseminated quality of the deposit, which made operating costs so expensive—alongside the drop in the price of copper—that the unit ceased to be profitable for the company. Mining work was stopped, but cathode production continued for the rest of the year from the ore deposited at the leaching pads and the rich solution processed at the electrolytic plant. The additional production will conclude once the copper contained in the leached ore is recovered.

Negotiations were concluded respectfully with the union, in keeping with the law and the collective bargaining contract, and 285 unionized workers received their severance pay.

The drop in copper prices and high operating costs affected Milpillas' profitability. Extraction was suspended in April.

RESERVES

In 2020 we carried out 61,911 meters of diamond drilling at Peñoles-operated mines, in order to ascertain proven blocks of reserves and generate mineral resources to ensure the operating continuity of our mining units.

A calculation of reserves of the mining units was conducted in January 2020 in order to support budget and operating plans for the year. To enhance the certainty of these estimates, mineral reserves and resources were calculated according to the International Code of the Joint Ore Reserves Committee (JORC version 2012) using MRO software, which optimizes and offers greater precision in locating economic blocks of minable reserves.

The calculation applied Peñoles' long term price projections, more conservative than those assumed in the 2019 reserves calculation: gold US$ 1,250.00/ounce (-7.4%), silver US$ 17.00/ounce (-8.1%), lead US¢ 95.00/pound (-9.5%), zinc US$ 1.10/pound and copper US$ 3.10/pound. The cut-off grade increased by 8.3% on average, which, combined with assumptions of lower prices, higher production costs and treatment charges, resulted in estimated resources and reserves equivalent to 34 and 13 years of mine life, respectively, at the projected pace of production in five years—compared to 38 and 17 that were calculated in the 2019 assessment.

Excluding the Bismark, Madero and Milpillas units, mine life is 15 years of reserves and 39 years of resources. A table showing the calculation assumptions and breakdown of reserves appears on page 56 of this report.

With modifications in the economic parameters, the resource grades at Tizapa increased and some zones were lost in the Western Block, which were offset by the tonnage from the Central and Eastern blocks due to interpretation and good grades at the current cuts and drill sites. In Velardeña's case, there was a reduction in reserves, mainly at Antares Norte, because of the elimination of surrounding non-minable land and extraction from the dike in longhole stopes. At Sabinas, the cut-off grade increased by more than the average, while at Capela adjustments were made to the geological models to correspond to the real timeline of the mine opening. In 2021, exploration resources will be added from sampling the works and exploratory drilling.

Metal content in Peñoles' proven and probable reserves, including the Capela mine and the subsidiary Fresnillo plc, along with their change from 2019 to 2020, are as follows:

CONSOLIDATED RESERVES

	2020	2019	% chge.
Gold (koz)	**9,757**	10,303	-5.3
Silver (koz)	**716,541**	700,231	2.3
Lead (kt)	**1,756**	1,724	1.9
Zinc (kt)	**5,718**	6,562	-12.9
Copper (kt)	**367**	533	-31.2

** Includes 100% of the reserves from the Juanicipio unit (under development).*

Estimates of resources and reserves are periodically updated, according to the methodology and standards recognized in the mining industry.

We strengthen and disseminate knowledge on rock mechanics to strengthen safety and increase productivity.

Rock mechanics

We continued to incorporate rock mechanics areas into our operating units this past year in order to guarantee the stability of the mining works and mitigate safety risks to our personnel, equipment and processes. The key activities in this area were:

- Update of the support and reinforcement guidelines for each mine.
- Preparation and publication of brochures on rock mechanics, reinforcement and support grids, in the interests of operating discipline and to comply with the Ministry of Labor and Social Planning NOM 023 standard.
- Development of a specialization course in rock mechanics and injections for the Peñoles and Fresnillo plc mines; online this year because of the pandemic.
- Support for the engineers-in-training program and for Mexican universities with earth sciences programs.
- Update of the database for developing geomechanical models at each of the Peñoles mines, and technical consultancy at the Fresnillo plc mining units.

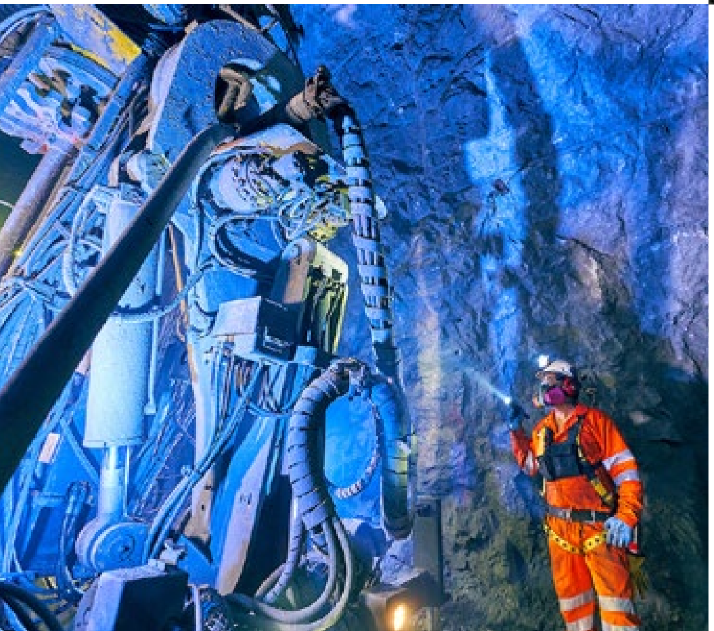
- Training through virtual videos for contractors and engineers in training program.
- Interaction with corporate safety personnel on the use and handling of rockfall accident and incident logs.
- Creation of a virtual platform for understanding the impact of rock mechanics at Peñoles mines, including monthly follow-up with the work team aimed at eliminating rockfall.
- A campaign to prevent rockfall including sessions on risk identification, prevention of rockfall accidents, rock mass quality, and types and procedures for anchor installation.
- Rock mechanics diagnostics to evaluate zones of risk and strategic and priority areas at the mines.
- Creation of multi-disciplinary work teams to strengthen and standardize the support process at our mines.

Intelligent Mine Vision

Intelligent mining allows us to automate processes, reinforce security, increase productivity and reduce costs.

In 2020, we reiterated our commitment to expanding, optimizing and automating processes, which is the basis for our Intelligent Mine Vision. The main actions this past year were:

- We strengthened and implemented the key-out system for locating personnel and vehicles within mines that continue operating: Tizapa, Velardeña, Sabinas and Capela, which involves monitoring from a safe operational center.
- Implementation of diesel dispatch systems was begun at Capela, having already been installed at our other operations. Currently, all our mines have this system, whose purpose is to monitor the yield of our diesel equipment and thus optimize our use of this fuel.
- XControl software was installed at all the mining units in order to optimize and oversee consumption of explosives and comply with legal provisions governing the use of this input by the National Defense Ministry.
- We conducted testing of the remote blasting process at Velardeña and Capela, which was proved to work well at Tizapa; its purpose is to eliminate risks to personnel and equipment.
- At Tizapa, Velardeña and Capela, we strengthened the system for scanning low-profile truck cargo from safe operation centers in order to monitor the performance of this equipment and increase their efficiency and availability. We also installed sleep sensors for drivers, to add another layer of safety to personnel transport at Sabinas and Velardeña.
- We strengthened the Mine Administration System in our mining units, including Capela, to provide the informational support for indicators on mining processes. The roll call and log of facilitators with mobile devices were added, along with control of short intervals to measure shift performance in real time.
- We began introducing the Operational Management System in our plants, in order to have a more efficient, real-time view of indicators for our processes and equipment and measure them against goals and budgets.
- Finally, we expanded our electrical and telecommunications infrastructure to cover operations at the Capela mine with fiber optics and Wi-Fi, enabling remote operation capacities for some equipment, soon to include longhole drilling. We also expanded the infrastructure of Velardeña's work areas toward La Industria deposit, with full coverage of fiber optics and Wi-Fi.



Value creation projects

In line with our philosophy of teamwork and the priority of improving key administrative processes to ensure correct documentation and definition of indicators, 61 value creation projects were incorporated into mines operated by Peñoles in 2020 using the Seis Sigma methodology. Particularly important among these because of their economic benefit, with 100% of non-unionized personnel participating, were:

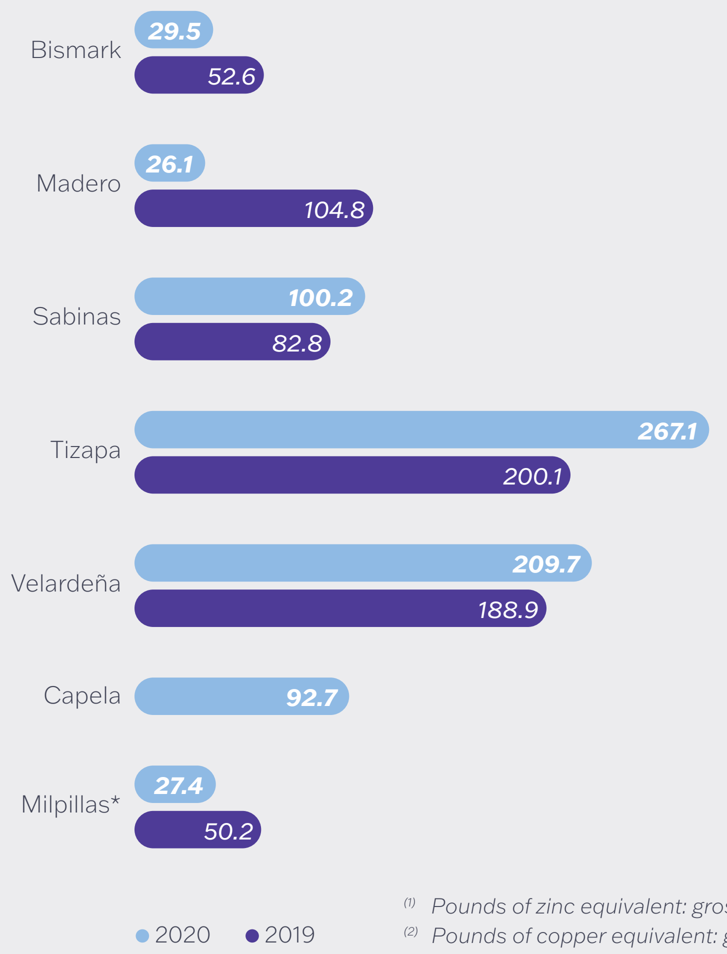
- **Velardeña (US$ 2.3 M):** Safety, mine and plant productivity, optimization of tailings deposit, development and stripping.
- **Tizapa (US$ 3.5 M):** Resource generation, safety, mine management system, gold recovery and working environment.
- **Bismark (US$ 2.5 M):** Safety, metal content, equipment availability and zinc recovery.
- **Sabinas (US$ 500,000):** Availability of jumbos and anchoring equipment, optimization of granulometry at Plant 1 and arsenic control.
- **Milpillas (US$ 1.5 M):** Safety culture and cathode production.
- **Capela (US$ 3.0 M):** Stabilization of plant process, rock mechanics, equipment availability, ore inventory control.

Cost indicators

In terms of pounds of zinc equivalent[1] sales by the Peñoles-operated mines increased 15.3% compared to the previous year, from 629.2 million to 725.2 million. This was due to new production from Capela and increases at Tizapa and Sabinas, which, being polymetallic units, benefited from the increase in precious metal prices. Velardeña produced and sold a higher volume of zinc metal. These four mines offset lower production from Bismark and Madero.

Pounds of copper equivalent[2] at Milpillas declined 45.4% from 2019, because of the reduction in cathode production resulting from the suspension of operations.

POUNDS EQUIVALENT
Mlbe zinc/copper*



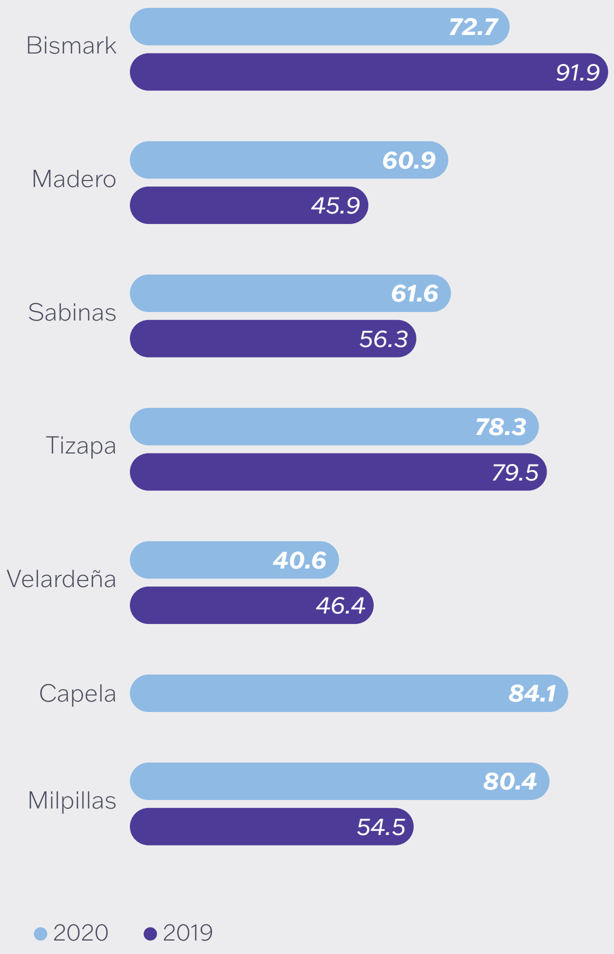
[1] *Pounds of zinc equivalent: gross total sales/average zinc price.*
[2] *Pounds of copper equivalent: gross total sales/average copper price.*

Production costs at the mines totaled US$ 461 million, 18.3% lower than the year before, largely because of cost-saving measures, along with the peso's depreciation against the dollar, which had a positive impact on peso-denominated costs (approximately 50% of the total).

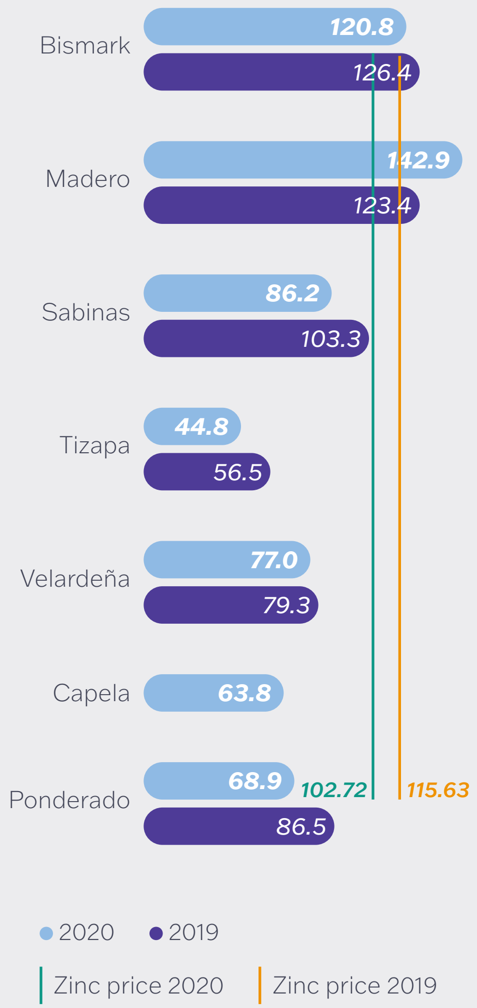
The Milpillas, Madero and Bismark units reported lower costs due to the above-mentioned operating shutdowns. However, the unit cost per ton of processed ore was higher for the first two, primarily because of the creation of personnel retirement reserves. At Velardeña, unit costs were lower because of the higher volume of processed ore, while Tizapa was able to reduce consumption of key inputs like energy and diesel besides lower processing. At Sabinas, costs rose because of investment in tailings deposits improvement measures.

As for cash costs[1], these were higher at both Madero and Milpillas (comparing the months in which they were operating against the same period of 2019), supporting the decision to shut down operations. Indicators from the other units reflect the benefits of a higher volume of pounds equivalent sold and lower production costs, which offset the increase in treatment charges for the concentrates sold and the reduction in the price of industrial metals.

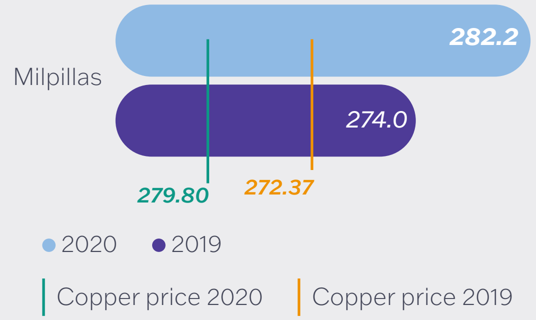
UNIT COSTS
US$/t



C1 CASH COSTS (ZINC)
US¢/lbe zinc



C1 CASH COSTS (COPPER)
US¢/lbe copper



[1] Cash cost = [Cost of goods sold (production cost minus depreciation +- change in inventories) + sales expense (treatment fees, shipping and write-downs, extraordinary ore rights)]/pounds of zinc or copper equivalent.

Ore processed from the Juanicipio project at the Fresnillo plant contributed to increase silver production.

FRESNILLO PLC (GOLD AND SILVER)

	2020	2019	% chge.
Ore milled and deposited (kt)	**36,387**	45,297	-19.7
Content			
Gold (oz)	**769,618**	875,913	-12.1
Silver (koz)	**50,270**	51,764	-2.9
Silver (koz) Silverstream[1]	**2,780**	2,850	-2.5
Lead (t)	**63,242**	55,722	13.5
Zinc (kt)	**106,793**	92,578	15.4

[1] Under the Silverstream contract, Fresnillo plc is entitled to receive all the proceeds (before treatment and refining charges) minus US$ 5.0 per ounce (plus inflation as of 2013) of payable silver produced by Sabinas.

Fresnillo plc, a subsidiary in which Peñoles maintains a 74.99% share ownership, is listed independently on the London Stock Exchange and the Mexican Stock Exchange. It operates seven mining units in Mexico, which produce primarily precious metals (gold and silver), and it is the largest primary producer of silver in the world and the leading producer of gold in Mexico.

At the Fresnillo mine, work continued on controlling dilution and improving blasting and drilling to deal with narrower veins. The development rate increased to an average of 3,130 meters per month—3.1% more than in 2019—with the startup of the tunnel boring machine and work by a new contractor starting late in the previous year; commendable performance considering the limitations and reduced workforce resulting from the pandemic.

Annual gold production declined in 2020, due primarily to a lower volume of ore processed at Herradura, the result of restrictions on work relating to sanitary measures, and lower volume at Noche Buena, due to a smaller area available for exploitation, having reached the point of its mine closure plan. Adding to this was a non-hazardous slippage on one of the walls of a cut, which limited access to deeper areas affecting the mining sequence. To a lesser extent, production was also lower at Fresnillo and Ciénega due to a lower volume of ore processed and lower head grades, while grades and metallurgical recoveries were higher at Saucito.

Silver production declined due to the low grade expected at Saucito, and a reduction in volume and lower grade at Herradura. This was mitigated in part by higher head grades at San Julián (disseminated ore) and the development ore from the Juanicipio project, which was processed at the Fresnillo plant, contributing 624 ounces to annual production. Production at the Fresnillo mine was similar to 2019 because of the elements mentioned in the preceding paragraphs.

As regards base metals—which are byproducts for Fresnillo plc—the annual volume of lead was higher due to higher head grade at Saucito and, to a lesser extent, at Ciénega, along with increased recoveries at both mining units, which offset the reduction in production at San Julián (disseminated) due to lower grades and recoveries, and at Fresnillo due to lower volume and recoveries.
Zinc production was higher than the year before, mainly due to higher grade and recoveries at Saucito and, to a lesser extent, better grades at Fresnillo and Ciénega.

In development projects, construction of the Pyrites II project was completed. This includes a flotation plant at Fresnillo with 14,000 metric tons a day of capacity for recovering gold and silver from old and new tailings, to complement the Pyrites I plant at Saucito. Both of these projects will increase silver production by 3.5 million ounces a year, and gold production by 13,000 ounces. The start of operations was postponed due to delays in final inspections by the authorities after travel restrictions were imposed to control the spread of COVID-19. These inspections are indispensable for obtaining the energy permits necessary to operate the plant. Once the authorities conduct the final inspection and electrical permits are approved, the plan is expected to reach full capacity in one quarter, although given the current situation in Mexico we do not expect this to happen before mid-year 2021.

Optimization of the Fresnillo flotation plant in order to handle a higher content of lead and zinc was started up on time and within budget in the last quarter of the year. Connection of this new circuit to the processing plant is expected to be complete in February 2021, which will avoid unnecessary interruptions to normal plant operations.

Finally, progress was made on construction of the processing plant at the Juanicipio silver mine project in Zacatecas, which is expected to start up in the fourth quarter of 2021—later than originally planned due to delays in infrastructure contracts and measures relating to the pandemic. As anticipated, the ore for producing gold and silver in concentrates, both development ore and ore from the initial production stopes, has been processed at Fresnillo's beneficiation plant since June 2020.

Construction of the tailings flotation plant at Fresnillo (Pyrites II) was completed, to increase silver contents production.

Tailings facilities

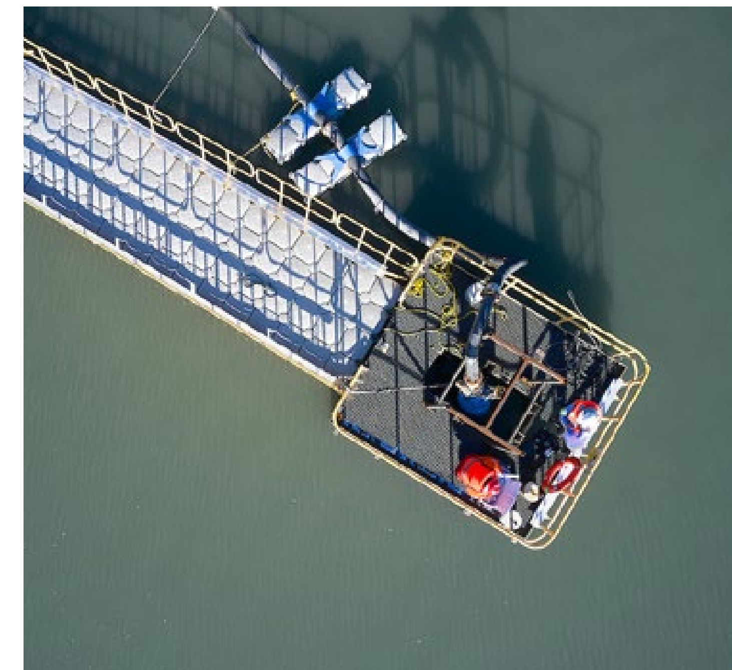
To incorporate the best domestic and international standards, since 2019 Peñoles and Fresnillo started a new process to manage tailings facilities, aligned with the standards and rules of the International Commission on Large Dams (ICOLD), the Canadian Dam Association (CDA), the Canadian Mining Association (MAC), and the International Council on Mining and Metals (ICMM).

Substantial progress was made in implementation of governance and management of tailings and mining-metallurgical waste. Some of the key actions were the following:

- Creation of a Corporate Tailings Deposit Department which is responsible mainly for establishing internal guidelines on management and governance, as well as coordinating the activities of the Independent Tailings Dam Review Panel.
- Creation of seven Regional Tailings Management Departments, which will apply and ensure the governance guidelines in the processes of site selection, design, construction and operation, closure and post-closure of tailings deposits.
- Even during the pandemic, the Independent Tailings Dam Review Panel completed its program of activities, which included remote review mechanisms and online presentations of conditions at each site.
- Creation of a Tailings Review Committee, to ensure that Peñoles applies the most appropriate practices for tailings management and tailings deposits.
- Creation of a system for following up on recommendations of the independent reviews, which shows the progress made toward improving the design, construction, operation and closure of tailings deposits.

Peñoles remained up to date on the launch of the Global Mining Industry Standard on Tailings Management and agreed to its principles. We are preparing a plan to implement and comply with it when possible, which depends primarily on the availability of technical resources.

With the strategies and actions implemented, Peñoles proves its commitment to adhere to the best international guidelines and practices, promoting an operation based on sustainability and governance principles for tailings and mining-metallurgical waste.



MINING OPERATIONS: PRODUCTION AND RESERVES

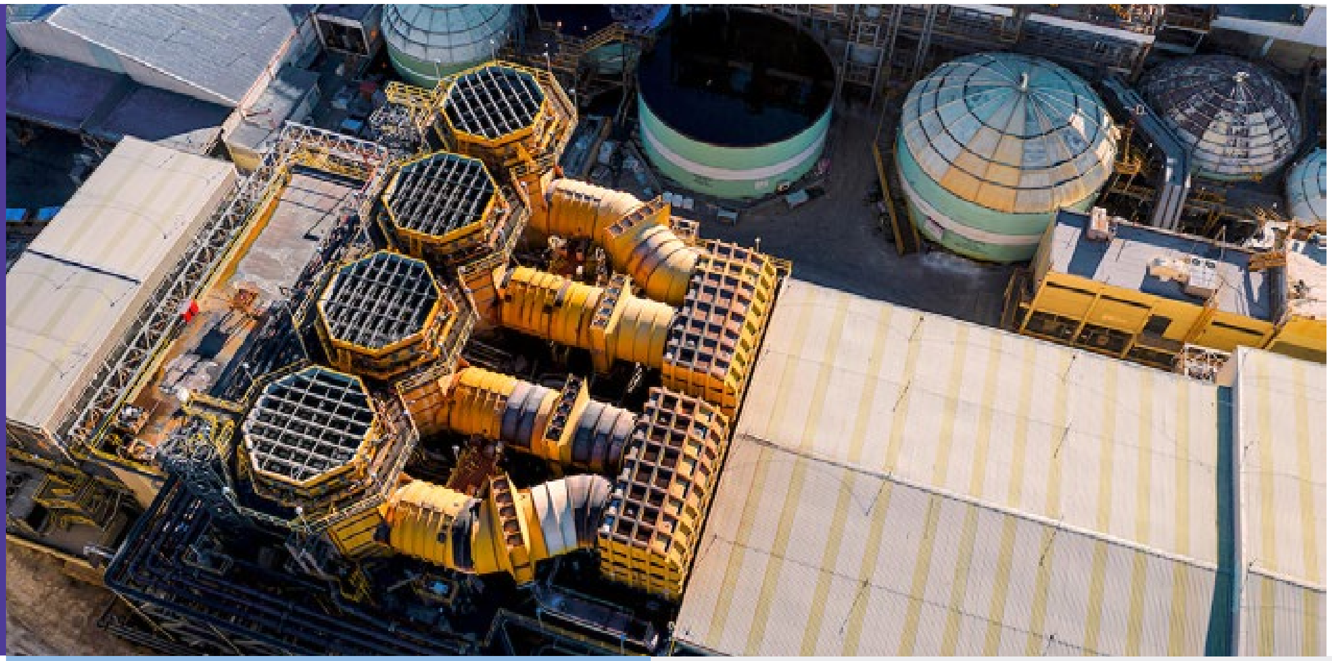
Mine	Participation %	Ore processed (kt) 2019	Ore processed (kt) 2020	Total reserves (kt) 2019	Total reserves (kt) 2020	Average ore grades in reserves				
PRECIOUS METALS:						Gold	Silver	Lead	Zinc	
Underground						(g/t)	(g/t)	%	%	
Fresnillo[1][2]	75	2,462	2,337	19,859	15,401	0.76	264.61	1.54	3.42	
Ciénega[1][2]	75	1,329	1,318	5,248	4,523	2.36	231.84	1.11	1.65	
Saucito[1][2]	75	2,753	2,767	12,993	14,323	1.33	303.06	1.55	2.44	
San Julián Veins[1][2]	75	1,265	1,255	4,346	3,489	1.77	203.57			
San Julián Disseminated[1][2]	75	2,227	2,230	12,073	7,953	0.09	167.31	0.46	1.14	
Juanicipio[1][2][3]	42		72		8,869	1.47	307.00	2.10	3.60	
Open pit										
Herradura[1][2]	75	22,927	19,797	267,492	250,578	0.76				
Noche Buena[1][2]	75	12,167	6,683	28,984	20,054	0.51				
BASE METALS:						Gold	Silver	Lead	Zinc	Copper
Underground						(g/t)	(g/t)	%	%	%
Velardeña[4][5]	100	2,441	2,688	50,226	36,682	0.11	20.12	0.37	3.87	0.17
Sabinas[4][5]	100	1,289	1,243	33,795	22,658		96.46	1.08	1.87	0.27
Tizapa[4][5]	51	950	938	9,691	8,840	1.43	206.15	1.24	5.21	0.28
Capela[4][6]	100	-	933	21,478	20,511	1.18	110.42	0.74	3.22	0.79
Madero[4][5]	100	2,348	664	26,509	14,981	-	21.52	0.88	2.38	0.08
Bismark[4][5]	100	653	374	1,237	426		11.54	0.07	5.50	0.24
Milpillas[4][5]	100	2,474	694	14,286	4,299					0.89
Naica[4][5]	100			10,939	9,791	0.01	73.61	2.58	10.29	0.03

(1) As of May 31, 2020; proven and probable reserves in thousands of metric tons, on a 100% basis. Audited figures.
(2) Metal price assumptions considered for the calculation of metal equivalent grades are: Gold US$/oz 1,600.00 for Mega Centauro, US$/oz 1,400.00 for all other properties, Silver US$/oz 17.50, Lead US$/lb 0.90 and Zinc US$/lb 1.05.
(3) Mining unit under construction. Total reserves (kt) calculated on a 56% basis.
(4) As of January 31, 2020; proven and probable reserves in thousands of metric tons, on a 100% basis.
(5) Determination of 2020 reserves is based on the following metal prices: Gold US/oz$ 1,250.00 per ounce, Silver US$/oz 17.00 per ounce, Lead US$/lb 0.95, Zinc US$/lb 1.10 and Copper US$/lb 3.10.
(6) Determination of reserves is based on the following metal prices: Gold US$/oz 950.00, Silver US$/oz 14.20, Lead US$/lb 0.90, Zinc US$/lb 0.95 and Copper US$/lb 3.07.

METALS

One of our greatest strengths is the vertical integration of our business, which encompasses the entire metals value chain, from extraction and processing to refining and sale to the end consumer.

METALS **PRODUCTION**



US$ 51 M

invested in metallurgical operations to improve processes and conclude the Silver II Recovery project.

GOLD
koz

16	1,419.3
17	1,220.4
18	1,128.1
19	1,112.6
20	957.2 -14.0%

SILVER
Moz

16	65.4
17	72.6
18	64.9
19	72.4
20	70.6 -2.4%

LEAD
kt

16	111.4
17	112.8
18	104.1
19	118.9
20	111.5 -6.2%

ZINC
kt

16	215.1
17	222.6
18	228.8
19	283.6
20	260.9 -8.0%

LEAD BULLION
kt

16	127.1
17	129.7
18	123.7
19	140.6
20	134.5 -4.3%

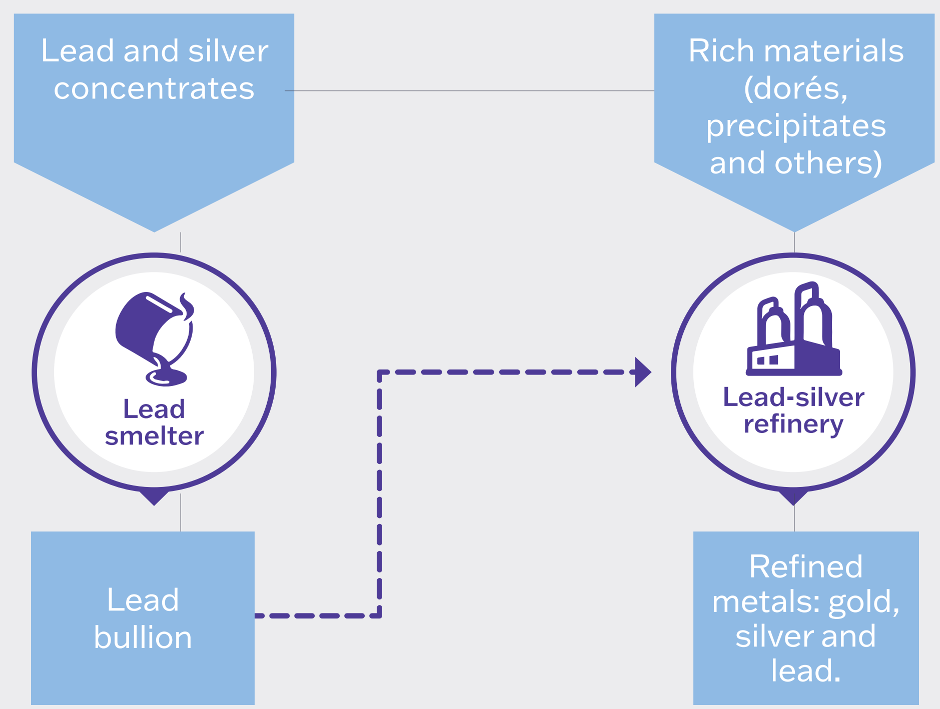
We conduct due-diligence procedures for our raw materials shippers to guarantee a conflict-free supply chain.

Our metallurgical operations process complex concentrates and other materials from our own mines, from those of our subsidiaries and from outside shippers, to produce refined metals with high quality and purity, certified for international trade, which are used by a wide range of industries in the various countries where our clients are located.

The Metals Division is composed by a metallurgical complex located in Torreón, Coahuila, which produces refined gold, silver, lead and zinc; the Aleazin plant in Ramos Arizpe, Coahuila, which manufactures specialty zinc alloys according to our clients' needs; and the Bermejillo plant in Durango, where byproducts from our smelter are processed and copper sulfate, zinc sulfate and antimony trioxide are produced. Together, these plants comprise the company Metalúrgica Met-Mex Peñoles (Met-Mex), one of the largest and most important metallurgical complexes in the world.

Met-Mex is one of the top two producers of refined silver in the world, the leading producer of primary refined gold and lead in Latin America, and the world's eleventh largest producer of refined zinc.

LEAD-SILVER CIRCUIT



Annual production capacity

180	**118**	**1.9**
kt lead	Moz silver	Moz gold

Met-Mex has two primary circuits:

The **lead-silver circuit**, comprising the lead smelter, where lead-silver concentrates are processed to produce lead bullion, and the lead-silver refinery, which receives both the lead bullion and doré bars, precipitates and other materials rich in metal content to produce refined gold, silver and lead.

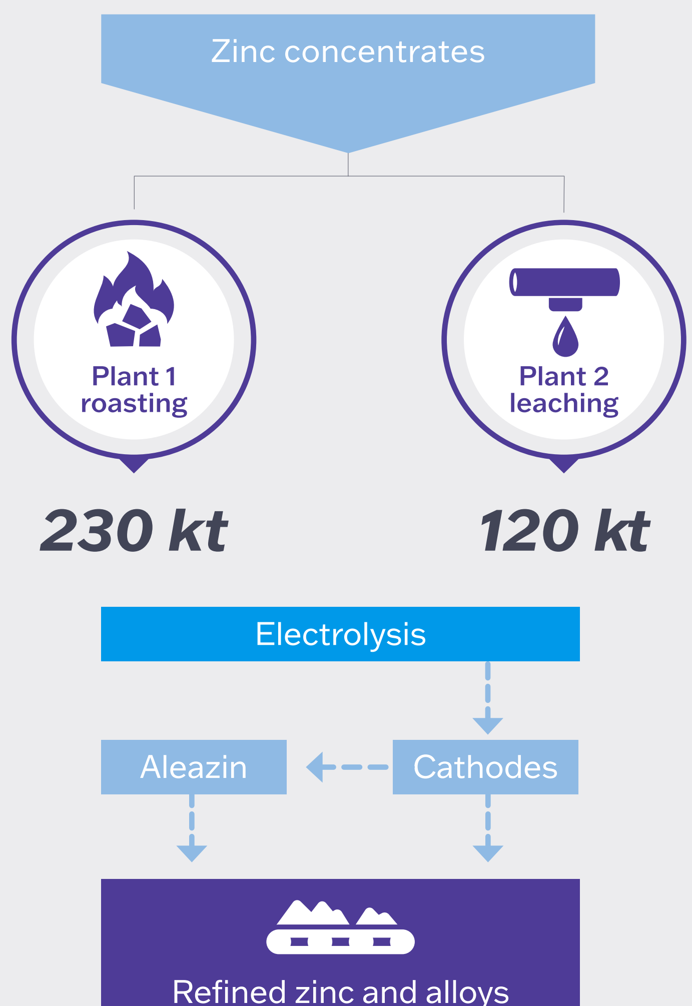
We devised strict protocols at plant entrances and actively supported our communities.

The **zinc circuit** is fed with zinc concentrates, which are treated by an electrolytic process to produce refined zinc in different qualities and presentations. With an annual production capacity of 350,000 metric tons, this circuit comprises two plants: the old plant (Plant 1), which uses concentrate roasting, and a new plant (Plant 2) which started up operations in 2019 and replaces roasting with leaching, thus taking advantage of some of the sulfuric acid produced as a byproduct in Plant 1.

Actions in connection with COVID-19

To mitigate the impact of the COVID-19 pandemic, avoid the spread of the virus and protect the health of our employees, our metallurgical operations strictly followed internal protocols and the guidelines established by the IMSS and the STPS. We obtained authorization to work according to the Sanitary Safety Protocol established by government agencies, and the IMSS awarded the company its Sanitary Safety distinction

ZINC CIRCUIT



in recognition of our compliance with guidelines to control contagion.

We assigned administrative personnel and those with specific vulnerabilities to work from home, and set up access checkpoints at all our facilities, with strict monitoring and hygiene measures to ensure a safe return of employees during staggered work hours, in close communication with the company's Crisis Committee.

We also carried out an intensive program of support for hospitals, healthcare centers and communities, donating 63,881 medical supplies and materials and investing Ps. 3.4 million, which benefited more than 135,000 people. We offered educational activities, community center workshops and sports, and Pro-Empleo programs through virtual media, which we also used for notifying employees and communities of our sanitary measures.

Peñoles donated 30 Philips model E30 respirators to the government of Coahuila in order to strengthen the state's hospital infrastructure.

Production and performance

The production of the leading refined metals and their change from the previous year was as follows:

	2020	2019	% chge.
Gold (koz)	957	1,113	-14.0
Silver (oz)	70,634	72,385	-2.4
Lead (t)	111,538	118,889	-6.2
Zinc (t)	260,943	283,611	-8.0

Our metal business faced tremendous challenges during the pandemic, chiefly the protection of our people's health by keeping all vulnerable personnel at home according to the recommendations of the authorities; but also the temporary suspension of the supply of concentrates and materials from some of our shippers; a steep drop in the prices of industrial and precious metals in the first few months of the year, although they recovered in the second half; and a downturn in demand for our products on both domestic and international markets. All of this affected production volume and sales.

As for our economic performance, treatment charges—which are pegged to international standards—recovered for lead and zinc concentrates, benefiting revenues in the metal business and offsetting the impact of the drop in treatment volume. This factor, together with the savings measures we took, favored production costs in the lead-silver business. In the zinc business, however, costs rose because of operating adjustments at the new concentrate leaching plant, particularly the electrolytic process, and also because of a jump in overtime and electricity costs. Even so, the operating margin for the metal division as a whole improved compared to the previous year.

LEAD-SILVER CIRCUIT

Volume received (t)	2020	2019	% chge.
Concentrates (Smelter)	277,262	292,987	-5.4
Direct materials (Refinery)	1,211	2,367	-48.9
Total raw materials	278,473	295,354	-5.7
Peñoles*	199,855	202,352	-1.2
% of total	71.8	68.5	-
Outside shippers	78,618	93,002	-15.5
% of total	28.2	31.5	-

SHARE IN RAW MATERIAL CONTENT

	Gold	Silver	Lead
Peñoles*	79.2%	67.9%	63.8%
Outside shippers	20.8%	32.1%	36.2%

*Includes Penoles and Fresnillo plc mines.

The lead smelter treated 324,000 metric tons of concentrates during the year, 2.5% less than the year before. The acquisition of concentrates with higher lead grades from outside shippers improved the mixtures' quality, helped to control impurities and promoted a better performance in the sintering area. The smelting furnaces were kept in continuous operation and measures were taken to reduce programmed shutdowns with satisfactory results.
An optimal mix of coke was fed into the furnaces, helping lower costs; and byproducts were processed to recover silver and lead values. The production of lead bullion declined by 4.3% from the previous fiscal year, to 134,522 metric tons.

The lead-silver refinery received a lower amount of dorés from Herradura and Noche Buena, although the latter made up for it with inputs of activated carbon. This, combined with the reduction in purchases of rich materials from outside parties, affected gold and silver production. Additionally, the lower volume of bullion treated meant a lower volume of refined gold, silver and lead produced than in 2019. Efficiency projects were

The Silver II Recovery project was interconnected and will add between 3 and 3.5 million ounces of refined silver to annual production.

undertaken to reduce consumption of zinc and calcium-magnesium alloy, both of which are used in the lead refinery. This resulted in savings of US$ 1.3 million, and an increase in the useful life of the kettles by 280 metric tons, with a benefit of US$ 0.7 million.

Revenues per metric ton treated in the lead-silver business grew 11.2% on average compared to the previous year. Unit production costs were lower (-0.6%), primarily due to more efficient coke consumption for the furnaces and lower costs for maintenance and repair.

Our investments during the year totaled US$ 50.8 million, and were focused mainly on replacing critical equipment, implementing technological updates, improving environmental performance and reducing risks to our employees.

In the zinc business, we succeeded in stabilizing the processes and interaction of the two plants, which work by roasting and leaching, respectively.

We also successfully interconnected the Silver II recovery project, whose purpose is to increase the treatment of zinc concentrates with high silver values through a process involving pure jarosite in leaching. This recovery will add between 3 and 3.5 million ounces of silver to annual production.

Treatment volume declined by 7.2% from 2019, totaling 582,000 metric tons, while average revenues per metric ton treated grew 24.2%, favored by better treatment charges, free metals and lead-silver cements that were sent to the lead smelter for refining. This benefit was offset by an average 28.0% increase in the unit cost of production due to lower treatment volume and higher electrical energy costs, depreciation, an increase in overtime payments, maintenance and operating materials.

During the year, the company invested US$ 50.8 million, most notably in completing the Silver II recovery project, as well as other investments in support systems and replacement of critical equipment, which enabled us to ensure operating continuity and improve the efficiency of the zinc circuit.

ZINC CIRCUIT

	2020	2019	% chge.
Concentrates received (t)	699,306	756,524	-7.6
Peñoles*	510,312	529,436	-3.6
% of total	73.0	70.0	-
Outside shippers	188,994	227,088	-16.8
% of total	27.0	30.0	-

SHARE OF CONTENT IN CONCENTRATES

	Zinc
Peñoles*	72.3%
Outside shippers	27.7%

** Includes Penoles and Fresnillo plc mines.*

Sales and business development

We obtained Good Delivery recertification for the gold and silver we produce from the London Bullion Market Association (LBMA), which allows us to continue selling our products in international markets. This certification provides an international guarantee of Peñoles' ethical performance in the precious metals sales process.

Also, for the third year in a row, we received Responsible Silver & Gold certification from the LBMA, in recognition of the conflict-free supply chain for our refined products.

During the pandemic, some of our clients were cautious and reduced their demand for our products. Despite an uncertain market and rising prices, we were able to meet our gold and silver delivery commitments on time, adjusting to the changing needs of our clients and placing all of our production.

Our main gold client decided to withdraw from the market, but we were able to develop new consumers on the international market.

In the silver export market to Japan, we reinforced processes and protocols to comply with freight safety requirements and other specifications from our clients, who supply the solar cell industry in Japan and China.

We remain a key strategic supplier to domestic clients in refined lead, helping them to develop new alloys for high-performance batteries as we improve specifications according to their requirements. We placed refined lead on alternate markets to counter the contraction of our own primary market due to the contingency.

We obtained good results for products aimed at the mining industry, despite the difficulties caused by the public health crisis, particularly zinc sulfate, where we achieved record sales.

In the zinc market, demand dropped sharply in the first half of the year, but we were still able to place our products on alternative export markets. In 2020 the value of our zinc sales—our third most important product after gold and silver—declined by 13.1% from the previous year, because of lower sales volume and prices. The domestic market accounted for 30.2% of sales, while the other 69.8% was sold in export markets—compared to a ratio of 31.6%/68.4%, respectively, in 2019.

US$ 622 M

in zinc sales, represented 13.3% of sales in 2020.

CHEMICALS

By continually improving the quality of our chemical products, we are strengthening our response capacity to face the future recovery of market demand.

CHEMICALS **PRODUCTION**

SODIUM SULFATE
kt

16	750
17	753.5
18	780.6
19	774.2
20	745.9 (-3.7%)

MAGNESIUM OXIDE*
kt

16	68.2
17	78.9
18	84.8
19	87.9
20	57.2 (-34.9%)

*Includes refractory, caustic, electric, electrofused and hydroxide grades.

MAGNESIUM SULFATE
kt

16	55.4
17	57.1
18	54.8
19	62.2
20	62.6 (0.6%)

AMMONIUM SULFATE
kt

16	199.7
17	189.3
18	180.1
19	194.4
20	192.3 (-1.1%)

US$ 16 M

invested in chemical operations maintenance and improving processes.

2020 was a difficult year for the magnesium-based products.

US$ 105 M

sales in sodium sulfate. We increased exports to Central and South America.

The Chemicals Division makes high-margin, high-value-added products from natural brines and salts extracted by hydraulic mining at our Química del Rey plant, located at Laguna del Rey, in the municipality of Ocampo, Coahuila.

The primary product of this division is sodium sulfate, which makes up for more than half of its revenues. This input is used to make powdered detergents, glass and paper, and in the textile industry. Today, Química del Rey is the largest sodium sulfate plant anywhere in the world outside China, with a 780,000 annual production capacity.

The second most important product, magnesium oxide, is made from residual brine resulting from sodium sulfate operations and dolomite ore from La Esmeralda mine in Coahuila. It is produced in various grades: refractory grade, used to make the bricks that line high-temperature kilns in the steel and cement industries; caustic grade, used to make animal feed and fertilizers; hydroxide grade, used as a flame retardant; and electrical grade, useful as an insulating material and to make electrical resistors. This product accounts for between a third and a quarter of the Chemicals Division's revenues.

The third product, magnesium sulfate, also known as Epsom salt, is used as a fertilizer, in the leather tanning industry, in processing chemical products and making detergents.

Additionally, the sulfuric acid —a byproduct from the lead smelting operations— is used to make ammonium sulfate, a component in the manufacture of fertilizers. It is produced at Fertirey, which adjoins the Met-Mex metallurgical complex at Torreón.

Actions in connection with COVID-19

Our chemical operations strictly followed internal protocols and the guidelines established by the IMSS and STPS to mitigate the impact of the COVID-19 pandemic, avoid the spread of the virus and protect employee health. The IMSS awarded the company its Sanitary Safety distinction in recognition of our compliance with guidelines to control contagion.

We assigned administrative personnel and those with specific vulnerabilities to work from home, and set up access checkpoints at all our facilities, with strict monitoring and hygiene measures to ensure a safe return of employees during staggered work hours, in close communication with the company's Crisis Committee.

Ten people were added to our medical staff, and the course "Training monitors for a healthy return" was given. We also developed a biological risk exposure assessment to apply to suppliers and other visitors before entering our facilities.

Production and performance

We produced 745,892 metric tons of sodium sulfate in the period, 3.7% less than the year before, as a result of a strategic inventory adjustment. Domestic demand in the detergent industry shrank around mid-year, but thanks to a commercial effort we were able to place the excess product in the export market, primarily to Central and South America, which took up an increasing share of our sales. With this, sales volume grew 249.7% over the previous year.

In dollar terms, the average price per metric ton of sodium sulfate was lower, which pressured margins for this product. Despite the decline in volume, the unit cost of production remained stable, thanks to efficiency measures to optimize natural gas consumption, offsetting an increase in shipping and maintenance expenses.

Magnesium oxide was the product most heavily affected by the pandemic, with a steep decline in demand for the main grades we produce for the construction, steel and automotive industries, which account for 66% of our sales volume.

Mexico, Europe and North America continue to be our main markets, although their combined weight in sales declined from 85% in 2019 to 73% in 2020.

At the global level, sales volume dropped by 36% compared to 2019. As a commercial strategy, we made some spot sales to new clients in Europe, Asia and Africa. Although our magnesium oxide varieties are in the industrial testing phase, we hope to become regular suppliers to these clients in 2021, economic recovery permitting. In the meantime, we will continue to pursue projects and actions to improve the quality and consistency of our magnesium varieties in order to be ready to meet demand as it recovers in the future.

Magnesium sulfate performed well during the year, since it is sold in the agricultural industry, an essential activity linked to food production which was not directly affected by the public health emergency. We achieved consecutive records in production and sales volume, totaling 62,583 and 63,087 metric tons, respectively.

Finally, ammonium sulfate also benefited from demand in the agricultural sector, which brought us new clients and distributors from various parts of Mexico.

We invested US$ 16.4 million during the year, most of which went to maintenance and upgrades of critical equipment. Most notably, we invested in improving furnace efficiency, installing a bagging system for magnesium specialties, and moving forward on construction of a polymers lab.

As domestic demand contracted, we placed sodium sulfate in Central and South America.

PRODUCTION AND **SALES VOLUME**

Production k	Unit	2020	2019	% chge.	2018	2017	2016
Metallic contents (Mining operations)							
Gold	oz	**824.1**	910.9	-9.5	963.4	951.8	971.5
Silver	oz	**62,551.0**	62,325.1	0.4	69,773.3	66,420.2	58,054.3
Lead	t	**86.4**	84.3	2.5	83.3	78.8	80.7
Zinc	t	**288.1**	292.3	-1.4	289.6	285.1	286.5
Copper	t	**9.0**	8.8	1.8	10.1	12.2	10.5
Cathodic copper	t	**12.4**	22.5	-44.7	21.2	19.9	24.1
Refined metals and other materials							
Gold	oz	**957.2**	1,112.6	-14.0	1,128.1	1,220.4	1,419.3
Silver	oz	**70,634.4**	72,384.7	-2.4	64,881.7	72,632.7	65,432.8
Lead	t	**111.5**	118.9	-6.2	104.1	112.8	111.4
Zinc	t	**260.9**	283.6	-8.0	228.8	222.6	215.1
Copper	t	**5.0**	4.6	7.7	3.8	4.6	4.1
Cadmium	t	**-**	0.6	n.a	0.7	0.6	0.6
Bismuth	t	**0.0**	0.3	-96.7	0.3	0.5	0.5
Lead bullion	t	**134.5**	140.6	-4.3	123.7	129.7	127.1
Chemicals							
Sodium sulfate	t	**745.9**	774.2	-3.7	780.6	753.5	750.0
Magnesium oxide*	t	**57.2**	87.9	-34.9	84.8	78.9	68.2
Ammonium sulfate	t	**192.3**	194.4	-1.1	180.1	189.3	199.7
Magnesium sulfate	t	**62.6**	62.2	0.6	54.8	57.1	55.4
Sales k	**Unit**	**2020**	**2019**	**% chge.**	**2018**	**2017**	**2016**
Gold	oz	**939.1**	1,121.7	-16.3	1,128.5	1,207.3	1,464.6
Silver	oz	**69,869.2**	71,718.1	-2.6	64,207.8	67,330.6	67,106.5
Lead	t	**122.0**	119.7	1.9	106.6	111.3	121.4
Zinc	t	**256.3**	258.0	-0.7	229.7	224.9	226.6
Sodium sulfate	t	**763.4**	770.4	-0.9	816.0	775.5	751.6
Magnesium oxide*	t	**36.0**	51.2	-29.7	68.2	68.2	57.2
Ammonium sulfate	t	**252.3**	155.3	62.5	142.8	128.6	138.1
Magnesium sulfate	t	**63.1**	62.4	1.0	53.4	57.6	55.0
Silver concentrates	t	**-**	-	n.a	-	-	6.8
Lead-silver concentrates	t	**6.5**	29.1	-77.7	-	-	36.7
Zinc concentrates	t	**37.7**	217.0	-82.6	168.2	290.1	227.2
Copper concentrates	t	**9.0**	36.8	-75.6	40.2	48.6	43.3

** Includes refractory, caustic, electric, electrofused and hydroxide grades.*

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis of the results of Industrias Peñoles, S.A.B. de C.V. and Subsidiaries ("Peñoles" or "the Company") in fiscal year 2020 is based on the financial statements prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In accordance with IAS 21, the functional currency must be identified for each one of the consolidated entities based on the currency in the principal economic environment in which the entity operates. For all subsidiaries, with exception of certain non-operating companies and certain companies that provide services, the functional currency is the U.S. dollar.

The Company changed its reporting currency to US dollars (functional currency) starting from January 1st, 2019. The present analysis of the consolidated financial results is made accordingly, and financial results obtained in 2020 are compared with those of 2019 in millions of US dollars, unless otherwise indicated. The term "US$" refers to dollars of the United States of America.

It is recommended that this section be read in conjunction with the consolidated financial statements and their accompanying notes.

Peñoles is a publicly trading company whose shares have been listed on the Mexican Stock Exchange (BMV) since 1968 under the ticker symbol: PE&OLES.

Peñoles operates principally in the following sectors:

- Exploration
- Mining
- Metals (smelting and refining)
- Inorganic chemicals

Prices and macroeconomic variables

The main variables that had a bearing on Peñoles' results were:

1. **Metal prices:** in dollar terms, average prices showed a mixed behavior compared to the previous year: precious metals had favorable variations: gold (+27.1%) and silver (+27.7%). As to industrial metals zinc and lead declined (-11.2%) and (-8.7%), respectively, while copper's avegare was higher (+2.7%).

2. **Treatment charges:** base treatment charges increased, on average, 48.8% for lead concentrates and 5.3% for zinc concentrates.

3. **Exchange rate (peso-dollar):**

	2020	2019	% chg.
Close	19.9487	18.8452	5.9
Average	21.4886	19.2616	11.6

4. **Consumer Inflation rate (%):**

	2020	2019
Annual	3.15	2.83

Consolidated results

In 2020 the COVID-19 outbreak spread rapidly around the world. Countries took various measures to protect the population from contagion, and the confinement put a brake on consumption and industrial activity, especially during the first half of the year. The uncertainty generated around the evolution of the pandemic caused great volatility in financial markets and a sharp drop in metal prices in the first half of the year. In the case of base metals, only copper recovered due to better fundamentals, while gold and silver, as safe haven, increased significantly. The final impacts of the pandemic are still uncertain.

The Mexican government restricted on certain economic activities considered non-essential as of March 30. At the end of May, mining was included as an essential activity, requesting certain sanitary requirements and protocols that the Company fully complied with for the safe and staggered return to work. In this context, Peñoles took a series of measures to safeguard the health of its employees, contractors and nearby communities, in addition to taking care of liquidity by reducing costs, expenses and investments to those strictly essential for the maintenance of operations and the execution of approved projects.

This affected the Company's operating rhythm, and as a result, production and sales volumes were lower than expected. Gold was the most affected, due to the extension of the operating restrictions for open-pit mines. The Company's revenues fell in the first half of the year and recovered during the rest of the period, favored by the rebound in gold and silver prices. In this way, the lower volumes sold and the effect of the contraction in zinc and lead prices were offset, so that annual revenues exceeded those of the previous year. Hedging transactions on metals prices and exchange rate—which are intended to reduce volatility in EBITDA—reported an opportunity cost higher than that recorded in 2019.

The Company decided to suspend the operations of Madero (zinc) and Milpillas (cathode copper producer) mining units because the sharp drop in base metal prices made them unprofitable for the moment. Milpillas stopped mining extraction and continued producing cathodes from previously deposited copper ore that was being leached in patios. Also, as planned, operations were stopped at Bismark, a zinc mine, and the unit shutdown process began due to the depletion of its mineral reserves.

The cost of sales was lower than the previous year, due to the measures applied to reduce costs, the higher average exchange rate that decreases the value in US dollars of the portion of costs incurred in pesos (approximately 50% of the production costs), the suspension of operations in the aforementioned mines and lower consumption, in addition to a credit derived from the recognition of gold inventories in the Herradura leaching patios. Operating expenses were also lower, due to the slower pace of exploration activities, lower sales and the savings measures implemented.

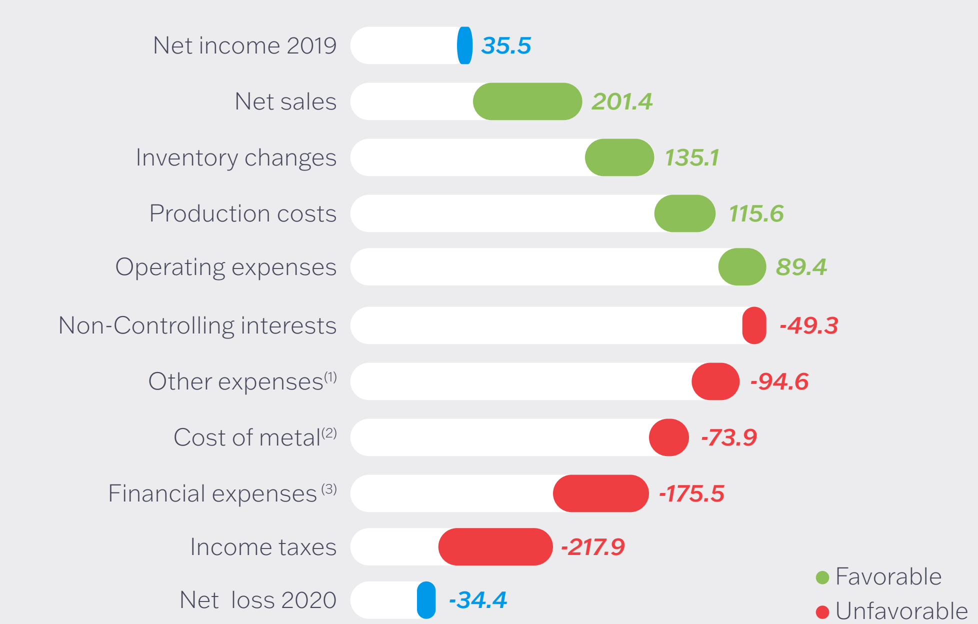
Peñoles and its subsidiary Fresnillo plc took advantage of the favorable market conditions and solid credit profile to issue bonds and restructure its long-term debt, therefore financial expenses increased due to the costs incurred in these transactions. Likewise, there was a higher charge for impairment of assets, at the Madero and Milpillas mining units mainly derived from the suspension of operations, as well as in the Fuerza Eólica del Istmo plant.

On the other hand, the Company made a voluntary correction to the tax treatment of the mining work carried out from 2013 to 2019, which implied a higher provision for income taxes in the period, in addition to an increase in deferred taxes due to the devaluation of the peso against the dollar.

Due to the aforementioned factors, the financial results for the year 2020 and their variations with respect to 2019 were as follows: net sales US$ 4,673.3 (+ 4.5%), gross profit US$ 1,249.0 (+ 43.4%), EBITDA US$ 1,456.7 (+ 50.4%), operating income – not including other expenses and income nor impairment loss – US$ 742.6 (+ 170.0%) and net loss of the controlling interest -US$ 34.4, unfavorable compared to the net income of US$ 35.5 obtained in 2019.

Income statement

The following rainbow chart shows the variation by item of results and its influence on the change in net income from 2019 to 2020 (in millions of dollars):



(1) Other expenses include impairment losses.
(2) Cost of Metal is net of Revenue from Treatment Charges, Income on inventories and other items.
(3) Financial expenses include Exchange result.

The variations are discussed below:

Net sales amounted to US$ 4,673.3, of which 86.5% were exports. The variation of +US$ 201.4 (4.5%) compared to 2019 sales is explained as follows:

- Due to higher average prices of gold, silver and in the realization prices in the sale of concentrates +US$ 658.0.
- Lower volumes sold, especially gold, concentrates and copper, in -US$ 426.6.
- Income from other products and services +US$ 1.9.
- The foregoing, accompanied by a variation in metal hedging operations, at -US$ 31.9.

The **cost of sales** of US$ 3,424.3, had a variation of -US$ 176.8 (-4.9%) for the reasons described below:

- Lower **production costs** in -US$ 115.6 (-4.4%), mainly in the following concepts:
    - Energy (-US$ 41.0, -9.9%) due to lower consumption of diesel, natural gas and metallurgical coke that offset the increase in the cost of electricity.
    - Contractors (-US$ 36.0, -8.0%) due to less work by external contractors in the development of mining and civil works.
    - Maintenance and repairs (-US$ 30.7, -9.0%) in maintenance and mechanical and electrical repairs, in major repairs and guaranteed maintenance cost, due to the fact that the previous year higher costs were incurred to stabilize the new plant that increased the refined zinc production capacity.
    - Operating materials (-US$ 28.3, -7.6%) lower in explosives and detonators, iron, steel, anchors, construction materials and reagents.
    - Raw materials (-US$ 2.6, -7.7%) due to lower cost of ammonia and magnesium oxide.
    - Depreciation and amortization (+US$ 19.0, + 2.8%) derived from the investments made in the Fresnillo plc mines and the start-up of the Capela mining unit.
- A credit of -US$ 114.3 from **inventory changes**, mainly derived from the recognition of gold inventories at Herradura leaching patios, this is, a favorable variation of -US$ 135.1 compared to a charge to the cost of +US$ 20.7 in 2019.
- Higher **cost of the metal sold** (+US$ 73.9) whose variation is derived from the following concepts:
    - Lower volume of concentrates and other materials purchased to third parties for the metallurgical business, which decreased the Cost of Metal (-US$ 12.3).
    - However, the above was offset by the higher consumption of inventory from third-party materials in the metallurgical business, as well as by the higher prices of gold and silver (+US$ 114.6).
    - As a consequence of the lower volumes purchased from third parties in the period, revenues from treatment charges, which are recorded as a credit to the cost of metal, were lower (by US$ 56.4).
    - Other items were favorable (in -US$ 74.8) due to a credit from recovery of high-grade lead-silver waste as the Silver II Recovery process came into operation, lower expense in the import of concentrates and higher recoveries in the metallurgical business.

Higher revenues and lower costs favored the **gross profit**, which registered an increase of +US$ 378.1, (+ 43.4%) compared to the figure obtained in 2019. The **gross profit margin on net sales** was 26.7%, favorable compared to the 19.5% of the previous year.

Operating expenses (not including other expenses and income) totaled US$ 506.4, a figure 15.0% lower (-US$ 89.4), as a result of:

- A reduction in **exploration and geological expenses** (-US$ 67.1, -32.2%), because we reduced field work due to the pandemic, especially in contractor drilling, rights and tests.
- Lower **administrative and general expenses** (-US$ 16.1, -6.1%), in travel, staff benefits, fees and office expenses, partially offset by higher expenses in communication and technology due to the provision of infrastructure for home office and the improvement of communications inside the mines.
- Lower **selling expenses** (-US$ 6.2, -5.1%) in freight and transfers.

EBITDA for the year amounted to US$ 1,456.7, favorable at +US$ 488.0 (+ 50.4%); **EBITDA margin on net sales** of 31.2% was above 21.7% in 2019. Similarly, the **operating profit** of US$ 742.6 increased by + US$ 467.5 (+ 170.0%) with which the **operating margin on net sales** improved from 6.1% to 15.9%.

There were **impairment losses on long-lived assets** totaling -US$ 166.4 mainly at the Milpillas and Madero mining units, derived from the suspension of their operations due to the sharp fall in prices of industrial metals, in addition to the company Fuerza Eólica del Istmo due to the increase in electricity generation costs. These losses were +US$ 99.8 higher than those of the previous year by -US$ 66.6 in the Madero, Milpillas and Bismark units. In the latter, assets are totally impaired.

The item of **other income (expense), net** (excluding losses from impairment of long-lived assets) of -US$ 14.7 was lower compared to -US$ 19.8 of the previous year, derived from:

(i) **Higher income** in +US$ 17.1 due to reversal of non-capitalized remediation expenses in closed units, profit from the sale of concentrates and higher income from leasing.

(ii) **Higher expenses in** +US$ 12.0, especially those corresponding to impairment of operating materials in the mining units whose operations were suspended, in addition to a loss in the sale of materials and waste, which were partially offset by lower maintenance expenses of the closed mining units and remediation expenses, in addition to the fact that in 2019 there was a loss in the sale of concentrates.

Net financial income (expenses) amounted to -US$ 283.8, an increase of US$ 175.5 compared to -US$ 108.2 in 2019, and is made up of:

- **Financial income** of US$ 25.2, slightly lower than US$ 27.7, due to lower interest earned on investments, partially offsetting higher interest collection from clients.

- **Financial expenses** of -US$ 259.8, higher than -US$ 138.6 registered in 2019, due to a higher interest provision arising from the increase in financial debt, since the Company and its subsidiary Fresnillo plc issued long-term international bonds for a total of US$ 1,450. Industrias Peñoles issued US$ 600, and US$ 300 of the proceeds were used to pay in advance a syndicated loan that expired in 2024. Likewise, the interest rate coverage on said loan was closed, which had a financial cost of US$ 25.1, which will be paid according to the original maturities of the amortized loan. Fresnillo plc, for its part, issued new bonds for US$ 850 and repurchased US$ 482 of the US$ 800 bonds due in 2023, which implied a financial cost of US$ 60.8.

  There was also a financial expense of US$ 29.4 derived from the update and surcharges for the voluntary adjustment to the tax treatment of mining works, which compares unfavorably with US$ 9.0 from the previous year.

- **Exchange loss** of -US$ 49.2, unfavorable compared to the profit of US$ 0.7 in 2019, due to the effect of the depreciation of the peso against the dollar on monetary assets and liabilities in pesos.

In the **interest in the results of associated companies**, a loss of -US$ 3.3 was recorded, higher than the one obtained the previous year of -US$ 1.1.

With the above, **income before taxes** amounted to US$ 274.4, an increase of + US$ 195.2 compared to US$ 79.2 of the previous year.

The **provision for income taxes** of US$ 184.8 was higher by US$ 217.9 compared to the provision in favor of -US$ 33.1 in 2019, which is attributed to the following factors:

- Higher Income Tax caused (US$ 255.0 vs US$ 206.1), derived from the higher taxable base of the period, the effect of the exchange rate on the tax values of assets and liabilities, in addition to non-recoverable tax losses due to the suspension of operations of the Madero and Milpillas mining units. Likewise, the Company made a voluntary adjustment to the tax treatment of mining investments made in fiscal years 2013 to 2019 for all its underground mining operations, which involved the payment of US$ 80.4, of which US$ 49.7 correspond to a reclassification of the deferred tax liability and the recognition of credit balances from the Income Tax and the remaining US$ 30.7 corresponded to updating and surcharges recognized in financial expenses and penalties recorded in other expenses.

- The foregoing was partially offset by a provision for deferred taxes for the creation and reversal of temporary differences of -US$ 113.0, lower compared to -US$ 206.9 in the previous year.

- Higher provision for special mining rights, net of its corresponding deferred tax (US$ 44.3 compared to -US$ 20.4 from the previous year).
- Lower credit for the benefit of the Special Tax on Production and Services (IEPS) on diesel consumed by operations, of -US$ 1.5 compared to -US$ 11.9 in 2019 .

Due to the aforementioned factors, the **consolidated net profit** for fiscal year 2020 was US$ 89.6, lower by -US$ 22.8 (-20.3%), of which -US$ 34.4 correspond to a **loss of the controlling interest** (unfavorable in comparison to the income of US$ 35.5 in 2019) and US$ 124.0 to **income of non-controlling interests** (higher compared to the income of US$ 76.9 in fiscal year 2019).

Cash flow statement

As of December 31, 2020, the Company had **cash and cash equivalents** for US$ 1,592.7, representing an increase in cash of +US$ 1,066.4 compared to the balance at the end of 2019 of US$ 526.3 (including -US$ 0.6 from conversion effects).

The most relevant concepts of the period were as follows:

1) **Net cash flows from operating activities** of +US$ 1,113.1. This heading is made up of items directly related to the operations, excluding items with no impact on cash, such as depreciation and amortization, income tax provisions, impairments and unrealized interest. It also includes changes in working capital, among which the investment made in inventories stands out.

2) **Net cash flows** from investing activities of -US$ 553.1 in the following concepts:

   a) **Purchase of property, plant and equipment,** for -US$ 561.3, in the maintenance of operating units and in projects under development. The main investments are detailed below.
   b) **Interest collected** +US$ 10.1.
   c) Proceeds from the **sale of property, plant and equipment** +US$ 3.4.
   d) **Capital contribution in associated companies** -US$ 4.7.
   d **Collection of loans granted and other items** -US$ 0.6.

Company/Unit	US$ M	Application
Fresnillo plc	401.4	• Juanicipio Project • Tailings flotation plant at Fresnillo (Pyrites Project II) • Adjustments in Fresnillo mine • Mine works • Capitalizable mining equipment • Tailings deposits
Met-Mex	50.8	• Silver Recovery II • Comprehensive water management • Fixed asset replacements
Capela	45.1	• Mining works, fixed assets and infrastructure
Química del Rey	16.4	• Replacement of critical equipment • Replacements in Plants A and B of sodium sulfate • Gypsum deposit
Tizapa	14.1	• Mine works • Diesel equipment for mine
Velardeña	8.3	• Mine works • Machinery and equipment
Sabinas	7.9	• Mine works • Purchase and rehabilitation of in mine equipment • Reinforcement of tailings deposits

3) **Net cash flows from financing activities of** +US$ 507.1, from:

   a) **Loans granted and repayed** (net of transaction costs) +US$ 663.1.
   b) **Loans from partners in non-controlling investment** +US$ 63.7.
   c) **Interest paid on financial debt** -US$ 104.0.
   d) **Payment of premium for repurchase of Fresnillo plc bonds** -US$ 60.8.
   e) **Dividends paid to the non-controlling interest** -US$ 33.8.
   f) **Lease payment and other items** -US$ 21.2.

OUR PEOPLE

The talent, commitment and effort of our people are our greatest strength for getting through difficult times. That's why we place a priority on attracting and retaining honest, well-trained people, and encourage them to behave ethically and in tune with our organizational values.

At Peñoles, we promote and guarantee:

- Full respect for human and labor rights.
- Freedom of thought, association and political affiliation.
- A safe and healthy workplace.
- A respectful, equitable working environment, free of discrimination and harassment.
- A culture of prevention toward accidents and occupational illnesses.
- Professional training and continuing education.
- Competitive, fair compensation based on performance.

Since 2005 we have been signing members of the United Nations Global Compact on human rights, labor rights, the environment and anti-corruption.

In 2020 there were no reports of situations involving extortion, abuse, discrimination, forced or coerced labor, unfair labor practices, violation of indigenous people's rights nor any violation of human rights. We have a Code of Conduct and a Correct Line ethical hotline to avoid practices that go against our ethics and to sanction them if they occur.

Our human resource strategy

In 2009 we introduced a Talent Development System in order to select, develop and retain top-performing and highest-potential employees. This will ensure we have the right people, now and in the future. The following are the components of the system and the highlights of its actions during this past year. Our actions are described in greater detail in the 2020 Sustainable Development Report.

Process	Goal	Actions	2020 Results
RECRUITMENT AND SELECTION	Ensure incorporation of the right people.	• Promote outreach agreements with universities. • Introduce internship, scholarship, and engineers-in-training programs. • Post vacancies internally before listing them outside the company to prioritize internal candidates.	• 48 people were hired for the Engineers-in-Training program; the 84th generation graduated, and more than 2,000 students have participated since its creation in 2003. • Of 316 personnel movements, 33% were new hires and 67% were internal promotions.
PERFORMANCE EVALUATION	Measure completion of established goals and expected behaviors, according to organizational competencies.	• Evaluate employees according to clear, measurable and challenging goals. • Provide feedback through performance notes. • Give raises and other recognitions for achievements and create training actions that address areas of opportunity detected.	• For the twelfth year in a row, 100% of personnel were evaluated. • An average of 2.5 performance notes per employee were given.
COMPENSATION	Have an objective, competitive compensation system in place.	• Provide compensation based on salary tabs consistent with the market, the level of professional responsibility and individual performance of each employee. • Provide a compensation package above what is required by law (savings fund, major medical expenses, pension plan, vacations and seniority bonus).	• Compensation (including salaries and benefits) totaled US$ 383.8 million, 2.3% lower than the previous year.
TRAINING	Train people according to needs detected in the performance evaluation.	• Promote training in line with current and future challenges in technical, administrative and human skills, to achieve better productivity, quality and competitiveness indicators for the company.	• 455,859 hours of training given, equivalent to 59 hours per employee. • 48 scholarships awarded to high school, college and postgraduate students.
DEVELOPMENT AND RETENTION	Develop people with better performance and greater potential.	• Create ways to develop and recognize people and encourage them to stay with the company (Gold Program for people who show outstanding performance and high leadership potential; scholarship program and bonuses for academic achievements; loyalty recognitions, etc.). • Identify critical positions for the operating continuity of the business, and prepare succession and career plans to guarantee prompt preparation of people in leadership and technical know-how.	• 1,030 loyalty recognitions awarded for employees who have been with the company for between 5 and 45 years; 82 academic achievement bonuses; 43 performance recognitions. • 409 key positions have been identified and 95% of the succession plans were updated; 293 candidates are being prepared to fill 135 upcoming vacancies due to retirement.

At Peñoles, we consider the performance of our leaders a key factor in our ability to achieve extraordinary results. For this, we have a Leaders School based on the Peñoles Leadership Model, which defines four essential behaviors consistent with the characteristics of the ideal Peñoles leader: Inspire, Facilitate, Motivate and Recognize.

In 2020, 385 leaders participated in both types of the program: 23 in face-to-face courses and 362 online, in a virtual synchronized format developed to deal with the pandemic. The online program lasted approximately 64 hours and the classroom course, 56 hours.

Our labor strategy

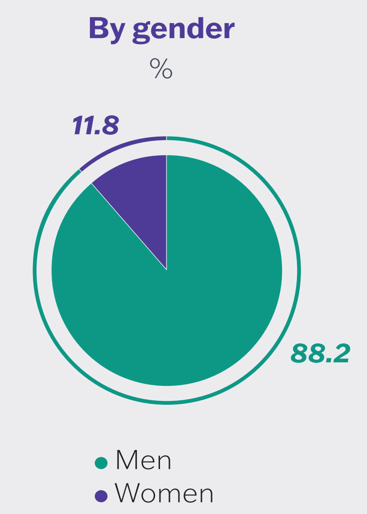
Peñoles respects the right to free association and collective bargaining, according to domestic laws and international conventions and treaties. Our labor relationships are based on trust and mutual benefit, and we maintain a frank and open relationship with unions, emphasizing our commitment to continuous dialogue that strengthens labor relations.

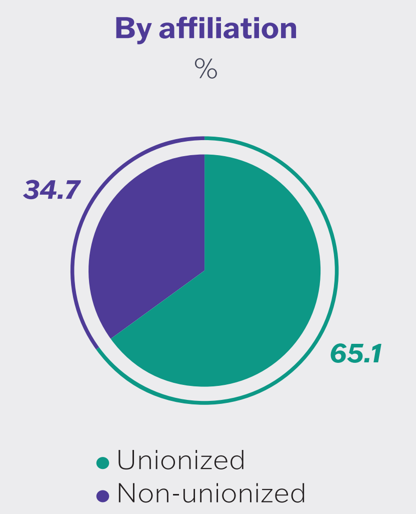
We share the values of workplace safety and competitiveness, and we focus our efforts on being more productive, with an unremitting focus on labor modernity, which prizes safe, productive and ethical work in all our operations. Furthermore, our system of incentives for productivity, cost, safety and environmental protection results enables us to reach established goals and targets, which preserves job stability and protects sources of work.

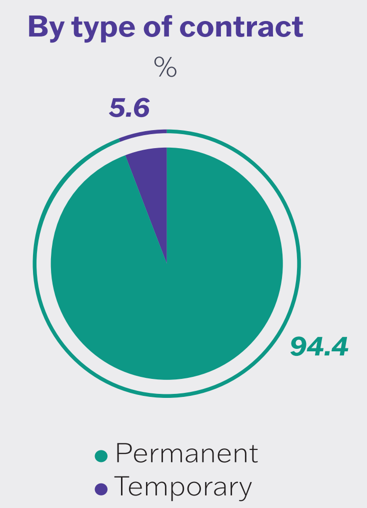
During the year, our labor negotiations with the various unions that have agreements with our business units were conducted in a climate of respect and cooperation. There were no work stoppages or strikes, which meant we were able to operate continuously throughout the year. With the suspension of activities at the Bismark, Madero and Milpillas units, 307 employees were relocated to other operating units and 924 received their severance pay, according to the law and their respective collective bargaining contracts.

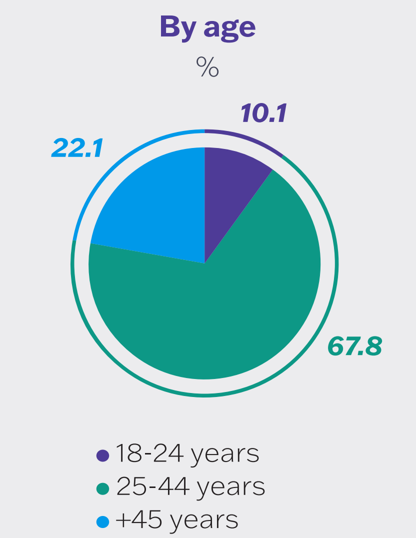
Composition and gender diversity of our personnel

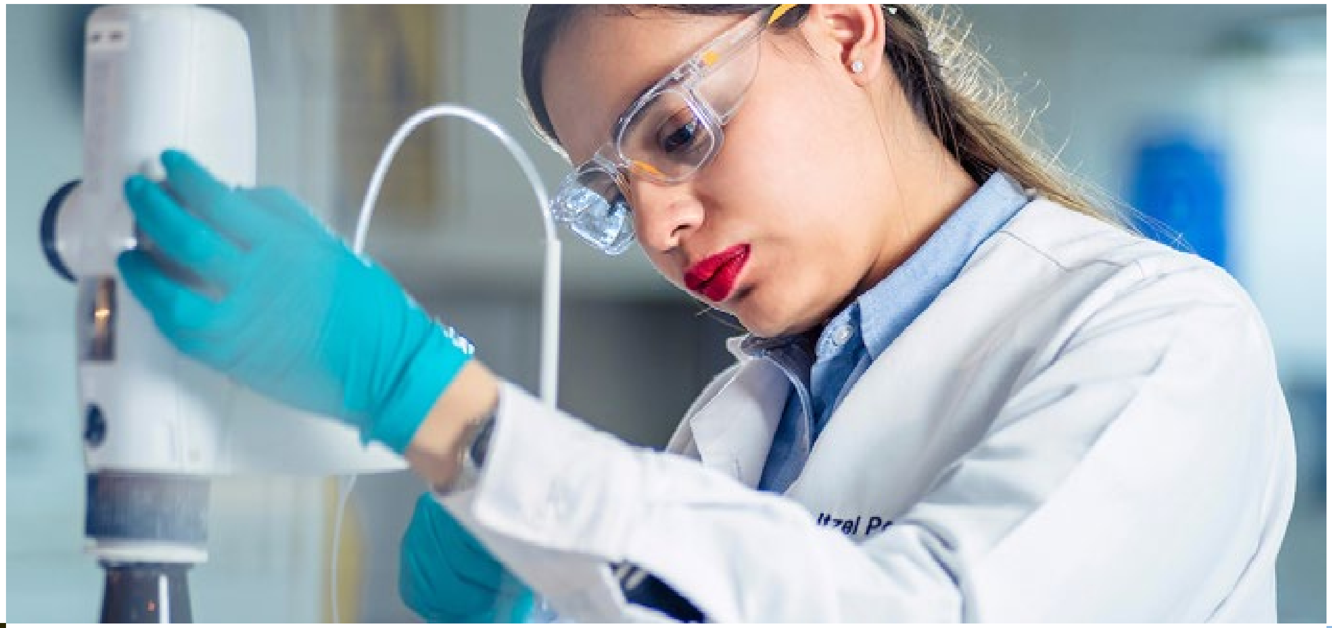
At the close of 2020, the workforce of Peñoles and its subsidiaries was 13,549 employees—excluding affiliate companies—breaking down as follows:











The total number of women employees increased 3.7% over 2019. This brings us close to the national average for women in the mining-metallurgy industry which, according to figures from the Mexican Mining Chamber, was 15.7% at the close of 2019. There are also some units where the percentage of women on staff is higher than the company's global average—for instance, at Capela (16.7%), Velardeña (16.9%) and Servicios Administrativos Peñoles (39.8%).

Workplace environment

In 2020 we continued following up on actions for improvement identified in a 2018 workplace environment survey, in which the firm Great Place to Work Mexico distinguished Peñoles as a Great Place to Work, with a satisfaction rating of 76%.

We also developed a system for tracking these actions, and determined that in 2020 progress was 94.3%, against the target of 99.8%.

A new national standard took effect in 2020, NOM-035-STPS-2018 (NOM-035), entitled "Psycho-social risk factors at work - identification, analysis and prevention," which requires identifying and analyzing psychosocial risk, evaluating the organizational climate, measuring and controlling actions, and the application and recording of medical checkups. To guarantee correct application of this standard, we conducted an employee survey to identify and analyze psychosocial risk factors in each area of the company. We developed the NOM-035 Standard Severe Traumatic Event Practice and designed the training for medical staff in order to implement it in our workplaces. We also prepared a psychosocial risk profile.

Health and safety

Clearly, the greatest challenge of the past year was maintaining operations and protecting the health and safety of our people during the COVID-19 pandemic.

The first challenge we overcame was having mining declared an essential economic activity, which took place at the end of May. Through concerted efforts by Peñoles, working together with business organizations and union representatives, we proved the impor-

11.8%

women on staff, 3.7% higher than in 2019.

tance of the mining-metallurgy activity for the country and for the well being of its communities. Our sanitary protocols provided the foundations for a safe and gradual resumption of activities by companies in our industry.

We introduced a contingency plan to prevent the propagation of illness among our employees and the communities where we are present. Among the actions were the following:

- We set up a Crisis Committee at the highest level of the organization, which met for 274 days in a row to address, monitor and promptly manage the health emergency.
- We reinforced safety protocols by setting up sanitary checkpoints at the entrances to all our plants and units, applied rapid testing, kept medical records and followed up on personnel with respiratory symptoms, positive test results or hospitalization. We covered the cost of rapid PCR testing to all employees and direct family members that required them.
- Administrative personnel, as well as those with specific vulnerabilities or whose presence was not essential, were assigned to work from home, something that proved to us that crises are great opportunities for learning. Adapting to remote work schemes, reorganizing family dynamics, accelerating our knowledge of digital tools and guaranteeing cybersecurity to mitigate the risks posed by working in a digital environment, were all significant challenges in ensuring that we could achieve results even at a long distance.
- We developed apps for administration and control of COVID-19 and a vault to keep evidence of the compliance with the established sanitary protocols. This permitted a traceability of positive test results, a continuous follow up on employees with respiratory symptoms, or people who might have been exposed by close contact or in quarantine due to travel.
- We strengthened our occupational health team by increasing our healthcare staff of physicians and nurses by 55%.

55%

increase in our healthcare staff of physicians and nurses.

- We introduced a communication strategy that applied to all our facilities, through which fifteen awareness campaigns were carried out through digital platforms and print media, including messages from the Chairman of the Board of Directors. We also carried out campaigns informing communities of preventive measures.

We carried out awareness and information campaigns, and supported communities, clinics and hospitals.

- We trained 667 leaders and employees through a course on "Recommendations for a safe return to work during COVID-19" on a platform supplied by IMSS, known as CLIMSS.
- All Peñoles' workplaces earned Sanitary Safety distinctions from the IMSS, for having a Healthy Return Monitor, provided by CLIMSS, for complying with its COVID-19 Sanitary Safety Protocol and for obtaining a satisfactory rating in an evaluation on the New Normal platform.

- We made a number of donations to communities, including medical and protective equipment—goggles, face masks, disinfectant gel—as well as medical equipment to hospitals—oxygen tanks, respirators, hospital beds, oximeters and an X-ray machine, among others—in addition to basic food supplies and water to the most vulnerable communities. We supplied information material and health care and offered the support of five physicians in partnership with the UNAM Foundation.

The total number of positive COVID-19 contagions in our company was 2,733 people, including contractors. Of these, 96.5%, or 2,636 people had recovered at the close of the year. There were 71 active cases at that date, none of which required hospitalization nor medical follow-up. We are saddened to report however, that 26 people did not survive the illness. We will continue to take actions and preventive measures to avoid spreading the pandemic and protect the health of all our people, while standing beside our neighbors as they face this emergency.

In addition, we continued to focus on keeping our operations efficient, safe and clean, preventing and controlling occupational illnesses and workplace accidents, and to eliminate the factors and conditions that jeopardize health and safety on the job. Our risk management in the area of safety and health pursues a goal of zero work-related accidents and zero new occupational illnesses.

To achieve these goals, we assembled teams, commissions and committees at all levels of the organization, which are trained in EC0391 skills standard Verifying Workplace Health and Safety Conditions, to encourage improvements in safety and health management processes in all our business units. Our goal is to have all personnel certified at every Health and Safety Commission to improve the level and quality of the Commissions' review processes.

We conduct ongoing awareness, training, and preparation campaigns as well as safety events among our unionized and non-unionized employees and contractors, extensive to their families. We also introduced safety and operating discipline programs and actions, investigated accidents through Root Cause Analysis (RCA) and conduct corporate safety audits, both internal and independent, to monitor and correct critical risks. Furthermore, all mining units

have shelters and first-aid brigades, and emergency brigades are staffed with employees certified as firefighters, pre-hospital medical technicians and paramedics, by institutions like the University of Texas (Texas A&M Engineering Extension Service), the Mexican Red Cross, the National Council for Standardization and Certification of Job Skills (Conocer) and the Emergency Brigade Training School in Celaya, Guanajuato.

During the year, we registered less accidents in our operations. However, seven of them were fatal, which we deeply regret. We remain firmly committed to our goal of achieving zero accidents in all our operations, thus we continue to intensify and reinforce programs and actions to improve safety indicators and culture.

The Occupational Health Program continued its comprehensive, interdisciplinary work through annual plans and programs focused on individualized and epidemiological supervision. All operating units have medical personnel on staff to conduct preventive health activities through healthy lifestyle programs. These include vaccination campaigns, medical checkups to detect risk factors and early signs of illness, psychological counseling, and nutritional programs to prevent and control chronic degenerative illnesses.

During the year, our indicators on occupational and chronic-degenerative illness declined. Because most of these illnesses are preventable, we will continue to strengthen actions to care for the health of our employees by applying the strictest protocols, according to the risk factors present in each of the company's business units.

We redouble our efforts to strengthen the culture of safety and health promotion.

Safety indicators[1]

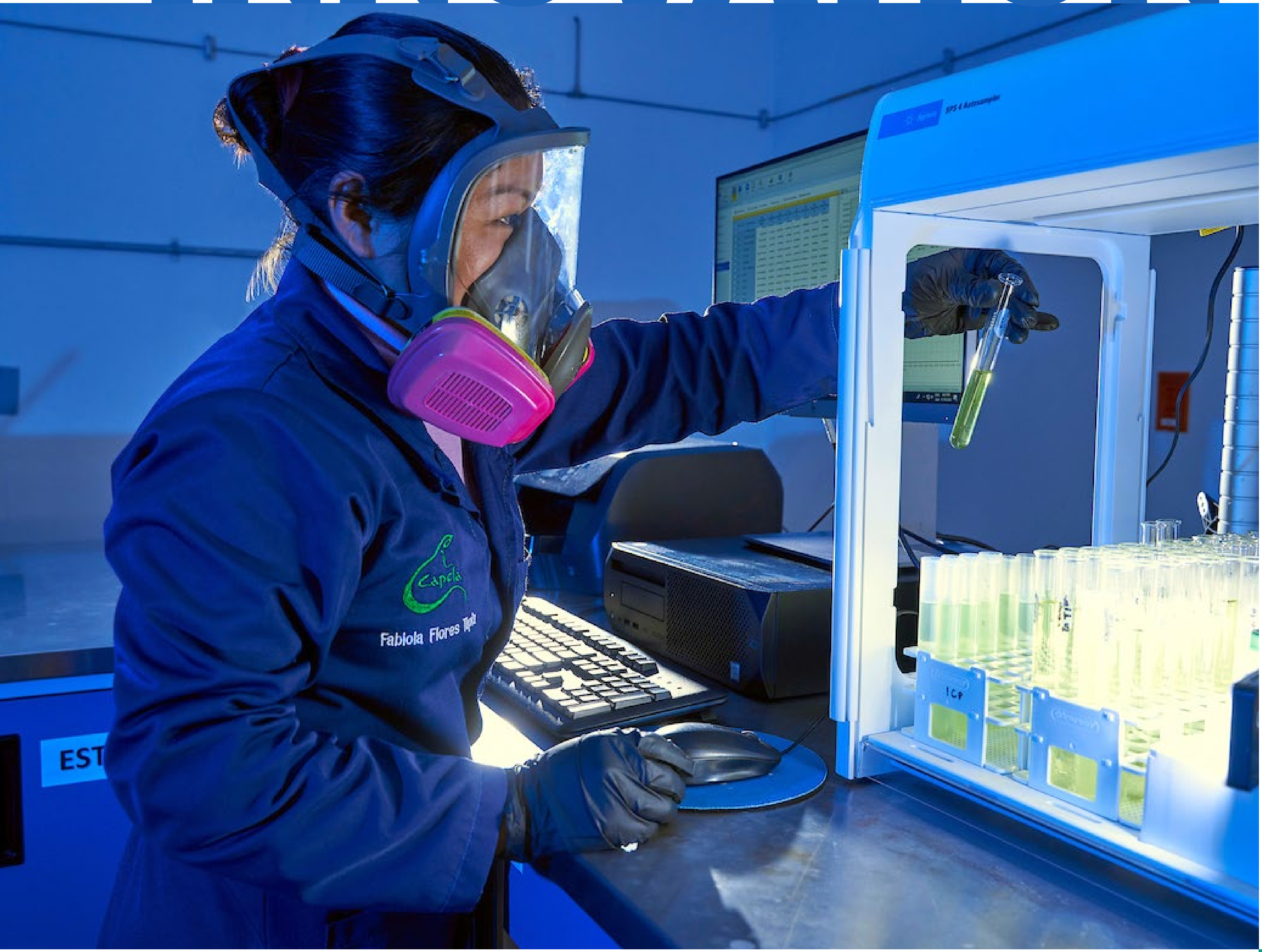
Type	2020	2019
Fatalities	7	4
Accidents with lost days	454	613
Accidents with no lost days	818	1,133
Lost days	23,540	23,880
Accident index (AI)	1.47	1.75
Days lost index (DLI)	0.75	0.68

Indicators of professional and chronic-degenerative illnesses[1]

Type	2020	2019
Silicosis	19	5
Hearing loss	20	18
High blood lead levels	0	0
Accident after-effects	0	3
Muscular-skeletal disorders	9	2

(1) Number of incidents, including unionized and non-unionized employees and contractors at Peñoles and Fresnillo plc.

STRENGTHENED BY INNOVATION



Our innovation strategy focuses on developing new markets, products and applications, as well as on designing processes and optimizing the existing ones, to strenghen our competitiveness.

35

women perform key functions in the Central Laboratory and the Technology Research & Development Center, contributing their talents and skills.

Our Technology Research & Development Center continued to support operations and projects to improve efficiency and productivity. The highlights for each area of activity in 2020 are described below:

Mineral processing

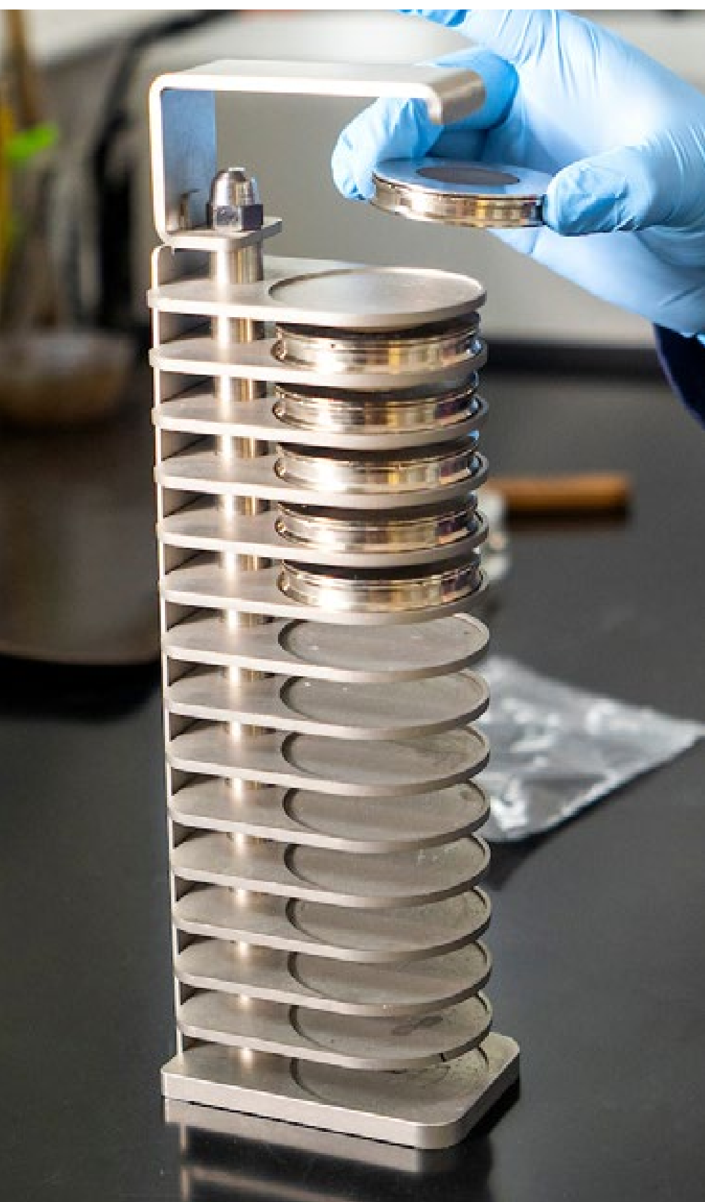
- Support for the startup and stabilization of processes at the new Capela mine to obtain high-grade lead, copper and zinc concentrates.
- Experimentation with ore obtained in the latest phase of exploration at the Orisyvo project to confirm process parameters and determine gold and silver recoveries versus head grade.
- Geo-metallurgical assessment of ore from various operating units to determine in advance how it will perform in the flotation and cyanidation plants. Plant 2 at the Sabinas unit currently produces copper and zinc concentrates, and head grade of lead is expected to rise in the short term, so a sequential flotation process was developed to efficiently obtain lead concentrates, in addition to copper and zinc.
- Support for the startup and operation of activated carbon columns at Noche Buena to make recoveries of dissolved gold more efficient.
- Analysis of ore from Fresnillo, Ciénega and Saucito in order to determine a finer grade for milling and thus improve gold and silver recoveries and reduce impurities in the concentrates.
- Chemical and mineralogical specification of tailings, both at operating mines and closed facilities.
- Follow-up on the evaluation of new technologies like the Jameson Cell process for improving concentration in fine particles from high-impact crushers and preconcentration of ore through X-ray sensors.

Metallurgical processes

- Basic engineering of a pyrometallurgical process to recover gold, silver and lead from the lead-silver cement generated at the zinc plant.

The Technology Research & Development Center supported the startup and stabilization of the Capela mining unit.

We carried out a technological pre-feasibility study for recovering metallic values from slag stored in the high-temperature blast furnaces.



- Industrial-level evaluation of a pyrometallurgical process for recovering gold, silver and lead from byproducts at the lead smelter.
- A technological pre-feasibility study that found high potential for recovering gold, silver, lead and zinc by processing slag stored in the high-temperature blast furnaces. This study will be validated in pilot testing.
- At the start of operations of the Silver II recovery plant, ammonia was replaced with sodium ion to precipitate jarosite without gold and silver, which reduced operating costs. Validation of the process to add consistency to the jarosite and activities to optimize the direct leaching process for high iron content zinc concentrates.
- Development of a laboratory-level process to remove elemental sulfur from the residue from direct leaching of copper concentrates, in order to improve gold and silver recovery.

Chemical processes

- Updating of a simulator to predict the behavior of the brine deposit under different operating scenarios.

- Laboratory testing on obtaining potassium sulfate from brine at Química del Rey. In 2021 this process will be pilot tested.
- Development of an alternative process for producing magnesium hydroxide with special characteristics in order to meet the needs of our clients; this will produce high-purity sodium chloride as a byproduct.
- Support in setting up a laboratory at Química del Rey for onsite validation of magnesium hydroxide performance.

ENERGY

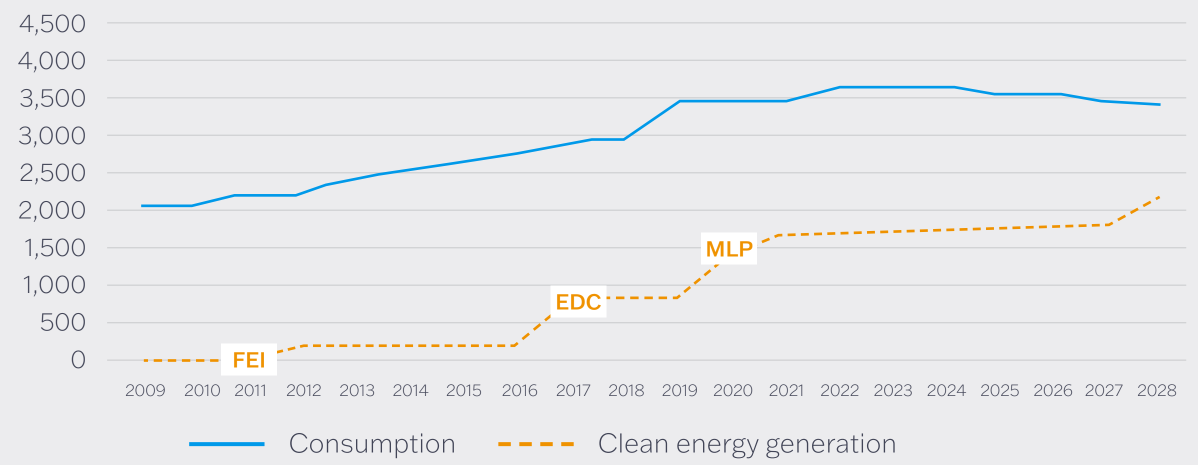
Our priority is to ensure our power supply at competitive costs, besides using energy efficiently and sustainably.

Our energy strategy is sustained by guidelines on environmental sustainability, safety, cost competitiveness and energy efficiency. Mining and metallurgy is by nature an energy-intensive industry in electricity, natural gas and diesel consumption. For this reason, ensuring a supply sufficient to sustain our operations while using it efficiently to reduce both costs and greenhouse gas (GHG) emissions is imperative to our own competitiveness. This directive has been part of our sustainability strategy since 2010 and has gained new force with the gradual startup of three wind farms and an internal cogeneration plant.

This conviction drives our effort to incorporate an increasing proportion of clean energy into our portfolio. An electricity supply contract with the Mesa La Paz wind farm in the state of Tamaulipas took effect in April. With 306 MW of power capacity, this plant will supply 67% of its total production to cover the expected consumption needs for our company in the medium term—until 2028—and from that year on, will send us 100% of its output until 2045.

GROUP CONSUMPTION AND CLEAN ENERGY GENERATION

(GWh/yr)



With the progress we have made toward energy self-sufficiency, in 2020 the amount of electricity generated in our plant portfolio was equivalent to 104.7% of our annual consumption. However, total energy delivery was not possible due to a delay in the authorization to allocate the power from Mesa La Paz to our operations. As a result, all of the power generated by this plant was sold on the wholesale electricity market, and we had to acquire the remaining energy from the Federal Electricity Commission (CFE). We expect this gap to be substantially reduced in 2021 and completely eliminated by 2022.

306 MW

generating capacity from Eólica Mesa La Paz, which started operations in April.

The following tables show our energy balance and the sufficiency of our self-supply scheme, offset by the surplus delivered to the National Electricity System and purchases from CFE. Clean energy generation covered 40.6% of our consumption—48.3% starting in April—the equivalent to the electricity consumed by 738,834 homes in Mexico in a year. With this we avoided the emission of 679,491 tCO_2e, almost double the figure than the previous year.

40.6%

of our power consumption was supplied by clean sources.

POWER GENERATION BY SOURCE

%

Source	Description	2020	2019
Termoeléctrica Peñoles (TEP)	Located in Tamuín, San Luis Potosí, with installed capacity of 230 MW. It is operated by an independent company, and electricity is supplied under a power purchase agreement expiring in 2027.	57.8	68.0
Eólica de Coahuila (EDC)	Located in General Cepeda, Coahuila, with installed capacity of 199.5 MW. The electricity is supplied under a power purchase agreement expiring in 2042.	20.5	23.7
Eólica Mesa La Paz (MLP)	Located in Llera de Canales, Tamaulipas, with a capacity of 306 MW; operated by an independent company. Supply is committed under a power purchase contract expiring in 2045.	14.9	-
Fuerza Eólica del Istmo (FEI)	Located in El Espinal, Oaxaca, operated by Peñoles; installed capacity of 80 MW.	6.1	6.4
Cogeneration from Met-Mex	Turbo-generator with 7 MW unit capacity that utilizes steam from the roasting area of the zinc plant.	0.7	1.9
Supply from proprietary sources in 2020 (3,466 GWh/year)		100.0	100.0
Energy generation in relation to consumption in 2020 (3,311 GWh/year)		104.7	90.1

Of the power generated by Grupo Peñoles' sources, 83.4% was assigned to Peñoles' operations and 2.9% to other companies of Grupo BAL. The share for each source in Grupo Peñoles' consumption (without BAL) is shown in the following table:

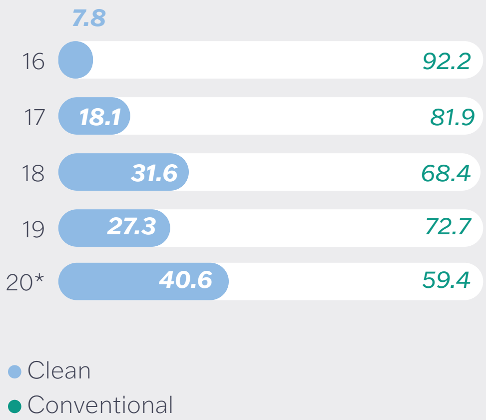
POWER CONSUMPTION BY SOURCE

%

Source	2020	2019
TEP	58.4	61.0
EDC	21.6	22.3
FEI	2.7	3.2
Cogeneration	0.7	1.7
Total supply from proprietary sources in 2020 (2,762 GWh/year)	83.4	88.2
Energy purchased from CFE in 2020 (549 GWh/year)	16.6	11.8
Total consumption in 2020 (3,311 GWh/year)	100.0	100.0
Energy from MLP sold on the wholesale electricity market	15.6	-
Energy available from own sources	99.1	88.2

POWER CONSUMPTION BY TECHNOLOGY

%



** In 2020, the percentage indicates the generation of clean energy vs consumption, of which 15.6% corresponds to MLP that was sold on the wholesale electricity market.*

In 2020, Peñoles' total electricity consumption was 3,311 GWh (equivalent to an annual average demand of 378.0 MW), 2.7% lower than the previous year, due to the public health emergency and suspension of activities at three of our mining units. Additionally, the Peñoles' energy division supplied 99.8 GWh to companies of Grupo BAL, for a total consumption of 3,411 GWh.

The average unit cost of the electricity consumed was US¢ 6.86/kWh, 6.7% higher than the previous year. This increase was due primarily to the sharp rise in transmission rates charged by CFE to legacy self-supply centrals—500% for renewables and 90% for thermoelectric plants—the constitutionality of which is under debate. There was also an increase in our consumption of energy purchased from the CFE, with a unit cost 14% higher than the energy supplied by our own plants.

Fuel	Unit	Total 2020	Total 2019	% chge.
Liquefied natural gas	Ml	5.4	4.6	18.7
Natural gas	Mm³	183	192	-4.9
Diesel	Ml	181	209	-13.2

New regulations for the power sector that took effect in 2018 require major users and suppliers of electricity to acquire Clean Energy Certificates (CELs). To cover the obligations accrued in 2019, we acquired 107,364 CELs in 2020, 16,000 of which were purchased from other companies and the rest were supplied by generation from the Mesa La Paz wind farm.

As we discussed in last year's Annual Report, in 2016 the Energy Regulation Commission issued a new technical regulation called the Network Code, intended to guarantee the stability, reliability and security of the National Electricity System. Peñoles made the necessary adjustments to its electric installations to comply with the Code, particularly as regards energy quality indicators like power factor and harmonic current control. Furthermore, all of our high-voltage facilities completed their projects, in compliance with the technical and legal requirements of the Code.

In 2020, Fuentes de Energía Peñoles (FEPSA) began operating as a supplier of qualified services in the wholesale electricity market. FEPSA signed a power supply contract with the Mesa La Paz wind farm, and also represents the group's consumers before the National Energy Control Center (CENACE).

Although 2020 presented significant challenges to our progress toward energy self-supply from renewable sources, we remain firm in our goal of increasing the share of clean technologies within the company's energy portfolio. The execution will depend upon the national energy policy. In the meantime, we will continue to explore potential wind and solar farm projects.

With regard to our use of other fuels, we reduced our consumption of diesel by 13.2% during the year, and our natural gas consumption by 4.9%. Only the use of liquefied natural gas was increased to replace the use of diesel in heavy duty truckloads in open-pit mines to reduce greenhouse gas emissions. This project, together with the monitoring of emerging technologies such as the electrification of our mobile equipment, storage in batteries and production of hydrogen, opens possibilities for the long-awaited goal of being CO_2 emissions neutral.

STRENGTHENED BY INTEGRITY

We created Baluarte Minero, a virtual structure within Peñoles to coordinate and provide technical and administrative services to the mining, metals and chemical businesses, which will enable us to exploit synergies and become more competitive. This new structure positions us better to face the daunting challenges of a changing environment.

The restructure will not increase costs. On the contrary, it will lead to a gradual and sustainable cost-reduction.

Baluarte Minero

To enhance our operating and administrative efficiency and our agility and resilience going forward, in late 2020 we undertook a transcendental change at Peñoles, sustained by three pillars:

1. **Strengthening the strategy** of our mining businesses to position them against growing uncertainty through deliberate actions that will make them more resilient and enable them to endure and prosper over time.

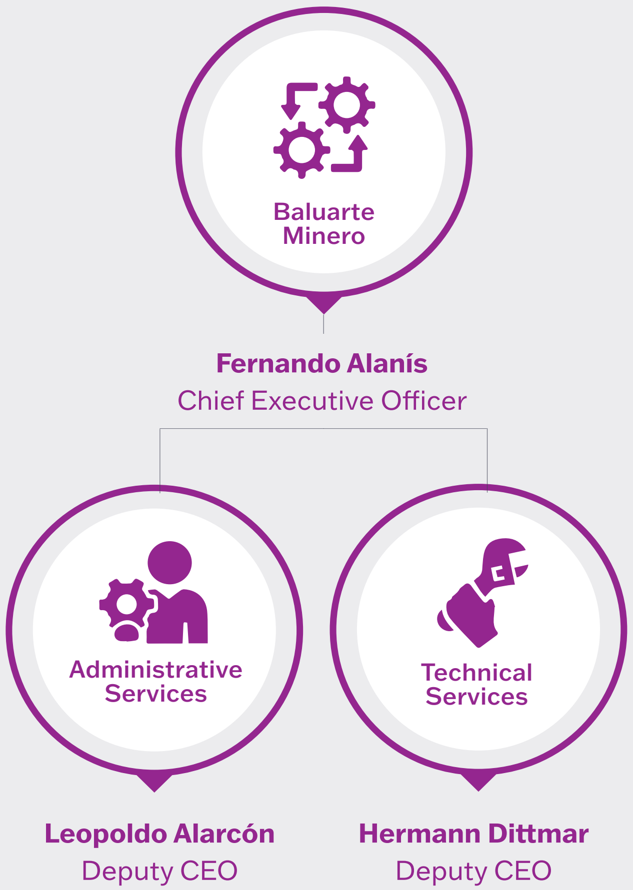
2. **Shifting our culture** toward Grupo BAL values and its leadership model, which require total commitment to results, setting an example, inspiration, flexibility and cooperation.

3. **Restructuring the organization** to enhance the companies functionality and efficiency, taking full advantage of synergies through clear lines of responsibility and accountability.

The last pillar sustains the creation of Baluarte Minero as an independent virtual unit within Peñoles, which will group together and reorganize the functions and structures that provide shared services, both technical and administrative, to Peñoles and Fresnillo plc. Baluarte Minero will supply the above mentioned services, without any authority over the operations of Peñoles and Fresnillo plc.

This new structure takes effect on January 1, 2021, and its CEO reports directly to the Chairman of the Board of Directors of Industrias Peñoles.

The composition of Peñoles' senior management team starting January 1, 2021 is shown on page 97 of this Annual Report.



INTEGRITY AND COMPLIANCE

Acting with integrity, responsibility and honesty is an essential prerequisite for success. At Peñoles, one of our most important tasks is ensuring and encouraging honest, upright conduct over the long run, to build and maintain the trust our stakeholders place in us.

Understanding the risks and challenges we presently face is key to strategic decision-making. Peñoles identifies, evaluates and prioritizes compliance risks based on their importance and probability of occurrence, in order to reinforce its mitigation strategy, bolster the company's reputation and create long-term value. This requires continuous improvement of decision-making processes and compliance management systems, as well as the implementation of measures to strengthen transparency and ethical business dealings. The core principles of our compliance program are abiding by internal and external rules and regulations, recognizing risk early, exercising social responsibility with our stakeholders and maintaining open communication about corporate integrity issues.

Code of Conduct

Our Code of Conduct is a guide to the expected behavior in our day-to-day activities and interaction with our stakeholders. It gives us a foundation for informed decision-making consistent with our institutional values, and provides the conceptual tools we require to resolve questions or conflicts of interest.
In order to face the challenges of today's world with all its new paradigms, we updated our Code of Conduct in 2020. At the same time, we restated our commitment to the integrity of all employees through our "Virtual Campus" internal technological platform, in which 100% of our associates participated last year. We also reinforce and encourage employees to internalize key concepts through the following initiatives:

- Capsules on expected behaviors according to the Code of Conduct.
- Survey on the perceived climate of integrity in the company.
- Knowledge and evaluation of the Code of Conduct, anti-bribery and anti-corruption procedures, and procedures for resolving conflicts of interest.
- Questionnaire to identify potential conflicts of interest (annual conflict of interest disclosure).

New procedures

Through the Internal Compliance system, we updated the following policies and procedures to adapt them to the current reality in Mexico and the rest of the world:

- Integrity and Compliance Policy
- Cybersecurity Guideline Policy
- Procedure for identifying, analyzing and preventing psycho-social risks and violence in the workplace and promoting a healthy organizational environment
- Procedure for regulatory compliance management at Peñoles
- Procedure for preventing and discouraging fraud
- Procedure on donations, sponsorships, gifts, hospitality and entertainment
- Procedure for supplying information to outside parties and knowledge of beneficial owner
- External Code of Conduct (applicable to Third parties)
- Personal Data Management System
- Personal Data Guideline Procedure
- Manual of Procedures for Compliance with the Federal Personal Data Protection Law

Analysis and management of compliance riks

Peñoles identifies, evaluates and prioritizes compliance risks to strengthen its mitigation strategy based on an analysis of current risks and challenges.

During the year we created a Comprehensive Risk Model for identifying vulnerabilities in critical business processes. We will continue the work of strengthening the model and identifying critical processes that must be analyzed from a risk approach, in order to determine whether, within these processes, situations of non-compliance might arise.

Conflicts of interest

One year ago we set ourselves the task of analyzing cases with high probability of causing conflicts of interest based on the personal and business relationships disclosed by our employees. In 2020 we developed a methodology for analyzing and mitigating such situations based on the information supplied by employees in their recommitment to integrity. We will continue to work on defining actions to mitigate and prevent the situations identified from occurring.

Due diligence from a risk-based approach

We introduced a new process of third-party due diligence from a preventive approach, based on an assessment of the third-party risk. This process evaluates the transactional profile of the parties with whom we do business and their classification into certain segments according to the nature of their operations and risk for the business relationship. Likewise, it will allow us to thoroughly analyze critical transactions and establish tracking or mitigation measures.

Third-party verification

During the year we worked on developing a Shipper Verification System to provide more information on the parties with which Peñoles has commercial relations. We developed a process for objectively quantifying the risks of these parties, based on regulatory frameworks and the applicable internal and external standards—the Third-Party Due Diligence Procedure, the standards of the London Bullion Market Association (LBMA) and the Organization for Economic Cooperation and Development, as well as the Mexican federal anti-money laundering law. We can also use this system to ensure that strategic partners follow good commercial practices and share our commitment to a culture of corporate integrity.

As a result, we introduced the following best practices, focused on improving controls to ensure a conflict-free supply chain:

- More knowledge on shippers and greater certainty in operational decisions.
- Recommendations issued by the Compliance Department to strengthen the third party management process, focused on the following areas:
    - Third-party Due Diligence Procedure management.
    - Compliance with guidelines of the LBMA Responsible Sourcing Programme Guide Version 8.

The new Third Party Code of Conduct outlines the bases for interaction with Peñoles, within a framework of corporate integrity.

- Negotiating formal contracts with shippers
- Precise systems information
- Improved controls over precious metals accreditation
- Training within the Raw Materials Department to build awareness about compliance risks

Third Party Code of Conduct

Aware of the risks inherent in all interactions with companies and individuals outside the company, we developed a Third Party Code of Conduct for distribution in 2021. This document expressly outlines the conduct we expect of our business partners, as a first step in initiating and maintaining any commercial relationship with Peñoles. The document is intended to ensure that every interaction with such partners is firmly grounded in corporate integrity, guaranteeing a responsible supply chain, protection of the environment, a proven commitment to occupational healthy and safety and respect for human and labor rights. It also provides guidelines on asset protection, intellectual information and property, and mechanisms to ensure compliance with the Code, including guidance in the event of any questions.

This external Code of Conduct is consistent with internationally-recognized rules and standards like the United Nations Global Compact, the basic conventions of the International Labor Organization and business responsibility guidelines issued by the OECD and the UN.

Whistleblowers' hotline

In 2020, we further strengthened our systems for receiving and addressing reports of actions that violate our Code of Conduct through the Correct Line, an institutional channel available to our employees and other stakeholders.

Our key actions in this regard were:

- Reinforcing and adapting our research methodological framework to the new context of awareness regarding human resources (workplace violence, bullying and harassment) or, where appropriate,

those related to compliance aspects (fraud, conflict of interest, bribery and corruption).

- Classifying reports on workplace violence, harassment, bullying and/or abuse of authority, depending on the areas that will handle them: Human Resources, Corporate or Divisional. Matters pertaining to unionized employees are channeled to the Department of Labor Relations.
- Providing training to people newly hired to conduct the investigations, regarding the methods and protocols for addressing reports, particularly in cases that fall into the Human Resources and Labor Relations categories.
- Creating commissions to address cases relating to workplace violence, harassment or bullying, in keeping with existing federal laws.
- Amendment to the bylaws of the Ethics and Corporate Values Committee with regards to decision-making on substantiated violations of the Code of Conduct.
- Detailed follow-up on remedial and/or disciplinary actions in human resource and compliance-related issues.
- Incorporating the area responsible for investigations into the Compliance Department.

For more information about the results of Correct Line, see our 2020 Sustainable Development Report.

Money laundering prevention

Peñoles has a set of standing mechanisms to prevent exposure to money-laundering and terrorism financing, and will not do business with any third party that might use our company as a vehicle for incorporating illegal resources into the formal economy.

Peñoles took the following preventive and remedial actions to address existing regulatory requirements:

- Update and distribution of the Anti-Money Laundering Law Compliance Manual available in our Internal Compliance System.
- Tracking all deals subject to the provisions of the Anti-Money Laundering Law: purchase and sales of precious metals, real-estate leasing and receipt of donations.

- Update of client, tenant and donor identification files.
- Monitoring any reports/notices on the website administered by the corresponding supervisory authority.
- Remedial self-corrective actions permitted by the law in the company's businesses.

Regulatory compliance

We conducted an exhaustive review of external compliance—laws, regulations, official standards and others—in Peñoles business units and workplaces, focusing on the eleven most critical issues to our operations: the environment, health, industrial safety, union relations, human resources, taxes, telecommunications, civil aviation, mining, energy and agriculture. In this regard, we analyzed a total of 3,129 obligations that currently apply to the company, distributed in differing degrees across our various divisions (Mines, Metals-Chemicals, Exploration and Administrative Services). We also identified the risk of any discrepancies detected during our verifications and, in coordination with all the areas, defined action plans to

We strengthened our mechanisms for receiving and addressing reports of unethical actions.

mitigate these risks with regular follow-up on the status of their implementation.

Parallel to this effort, we updated the compliance map applicable to our industry according to changes in federal laws, and conducted an awareness-raising campaign for the relevant personnel regarding the importance of strengthening this culture of regulatory compliance.

The company's Personal Data Committee, headed by the Compliance Office, developed and published the policies, procedures and manual on the transfer and protection of personal data collected by the different areas, in addition to the procedures already in place to comply with the Federal Law regarding Personal Data Protection, and coordinated a risk analysis for safeguarding them.

We also set up a multidisciplinary work group, headed by the Compliance Office and the Department of Human Resources, which prepared policies and procedures for complying with national standard NOM-035-STPS-2018. There was a massive dissemination campaign on the new standard.

A questionnaire was applied to detect personnel subject to severe traumatic events and psychosocial risk factors, in order to implement the corresponding action plans; the participation was 94%.

Cybersecurity

We made substantial progress in both technical aspects and fortifying our technology governance for cybersecurity. Among the priority actions of this program we identified and analyzed the cyber-risks to which the organization is exposed, and controls that must be strengthened or applied to reduce them. We also put together a catalogue of all the services that make up the organization's capacities to strengthen operational and technical security of the processes.

To enhance the visibility of our cybersecurity measures, we engaged the services of an independent consultant to help detect such incidents and respond to them. We are also deploying technology to enhance visibility which will enable us to act in a coordinated, efficient manner to address the vulnerabilities identified in our infrastructure.

Through these actions, we look to reduce and address any cybersecurity risks that we might face in an orderly and timely fashion, confident in the power of technology as an enabler of business processes.

CORPORATE GOVERNANCE STRUCTURE

EXECUTIVE COMMITTEE

7 Directors elected by the Board from among its members

- Reviews, approves and monitors operational and strategic development
- Recommends changes to the corporate and business strategy

Regularly reviews management on the company's economic, operational, product, social, environmental, human development and safety, including related risks and opportunities.

BOARD OF DIRECTORS

15 proprietary Board members and 13 alternates

- Defines vision and strategy
- Establishes policies and guidelines
- Oversees business operations
- Approves the budget and financial results

Secretary

Chief Executive Officer and management team

Business management, leadership and execution

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

3 independent Board members

- Reviews compliance with internal control policies and accounting guidelines
- Monitors systems of Internal Control and Audit
- Evaluates the performance of the external auditor

FINANCE AND PLANNING COMMITTEE

7 Board members, experts in financial matters

- Reviews financial policies and projections
- Evaluates investment projects and company's financing

NOMINATION, EVALUATION AND COMPENSATIONS COMMITTEE

3 Board members

- Reviews the organizational structure
- Validates the skills and experience of the Board and recommends their compensation
- Evaluates the performance of senior executives
- Defines the overall compensation policy and succession plans

The Board met five times in fiscal year 2020. In all the sessions there was a remarkably high quorum: 100% of the Directors attended three of these sessions, and 93% the remaining two.

In 2020, the total compensation to the relevant executives amounted to Ps. 139.5 million.

The Annual Shareholders Meeting held on April 23, 2020 authorized a remuneration of Ps. 130,000 to each Director for every session attended, as well as the amount of Ps. 90,500 to each member of the Audit and Corporate Governance Committee per session, and Ps. 110,000 to the President of said Committee.

BOARD OF **DIRECTORS**

CHAIRMAN
Alberto Baillères G.

DEPUTY CHAIRMAN
Alejandro Baillères G.

DIRECTORS

Alberto Baillères G. (1) (2) (3) (8)
Alejandro Baillères G. (1) (3) (7)
Juan Bordes A. (1) (2) (3) (7)
Fernando Senderos M. (5)
Arturo Fernández P. (1) (2) (3) (7)
Raúl Baillères G. (7)
José A. Fernández C. (5)
Andreas Raczynski Von O. (1) (3) (7)
Juan Pablo Baillères G. (7)
Juan Francisco Beckmann V. (5)
Jaime Lomelín G. (1) (3) (7)
Tomás Lozano M. (4) (5)
Octavio Figueroa G. (1) (3) (7)
Ernesto Vega V. (4) (5)
Luis Robles M. (5)

ALTERNATE DIRECTORS

Ma. Teresa Baillères de H. (7)
Leopoldo Alarcón R. (7)
Gabriel Kuri L. (7)
Dolores Martin C. (5)
Alejandro Hernández D. (7)
Luis M. Murillo P. (7)
Francisco Javier Fernández C. (5)
Sergio Fernando Alanís O. (7)
Juan Carlos Escribano G. (7)
Raúl Obregón Del C. (4) (5)
María Ocampo (7)
Luis Aguilar y Bell (5)
Roberto Palacios P. (7)

SECRETARY
Gerardo Carreto Chávez

(1) Executive Committee
Secretary: Miguel Linares
Guest: Diego Hernández

(2) Nomination, Evaluation and Compensations Committee

(3) Finance and Planning Committee

(4) Audit and Corporate Governance Committee

*(5) Independent Director**
A Director who performs his duties free from conflicts of interest and without being subject to personal, patrimonial or economic interests, and furthermore, a person who is excluded from restrictions provided by Article 26 of the Securities Market Law.

*(6) Shareholder Director**
A Director who has a 1% (one percent) direct interest or more in the equity capital of the Company.

*(7) Related Director**
A Director not being deemed as "Independent" or "Shareholder Director".
Among others, Related Directors are those whom:
Serve as officers at some level of the Company and its subsidiaries, as well as officers at any level of the companies comprising the Grupo BAL consortium.
Have kinship to the fourth degree with other Directors, as well as the spouses and non-spouses a concubinage relationship

*(8) Shareholder and Related Director**
A Director who besides being "Related", also has a 1% direct interest or more in the equity capital of the Company.

* *Pursuant to the Corporate Policy that defines the qualification or category of Directors.*

In accordance with the recommendations of the Corporate Governance Code, the Audit and Corporate Governance Committee reviewed accounting policies and criteria as well as internal control systems, and functioned in coordination with the External Auditors. In addition, the Board appointed Directors to make up the Nomination, Evaluation and Compensations Committee —which reviewed organizational structure and policies on compensations— and the Finance and Planning Committee, whose responsibility was to examine financial policies and projections and evaluate investment projects in order to ensure that they were consistent with the Company's strategic plan and with its sources of financing. The Committees met regularly and reported to the Board on their activities; their reports and recommendations were attached to the minutes of the Board meetings.

The composition of the Board of Directors, as well as the profile of the members are available on our website: **www.penoles.com.mx**

MANAGEMENT

Senior Executives and Assistant Vice Presidents

SENIOR EXECUTIVES

Rafael Rebollar González
CEO
Vice President
Metals and Chemicals

Manuel Medina Pegram
Vice President
Commercial
Metals and Chemicals

Luis Humberto Vázquez San Miguel
Vice President
Mining

Mauricio I. García Torres
Vice President
Finance

Javier García Fons
Vice President
Exploration

María Nancy Acosta Jáuregui
Vice President*
Internal Control

** Reports directly to the Audit and Corporate Governance Committee.*

ASSISTANT VICE PRESIDENTS

Luis Ernesto Ibarra Ortiz
Chemicals Marketing

Juan Manuel Martínez González
Metals Marketing

Luis Lauro Rodríguez González
Technical

Óscar Luévano Ovalle
Raw Material

Roberto González Rodríguez
Northern Operations

Francisco Javier Berumen Muro
Southern Operations

Miguel Eduardo Muñoz Pérez
Planning

Juan Francisco Corona Martínez
Financial Planning

Gerardo R. Rojas Favela
Operations Comptroller

STRENGTHENED BY HONESTY

Peñoles maintains the best sustainable development and corporate governance practices, encourages social engagement and promotes its ethics and values at work. This ensures that our company can survive, adapt and prosper over time, to continue generating value for our stakeholders.

Faced with the challenges, in 2020 we acted prudently and operated responsibly.

INFORMATION FOR SHAREHOLDERS

CORPORATE HEADQUARTERS

Corporativo Legaria

Calzada Legaria 549, Torre 2
Col. 10 de Abril
11250 Mexico City, Mexico
Phone: +52 (55) 5279 3000
Investor_Relations@penoles.com.mx
www.penoles.com.mx

STOCK EXCHANGE

Mexican Stock Exchange (BMV):

Ticker PE&OLES

AUDITOR

Mancera, S.C. (Member of Ernst & Young Global Limited)

SHARE AND DIVIDEND INQUIRIES

Jorge Calderón B.

Assistant Vice President Treasury and Financing
Phone: +52 (55) 5279 3290
Jorge_Calderon@penoles.com.mx

INVESTOR AND ANALYST INQUIRIES

Mauricio García T.

CFO
Phone: +52 (55) 5279 3000
Mauricio_Garcia@penoles.com.mx

Celia Ortega C.

Investor Relations
Phone: +52 (55) 5279 3294
Celia_Ortega@penoles.com.mx

SHARE INFORMATION

Share price (pesos):

Close	$ 336.78
High	$ 388.79
Low	$ 141.96

Market capitalization at the end of the year:
US$ 6.71 B
Shares outstanding as of December 31, 2020:
397,475,747

For more information regarding Fresnillo plc, please visit:
www.fresnilloplc.com

FINANCIAL CALENDAR

2020 Annual Shareholders' Meeting: **April 29, 2021**
1Q 2021 results: April 30, 2021
2Q 2021 results: July 28, 2021
3Q 2021 results: October 28, 2021
4Q 2021 results: February 28, 2022

VERSIÓN EN ESPAÑOL

Para obtener una versión en español de este informe, favor de visitar: **www.penoles.com.mx**

Contacto: **Investor_Relations@penoles.com.mx**
Tel.: +52 (55) 5279 3294

FINANCIAL STATEMENTS

Sabinas, night view.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020 AND 2019 WITH INDEPENDENT AUDITOR'S REPORT

PEÑOLES

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
INDUSTRIAS PEÑOLES, S.A.B. DE C.V.

Opinion

We have audited the accompanying consolidated financial statements of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries as at 31 December 2020 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico in accordance with the Código de Ética Profesional del Instituto Mexicano de Contadores Públicos (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the accompanying consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recoverability of mining assets

One area that we deemed a key audit matter is management's assessment of the indicators of impairment of the Company's assets that are subject to depreciation and amortization, which are mostly long-lived assets. This designation as a key audit matter is due to the complexity of the methodology used to estimate the recoverable amount of the assets of each cash generating unit (CGU), as well as the high degree of judgment required by management to formulate the assumptions considered and their consistency with the assumptions used in other accounting estimates determined by the Company in the consolidated financial statements. These assumptions include mineral reserves and resources, the related production levels, projections of capital expenditures and operating expenses, future market prices of the metals, discount rates and relevant foreign exchange rates. The assessment of the indicators of impairment is also complex due to the fact that the methodology used considers certain economic and market factors that involve estimates that have a high degree of uncertainty, and the different characteristics of each of the mining CGUs.

Note 6l) Impairment in the value of long-lived assets to the accompanying consolidated financial statements provides further information on the accounting policies and criteria followed by the Company related to the impairment assessment described above.

How our audit addressed the matter

We assessed the reasonableness of the methodology used by the Company to identify its CGUs considering the accounting criteria applied and we also assessed the assumptions used to estimate the recoverable amount of each CGU, which are estimates of mineral reserves and resources, the related production levels, projections of capital expenditures and operating expenses, future market prices of the metals, discount rates and relevant foreign exchange rates. We compared these assumptions against the market information and analyzed their consistency with the assumptions used in other accounting estimates determined by the Company in the accompanying financial statements. We also evaluated the objectiveness and competence of the Company's independent advisors to verify the accuracy of the estimates of mineral reserves and resources used in these projections. We received assistance from independent specialists in the audit of the mineral reserves and resources reports and also from our own valuation specialists in the audit of projections.

Estimates of mineral reserves and resources

We have also considered as a key audit matter the Company's estimates of mineral reserves and resources, due to the significant judgments and estimates involved and the impact that these judgments can have on the reported values of the Company's property, plant and equipment, as well as on the amount of the liability for the Company's obligations related to rehabilitation of its production sites. The mineral reserves and resources are the basis for determining the economic lives of the Company's cash generating units (CGUs) and for determining the recoverable amounts of the assets associated with the CGUs. They are also the basis for determining the discount rate of the Company's future obligations related to the rehabilitation of its production centers.

The Company's mineral reserves and resources are determined by management's internal specialists and with the assistance from an independent specialist.

Note 4a) to the accompanying consolidated financial statements provides further information on the accounting policies and criteria followed by the Company for the assessment of the estimates of mineral reserves and resources described above.

How our audit addressed the matter

We evaluated the competence, experience and independence of the Company's internal and independent specialists, which included in-person discussions with the specialists, and we also evaluated the scope of their work. We analyzed the report issued by the independent or internal specialist, as applicable, and assessed the changes made to the estimates of the mineral reserves and resources in 2020. We also evaluated the consistency of the criteria applied in all of the subsidiaries.

We analyzed the reconciliation of the beginning and ending balance of the reserves and resources and compared the results of this reconciliation to the clarifications provided by management and where applicable, the support documentation explaining the reason for any significant movements in the balances of the mineral reserves and resources. We assessed the market, financial and operating assumptions considered by management to calculate its estimates of the Company's mineral reserves and resources.

Estimate of inventories in leach pads

We have also considered as a key audit matter the estimate of the amount of recoverable gold in the leach pads, since this estimate involves several variables and assumptions, and also given the likelihood that these estimates will evolve over time as more information becomes available on the activities of the leach pads and the assays of the deposited mineral.

How our audit addressed the matter

We evaluated the competence, experience and independence of the Company's geologist involved in estimating the amount of recoverable gold deposited in the leach pads.

We involved our own specialist to evaluate the accuracy of the information provided by the Company's geologist.

In cooperation with our specialist, we obtained an understanding of the process and methodology used to determine the estimated amount of gold in the leach pads and we evaluated the appropriateness of the methodology, including any changes compared to the methodology used in prior years.

We evaluated the basis for the judgments applied, including whether and to what extent it was necessary to include new information on the leach pads. We also evaluated the accuracy of the recovery rate used in the calculation.

Deferred income tax

We deemed deferred income tax to be a key audit matter due to the complexity of the tax legislation applicable to the industry in which the Company operates, the significant judgments made by management in performing the analysis on aspects such as the assessment of asset recoverability, the reconciliation of the effective income tax rate and other special industry considerations such as the special tax for mining companies, among others. We also focused on this matter due to the use of highly uncertain assumptions whose realization depends on the occurrence of future events in the mining industry and the risk to the Company's financial and tax results.

Note 6q) and Note 21 to the accompanying consolidated financial statements provide further information on the accounting policies applied by the Company for recognizing deferred income tax, as well as the respective balances.

How our audit addressed the matter

We analyzed the significant assumptions used by management in recognizing current and deferred income tax assets and liabilities and evaluated the effective income tax rate calculated by the Company. We also analyzed the reconciliations of current income tax and deferred income tax prepared by the Company. We sought the assistance of our own specialists for the analysis of the tax aspects applicable to the Company, the assessment of projected future taxable profits and the appropriateness of the procedure followed by management in calculating the effective income tax rate for the period. We mathematically recalculated the projections used to determine the recoverability of deferred income tax assets.

We assessed the disclosure related to the recognition of the current and deferred income tax assets and liabilities in the consolidated financial statements as at 31 December 2020.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report filed with the National Banking and Securities Commission (the CNBV) and the annual report submitted to the shareholders, but does not include the consolidated financial statements and our auditor's report thereon. We expect to obtain the other information after the date of this auditor's report.

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 when we have access to it 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.

When we read and consider the Annual Report filed with the CNBV, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and to issue a statement on the Annual Report required by the CNBV that contains a description of the matter.

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

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, 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 ISA 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 ISA, 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is the undersigned.

Mancera, S.C.
A Member Practice of
Ernst & Young Global Limited

Sergio Mora González

Monterrey, Nuevo León
1 March 2021

CONSOLIDATED STATEMENTS OF **FINANCIAL POSITION**

(Amounts in thousands of U.S. dollars)

	Note	As at 31 December 2020	2019
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	8	**$ 1,592,650**	$ 526,347
Trade and other accounts receivable, net	9	**541,065**	557,098
Recoverable income tax		**75,916**	134,482
Other financial assets	10	**18,111**	28,381
Inventories	11	**1,560,608**	1,359,944
Prepaid expenses		**27,085**	30,121
Total current assets		**3,815,435**	2,636,373
Non-current assets classified as held for sale	40	**8,346**	-
NON-CURRENT ASSETS:			
Trade and other accounts receivable, net	9	**496**	23,539
Other financial assets	10	**4,612**	8,595
Inventories	11	**91,620**	91,620
Equity instrument financial assets	12	**232,549**	133,966
Property, plant and equipment, net	13	**4,671,553**	4,978,365
Equity investments in associates	14	**32,160**	31,275
Right-of-use assets	15	**102,829**	111,358
Deferred income tax	21	**271,308**	164,577
Other assets		**19,523**	7,023
Total non-current assets		**5,426,650**	5,550,318
Total assets		**$ 9,250,431**	$ 8,186,691

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **FINANCIAL POSITION**

(Amounts in thousands of U.S. dollars)

	Note	As at 31 December 2020	2019
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Suppliers and other accounts payable	16	**$ 487,548**	$ 423,736
Other financial liabilities	17	**208,014**	34,307
Financial debt	18	**38,768**	9,096
Employee benefits	19	**56,410**	44,023
Lease liabilities	15	**15,640**	16,021
Income tax		**176,868**	60,296
Total current liabilities		**983,248**	587,479
Liabilities directly associated with non-current assets classified as held for sale	40	**10,937**	-
NON-CURRENT LIABILITIES:			
Financial debt	18	**2,862,843**	2,217,230
Employee benefits	19	**66,338**	70,187
Other financial liabilities	17	**20,697**	10,427
Income tax	21	**9,771**	22,329
Lease liabilities	15	**92,711**	98,886
Provisions	20	**449,737**	453,481
Deferred income tax	21	**223,611**	238,780
Total liabilities		**4,719,893**	3,698,799
EQUITY:			
Share capital	22	**401,399**	401,399
Legal reserve	22	**52,304**	52,304
Retained earnings		**3,116,561**	3,150,945
Components of other comprehensive loss	22	**(97,911)**	(77,697)
Equity attributable to equity holders of the parent		**3,472,353**	3,526,951
Non-controlling interests	3	**1,058,185**	960,941
Total equity		**4,530,538**	4,487,892
Total liabilities and equity		**$ 9,250,431**	$ 8,186,691

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **PROFIT OR LOSS**

(Amounts in thousands of U.S. dollars)

	Note	For the year ended 31 December **2020**	2019
Sales	26	**$ 4,673,309**	$ 4,471,948
Cost of sales	27	**3,424,343**	3,601,111
GROSS PROFIT		**1,248,966**	870,837
Administrative expenses	28	**249,669**	265,764
Exploration expenses	29	**141,038**	208,145
Selling expenses	30	**115,707**	121,916
Impairment in the value of long-lived assets	13	**166,353**	66,579
Other expenses	32	**43,745**	31,732
Other income	32	**(29,093)**	(11,952)
		687,419	682,184
OPERATING PROFIT		**561,547**	188,653
Finance income	33	**(25,191)**	(29,553)
Finance cost	34	**259,796**	138,572
Foreign exchange loss/(gain), net		**49,208**	(748)
Share of loss of associates	14	**3,321**	1,153
PROFIT BEFORE INCOME TAX		**274,413**	79,229
Income tax	21	**184,812**	(33,129)
CONSOLIDATED NET PROFIT		**$ 89,601**	$ 112,358
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$(34,384)**	$ 35,472
NON-CONTROLLING INTERESTS	3	**123,985**	76,886
		$ 89,601	$ 112,358
(LOSS)/EARNINGS PER SHARE (basic and diluted in U.S. dollars)	23	**$(0.09)**	$ 0.09

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(Amounts in thousands of U.S. dollars)

	Note	For the year ended 31 December 2020	2019
CONSOLIDATED NET PROFIT		**$ 89,601**	$ 112,358
COMPONENTS OF OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized loss on valuation of hedges:			
Loss reclassified to earnings	38	**(34,643)**	(193)
Deferred income tax	21	**10,393**	58
Reclassification of hedging instruments due to payment of underlying asset	38	**(25,143)**	-
Deferred income tax	21	**7,543**	-
Changes in the fair value of hedges	38	**(74,266)**	(13,459)
Deferred income tax	21	**22,280**	4,038
Realized gain on hedges due to early closing of positions	38	**32,138**	-
Deferred income tax	21	**(9,641)**	-
Net effect of unrealized loss on valuation of hedges		**(71,339)**	(9,556)
Share of (loss)/profit of associates	14	**(484)**	4,477
Foreign currency translation reserve		**(10,484)**	5,422
Other comprehensive income items to be reclassified to profit or loss		**(82,307)**	343
COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain/(loss) on valuation of employee benefits:			
Actuarial gain/(loss)	19	**5,498**	(9,577)
Deferred income tax	21	**(874)**	1,523
		4,624	(8,054)
Unrealized gain on valuation of equity instrument financial assets:			
Unrealized gain	12	**98,583**	46,536
Deferred income tax	21	**(29,575)**	(13,961)
		69,008	32,575
Other comprehensive income items that will not be reclassified to profit or loss		**73,632**	24,521
TOTAL COMPONENTS OF OTHER COMPREHENSIVE (LOSS)/INCOME		**(8,675)**	24,864
COMPREHENSIVE INCOME		**$ 80,926**	$ 137,222
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$(54,598)**	$ 51,935
NON-CONTROLLING INTERESTS		**135,524**	85,287
		$ 80,926	$ 137,222

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **CHANGES IN EQUITY**

(Amounts in thousands of U.S. dollars)

For the years ended 31 December 2020 and 2019

(Amounts in thousands of U.S. dollars)

			Retained earnings						
	Share capital	Legal reserve	Undistributed earnings	Net profit/(loss) for the year	Total retained earnings	Components of other comprehensive loss	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as at 31 December 2018	$ 401,399	$ 52,304	$ 2,952,133	$ 323,749	$ 3,275,882	$(94,160)	$ 3,635,425	$ 904,398	$ 4,539,823
Change in equity interest of associate (Note 14)	-	-	(3,109)	-	(3,109)	-	(3,109)		(3,109)
Net profit for the year	-	-	-	35,472	35,472	-	35,472	76,886	112,358
Components of other comprehensive income	-	-	-	-	-	16,463	16,463	8,401	24,864
Comprehensive income	-	-	-	35,472	35,472	16,463	51,935	85,287	137,222
Shareholders' resolutions:									
Appropriation of net profit from prior year	-	-	323,749	(323,749)	-	-	-	-	-
Increase in non-controlling interests	-	-	-	-	-	-	-	53,257	53,257
Dividends declared (Note 24)	-	-	(157,300)	-	(157,300)	-	(157,300)	(82,001)	(239,301)
Balance as at 31 December 2019	401,399	52,304	3,115,473	35,472	3,150,945	(77,697)	3,526,951	960,941	4,487,892
Net (loss) profit for the year	**-**	**-**	**-**	**(34,384)**	**(34,384)**	**-**	**(34,384)**	**123,985**	**89,601**
Components of other comprehensive (loss) profit	**-**	**-**	**-**	**-**	**-**	**(20,214)**	**(20,214)**	**11,539**	**(8,675)**
Comprehensive (loss) income	**-**	**-**	**-**	**(34,384)**	**(34,384)**	**(20,214)**	**(54,598)**	**135,524**	**80,926**
Shareholders' resolutions:									
Appropriation of net profit from prior year	**-**	**-**	**35,472**	**(35,472)**	**-**	**-**	**-**	**-**	**-**
Increase in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53**	**53**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(38,333)**	**(38,333)**
Balance as at 31 December 2020	**$ 401,399**	**$ 52,304**	**$ 3,150,945**	**$ (34,384)**	**$ 3,116,561**	**$ (97,911)**	**$ 3,472,353**	**$ 1,058,185**	**$ 4,530,538**

CONSOLIDATED STATEMENTS OF **CASH FLOWS**

(Amounts in thousands of U.S. dollars)

	Note	For the year ended 31 December 2020	2019
OPERATING ACTIVITIES			
Net cash flows from operating activities	35	**$ 1,113,062**	$ 570,084
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(561,294)**	(913,285)
Purchase of intangible assets		**(2,490)**	(1,230)
Proceeds from sale of property, plant and equipment		**3,425**	17,332
Collection of loans granted to contractors		**1,834**	2,254
Dividends received from associates	14	**-**	1,580
Interest received		**10,073**	26,860
Increase in equity investments in associates	14	**(4,690)**	-
Net cash flows used in investing activities		**(553,142)**	(866,489)
FINANCING ACTIVITIES			
Interest paid		**(104,047)**	(100,104)
Interest rate hedges		**4,889**	374
Loans obtained	18	**1,620,032**	3,025,000
Repayment of loans	18	**(937,607)**	(2,644,716)
Transaction cost paid on loan	18	**(19,276)**	(34,981)
Premiums paid on debt repurchase	18	**(60,835)**	-
Principal and interest leases payments	15	**(26,029)**	(22,743)
Cash dividends paid to equity holders of the parent		**(3)**	(155,243)
Cash dividends paid to non-controlling interests		**(33,839)**	(81,615)
Increase in non-controlling interests	3	**53**	53,257
Loans from holders of non-controlling interests	25	**63,712**	-
Net cash flows from financing activities		**507,050**	39,229
Net increase/(decrease) in cash and cash equivalents		**1,066,970**	(257,176)
Net foreign exchange difference		**(667)**	(1,839)
Cash and cash equivalents at beginning of year		**526,347**	785,362
Cash and cash equivalents at end of year		**$ 1,592,650**	$ 526,347

The accompanying notes are an integral part of these consolidated financial statements.

1. Description of the Business

Industrias Peñoles, S.A.B. de C.V. is a company incorporated under the Mexican Corporations Act and the Mexican Securities Trading Act as a publicly traded variable capital corporation listed in Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange). Its corporate offices are located in Mexico City at Calzada Legaria No. 549, Colonia 10 de Abril. The Company is the ultimate holding company.

Industrias Peñoles, S.A.B. de C.V. and its subsidiaries (collectively, "Grupo Peñoles" or "the Company") are principally engaged in the exploration, extraction and sale of mineral concentrates and ore, as well as in the production and sale of nonferrous metals.

Grupo Peñoles is required to obtain government concessions for the exploration and exploitation of mineral deposits. Under the current legal and regulatory regime in Mexico, concessions for mining operations, development projects and exploration prospects may be cancelled by the Mexican government under certain circumstances, including where minimum expenditure levels are not achieved by the Company (or a corresponding penalty is not paid to the appropriate authorities), if fees related to exploitation are not paid to the Mexican government or if environmental and safety standards are not met.

Mining concessions grant rights upon all the minerals and substances, but do not grant rights upon the surface where the mines are located. Mining concessions in Mexico are for a term of 50 years commencing on the date on which the concession is registered with the Public Registry of Mining and Mining Rights, and may be renewed for additional 50-year terms.

During 2020, the COVID-19 outbreak rapidly spread causing a significant amount of infections all over the world. The development and fluidity of the situation precludes any prediction as to the ultimate impact of COVID-19; however, Grupo Peñoles is seeking to obtain the best possible information to enable the assessment of the risks involved and implement appropriate measures to respond.

During 2020, Grupo Peñoles has taken a number of measures to safeguard the health of its employees and their local communities, while continuing to operate safely and responsibly. The costs incurred by the Company in implementing COVID-19 safety measures totaled $7,773 and were recognized as expenses for the year ended 31 December 2020. In relation to the COVID-19 outbreak, from 30 March to 31 May 2020, the Mexican government has established quarantine requirements and restrictions on certain economic activities that are considered non-essential. As of June 2020, mining activities were declared as essential activities, accordingly all mines are currently operating at its normal production capacity. During the lockdown period that had also an impact on the Company's open pit mines in Sonora, the Company incurred in certain fixed costs that Management decided not to consider as production costs and instead, they were recognized as unabsorbed production costs in the amount of $19,403. Attempts at containment of COVID-19 have resulted in decreased economic activity, which has adversely affected the global economy in general. In the current environment, assumptions about future commodity prices, exchange rates and interest rates are subject to greater variability than normal, which could in the future affect the value of the Company's financial and non-financial assets and liabilities. As at 31 December 2020, there were no material changes in the value of the Company's assets and liabilities due to COVID-19.

1. Description of the Business (continued)

Furthermore, during the first half of 2020, Grupo Peñoles decided to indefinitely suspend the operations of its Madero mine, as well as the mineral extraction at the Milpillas mine due to a drop in the prices of metals. Additionally, the Bismark mining unit began the process of closure of its operations due to a depletion of its mineral reserves. The effects of this decision are described in Notes 11 and 13, respectively. In April 2020, the Capela mining unit, which is engaged in polymetallic mineral extraction, started up operations.

2. Basis of Preparation

On March 1, 2021, the consolidated financial statements and these notes were authorized by the Company's Chief Executive Officer, Chief Financial Officer, Administrative Services Director and the General Counsel, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the consolidated financial statements.

The consolidated financial statements of Grupo Peñoles and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are presented in U.S. dollars (see Note 6), which is the Company's functional currency, and all values are rounded to the nearest thousand, unless otherwise indicated. Amounts in Mexican pesos are expressed in thousands of Mexican pesos, unless otherwise indicated.

The accompanying consolidated financial statements cover the following periods:

- Statements of financial position as at 31 December 2020 and 2019

- Statements of profit or loss for the years ended 31 December 2020 and 2019

- Statements of comprehensive income for the years ended 31 December 2020 and 2019

- Statements of changes in equity and statements of cash flows for the years ended 31 December 2020 and 2019

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for the following items that were stated at fair value at the date of the consolidated statement of financial position:

- Derivative financial instruments

- Equity instrument financial assets

- Certain inventories valued at fair value

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, actual results could differ from these estimates. The areas involving a higher degree of judgment and complexity and areas where estimates and assumptions are significant to the financial statements are described in Note 4.

3. Consolidation

The consolidated financial statements include the financial statements of Industrias Peñoles, S.A.B. de C.V. and those of its subsidiaries, which are prepared for the same reporting period and following the same accounting policies as those of the parent Company.

Subsidiaries

Subsidiaries are understood to be those entities over which Grupo Peñoles has the power to govern the investee's operating and financial policies and obtain benefits from its activities, as of the date control is obtained and through the date control is lost. Control over investees classified as subsidiaries is analyzed based on the Company's power over the investee, its voting rights, its exposure, or rights, to variable returns from its involvement with the investee, and its ability to affect the amount of such returns through its power over the investee.

The consolidated financial statements include all of the entities' assets, liabilities, revenue, expenses and cash flows after eliminating intercompany balances and transactions. When the Company holds equity interest of less than 100% and, therefore, there are non-controlling interests in the net assets of the consolidated subsidiary, a separate non-controlling interests' caption is included in the consolidated statement of financial position.

Business combinations are accounted for using the acquisition method. Under this method, the assets acquired and liabilities assumed are recognized at fair value at the date of acquisition. The operating results of acquired businesses are recognized in the consolidated financial statements as of the effective acquisition date. The operating results of businesses sold during the year are included in the consolidated financial statements through the effective date the business was sold. A gain or loss on the sale of an acquired business, which is the difference between the income received from the sale, net of the related expenses, and the net assets attributable to the equity interest in the business at the date of sale, is recognized in the consolidated statement of profit or loss.

All intercompany balances and transactions, intra-group unrealized gains and losses, and dividends have been eliminated on consolidation.

Associates

Investments in associates are those in which Grupo Peñoles holds more than 20% of the issuer's voting shares, or over which it exercises significant influence but does not have control over the investee. Investments in associates are initially recognized at cost and later accounted for using the equity method, which consists of recognizing Grupo Peñoles' share in the changes in the issuer's equity from net profit or loss and components of other comprehensive income generated after the acquisition date. Dividends received from the associated company are subtracted from the value of the investment. The consolidated statement of profit or loss reflects Grupo Peñoles' share of the associate's net profit or loss. In addition, the Company recognizes its share in the associate's components of other comprehensive income directly in equity under the caption corresponding to the type of other comprehensive income being recognized.

Gains and losses on transactions with associates are eliminated in the consolidated financial statements based on the equity interest held in each investee.

3. Consolidation (continued)

Significant subsidiaries

The significant subsidiaries are as follows:

100%-owned subsidiaries of the Company:

Subsidiary	Country	Functional currency (1)	% equity interest 31 December **2020**	2019
Minas Peñoles, S.A. de C.V.	Mexico	USD	**100**	100
Química Magna, S.A. de C.V.	Mexico	USD	**100**	100
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	Mexico	USD	**100**	100
Química del Rey, S.A. de C.V.	Mexico	USD	**100**	100
Minera Ciprés, S.A. de C.V.	Mexico	USD	**100**	100
Compañía Minera Sabinas, S.A. de C.V.	Mexico	USD	**100**	100
Minera Capela, S.A. de C.V.	Mexico	USD	**100**	100
Servicios Administrativos Peñoles, S.A. de C.V.	Mexico	Peso	**100**	100
Servicios Especializados Peñoles, S.A. de C.V.	Mexico	Peso	**100**	100
Bal Holdings, Inc.	USA (2)	USD	**100**	100
Fuerza Eólica del Istmo, S.A. de C.V.	Mexico	USD	**100**	100

(1) "USD" refers to the U.S. dollar; "Peso" refers to the Mexican peso
(2) United States of America

Subsidiaries with non-controlling interests

Subsidiary	Country	Primary activity
Fresnillo plc	England	Holding company whose subsidiaries are primarily engaged in the extraction and processing of mineral concentrates containing mostly silver and gold in Mexico. The subsidiary was incorporated under the laws of the United Kingdom and is publicly traded on the London Stock Exchange. This company is a 75%-owned subsidiary of Grupo Peñoles, the remaining 25% (non-controlling interest) is publicly traded.
Minera Tizapa, S.A. de C.V.	Mexico	Primarily engaged in the extraction and processing of mineral concentrates and zinc and silver. This company is a 51%-owned subsidiary of Grupo Peñoles, the remaining 49% (non-controlling interest) is held by Dowa Mining and Sumitomo Corporation.

An analysis of the Company's non-controlling interests in the net profit/(loss) and equity of its subsidiaries is as follows:

Subsidiary	**2020 %**	2019 %	Non-controlling interests in net profit/(loss) for the year **2020**	2019	Non-controlling interests in equity **2020**	2019
Fresnillo plc	**25**	25	**$ 92,179**	$ 51,089	**$ 996,366**	$ 914,045
Minera Tizapa	**49**	49	**32,817**	26,184	**65,376**	49,495
Other			**(1,011)**	(387)	**(3,557)**	(2,599)
			$ 123,985	$ 76,886	**$ 1,058,185**	$ 960,941

3. Consolidation (continued)

For the years ended 31 December 2020 and 2019, Exploraciones y Desarrollos Mineros Coneto, SAPI de C.V. and Minera Juanicipio, S.A. de C.V., both subsidiaries of Fresnillo PLC, increased their share capital and their contributions from non-controlling interests. These transactions were recognized as an increase of $53 and $53,257, respectively, in the caption Non-controlling interests in the consolidated statements of changes in equity.

An analysis of the condensed financial information before eliminations as at 31 December 2020 and 2019 of the significant subsidiaries with non-controlling interests is as follows:

Statement of financial position:

	2020		2019	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Assets:				
Current assets	**$ 2,000,869**	**$ 117,246**	$ 1,146,987	$ 59,815
Non-current assets	**3,671,193**	**95,791**	3,684,163	101,733
Total assets	**$ 5,672,062**	**$ 213,037**	$ 4,831,150	$ 161,548
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Current liabilities	**$ 339,831**	**$ 44,768**	$ 180,076	$ 25,068
Non-current liabilities	**$ 1,717,627**	**$ 30,371**	$ 1,372,355	$ 32,556
Total liabilities	**$ 2,057,458**	**$ 75,139**	$ 1,552,431	$ 57,624
Total equity	**$ 3,614,604**	**$ 137,898**	$ 3,278,719	$ 103,924
Total liabilities and equity	**$ 5,672,062**	**$ 213,037**	$ 4,831,150	$ 161,548
Dividends paid	**$ 104,686**	**$ 24,820**	$ 142,179	$ 94,671

Statement of comprehensive income:

	2020		2019	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Sales	**$ 2,430,055**	**$ 227,506**	$ 2,119,641	$ 199,703
Operating profit	**$ 649,683**	**$ 102,042**	$ 171,730	$ 77,073
Net profit	**$ 375,579**	**$ 67,097**	$ 205,814	$ 55,075
Components of other comprehensive income/(loss)	**$ 64,995**	**$(8,302)**	$ 34,084	$ 22
Comprehensive income	**$ 440,574**	**$ 58,795**	$ 239,898	$ 55,097

3. Consolidation (continued)

Statement of cash flows:

	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Net cash flows from operating activities	**$ 917,685**	**$ 86,548**	$ 435,909	$ 63,583
Net cash flows used in investing activities	**(366,101)**	**(35,378)**	(509,476)	(110,412)
Net cash flows from/(used in) financing activities	**182,255**	**432**	(150,642)	4,404
Net increase/(decrease) in cash and cash equivalents	**733,839**	**51,602**	(224,209)	(42,425)
Cash and cash equivalents at beginning of year	**336,576**	**27,141**	560,785	69,566
Cash and cash equivalents at end of year	**$ 1,070,415**	**$ 78,743**	$ 336,576	$ 27,141

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires the use of judgments, estimates and assumptions. These judgments, estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances at the valuation date, and on its past experience; however, actual results could differ from the reported amounts in the financial statements. Also, any changes that may occur in the assumptions and estimates could have a significant impact on the Company's consolidated financial statements.

Judgments

In 2009, five communal land owners (ejidatarios) associated with the communal land (ejido) called "El Bajío" in the State of Sonora, who claimed rights over certain surface land where the Company's subsidiary Minera Penmont, S. de R.L. de C.V. (Penmont) carries out its mining operations, submitted a legal claim before the Unitarian Agrarian Court (*Tribunal Unitario Agrario*) of Hermosillo, Sonora. In this suit, the ejidatarios are demanding Penmont to vacate the land. The land in dispute encompassed a portion of surface area where part of the operations of the Soledad & Dipolos mine are located. The litigation resulted in a definitive court order, with which Penmont complied by vacating 1,824 hectares of land, resulting in the suspension of operations at Soledad & Dipolos. Whilst the claim and the definitive court order did not affect the group's legal title over the mining concession or the ore currently held in leaching pads near the mine site, land access at the mine site is required to further exploit the concession at Soledad & Dipolos.

Penmont is the legal and registered owner of the land where the leaching pads are located but has not yet been able to gain physical access to these pads due to the opposition by certain local individuals. Penmont has a reasonable expectation that it will eventually regain access to the Soledad-Dipolos assets and process the ore content in the Soledad & Dipolos leaching pads. Therefore, in relation to the Soledad-Dipolos mines, Penmont continues to recognize property, plant and equipment of $ 35,900 and inventories of $ 91,620. Due to the fact that it is not yet certain when access may be granted to Penmont so that the inventory can be processed, this inventory is classified as a non-current asset.

Specific information on these judgments and estimates is disclosed in the description of the accounting policies and/or notes to the consolidated financial statements. A summary of the principal judgments and estimates used is shown below:

4. Significant Accounting Judgments, Estimates and Assumptions (continued)

a) Mineral reserves and resources

Grupo Peñoles applies judgments and makes estimates to calculate its mineral reserves and resources. These judgments and estimates are formulated using recognized mining industry methodologies and standards and the respective calculations are performed by qualified internal personnel and take into account the Company's past experience in similar matters. The reports supporting these estimates are prepared periodically. Grupo Peñoles reviews these estimates periodically with the support of recognized independent experts to obtain certification of its mineral reserves.

There are a number of uncertainties inherent to estimating mineral reserves. Assumptions considered valid at the time the estimate is made may change significantly when new information becomes available. Changes in metal prices, exchange rates, production costs, metallurgical recovery provisions and discount rates could alter the value of a given mineral reserve and result in the need to restate such value.

Mineral reserves are used to determine production units for purposes of calculating the depreciation of certain mining properties, as well as to calculate the decommissioning provision and to analyze the impairment of mining units.

b) Impairment

The carrying value of non-financial long-lived assets are tested for impairment when there are situations or changes in circumstances that indicate that the carrying value of a given asset is not recoverable. Whenever there are indicators of impairment, the carrying value of the asset is assessed to determine if it exceeds the recoverable amount, which is the higher of the cash generating unit´s (CGU) fair value less cost of disposal and value in use of the asset and if the asset is therefore impaired. For this impairment evaluation, assets are grouped into cash generating units and the recoverable amount of the corresponding CGU is calculated as the present value of the future cash flows expected to be produced by the assets. When the recoverable amount of an asset or the CGU to which it belongs is less than its net carrying amount, the difference is recognized as an impairment loss.

Grupo Peñoles allocates its mining units and metallurgical plants to cash generating units comprised of the different mining units and estimates the projection periods for the cash flows to be generated by each unit. Subsequent changes in cash generating unit allocations or changes in the assumptions used to estimate cash flows or the discount rate could affect the recoverable amounts and therefore the reported carrying amounts of the respective assets.

c) Property, plant and equipment

Depreciation of property, plant and equipment, except for certain mining properties, is determined based on the useful lives of the assets. Useful lives are determined based on technical studies performed by specialized internal personnel with the assistance of independent specialists. The Company's useful lives are reviewed at least annually, and such analyses consider the current condition of the assets and the estimate of the period during which they will generate economic benefits for the Company. Changes in these estimated useful lives could prospectively alter depreciation amounts and the carrying amounts of property, plant and equipment.

d) Provision for asset decommissioning and rehabilitation

The Company records the present value of estimated costs of legal and constructive obligations required to rehabilitate operating locations in the period in which the obligation is incurred. Estimated rehabilitation costs include the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the cost incurred for rehabilitation, reclamation and re-vegetation of affected areas.

4. Significant Accounting Judgments, Estimates and Assumptions (continued)

Provisions for asset decommissioning and rehabilitation are recognized at present value at the time the obligation becomes known and provision amounts are calculated based on management's understanding of the related legal requirements and the Company's corporate social responsibility policies. Environmental costs are also estimated by the Company's own internal specialists with the support of studies performed by independent experts. Generally speaking, management applies its judgment and experience to estimate decommissioning and rehabilitation costs over the life of each mine.

The costs incurred in future periods may be different from the amounts provided for. Also, the book value of the provision could eventually be affected by future changes in the applicable legislation and regulatory requirements, as well as changes to the estimated useful lives of the Company's mines or the discount rates.

The assumptions used in calculating the provisions for the mining unit decommissioning and rehabilitation costs are regularly reviewed based on internationally recognized standards, which require mine closure processes to be carried out. The discount rate is also adjusted to reflect the obligations for ecological restoration at their present value, based on current market interest rates.

e) Retirement benefits

Assumptions are used to calculate the Company's employee long-term retirement benefits. Assumptions, as well as the estimates they give rise to, are determined together with independent actuaries. The assumptions cover demographical hypothesis, discount rates, expected salary increases and estimated working lives, among other areas. Future changes to the assumptions could affect the measurement of the liabilities for personnel benefits and the operating results of the period in which such changes occur.

f) Mining project development

Grupo Peñoles evaluates the status of its various mine development projects, which covers exploration to locate new mineral deposits, and the development and construction of new mining units through the startup of commercial exploitation of the mines. Grupo Peñoles makes judgments and prepares estimates to determine when a project has completed the mineral exploration phase and entered the development phase, and when it has finally reached the production and exploitation phase.

The criteria and estimates used in this evaluation include the determination of a large enough mineral reserve to support the financial viability of a mining project, which represents the completion of the exploration phase and the beginning of the development stage, as well as the level of additional capital investment needed for the project, the amount of the investment already made in the project and the completion of the mine and processing plant testing periods, among other areas. Determining the completion of the different phases of a project has a significant impact on how development costs are accounted for, since during the exploration phase, these costs and expenses are recognized directly in the consolidated statement of profit or loss, during the development stage they are capitalized, and once the production phase is authorized, development costs and expenses are no longer capitalized. See Note 6s.

g) Contingencies

Given their nature, contingencies are only resolved when one or more future events or uncertain facts not entirely under Grupo Peñoles' control either occur or do not occur. The evaluation of the existence of contingencies requires significant judgment and the use of estimates regarding the outcome of future events. The Company evaluates the probability of losing its on-going litigations based on the estimates of its legal advisors and these evaluations are reassessed periodically.

4. Significant Accounting Judgments, Estimates and Assumptions (continued)

h) Subsidiaries with non-controlling interests

For subsidiaries with non-controlling interests, the Company assesses different aspects of the investee to determine whether Grupo Peñoles has control over the investee and the power to direct its relevant activities, thus giving it the right to variable returns from its involvement with the investee.

i) Leases

Group Peñoles (as lessee) determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension options. Grupo Peñoles applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew and considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Company included the renewal period as part of the lease term for certain leases of plant and machinery.

Right-of-use assets are depreciated from the commencement date to the end of their useful life or to the end of the lease term. If the ownership of the underlying asset is transferred to the lessee at the end of the lease term or the cost of the right-of-use asset reflects the exercise of a purchase option, depreciation is calculated from the commencement date to the end of the useful life of the underlying asset.

Lease liabilities are measured at the present value of lease payments to be made over the lease term. Lease payments are discounted at the incremental borrowing rate of the lessee. Subsequently, lease liabilities are measured using the effective interest rate (EIR) method and are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities are remeasured if there is a lease modification or reassessment. The weighted average incremental borrowing rate applied to lease liabilities was 6.34%.

5. Changes in Accounting Policies

New standards, interpretations and amendments

The following amendments are effective for annual periods beginning on or after 1 January 2020:

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the Company's consolidated financial statements, but may impact future periods should the Company enter into any business combinations.

5. Changes in Accounting Policies (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the Company's consolidated financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based upon those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the Company's consolidated financial statements.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 *Leases* The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification on or before 30 June 2021. Instead, lessors are required to assess whether rent concessions are lease modifications. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. This amendment had no impact on the Company's consolidated financial statements.

6. Summary of Significant Accounting Policies

A summary of the accounting policies used in the preparation of the financial statements is found below. These polices have been applied consistently in all the periods presented in the accompanying consolidated financial statements.

6. Summary of Significant Accounting Policies (continued)

a) Foreign currency translation

Functional currency

The functional currency of each consolidated entity is determined based on the currency of the primary economic environment in which each entity operates. Except for certain subsidiaries that are currently not operating or are service providers, the functional currency of all of the entities of Grupo Peñoles is the U.S. dollar.

Translation to the reporting currency

The following methodology was used to translate the subsidiaries' financial statements whose functional currency is different to Grupo Peñoles' functional currency:

- Monetary and non-monetary assets and liabilities are translated at the closing exchange rate of each reported consolidated statement of financial position date.

- Revenue, cost and expense items in the consolidated statement of profit or loss are translated using the average exchange rate of the period, unless such rates fluctuate significantly during the period, in which case the transactions are translated at the prevailing exchange rate on the transaction date.

- Equity accounts are measured at the historical exchange rates on the dates the capital contributions were made or the revenues were generated.

- Cumulative translation adjustments are recognized in other comprehensive income.

Foreign currency transactions

Transactions undertaken in currencies other than the entity's functional currency are translated using the exchange rate at the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated using the exchange rate at the reporting date. These translation adjustments are carried directly in the consolidated statement of profit or loss.

The exchange rates used in the preparation of the accompanying consolidated financial statements were as follows:

	2020	2019
Exchange rate as at 31 December (Mexican pesos per U.S. dollar)	**19.95**	18.85
Average exchange rate (Mexican pesos per U.S. dollar)	**21.50**	19.26

b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position include cash in hand, cash in banks and highly liquid investments with maturities of less than three months, which are easily convertible into cash, have a low exposure to risk of changes in their value and the cash amount to be received can be reliably known. Short-term deposits bear interest at market rates.

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of the cash and cash equivalents defined above, net of bank overdrafts pending collection.

6. Summary of Significant Accounting Policies (continued)

c) Financial assets

Grupo Peñoles classifies its financial assets into the following categories:

- Financial assets at amortized cost

- Financial assets at fair value through other comprehensive income (OCI), and

- Financial assets at fair value through profit or loss.

The classification is based on two criteria: the Company's business model for managing the assets and the contractual cash flows of the assets.

For financial assets measured at fair value, gains and losses are recognized through profit or loss or OCI. The classification of investments in not held-for-trading equity instruments will depend on whether upon initial recognition the Company elected to classify irrevocably its equity investments as equity instruments designated at fair value through OCI.

The Company reclassifies its debt instruments only when its business model for managing these financial assets changes.

Purchases or sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

Grupo Peñoles initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the purchase of the financial asset. Transaction costs of financial assets at fair value through profit or loss are recognized directly in profit or loss.

Financial assets that contain embedded derivatives are fully recognized when it is determined that their cash flows are solely payments of principal and interest.

Debt instruments are subsequently measured depending on the business model for managing the asset and the characteristics of its cash flows. There are three measurement categories into which debt instruments can be classified.

Financial assets at amortized cost

Financial assets that are held to collect contractual cash flows are recognized at amortized cost when such cash flows meet the criteria for being considered solely payments of principal and interest (SPPI). Interest income from these financial assets is included as part of Finance income and is calculated using the effective interest rate (EIR) method. Exchange differences arising on financial assets at amortized cost that are not part of a hedging relationship are recognized in profit or loss under Foreign exchange (loss)/gain. Any gain or loss arising from the derecognition of a financial asset is recognized directly in profit or loss. Amortized cost is reduced for impairment loses, which are presented as a separate line item in the consolidated statement of profit or loss.

The Company's financial assets at amortized cost mainly consist of trade receivables (except for trade receivables measured at fair value through profit or loss).

6. Summary of Significant Accounting Policies (continued)

Financial assets at fair value through OCI with recycling of cumulative gains and losses

Financial assets that are held to collect contractual cash flows that meet the criteria for being considered solely payments of principal and interest (SPPI) and are held within a business model with the objective of selling the financial asset are recognized at fair value through OCI. Changes in the fair value of financial assets are recognized in OCI, except for impairment losses, interest income calculated using the EIR method and foreign exchange gains and losses, which are recognized in profit or loss. Upon derecognition of a financial asset, any cumulative gain or loss previously recognized in OCI is reclassified to profit or loss. Interest income from these financial assets is recognized under Finance income. Foreign exchange gains and losses are recognized under Foreign exchange (loss)/gain and impairment losses are presented as a separate line item in profit or loss.

Equity instruments at fair value through OCI with no recycling of cumulative gain and losses upon derecognition

Grupo Peñoles has listed equity investments that are not held for trading under the business model applied and it thus elected to classify these equity investments irrevocably as equity instruments at fair value through OCI. These investments were classified on an instrument-by-instrument basis.

Unrealized gains and losses resulting from equity instruments are recognized directly in OCI and will never be recycled to profit or loss. Dividends are recognized as Other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria to be recognized at amortized cost or at fair value through OCI are measured at fair value through profit or loss. Gains and losses arising from debt instruments that are subsequently measured at fair value through profit or loss are recognized in profit or loss and the net amount is presented under Finance income in the period in which they occur.

Changes in the fair value of financial assets at fair value through profit or loss are recognized under Finance income in the statement of profit or loss, as applicable.

Derivative financial instruments that are not designated as hedging instruments are recognized at fair value through profit or loss.

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from these assets have expired or have been transferred and when substantially all the risks and rewards of the asset have been transferred.

d) Impairment of financial instruments

Grupo Peñoles recognizes an allowance for expected credit losses (ECLs) for all of its debt instruments measured at amortized cost and at fair value through OCI, except for the equity instruments irrevocably classified as equity instruments at fair value through OCI.

Lifetime ECLs are recognized according to the simplified approach permitted under IFRS 9 *Financial Instruments*. ECLs of an asset are recognized before the instrument is in default. In order to determine the credit risk, the Company uses the historical default rates over the expected life of its trade receivables, which are then adjusted based on forward-looking estimates taking into consideration the most relevant macroeconomic factors affecting their collectability.

6. Summary of Significant Accounting Policies (continued)

For financial assets carried at amortized cost, the amount of the ECL is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

e) Derivative financial instruments

Hedging derivatives

Grupo Peñoles uses hedging derivatives to reduce certain market risks related to changes in metal prices, energy costs, exchange rates, interest rates, and the value of its financial assets and liabilities.

Grupo Peñoles' transactions with derivatives are limited in volume and confined to risk management activities. The Company's senior management takes an active part in the analysis and monitoring of the design, performance and impact of the Company's hedging strategies and transactions with derivatives. Hedges are also designed to protect the value of expected mining-metallurgical-chemical production against the dynamic market conditions.

All derivative financial instruments are recognized as financial assets and liabilities and stated at fair value.

The Company documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

This documentation includes the identification of the derivative financial instrument, the item or transaction being hedged, the nature of the risk being hedged and the method that will be used to evaluate whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedges should be highly effective in neutralizing the effects of fluctuations in the fair value or cash flows and they are constantly evaluated to determine whether they are actually effective throughout the reporting periods to which they have been assigned. Hedges that meet the criteria are recognized as explained below.

Cash flow hedges

For derivatives that are designated and qualify as cash flow hedges (forwards and swaps), the gain or loss from the effective portion of changes in fair value is recorded as a separate component in equity and is carried to the consolidated statement of profit or loss at the settlement date, as part of either the sales, cost of sales or finance income and cost caption. The ineffective portion of changes in the fair value of cash flow hedges is recognized in the consolidated statement of profit or loss as part of finance costs.

If the hedging instrument matures or is sold, terminated or exercised without being replaced or if its designation as a hedge is revoked, the cumulative gain or loss recognized directly in equity as of the effective date of the hedge remains in equity and is recognized when the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately carried to profit or loss.

Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying item. The derivative instrument is divided into a short-term portion and a long-term portion only if the two portions can be determined reliably.

6. Summary of Significant Accounting Policies (continued)

Fair value hedges

The Company's derivatives, which it acquires primarily as hedges for its metal inventories or firm purchase commitments, are designated as fair value hedges. Changes in the fair value of the Company's fair value hedges are recognized in profit or loss, along with the changes in the fair value of the item being hedged or attributable to the risk being hedged. The primary objective of the Company's fair value hedging strategy is to offset changes in the value of its metal inventories.

Embedded derivatives

The Company's financial and non-financial agreements, other than those classified as assets under IFRS 9 *Financial Instruments*, are evaluated to determine whether they contain embedded derivatives. Embedded derivatives are separated from the host contract and are recorded at their fair value if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract or a separate instrument with the same terms, the embedded derivate meets the definition of derivative and is not recognized at fair value through profit or loss.

Embedded derivatives that are separated from the host contract are recognized according to the applicable financial reporting standards.

f) Fair value measurement

Grupo Peñoles measures its financial instruments at fair value on each reporting date. The fair values of the financial instruments measured at amortized cost are disclosed in Note 38.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

- The principal or the most advantageous market must be accessible by Grupo Peñoles.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

6. Summary of Significant Accounting Policies (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For fair value disclosures, Grupo Peñoles has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Note 38 provides further information on fair values.

g) Inventories

Inventories are valued at the lower of cost or net realizable value, as follows:

Inventories of minerals, concentrates and doré are recognized at production cost, which includes direct costs and an appropriate portion of the fixed and variable general expenses, including depreciation and amortization incurred for the mineral extraction and concentration of the metals contained in such. Mineral concentrate and doré purchases are recognized at cost, plus direct purchasing expenses.

Inventories of refined metals and production in process include the mine production costs and/or mineral and concentrate acquisition costs, plus the treating and refining costs, which are recognized in proportion to the percentage of completion of their transformation to refined metal. Inventories of metal byproducts and free metals obtained from the treatment and refining process are recognized at their estimated realizable value.

As indicated in Note 38, the Company's fair value hedges acquired to hedge the value of certain refined metal inventories or inventories under firm purchase commitments are measured at fair value. Consequently, metal inventories being hedged are measured at their fair value and subsequent changes in fair value are recognized in the consolidated statement of profit or loss, with this effect being offset by the effects of the fair value valuation of the derivative financial instruments.

Costs are determined using the weighted average cost method.

The net realizable value of inventories is their estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Operating materials and spare part inventories are recorded at weighted average cost less the impairment loss from slow-moving and obsolete inventories. A periodic review is performed to determine the impairment loss in inventory.

6. Summary of Significant Accounting Policies (continued)

h) Prepaid expenses

Prepaid expenses are recognized at the time the expense is paid and based on the actually paid amount. Prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

The Company periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability. Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss.

i) Property, plant and equipment

Property, plant and equipment is initially measured at cost. The cost includes the purchase price and any other costs directly attributable to refurbishing and getting the asset ready for use.

Depreciation and depletion are calculated on the asset's acquisition cost, less the residual value of the property, plant and equipment throughout their useful lives or the waiting period in which the benefits of their use will be received. Depreciation begins when the asset is available for use, on the following bases:

- Metallurgical, chemical and industrial plants are depreciated on a straight-line basis at annual rates determined based on the useful lives of the related assets.

- Mining concessions and construction, pre-operating expenses, facilities and processing plants are depreciated based on a depletion factor calculated by dividing the tonnage of ore extracted during the year by the total mineral reserves of the mine where the asset is located, except when the useful life of an asset is less than the life of the mine, in which case they are depreciated on a straight-line basis. The useful lives of certain land at mining units are limited to the time over which the Company will obtain economic benefits from the mining units; this land is amortized over the same period.

- Other equipment is depreciated on a straight-line basis at an annual rate of 10%.

An analysis of the average weighted remaining useful lives is as follows:

	No. of years
Mining properties	9
Metallurgic and chemical plants	9
Buildings and land	8 and 10
Other assets	5

Decommissioning and rehabilitation

The present value of the initial estimate of the obligation to decommission and rehabilitate mining sites is included in the cost of the mining properties and any adjustments to such obligation resulting from changes in the estimated cash flows needed to cover the obligation at the end of the useful life of the mining unit are accounted for as additions to or reductions from investments in mining units in the property, plant and equipment caption.

Mine properties, mine development and stripping costs

Mine properties and mine development and stripping costs are recognized at cost less accumulated depletion and, when applicable, impairment losses.

6. Summary of Significant Accounting Policies (continued)

Purchases of mineral resources and mineral reserves are recognized as assets at cost or at fair value if they were acquired as part of a business combination.

The initial cost of a mining property includes construction costs, all costs directly related to getting the property ready for operation and the initial estimated cost of the decommissioning provision.

When an exploration prospect has entered the advanced exploration stage and there is sufficient evidence of probable economic mineral reserves, the costs associated with getting the mine ready for operations are capitalized as mine development costs.

Revenue earned on the sale of metal from the minerals extracted in the development stage prior to commercial production is recognized as a deduction from the mine property costs and development costs.

At the beginning of production, capitalized costs and expenses are depreciated using the units-of-production method based on estimates of the related proved and probable mineral reserves.

Costs directly and indirectly attributable to stripping activities for surface mines, which includes the removal of overburden and other waste to gain access to mineral ore deposits, are recognized as an asset for each identifiable ore body at the time improved access to the ore body is achieved and it is probable that the future economic benefits associated with the stripping activity will flow to the entity during the mine’s production phase.

When the stripping activity includes the removal of materials to improve access to the ore body as well as mineral extraction activities so that the costs of the stripping activity asset and the inventory produced are not separately identifiable, production stripping costs are allocated between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place.

After the initial recognition of a stripping asset, it is subsequently recognized in the consolidated statement of financial position at cost, less depreciation or amortization and any impairment loss.

Depreciation of stripping costs is calculated based on the mine’s depletion rate, which is calculated by dividing the number of tons of extracted ore by the number of tons of mineral reserves of each ore body associated with the stripping costs.

Assets under construction

Assets under construction include property, plant and equipment items. Once construction is complete, these assets are reclassified to property, plant and equipment and depreciation begins as of the date they are capitalized, which is when their period of use begins.

Sale and retirement of assets

Property, plant and equipment items are retired or sold when the Company no longer expects to receive future economic benefits from them. The gain or loss on the sale or retirement of an asset is calculated as the difference between an asset’s net selling price and its net carrying amount and is recognized in the consolidated statement of profit or loss.

6. Summary of Significant Accounting Policies (continued)

Maintenance and repairs

Major repairs are capitalized if the related recognition criteria are met, while at the same time the carrying values of the parts being replaced are cancelled. All other expenses, including repairs and maintenance, are recognized in the consolidated statement of profit or loss as they are incurred.

Borrowing costs

Borrowing costs directly related to the acquisition, construction or production of qualifying assets, which are assets requiring a substantial period, usually twelve months or more, to get them ready for use, are added to the cost of the assets throughout their construction phase until operation and/or exploitation of the asset begins. The interest obtained on temporary investments of borrowed funds that have yet to be used for the construction of the corresponding qualifying assets are deducted from the costs of capitalized loans.

j) Leases

Lease contracts as defined by IFRS 16 *Leases* are recognized in the consolidated statement of financial position, which results in the recognition of an asset that represents the right to use the underlying asset during the lease term and a liability related to the payment obligation.

Right-of-use asset measurement

At the commencement date, the right-of-use asset is measured at cost and includes:

- The amount of lease liabilities recognized and lease payments, if any, made at or before the commencement date less any lease incentives received;

- If applicable, any initial direct costs incurred by the lessee in obtaining the contract. Initial direct costs are incremental costs that would not have been incurred if the lease had not been obtained; and

- The present value of the estimated costs incurred in restoring and dismantling the underlying asset according to the contract terms.

After initial recognition, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease liability measurement

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term.

Lease liability measurement includes the following lease payments:

- Fixed payments, including variable payments that are fixed in substance as they are unavoidable;

- Variable lease payments that depend on an index or a rate and that are initially measured using the index or rate ruling at the commencement date;

- Amounts expected to be paid by the lessee under residual value guarantees;

6. Summary of Significant Accounting Policies (continued)

- The exercise price of a purchase option reasonably certain to be exercised by the lessee; and

- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate.

Lease liabilities are subsequently measured using a process similar to the amortized cost method and the application of a discount rate and are increased to reflect the accretion of interest resulting from the lease liability discount at the beginning of the period, less any lease payments made. Variable payments that are not considered in the initial measurement and that are incurred during the period are directly recognized in profit or loss.

Lease liabilities may be remeasured in the following situations: i) change in the lease term; ii) modification related to the assessment of the reasonably certain nature (or not) of the exercise of an option; iii) remeasurement related to the residual value guarantees; and iv) adjustment to the rates and indexes used to calculate the rent at the time the rent adjustments occur.

k) Intangible assets

Intangible assets are recognized if, and only if, it is probable that the future economic benefits associated with the intangible asset will flow to the Company and the cost of the asset can be reliably measured.

Intangible assets with finite useful lives are valued at cost less accumulated amortization and impairment losses. Amortization is recognized based on the estimated useful life of the intangible, on a straight-line basis.

Intangible assets with finite useful lives consist of software licenses. The Company has no intangible assets with indefinite useful lives.

l) Impairment of non-financial long-lived assets

The carrying amount of non-financial long-lived assets is tested for impairment when there are situations or changes in circumstances that indicate that the asset's carrying amount is not recoverable. At each reporting date, non-financial long-lived assets are tested to determine whether there are indicators of impairment.

If there are indicators of impairment, a review is conducted to determine whether the carrying amount exceeds the recoverable amount of the asset and it is impaired. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, an impairment loss is recognized by reducing the carrying amount of the asset in the consolidated statement of financial position to the asset's recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the higher of either its value in use or fair value less its cost to sell. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing value in use, estimated future 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 each asset. For an asset that does not generate cash flows independently from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. Cash generating units are the smallest identifiable groups of assets that generate cash flow that is independent from the cash flow attributable to other assets or groups of assets.

6. Summary of Significant Accounting Policies (continued)

Grupo Peñoles bases its impairment calculation on detailed budgets and forecast calculations, including mine plans, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. The recoverable amount of property, plant and equipment is based on the value in use of cash generating units calculated by discounting the present value of future cash flows based on projections, forecasts and expectations that are approved by management for periods of more than four years. The estimated future cash flows are discounted to their present value using a pre-tax discount rate.

At each reporting date, an evaluation is performed to determine whether there are any changes in the circumstances and estimates that would mean that previously recognized impairment no longer exists or should be reversed. If so, the carrying amount of the asset is increased to the asset's recoverable amount and the effects of this reassessment are recognized in the consolidated statement of profit or loss. The new carrying amount is limited to the carrying amount that would have been determined for the asset, net of any depreciation, if no impairment had been recognized in prior years.

m) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value, and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities include accounts payable to suppliers and other accounts payable, Financial debt and loans and derivative financial instruments.

Subsequent measurement of financial liabilities depends on their initial classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities held for trading are recognized at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred with the purpose of being repurchased in the near future. Grupo Peñoles also recognizes derivatives not designated as hedges at fair value through profit or loss.
Financial liabilities are recognized at fair value, and any change in the fair value is directly recognized in profit or loss.

Financial liabilities at amortized cost

This category applies to all financial liabilities other than those measured at fair value through profit or loss. Grupo Peñoles also recognizes its bonds and debentures, bank loans, accounts payable to suppliers and other accounts payable at amortized cost.

Financial liabilities at amortized cost are measured using the EIR method by taking into consideration any transaction costs and recognizing the interest expense on the basis of the effective interest rate. Non-interest-bearing trade and other short-term payables are stated at nominal value since this value does not significantly differ from their fair value.

6. Summary of Significant Accounting Policies (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

n) Provisions

Provision for decommissioning and rehabilitation

The Company records the present value of estimated costs of legal and constructive obligations required to rehabilitate mining units in the period in which the obligation is incurred. Estimated rehabilitation costs include the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the cost incurred for rehabilitation, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed, or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets, provided they give rise to a future economic benefit. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect the time value of money and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of profit or loss as a finance cost.

Changes to estimated future costs are recognized in the consolidated statement of financial position by either increasing or decreasing the decommissioning liability and asset to which it relates. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of profit or loss.

Decommissioning and rehabilitation assets are depreciated over the estimated production period of the mining unit where they are located. Depreciation is recognized in the consolidated statement of profit or loss as part of the Cost of sales caption.

Other provisions

Provisions are recognized when Grupo Peñoles has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provision amounts are determined as the present value of the expected outflow of resources to settle the obligation. The provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the consolidated statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

o) Dividends

Dividends payable to the shareholders of Grupo Peñoles are recognized as a liability at the time they are declared and authorized, or when the shareholders delegate the authorization of the amount of a dividend to another body. Dividends payable to the holders of non-controlling interests are recognized as a liability when they are declared by the shareholders or partners of the subsidiaries with shareholders or partners with non-controlling interests.

6. Summary of Significant Accounting Policies (continued)

p) Employee benefits

Short-term employee benefits

Liabilities for employee benefits are recognized in the consolidated statement of profit or loss on an accrual basis considering the wages and salaries that the entity expects to pay at the date of the consolidated statement of financial position, including the related taxes that will be payable by Grupo Peñoles. Paid absences and vacation premiums are expensed as the benefits accrue.

Defined benefit plan

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method based on the earnings of employees and their years of service. The actuarial valuation is prepared by an independent actuarial firm at each year end. The liability is recognized at present value using a discount rate that represents the yield at the reporting date on credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The remeasurement of liabilities related to defined benefit plans consist of actuarial gains and losses and the return on plan assets. Such actuarial gains and losses are recognized immediately in equity as components of other comprehensive income, and all expenses related to the defined benefit plans are recognized in profit or loss of the period.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Seniority premiums

In accordance with Mexican labor law, the Company is required to pay a premium equal to 12 days' salary for each year of service to its outgoing employees who have rendered 15 or more years of service.

The cost of benefits related to seniority premiums payable upon voluntary retirement of unionized employees is calculated using the projected unit credit actuarial valuation method. Defined benefit plan seniority premiums payable to non-unionized employees are funded through the defined benefit plan.

Defined contribution plan

The defined contribution plan is an employee retirement benefit plan to which Grupo Peñoles pays a fixed contribution but has no obligation to pay in any subsequent amounts. The Company's obligations in respect of contributions payable under the defined contribution pension plan are recognized in the consolidated statement of profit or loss as employee benefit expenses at the time the contributions become payable. Contribution amounts are determined based on the employee's salary.

6. Summary of Significant Accounting Policies (continued)

Termination benefits

Employee termination benefits for involuntary retirement or dismissal are recognized in the consolidated statement of profit or loss of the year in which such payments are made or whenever the Company's obligation to pay such amounts can be reliably demonstrated and when the Company recognizes restructuring costs according to IAS 37 *Provisions*, and the restructuring involves the payment of termination benefits.

Employee profit sharing

In accordance with Mexican legislation, Grupo Peñoles must distribute the equivalent of 10% of its annual taxable profit as employee profit sharing. This amount is recognized in the consolidated statement of profit or loss.

q) Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is computed using the balance method, based on temporary differences between carrying amounts for financial reporting and tax basis values of assets and liabilities at the reporting date.

The tax rates and tax laws used to calculate deferred income tax are those that are enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the controlling company, the investor or venturer can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and for the amortization of unused tax credits and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset related to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, the deferred tax asset does not affect either the book income or taxable profit or tax loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred income tax assets to be realized either partially or in full.

6. Summary of Significant Accounting Policies (continued)

Deferred income tax assets and deferred income tax liabilities are offset, only if the Company has a legally enforceable right to do so and if the assets and liabilities derive from income tax corresponding to the same tax authority.

Current and deferred income tax corresponding to other components of comprehensive income or loss recognized directly in equity is recognized directly in equity rather than in earnings.

Grupo Peñoles has assessed whether there is uncertainty over the appropriate income tax treatment, considering (i) any uncertain tax treatment taken, (ii) the assumptions it made about the examination of tax treatments by taxation authorities, (iii) how it determined the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) how it considered changes in facts and circumstances.

Special tax for mining companies

Grupo Peñoles recognized deferred assets resulting from the temporary differences between the carrying amount and tax basis of its assets and liabilities related to the calculation of the special tax for mining companies, since this special tax is calculated on the basis of the Company's earnings, in accordance with applicable tax laws. See Note 21.

r) Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which Grupo Peñoles expects to be entitled in exchange for transferring goods to a customer and once Grupo Peñoles has satisfied the performance obligations of its sales agreements.

Revenue from the sale of goods is recognized when the control of the related goods has been transferred to the buyer, which generally occurs at the time ownership of the product is physically transferred to the customer and collection of the related accounts receivable is reasonably assured. The performance obligations of Grupo Peñoles consist in the sale of products and freight services, both are considered a single performance obligation within the context of the contract and the revenue is recognized at the same point in time.

The prices of refined metals are essentially determined by international prices, to which a premium is added, depending on the region where the products are sold, as well as the specific market conditions of the region in question.

Certain provisional pricing arrangements, primarily for the sale of concentrates, include future spot price adjustments to be determined after shipment of the product to the customer, and adjustments based on final assay results of the metal in concentrate originally determined by Grupo Peñoles. The revenue from sales under these agreements is recognized at the a point in time when the control of the related goods is transferred to the buyer according to the agreed conditions and is measured using a provisional pricing and the most recent estimate of metal in concentrate (based on initial assay results).

For these provisional pricing arrangements, any future changes that occur over the quotation period are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15.These provisionally priced trade receivables are measured at fair value through profit or loss at each reporting date through the end of the quotation period based on the selling price for the quotation period stipulated in the base agreement. The forward sales price of the metals can be reliably determined, as long as such metals continue to be sold in international markets. The unrealized gain or loss on agreements with forward prices is recognized in the consolidated statement of profit or loss. The subsequent adjustment to the initial estimate of metal in concentrate is also recognized in profit or loss after such estimate is determined based on final assay results, the conditions of the agreement have been met and the payment terms have been agreed on. The period between provisional invoicing and the end of the quotation period can be between one and four months.

6. Summary of Significant Accounting Policies (continued)

As discussed above, the nature of the pricing terms is such that depending on the future market price and the length of the quotation period at contract inception, all consideration is considered variable, and will be recognized using the variable consideration allocation exception. This variable consideration is subject to constrain.

Grupo Peñoles acts as a principal in its revenue contracts because it typically controls the goods before transferring them to the customer.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Grupo Peñoles does not have any contract assets nor any contract liabilities.

Interest income is recognized as it accrues using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

s) Mine exploration and development costs and expenses

Exploration includes the search for mineral resources, the determination of the mine's technical feasibility, and the assessment of the commercial viability of identified resources. These costs and expenses are recognized in the following captions:

- Exploration expenses. The expenses incurred exploring for new deposits, including, among others, drilling, sample testing and pre-viability studies, are recognized in the consolidated statement of profit or loss at the time it is sufficiently probable that the mineral reserves of the specific project will be economically recoverable, and a feasibility study is performed. Also, expenses incurred to increase mineral reserves in areas near existing mines are recognized in the consolidated statement of profit or loss.

- Assets under construction. Exploration costs incurred in the development of a mine through its start-up of operations are capitalized. These costs include the construction of mine infrastructure and work carried out prior to the start-up of operations of the mine.

- Mining properties. The costs incurred in developing new areas of exploitation in mining units in operation are recognized as part of mining properties and are amortized over the period in which the benefits will be obtained.

6. Summary of Significant Accounting Policies (continued)

- Cost of sales. Development expenses for deposits in operation for purposes of maintaining production volumes are recognized in the consolidated statement of profit or loss as part of production costs.

t) Contingencies

Contingent liabilities are disclosed only when the likelihood of loss is remote.

Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements whenever the possibility of receiving economic benefits from the contingent asset is probable.

u) Changes in accounting standards

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations when they become effective. Grupo Peñoles does not expect that the adoption of these new and amended standards and interpretations will have a significant effect on its consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories.*

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

6. Summary of Significant Accounting Policies (continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-Current.

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the cost of fulfilling a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively and is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

7. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM) who is also the Company's Chief Executive Officer. The Company is organized into business units based on its products.

The CODM monitors the operating results of the business units separately with the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the Group's consolidated financial statements. In addition, the Group's financing and income taxes are managed at the corporate level and are not allocated to the operating segments, except for those entities, which are managed independently.

7. Segment Information (continued)

The Company’s operations in the mining-metallurgical industry consist of the extraction and processing of minerals, and the smelting and refining of non-ferrous metals. The extraction and processing of minerals primarily produces lead, zinc and doré concentrates, which are treated and refined in a metallurgical complex to obtain refined metals. The Company’s metallurgical business is conducted through its subsidiary Metalúrgica Met-Mex Peñoles (Met-Mex). The metallurgical complex, known as “Met-Mex”, receives mineral concentrates and doré from related and independent mining companies to treat, process, and refine them to obtain finished products, primarily silver, gold, zinc and lead, for their subsequent sale. Based on the business activities described above, Grupo Peñoles has divided its operations into the following operating segments:

Precious metal mines

This segment includes the mining units where silver and gold minerals are extracted and processed. Other activities related to this segment include prospecting and exploring new deposits and developing mining units for future mining operations. The equity interest in the business units of this segment is held by the subsidiary Fresnillo plc, which is a company located in the United Kingdom whose shares are traded on the London Stock Exchange in England. Practically, all the concentrates and doré produced by this segment are sent to Met-Mex metallurgical complex.

Base metal mines

This segment groups mineral exploration, extraction and processing to obtain concentrates of zinc, lead and copper. Zinc and lead concentrates are sent to Met-Mex for treatment and refining primarily to obtain refined zinc and lead. The copper concentrates are sold to metallurgical companies abroad that are not related parties.

Metallurgical

The metallurgical segment involves treating and refining the concentrates and dorés received from the precious metals and base metals business. The activities of this segment are performed in two main metallurgical plants: a) an electrode plant that produces zinc cathode; and b) the smelting-refining plant that primarily produces refined silver and gold (mostly presented in bars), as well as molded lead. The plants also process precious metals and base metals from non-related parties and this segment represents approximately 30% of production. The refined metals, which are mostly silver, gold, lead and zinc, are sold in Mexico and abroad, primarily in the United States through the subsidiary Bal Holdings, as well as in Europe and South America.

Other

This segment consists primarily of the following operations: a) the production and sale of chemical products, primarily sodium sulfate, and b) entities that provide administrative and operating support activities. These operations do not meet the criterion for segment reporting under IFRS 8 *Operating Segments*.

The accounting policies used by the Company in reporting segments internally are the same as those contained in the notes to the consolidated financial statements.

The financial performance of the different segments is measured by the CODM using a net profit/loss approach.

7. Segment Information (continued)

An analysis of segment information as at and for the year ended 31 December 2020 is as follows:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and Reclassifications	Total
Third-party sales	$ -	$ 343,148	$ 4,197,296	$ 167,364	$(34,499)	$ 4,673,309
Intra-group sales	2,430,055	650,593	26,941	358,750	(3,466,339)	-
Total sales	2,430,055	993,741	4,224,237	526,114	(3,500,838)	4,673,309
Cost of sales	1,550,689	735,469	4,049,099	133,633	(3,044,547)	3,424,343
Gross profit	879,366	258,272	175,138	392,481	(456,291)	1,248,966
Administrative expenses	93,407	110,703	111,366	252,135	(317,942)	249,669
Exploration expenses	107,328	34,900	195	6,242	(7,627)	141,038
Selling expenses	24,106	39,639	26,811	26,449	(1,298)	115,707
Impairment loss on long-lived assets	-	160,069	-	6,284	-	166,353
Other expenses/(income), net	4,842	7,383	(12,870)	(72,425)	87,722	14,652
	229,683	352,694	125,502	218,685	(239,145)	687,419
Operating profit/(loss)	$ 649,683	$(94,422)	$ 49,636	$ 173,796	$(217,146)	561,547
Finance income	-	-	-	-	-	(25,191)
Finance costs	-	-	-	-	-	259,796
Foreign exchange gain, net	-	-	-	-	-	49,208
Share of profit of associates	-	-	-	-	-	3,321
Profit before income tax	-	-	-	-	-	274,413
Income tax	-	-	-	-	-	184,812
Consolidated net profit	-	-	-	-	-	$ 89,601

Statement of financial position:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and Reclassifications	Total
Segment assets	$ 5,689,984	$ 1,911,883	$ 2,676,178	$ 7,044,348	$(8,071,962)	$ 9,250,431
Segment liabilities	$ 2,075,381	$ 1,030,302	$ 1,906,777	$ 3,196,151	$(3,488,718)	$ 4,719,893
Depreciation	$ 514,502	$ 107,764	$ 55,609	$ 23,621	$(7,664)	$ 693,832
Fixed asset investments	$ 401,399	$ 90,157	$ 50,825	$ 18,913	$ -	$ 561,294
Equity investments in associates	$ -	$ -	$ -	$ 34,811	$(2,651)	$ 32,160

7. Segment Information (continued)

An analysis of segment information as at and for the year ended 31 December 2019 is as follows:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and Reclassifications	Total
Third-party sales	$ -	$ 308,276	$ 3,980,436	$ 185,850	$(2,614)	$ 4,471,948
Intra-group sales	2,119,641	598,193	37,436	381,294	(3,136,564)	-
Total sales	2,119,641	906,469	4,017,872	567,144	(3,139,178)	4,471,948
Cost of sales	1,657,932	739,820	3,862,034	143,464	(2,802,139)	3,601,111
Gross profit	461,709	166,649	155,838	423,680	(337,039)	870,837
Administrative expenses	96,436	103,166	106,148	282,992	(322,978)	265,764
Exploration expenses	157,913	48,961	460	8,185	(7,374)	208,145
Selling expenses	22,851	44,126	29,321	25,511	107	121,916
Impairment loss on long-lived assets	-	66,579	-	-	-	66,579
Other expenses/(income), net	12,779	4,001	(2,591)	(26,019)	31,610	19,780
	289,979	266,833	133,338	290,669	(298,635)	682,184
Operating profit/(loss)	$ 171,730	$(100,184)	$ 22,500	$ 133,011	$(38,404)	188,653
Finance income	-	-	-	-	-	(29,553)
Finance costs	-	-	-	-	-	138,572
Foreign exchange loss, net	-	-	-	-	-	(748)
Share of profit of associates	-	-	-	-	-	1,153
Profit before income tax	-	-	-	-	-	79,229
Income tax	-	-	-	-	-	(33,129)
Consolidated net profit	-	-	-	-	-	$ 112,358

Statement of financial position:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and Reclassifications	Total
Segment assets	$ 4,848,361	$ 2,062,318	$ 2,274,252	$ 7,350,374	$(8,348,614)	$ 8,186,691
Segment liabilities	$ 1,569,645	$ 987,370	$ 1,464,164	$ 2,884,470	$(3,206,850)	$ 3,698,799
Depreciation	$ 489,455	$ 111,092	$ 61,410	$ 17,696	$(4,663)	$ 674,990
Fixed asset investments	$ 574,129	$ 236,806	$ 81,678	$ 20,672	$ -	$ 913,285
Equity investments in associates	$ -	$ -	$ -	$ 40,929	$(9,654)	$ 31,275

In 2020, three customers (three customers in 2019) from the Metallurgical segment each individually exceeded 10% of the value of the Company's net sales and they jointly represented 42.7% of net sales for the year (50% in 2019).

Information on revenue obtained by geographical zone is presented in Note 26.

As at 31 December 2020 and 2019, the Company's non-current assets outside Mexico amounted to $50,667 and $49,198, respectively.

8. Cash and Cash Equivalents

An analysis of cash and cash equivalents is as follows:

		2020		2019
Cash in hand and in banks	$	**31,861**	$	50,403
Liquid investments (1)		**1,560,789**		475,944
	$	**1,592,650**	$	526,347

(1) Liquid investments bear interest at market rates and have maturities of less than 30 days.

9. Trade and Other Accounts Receivable

An analysis of this caption is as follows:

		2020		2019
Trade receivables (1)	$	**208,098**	$	181,829
Other accounts receivable		**37,308**		28,556
Less:				
Expected credit losses for trade receivables (Note 39)	(	**2,231)**	(	2,968)
Expected credit losses for other accounts receivable (Note 39)	(	**2,266)**	(	1,927)
Total trade and other accounts receivable		**240,909**		205,490
Related parties (Note 25)		**11,179**		7,131
Recoverable value added tax		**280,057**		355,239
Advances to suppliers		**8,920**		12,252
Loans to contractors		**496**		525
		541,561		580,637
Less: Non-current maturity				
Loans to contractors		**496**		525
Recoverable value added tax		**-**		23,014
Long-term accounts receivable and other receivables		**496**		23,539
Total trade and other current accounts receivable, net	$	**541,065**	$	557,098

(1) As at 31 December 2020 and 2019, approximately 40% and 25%, respectively, of the Company's accounts receivable are related to provisional pricing arrangements.

Accounts receivable are non-interest bearing. Gold and silver sales are almost exclusively made in cash, while lead, zinc and cooper sales are made both in cash and through a credit line (provided that each sale is previously authorized by the Company's credit committee), with an average credit term of 30 days.

9. Trade and Other Accounts Receivable (continued)

An analysis of the changes in the allowance for expected credit losses for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Beginning balance	$	**4,895**	$	6,843
Increase for the year		**2,671**		593
Charges	(	**3,069)**	(	2,541)
Ending balance	$	**4,497**	$	4,895

10. Other Financial Assets

An analysis of this caption is as follows:

		2020		2019
Fair value of hedging derivatives (Note 38)	$	**11,408**	$	18,289
Fair value of derivative financial instruments (Note 38)		**3,368**		5,708
Accounts receivable from settled derivatives contracts		**3,831**		8,629
Total other financial assets		**18,607**		32,626
Less: Non-current maturity	(	**496)**	(	4,245)
Other current financial assets	$	**18,111**	$	28,381
Other non-current financial assets		**496**		4,245
Security deposits and other financial assets		**4,116**		4,350
Total other non-current financial assets	$	**4,612**	$	8,595

11. Inventories

An analysis of this caption is as follows:

		2020		2019
Inventories stated at cost:				
Refined metals and ore concentrates	$	**1,355,456**	$	1,123,038
Raw materials and chemical products in process		**6,674**		33,239
Operating materials		**215,576**		201,468
		1,577,706		1,357,745
Inventories measured at fair value:				
Refined metals		**112,500**		109,487
Subtotal		**1,690,206**		1,467,232
Less: Operating materials at estimated net realizable value (1)	(	**37,978)**	(	15,668)
Inventories, net		**1,652,228**		1,451,564
Less: Non-current portion		**91,620**		91,620
Inventories, net	$	**1,560,608**	$	1,359,944

(1) As a result of the Company's decision to indefinitely suspend the operation of the Madero and Bismark mines, as well as the mineral extraction at the Milpillas mine, among others, in 2020, the Company recognized an estimated net realizable value of $22,309, which corresponds to a decrease in inventories of operating material in those units. For the year ended 31 December 2019, the amount corresponds to the estimated net realizable value of inventories in the ordinary course of business.

12. Equity Instrument Financial Assets

An analysis of this caption is as follows:

	2020	2019
Equity investments in entities listed on the Canadian Stock Exchange (1):		
Cost	$ 62,732	$ 62,732
Increase in fair value	167,905	69,572
Subtotal	230,637	132,304
Equity investments in entities listed on the U.S. Stock Exchange:		
Cost	180	180
Increase in fair value	1,732	1,482
Subtotal	1,912	1,662
Total	$ 232,549	$ 133,966

An analysis of changes in these equity investments for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance	$ 133,966	$ 87,430
Profit reclassified to components of other comprehensive income	98,583	46,536
Ending balance	$ 232,549	$ 133,966

(1) As at 31 December 2020, approximately 86% of the Company's equity investments corresponds to its 9,746,193 shares of Mag Silver, Corp., equal to $199,545, and its 6% holding in Endeavor, Inc., represented by 2,800,000 shares, equal to $14,144 . These investments are in publicly traded mining companies listed on the Canadian Stock Exchange. As at 31 December 2020 and 2019, the price of the Company's shares is $20.47, $5.05, $11.74 and $2.40, respectively, per share.

13. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended 31 December 2020 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
2020 opening balance	$ 5,962,925	$ 1,429,047	$ 1,196,449	$ 27,171	$ 1,268,361	$ 9,883,953
Purchases	267,193	163,401	65,622	1,466	45,417	543,099
Increases in provision for asset decommissioning	1,477	-	-	-	-	1,477
Capitalized interest	-	-	-	-	20,657	20,657
Retirements and disposals	(161,890)	(1,375)	(258)	(1,162)	-	(164,685)
Transfers and other	515,004				(515,004)	-
Non-current assets held for sale	(36,162)	-	(1,351)	-	-	(37,513)
Translation adjustment	(3,533)	(84)	(442)	(1,402)	-	(5,461)
2020 ending balance	6,545,014	1,590,989	1,260,020	26,073	819,431	10,241,527

13. Property, Plant and Equipment (continued)

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Depreciation, amortization, depletion and impairment:						
2020 opening balance	**(3,639,900)**	**(676,048)**	**(571,598)**	**(18,042)**	**-**	**(4,905,588)**
Depreciation for the period	**(565,302)**	**(88,006)**	**(38,162)**	**(2,467)**	**-**	**(693,937)**
Impairment	**(153,265)**	**(6,284)**	**(3,605)**	**-**	**(3,199)**	**(166,353)**
Retirements and disposals	**159,061**	**1,354**	**-**	**150**	**-**	**160,565**
Non-current assets held for sale	**28,571**	**-**	**596**	**-**	**-**	**29,167**
Translation adjustment	**1,245**	**54**	**443**	**4,430**	**-**	**6,172**
2020 ending balance	**(4,169,590)**	**(768,930)**	**(612,326)**	**(15,929)**	**(3,199)**	**(5,569,974)**
Net investment	**$ 2,375,424**	**$ 822,059**	**$ 647,694**	**$ 10,144**	**$ 816,232**	**$ 4,671,553**

Changes in property, plant and equipment for the year ended 31 December 2019 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
2019 opening balance	$ 5,613,020	$ 1,109,618	$ 1,147,207	$ 24,381	$ 1,199,429	$ 9,093,655
Purchases	472,708	321,276	49,858	2,345	40,015	886,202
Increases in provision for asset decommissioning	78,252	-	-	-	-	78,252
Capitalized interest	-	-	-	-	28,029	28,029
Retirements and disposals	(203,018)	(1,672)	(334)	(633)	-	(205,657)
Translation adjustment	1,963	(175)	(282)	1,078	888	3,472
2019 ending balance	5,962,925	1,429,047	1,196,449	27,171	1,268,361	9,883,953
Depreciation, amortization, depletion and impairment:						
2019 opening balance	(3,212,818)	(593,519)	(526,180)	(14,340)	-	(4,346,857)
Depreciation for the period	(550,340)	(84,355)	(37,544)	(3,384)	-	(675,623)
Impairment	(57,868)	-	(7,945)	(766)	-	(66,579)
Retirements and disposals	182,083	1,620	71	554	-	184,328
Translation adjustment	(957)	206	-	(106)	-	(857)
2019 ending balance	(3,639,900)	(676,048)	(571,598)	(18,042)	-	(4,905,588)
Net investment	$ 2,323,025	$ 752,999	$ 624,851	$ 9,129	$ 1,268,361	$ 4,978,365

Grupo Peñoles analyzed certain external indicators, namely the behavior of metal prices, as well as internal indicators that included an assessment of mineral reserves and economically recoverable resources in order to determine whether there are indicators of impairment in the value of its property, plant and equipment. The recoverable amount of property, plant and equipment is based on the value in use of cash generating units calculated by discounting the present value of future cash flows based on projections, forecasts and expectations that are approved by management.

13. Property, Plant and Equipment (continued)

An analysis of the key assumptions used by Grupo Peñoles to calculate the value in use of its main cash generating units for which there were indications of impairment is as follows:

	2020	2019
Discount rate	**7.1% - 10.0%**	6.55% - 10.0%
Commodity prices (average):		
Gold (US$/oz)	**1,580**	1,370
Silver US$/oz)	**20**	19
Zinc (US$/lb)	**116**	119
Copper (US$/lb)	**301**	341
Lead (US$/lb)	**95**	97

In 2020, Grupo Peñoles recognized an impairment loss in the value of its property, plant and equipment of $166,353, mainly in its “Base metal mines” segment, due to a decrease in the prices of metals in the first quarter of 2020 at the Madero and Milpillas mining units and due to the fact that in the second quarter of 2020, this impairment was exacerbated as a result of the Company’s decision to indefinitely suspend the operations of the Madero mine, as well as the mineral extraction from the Milpillas mine, maintaining only the electrolytic plant for the production of copper cathodes until the mineral contained in the leach pads is depleted, which is expected to occur in the first quarter of 2021. As at 31 December 2019, the Bismark mining unit is totally impaired. This impairment is recognized as a loss of $6,284 in the value of the aerogenerators of the subsidiary Fuerza Eólica del Istmo, due to an increase in its energy costs.

An analysis of the impairments loss of each cash generating unit is as follows:

Cash generating unit	**2020**	2019
Madero mining unit	**$ 48,164**	$ 35,331
Milpillas mining unit	**110,849**	3,764
Bismark mining unit	-	26,719
Fuerza Eólica del Istmo, S.A. de C.V.	**6,284**	-
Other	**1,056**	765
	$ 166,353	$ 66,579

Sensitivity analysis

Management considers that the models supporting the carrying amounts are more sensitive to commodity price assumptions. Therefore, it performed a sensitivity analysis for those CGUs, where reasonably possible changes in prices could lead to an impairment. Management has considered a low sensitivity by decreasing gold, silver, lead, zinc and copper prices. It also has considered a low sensitivity by decreasing gold prices by 10% (5% in 2019), silver prices by 25% (5% in 2019) and lead, zinc and copper prices by 5% in both years. Under a high sensitivity analysis, management considered a decrease in gold prices of 20% (10% in 2019), in silver prices of 45% (15% in 2019) and in lead, zinc and copper prices of 10% in both years.

13. Property, Plant and Equipment (continued)

An analysis of sensitivity to impairment based on possible price changes is as follows:

	In millions of U.S. dollars			
	2020		2019	
	Low	High	Low	High
Herradura mining unit	**$ -**	**$(43.2)**	$(127.4)	$(356.4)
San Julián mining unit	**$ (199.8)**	**$(401.0)**	$(109.7)	$(121.6)
Ciénega mining unit	**$ -**	**$(129.1)**	$ -	$ -
Fresnillo mining unit	**$ -**	**$(77.6)**	$ -	$ -
Noche Buena mining unit	**$ (8.6)**	**$(23.7)**	$ -	$ -
Sabinas mining unit	**$ -**	**$(23.4)**	$ -	$ -
Capela mining unit	**$ -**	**$(10.6)**	$ -	$ -

Assets under construction

Construction in process includes investments in fixed assets and capitalized pre-operating expenses of $340,741 in 2020 ($589,018 in 2019) for the construction and operation of the mining projects Juanicipio (State of Zacatecas) and Minera Capela (State of Guerrero), where mineral concentrates containing mostly silver, lead, and zinc are mined, as well as the investment of $28,470 in 2020 ($120,046 in 2019) in the expansion of the Electrolytic Zinc Refinery (State of Coahuila). The estimated remaining investment needed to conclude the mining and other projects is approximately $412,000 in 2021. The rate used in 2020 and 2019 to determine the amount of the loan costs eligible for capitalization was 4.84% and 5.30%, respectively.

Commitments

As at 31 December 2020 and 2019, the Company has entered into several agreements with independent contractors related to the purchase of machinery and equipment, as well as for completion of the mining and metallurgical construction projects. The value of the agreements in 2020 and 2019 is $323,059 and $277,822, respectively.

14. Equity Investments in Associates

An analysis of equity investments in associates as at 31 December 2020 and 2019 is as follows:

	2020	2019	**2020**	2019
Aerovics, S.A. de C.V. (1)	**51.88%**	51.70%	**$ 27,677**	$ 26,571
Línea Coahuila Durango, S.A. de C.V.	**50.00%**	50.00%	**3,728**	4,704
Other			**755**	-
			$ 32,160	$ 31,275

(1) For the years ended 31 December 2020 and 2019, 81.91% and 86.81%, respectively, of the shares are non-voting. Accordingly, Grupo Peñoles does not exercise control over these investees.

14. Equity Investment in Associates (continued)

An analysis of changes in the equity investments in associates for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance in associates	**$ 31,275**	$ 32,640
Share of loss of associates	**(3,321)**	(1,153)
Changes in equity interest in associates	**-**	(3,109)
Cash dividends received	**-**	(1,580)
Share capital increase	**4,690**	-
Translation adjustment	**(484)**	4,477
Ending balance in associates	**$ 32,160**	$ 31,275

The associates in which the Company has invested are as follows:

- Aerovics, S.A. de C.V., which provides private air transportation services.

- Línea Coahuila-Durango, S.A. de C.V., which provides rail transportation services through a concession granted to it by the Mexican Federal Government.

- Other includes a 40% equity interest in Administradora Moliere 222, S.A. de C.V. and a 35% equity interest in Administración de Riesgos Bal, S.A. de C.V.

The condensed financial information of the associates is as follows:

As at and for the years ended 31 December 2020 and 2019

Statement of financial position:

	2020	
	Aerovics	Línea Coahuila Durango
Assets:		
Current assets	**$ 8,373**	**$ 8,519**
Non-current assets	**47,625**	**9,346**
Total assets	**$ 55,998**	**$ 17,865**

	Aerovics	Línea Coahuila Durango
Current liabilities	**$ 1,855**	**$ 2,722**
Non-current liabilities	**$ 795**	**$ 7,686**
Total liabilities	**$ 2,650**	**$ 10,408**
Total equity	**$ 53,348**	**$ 7,457**
Total liabilities and equity	**$ 55,998**	**$ 17,865**

14. Equity Investment in Associates (continued)

	2019	
	Aerovics	Línea Coahuila Durango
Assets:		
Current assets	$ 6,376	$ 11,313
Non-current assets	48,128	11,657
Total assets	$ 54,504	$ 22,970

	Aerovics	Línea Coahuila Durango
Current liabilities	$ 2,267	$ 4,380
Non-current liabilities	$ 843	$ 9,183
Total liabilities	$ 3,110	$ 13,563
Total equity	$ 51,394	$ 9,407
Total liabilities and equity	$ 54,504	$ 22,970
Dividends paid	$ -	$ 1,580

Statement of comprehensive income for 2020:

	Aerovics	Línea Coahuila Durango
Sales	**$ 7,281**	**$ 25,390**
Operating loss	**$(4,287)**	**$(3,305)**
Net loss	**$(4,060)**	**$(2,545)**
Components of other comprehensive (loss)/income	**$(2,813)**	**$ 595**
Comprehensive loss	**$(6,873)**	**$(1,950)**

Statement of comprehensive income for 2019:

	Aerovics	Línea Coahuila Durango
Sales	$ 11,629	$ 40,630
Operating (loss)/profit	$(3,934)	$ 696
Net (loss)/profit	$(3,608)	$ 1,861
Components of other comprehensive income/(loss)	$ 2,203	$(2,068)
Comprehensive loss	$(1,404)	$(206)

15. Leases

An analysis of changes in right-of-use assets as at 31 December 2020 is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at 1 January 2020	**$ 18,623**	**$ 68,649**	**$ 42,709**	**$ 129,981**
Additions	**2,814**	**-**	**8,432**	**11,246**
Lease modification	**194**	**693**	**27**	**914**
Retirements	**(545)**	**-**	**(3,164)**	**(3,709)**
Ending balance as at 31 December 2020	**21,086**	**69,342**	**48,004**	**138,432**
Amortization:				
Beginning balance as at 1 January 2020	**(2,558)**	**(3,074)**	**(12,991)**	**(18,623)**
Amortization for the year	**(2,970)**	**(3,127)**	**(14,336)**	**(20,433)**
Retirements	**497**	**-**	**2,956**	**3,453**
Ending balance as at 31 December 2020	**(5,031)**	**(6,201)**	**(24,371)**	**(35,603)**
Net investment	**$ 16,055**	**$ 63,141**	**$ 23,633**	**$ 102,829**

An analysis of changes in right-of-use assets as at 31 December 2019 is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at 1 January 2019	$ 17,570	$ 21,138	$ 29,851	$ 68,559
Additions	1,092	1,133	13,198	15,423
Lease modification	-	46,378	-	46,378
Retirements	(39)	-	(340)	(379)
Ending balance as at 31 December 2019	18,623	68,649	42,709	129,981
Amortization:				
Beginning balance as at 1 January 2019	-	-	-	-
Amortization for the year	(2,582)	(3,074)	(13,068)	(18,724)
Retirements	24	-	77	101
Ending balance as at 31 December 2019	(2,558)	(3,074)	(12,991)	(18,623)
Net investment	$ 16,065	$ 65,575	$ 29,718	$ 111,358

15. Leases (continued)

An analysis of changes in lease liabilities as at 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance as at 1 January	$ **114,907**	$ 68,559
Additions	**11,246**	15,423
Lease modifications	**815**	46,378
Accrued interest	**7,730**	7,590
Payments	**(26,029)**	(22,743)
Retirements	**(266)**	(280)
Foreign exchange loss	**(52)**	(20)
Ending balance as at 31 December	$ **108,351**	$ 114,907

An analysis of the maturity of lease liability as at 31 December 2020 is as follows:

	Amount
2021	$ 15,640
2022	11,582
2023	7,359
2024	4,637
2024 and thereafter	69,133
	108,351
Current portion due	15,640
Non-current maturity	$ 92,711

Amortization expense on right-of-use assets as at 31 December 2020 and 2019 was $20,433 and $18,724, respectively.

Expenses relating to short-term leases and leases of low-value assets as at 31 December 2020 and 2019 were $22,768 and $20,160, respectively.

During 2020, Grupo Peñoles was not granted any COVID-19 related rent concessions by lessors.

16. Suppliers and Other Accounts Payable

An analysis of this caption is as follows:

	2020	2019
Commercial suppliers	$ **175,534**	$ 194,580
Concentrate and mineral shippers	**89,151**	102,374
Related parties (Note 25)	**78,879**	13,694
Other accrued liabilities	**63,406**	55,489
Interest payable	**39,137**	24,540
Energy	**23,016**	16,011
Market expenses	**17,126**	10,912
Dividends payable	**1,299**	6,136
	$ **487,548**	$ 423,736

17. Other Financial Liabilities

An analysis of this caption is as follows:

	2020	2019
Fair value of cash flow hedging derivatives (Note 38)	**$ 168,713**	$ 41,558
Fair value of derivatives at fair value (Note 38)	**15,786**	993
Fair value of derivatives at fair value through profit or loss (Note 38)	**23,273**	-
Accounts payable on settled derivative contracts	**20,939**	2,183
Total other financial liabilities	**228,711**	44,734
Less: Non-current maturity	**(20,697)**	(10,427)
Total other current financial liabilities	**$ 208,014**	$ 34,307

18. Financial Debt

An analysis of the Company's short-term debt denominated in U.S. dollars as at 31 December 2020 and 2019 is as follows:

	2020	2019
Bank loan (1)	**$ 29,601**	$ -
Short-term maturities of long-term liabilities	**9,167**	9,096
Total current debt denominated in U.S. dollars	**$ 38,768**	$ 9,096

(1) Direct loan of $29,601 (equal to Ps. 590,500) maturing on 8 February 2021 and bearing annual interest at an average rate of 7.22%. This loan was repaid in full and corresponds to a drawdown against uncommitted lines of credit extended to the Company by Mexican and foreign banks. As at 31 December 2020, the short-term outstanding balance of these lines of credit is $739,500. During 2020, the Company obtained short-term loans of $170,032, of which $145,769 were paid.

An analysis of the Company's long-term debt denominated in U.S. dollars as at 31 December 2020 and 2019 is as follows:

	2020	2019
Unsecured bonds issued by IPSAB (1)	**$ 1,168,755**	$ 1,066,585
Unsecured bonds issued by IPSAB (2)	**501,941**	-
Syndicated loan (3)	**-**	299,032
Unsecured bonds issued by Fresnillo plc (4)	**316,430**	795,138
Unsecured bonds issued by Fresnillo plc (5)	**828,410**	-
Bilateral export credit agency guarantee (6)	**56,474**	65,571
Total	**2,872,010**	2,226,326
Less:		
Current portion due	**9,167**	9,096
Total non-current debt	**$ 2,862,843**	$ 2,217,230

18. Financial Debt (continued)

An analysis of the Company's short-term and long-term debt as at 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance as at 1 January	**$ 2,226,326**	$ 1,876,178
Debt acquired	**1,620,032**	3,025,000
Debt paid	**(937,607)**	(2,644,716)
Transaction costs paid	**(7,471)**	(34,981)
Interest paid in advance	**(11,805)**	-
Amortization of transaction costs	**6,775**	4,848
Foreign exchange gain/(loss)	**5,361**	(3)
Ending balance as at 31 December	**$ 2,901,611**	$ 2,226,326

Long-term Financial debt maturities starting in 2022 are as follows:

	Amount
2022	$ 9,239
2023	325,741
2024	9,501
2025	9,584
2026-2050	2,508,778
	$ 2,862,843

(1) Unsecured bonds of $1,100,000 issued on 5 September 2019 by the Company in the international bond market as a 144A/Reg-S offering. The bonds were issued in two equal tranches of $550,000 each for terms of 10 and 30 years and bear net interest payable semiannually of 4.15% and 5.65%, respectively, plus taxes, with principal payable upon maturity. The proceeds from this placement were used to early settle structured notes of $600,000 that matured in 2020 ($400,000) and 2022 ($200,000). All other proceeds from this placement were used for corporate purposes. Standard & Poor's Global Ratings (S&P) and Fitch Ratings, Inc. assigned "BBB" rating to these bonds. Additionally, on 30 July 2020, the issuance of the original bonds was reopened for an amount of $100,000. These instruments mature in 2029, bearing interest at a fixed rate of 4.15% and yield to maturity of 3.375%. The proceeds from this placement were used to early repay the syndicated loan with Bank of America, N.A. (administrative agent) and Scotiabank Inverlat S.A., to repay short-term debt and for corporate purposes in general.

(2) Unsecured bonds issued by Industrias Peñoles S.A.B. de C.V. for an amount of $500,000 on 30 July 2020 by the Company in the international bond market as a 144A/Reg. S offering. The bonds are for a thirty-year term and bear net interest payable semiannually of 4.75%, plus withholding tax, with principal payable upon maturity and no guarantees. The proceeds from this placement were used to early repay the syndicated loan with Bank of America, N.A. (administrative agent) and Scotiabank Inverlat S.A., to repay short-term debt and for corporate purposes in general. Transaction costs totaled $3,627.

(3) On 7 March 2019, the Company entered into a syndicated loan agreement with Bank of America, N.A. (administrative agent) and Scotiabank Inverlat S.A. for $300,000 for a term of five years. This loan was secured by certain subsidiaries of the Company, bearing quarterly interest at the three-month London Interbank Offered Rate (LIBOR) plus 100 basis points with principal payable upon maturity. On 28 August 2020, the Company made a penalty-free full repayment of this loan. Grupo Peñoles swapped the floating portion of the interest rate to 2.6021% on the principal amount of this loan. Upon the early prepayment of this loan, the interest rate swap was classified as a held-for-trading instrument and recognized as part of Finance costs in the amount of $25,143, and the remaining transaction costs of $968 were recognized in profit or loss.

18. Financial Debt (continued)

The syndicated loan agreement established certain restrictions and financial conditions that mainly consisted on maintaining certain gearing and interest ratios only if the Company's credit rating was downgraded. During 2019, the collateral pledged by subsidiaries to secure this loan was released and the quarterly interest rate was modified to the three-month London Interbank Offered Rate (LIBOR) plus 105 basis points.

(4) Unsecured bonds of $800,000 issued on 7 November 2013 by Fresnillo plc in the international bond market as a 144A/Reg-S offering. The bonds are for a ten-year term and bear net interest at an annual rate of 5.50% plus withholding tax, payable semiannually , with principal payable upon maturity. The proceeds from this placement were used to meet the needs of the Company's current investment and development plans, as well as to fund future growth opportunities. From 22 to 29 September 2020, Fresnillo plc launched a cash tender offer to partially repurchase these notes for an amount of $482,121, which was settled on 2 October. Arising from this transaction, the premium of $60,835 and a portion of the transactions costs of $2,385 for the early repayment of the notes were recognized as part of the finance cost caption. Standard & Poor's and Moody's Investor's Services assigned "BBB" and "Baa2"ratings, respectively, to these bonds.

(5) Unsecured bonds issued on 29 September 2020 by Fresnillo plc, and settled on 2 October, in the international bond market as a 144A/Reg-S offering for the amount of $850,000. The bonds are for a thirty-year term and bear net interest payable semiannually at a 4.25% rate plus withholding tax, with principal payable upon maturity and no guarantees. The proceeds from this placement were used to pay the partial repurchase of the current debt mentioned in paragraph (4) and for corporate purposes in general. Standard & Poor's and Moody's Investor's Services assigned the bonds ratings of "BBB" and "Baa2", respectively. Transactions costs totaled $3,844.

(6) On 22 June 2017, Industrias Peñoles S.A.B. de C.V. entered into a loan agreement with Crédit Agricole Corporate and Investment Bank pursuant to the equipment purchases that its subsidiary Metalúrgica Met-Mex Peñoles, S.A. de C.V. made from the supplier Outotec Oy (a Finnish company) for the expansion of its zinc plant and the refurbishment of plant II. Finnvera Plc, the export credit agency of the supplier's home country, guaranteed 95% of this loan, with this 95% portion covering the goods and services eligible for the guarantee under the corresponding agreement, as well as local costs. The amount of this loan is up to $94,520, including $90,130 that correspond to eligible goods and services (85%) and directly related local costs (100%), plus the $4,400 guarantee fee paid to Finnvera.

The drawdown period matured in November 2018 with a total notional amount of $82,590. The loan will be repaid in 17 semi-annual installments spanning from 28 September 2018 until 30 September 2026. The loan bears interest at the six-month LIBOR plus 0.94% on the outstanding balance (excluding the guarantee fee paid to Finnvera Plc (the Finnish export credit agency). The floating portion of the interest was hedged through an interest rate swap.

As at 31 December 2020, the S&P Global rating of the Company's unsecured senior debt is 'BBB' and Fitch Ratings Global rating is 'BBB', both with stable outlook.

In addition, the S&P Global rating of Fresnillo plc's unsecured senior debt is 'BBB' and Moody's Investors Services Global rating is 'Baa2', both with stable outlook.

As at 31 December 2019, the S&P Global rating of the Company's unsecured senior debt was 'BBB' and Fitch Ratings Global rating was 'BBB', both with stable outlook.

In addition, the S&P Global rating of Fresnillo plc's unsecured senior debt was 'BBB' and Moody's Investors Services Global rating is 'Baa2', both with a stable outlook.

19. Employee Benefits

Employee benefits

An analysis of current employee benefit obligations is as follows:

		2020		2019
Salaries and other employee benefits payable	**$**	**34,114**	$	20,995
Paid annual leave and vacation premium payable		**9,889**		10,326
Social security dues and other provisions		**12,407**		12,702
	$	**56,410**	$	44,023

Retirement benefits

Grupo Peñoles has a defined pension and benefit contribution plan for its non-unionized workers, which includes pension plans based on each worker's earnings and years of service provided by personnel hired through 30 June 2007, and a defined contribution component as of such date, based on periodic contributions made by both Grupo Peñoles and the employees.

The plan is managed exclusively by a Technical Committee, which is comprised of three people that are appointed by Grupo Peñoles.

Defined benefit component

The defined benefit component of the plan referred to the worker salaries and the number of years of service provided through 30 June 2007, in accordance with the benefits generated through this date in respect of the pension granted. This defined retirement benefit plan was for its non-unionized employees and included pension plans based on each worker's salaries and the number of years of service, seniority premiums payable upon death and due to permanent disability or voluntary separation. Benefits accrued through this date are restated for inflation based on the National Consumer Price Index through the date of the employee's retirement.

Defined contribution component

The defined contribution component of the plan consists of periodic contributions made by employees, as well as matched contributions made by the Company beginning on 1 July 2007, capped at 8% of the employee's daily-integrated salary.

There is also a seniority premium plan for voluntary separation for the Company's unionized workers.

Death and disability benefits are covered through insurance policies.

Recognition of employee benefits

An analysis of the actuarial value of these obligations recognized in the consolidated statement of financial position as at 31 December 2020 and 2019 is as follows:

		2020		2019
Defined benefit obligation of active workers	**$**	**69,504**	$	71,676
Defined benefit obligation of retired workers (1)		**87,038**		87,561
Defined benefit obligation		**156,542**		159,237
Unfunded defined benefit obligation (2)		**32,775**		32,083
		189,317		191,320
Fair value of plan assets	**(**	**122,979)**	(	121,133)
Employee benefits	**$**	**66,338**	$	70,187

19. Employee Benefits (continued)

(1) This obligation is currently fully funded.
(2) Corresponds primarily to seniority premiums for unionized personnel

An analysis of pensions and seniority premiums recognized in the consolidated statement of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Current-year service cost	**$ 4,007**	$ 5,356
Interest cost (Note 34)	**10,672**	13,108
Return on plan assets (Note 34)	**(6,469)**	(8,599)
Defined contribution	**10,317**	11,766
Total	**$ 18,527**	$ 21,631

An analysis of changes in the remeasurement of the defined benefit obligation recognized directly in equity is as follows:

	2020	2019
Actuarial gain/(loss)	**$ 5,498**	$(9,577)

A reconciliation of the actuarial value of the defined benefit obligation as at 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance of the defined benefit obligation	**$ 191,320**	$ 169,865
Current-year service cost	**4,007**	5,356
Interest cost	**10,672**	13,108
Actuarial gain from experience adjustments	**3,263**	9,366
Benefits paid	**(10,692)**	(15,592)
Foreign exchange (loss)/gain	**(9,253)**	9,217
Ending balance of the defined benefit obligation	**$ 189,317**	$ 191,320

A reconciliation of the actuarial value of plan assets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Beginning balance of plan assets	**$ 121,133**	$ 115,337
Current return on plan assets	**6,469**	8,599
Actuarial gain/(loss) from experience adjustments	**8,761**	(211)
Plan contributions	**1,483**	1,191
Benefits paid	**(8,834)**	(9,091)
Foreign exchange (loss)/gain	**(6,033)**	5,308
Ending balance of plan assets	**$ 122,979**	$ 121,133

19. Employee Benefits (continued)

An analysis of plan assets is as follows:

		2020		2019
Debt instruments issued by Federal and state-owned entities	**$**	**68,616**	$	71,632
Investment funds		**19,223**		9,415
Equity instruments		**35,140**		40,086
Total plan assets	**$**	**122,979**	$	121,133

The financial instruments that comprise the plan assets consist of shares that are publicly traded in Mexico with local credit ratings of 'AAA' and 'AA'.

As at 31 December 2020, Grupo Peñoles does not expect to make contributions to the defined benefit plan in 2021.

The most significant assumptions used in calculating the defined benefit obligation, plan assets and the net periodic benefit expense were as follows:

Actuarial assumptions

	2020	2019
Average discount rate to reflect present value	**7.1%**	7.2%
Average salary increase rate	**5.0%**	5.0%
Expected inflation rate	**3.5%**	3.5%

The most significant demographical assumptions for 2020 and 2019 were the "EMMSSA09 dinámica" and the mortality rates published by the Mexican Social Security Institute (IMSS).

The weighted average lifetime of the defined benefit obligation as at 31 December 2020 is 10.5 years.

The discount rate used to reflect the defined benefit obligations at present value, the projected salary increase and the projected working lives of employee were identified as significant actuarial assumptions. The calculation of the defined benefit obligation may be sensitive to changes in any of these assumptions.

The following changes in assumptions that affect the calculation of the defined benefit obligation are considered reasonably possible:

- A 0.5% increase/decrease in the discount rate
- A change of 1 year in the projected working lives

A sensitivity analysis showing the potential impact on the defined benefit obligation resulting from an increase/decrease in the assumptions as at 31 December 2020 is as follows:

	Increase in assumption		Discount in assumption	
	Effect	%	Effect	%
Discount rate -0.5%	$(7,856)	(4.1%)	$ 11,026	5.8%

The change in the liability resulting from a 1-year increase in the projected working lives of the employees total $27.

19. Employee Benefits (continued)

A sensitivity analysis showing the potential impact on the defined benefit obligation resulting from an increase/decrease in the assumptions as at 31 December 2019 is as follows:

	Increase in assumption		Discount in assumption	
	Effect	%	Effect	%
Discount rate -0.5%	$(9,935)	(5.2%)	$ 10,652	5.6%

The change in the liability resulting from a 1-year increase in the projected working lives of the employees totals $169, which represents a change of approximately 0.1%.

This sensitivity analysis is based on a change in the premise and assuming that all other assumptions will remain the same.

20. Provisions

An analysis of provisions is as follows:

	2020	2019
Ecological rehabilitation	**$ 449,737**	$ 453,481

Changes in provisions for ecological rehabilitation for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
Balance as at 1 January	**$ 453,481**	$ 348,917
Arising during the year (Note 13)	**1,477**	78,252
Payments for the year	**(2,674)**	(342)
(Decrease)/increase in provision for rehabilitation of closed mines (Note 32)	**(13,302)**	3,809
Financial discount (Note 34)	**21,682**	22,612
Provision related to non-current assets classified as held for sale (Note 40)	**(10,937)**	-
Foreign exchange gain	**10**	233
Ending balance as at 31 December	**$ 449,737**	$ 453,481

This provision represents the present value of the future costs of decommissioning and rehabilitating mining units as of their dates of depletion. These provisions have been created in accordance with the obligation established in the Mining Act and other applicable legal ordinances, as well as in accordance with the environmental and social responsibility policies of the Company.

The assumptions used in determining the provisions for the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the cost incurred for rehabilitation, reclamation and re-vegetation of affected areas. These assumptions are included as part of the Company's sustainable development policies. These assumptions were assessed and certified by independent experts with international experience in mining unit rehabilitation matters. Other adjusted assumptions included the discount rate for reflecting Grupo Peñoles ecological rehabilitation obligations at their present value.

20. Provisions (continued)

The calculation of the provision include a number of certain uncertainties related to cost estimates, including possible changes in the applicable legal environment and the Company's technical options for decommissioning and removing structures and reclaiming the affected areas of each mining unit, the estimated mineral levels and related also to actual inflation and discount rates at the time the costs are incurred.

The change in the aforementioned assumptions was recognized as an adjustment to the previously recognized decommissioning asset that will be amortized over the average remaining lives of the Company's mining units, which as of 31 December 2020, range from 2 to 51 years.

The present value of the provision was calculated using discount rates from 4.35% to 8.12% in 2020 and from 6.81% to 7.51% in 2019.

21. Income Tax and Special Tax for Mining Companies

Tax environment

As previously explained in the consolidated financial statements, the Company is a Mexican corporation with subsidiaries abroad which, as at 31 December 2020 and 2019, were subject to a minor tax effect of $4,015 and $1,943, respectively, which represented 2.17% and 5.87%, respectively, of the income tax for those years. An analysis of income tax matters related to the Company's operations in Mexico are as follows:

2021 income tax amendments

As of 1 January 2021, the most relevant changes are as follows: (i) the tax incentives for the northern border region of Mexico were extended for four additional years and therefore, will be effective through 2024.

The most relevant changes in mining taxes are as follows: (i) the holders and the assignees of the mining concessions are obliged to pay a special and extraordinary mining fee; (ii) for determining the special mining tax, no payments of the surface mining tax can be credited. In 2021, only 50% of these payments can be credited; (iii) the option of deducting all exploration expenses from the special mining tax in one year is eliminated, and accordingly such expenses must be paid in accordance with the Mexican Income Tax Law.

2020 Tax Reform

On 30 October 2019, the Mexican Congress approved the 2020 Tax Reform, which became effective on 1 January 2020. The most relevant changes are as follows: (i) the reform establishes a net interest expense deduction limitation equal to 30% of an entity's "adjusted tax profit". Adjusted tax profit is calculated similarly to earnings before interest, taxes, depreciation, and amortization (EBITDA). This limitation is only applicable when the amount of the aggregate interest payments of the members of a corporate group in Mexico exceeds 20,000,000 million Mexican pesos (approximately one million U.S. dollars). Non-deductible interest that exceeds this threshold may be carried forward in the following 10 years; (ii) the Federal Tax Code was amended to add new situations in which partners, shareholders, directors, managers or any other individual entrusted with the management of the business can be held jointly and severally liable; (iii) the Tax Reform establishes mandatory reporting requirements for certain transactions to the tax authorities; and (iv) the tax authorities will have more discretionary powers in limiting certain tax benefits and attributes if they consider that the transaction lacked business purpose and if the tax benefit is greater than the reasonably expected economic benefit.

21. Income Tax and Special Tax for Mining Companies (continued)

Income tax

The Mexican Income Tax Law (MITL) stipulates a 30% corporate income tax rate.

Tax consolidation

Industrias Peñoles, S.A.B. de C.V. and its subsidiaries determined their income tax through 2013 on a consolidated basis in accordance with the tax laws in effect in Mexico through that year. However, as a result of the 2014 Mexican Tax Reform, beginning 1 January 2014 both Industrias Peñoles, S.A.B. de C.V. and all its subsidiaries shall calculate their taxes on an individual basis.

In accordance with the new MITL that is effective for annual periods beginning on or after 1 January 2014, groups that were previously tax-consolidated as at 31 December 2013 must deconsolidate and remit all the deferred income tax and asset tax that had been deferred by each entity on an individual basis. As a result, Industrias Peñoles, S.A.B. de C.V., as the controlling company, must remit any income tax that had been deferred on a consolidated basis following a procedure for remitting deferred income tax, similar to the one included in the changes in tax consolidation rules introduced in 2010.

The 2014 Mexican Tax Reform establishes the following two periods in which taxpayers must remit previously deferred taxes as a result of deconsolidation: i) a period of five years, over which the first 25% must be remitted by no later than 31 May 2014 and the remaining 75% to be remitted in four annual installments (25%, 20%, 15% and 15%) over the subsequent four years, and ii) a period of ten years in accordance with the tax law in effect through 2013.

The items that gave rise to deferred income tax from tax consolidation are as follows:

a) Tax losses of the controlled companies carried forward in the calculation of the consolidated tax result and that have not been carried forward individually by the controlled companies.

b) Dividends distributed by controlled companies and that were not paid from the balances of their Net taxed profits account (CUFIN by its acronym in Spanish) or Net reinvested taxed profits account (CUFINRE by its acronym in Spanish).

c) Special consolidation benefits related to transactions carried out between consolidating entities.

Industrias Peñoles, S.A.B. de C.V. has determined a tax deconsolidation effect as at 31 December 2020 of income tax payable of Ps. 16,974, which is primarily the result of the recapture of the tax losses of its consolidated subsidiaries from between 2011 and 2013.

Special tax for mining companies

The Special Tax for Mining Companies (DEM by its acronym in Spanish) is an income tax for entities that hold mining concessions and mining rights. The DEM is equal to 7.5% of a mining company's taxable profit, minus the deductions authorized under the MITL, excluding deductions for investments, interest and the annual inflation adjustment. The DEM may be credited against a mining Company's income tax of the same year and it must be remitted within the first three months of the following year.

21. Income Tax and Special Tax for Mining Companies (continued)

Income tax and special tax for mining companies

In September 2020, Grupo Peñoles made a voluntary tax amendment relating to the tax treatment of its mining investments for mining works at underground mines for the years 2013 to 2019, for which it had to pay $80,368. The net effect of this decision on the statement of profit or loss was $30,646, which corresponds to restatements and surcharges, and $49,722, which corresponds to income tax and mining taxes. This resulted in the reclassification of the deferred tax liability to recoverable income tax.

During 2019, with regard to the 2014 tax audits of Desarrollos Mineros El Águila and Desarrollos Mineros Canelas (the Companies) and the conclusive agreement (the Agreement) entered into by the Companies and the Federal Taxpayer Defense Office (PRODECON, Spanish acronym), on 28 November 2018, Grupo Peñoles decided in its best interest to apply the tax treatment established in the Agreement to all its subsidiaries with similar mining operations. Consequently, these subsidiaries voluntarily applied the tax treatment to their financial information from 2014 to 2018. The net effect of this decision on the statement of profit or loss was approximately $9,279. The total amount recognized from this change in tax treatment was $60,498, of which $43,048 corresponds to income tax and mining taxes and $17,451 corresponds to inflationary restatement and surcharges.

Special tax on production and services

In 2019 and 2018, Mexican tax law provided a special tax on production and services credit on purchases of diesel fuel for mining machinery and certain types of mining vehicles. This credit was calculated on an individual basis for each entity and it may be applied to the current income tax of each entity and/or income tax withheld from third parties.

Recognition in the financial statements

Deferred income tax from tax consolidation

An analysis of payments to be made in future years corresponding to the remittance of income tax deferred from tax consolidation is as follows:

	2020	2019
2020	**$ -**	$ 12,113
2021	**7,382**	9,463
2022	**5,236**	6,789
2023	**4,356**	5,888
Total income tax from tax consolidation	**16,974**	34,253
Deferred tax on the reinvestment of CUFINRE earnings	**179**	189
Total income tax	**17,153**	34,442
Less: Current portion due (1)	**(7,382)**	(12,113)
Total non-current portion of income tax recapture	**$ 9,771**	$ 22,329

(1) Shown under Current income tax.

21. Income Tax and Special Tax for Mining Companies (continued)

Changes in the deferred tax liability

An analysis of the temporary differences giving rise to deferred income tax liabilities is as follows:

	2020	2019
Deferred income tax liabilities:		
Cash and cash equivalents	**$ -**	$ 371
Trade and other accounts receivable	**74,882**	60,006
Inventories	**(14,751)**	(37,083)
Property, plant and equipment	**177,259**	305,680
Other financial assets	**71,352**	40,229
Deferred income tax assets:		
Other financial liabilities	**(44,268)**	(6,878)
Suppliers and other accounts payable	**(137,347)**	(156,577)
Net lease payments	**3,246**	(1,849)
Provisions	**(93,033)**	(72,236)
Employee benefits	**(10,365)**	(10,963)
Available tax loss carryforwards	**(133,752)**	(99,529)
Deferred income tax	**(106,777)**	21,171
Deferred special tax for mining companies	**59,080**	53,032
Deferred income tax liability, net	**$(47,697)**	$ 74,203
Shown in the consolidated statement of financial position:		
Deferred income tax asset	**$ 271,308**	$ 164,577
Deferred income tax liability	**223,611**	238,780
	$(47,697)	$ 74,203

An analysis of tax loss carryforwards recognized as part of deferred income tax, as well as tax loss carryforwards for which no deferred tax asset was recognized, and their expiration dates is as follows:

Year	Total	Recognized amount	Unrecognized amount
2021	**$ 36**	**$ -**	**$ 36**
2022	**105**	**-**	**105**
2023	**3,544**	**3,322**	**222**
2024	**8,125**	**991**	**7,134**
2025	**12,238**	**2,647**	**9,591**
2026	**20,992**	**14,721**	**6,271**
2027	**15,727**	**12,609**	**3,118**
2028	**19,601**	**14,023**	**5,578**
2029	**36,695**	**10,337**	**26,358**
2030	**101,862**	**75,102**	**26,760**
	$ 218,925	**$ 133,752**	**$ 85,173**

21. Income Tax and Special Tax for Mining Companies (continued)

In Mexico the tax loss carryforwards expire in ten years on a stand-alone basis.

Deferred income tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilized.

Deferred income tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in Grupo Peñoles, they have arisen in subsidiaries that have been loss-making for some time, and there is no other evidence of recoverability in the near future to support (either partially or in full) the recognition of the losses as deferred income tax assets.

Income tax recognized in profit or loss

An analysis of income tax recognized in the consolidated statement of profit or loss for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Current income tax	**$ 255,018**	$ 206,099
Deferred income tax related to the creation and reversal of temporary differences	**(113,024)**	(206,923)
Special tax on production and services credit	**(1,517)**	(11,894)
Current income tax	**140,477**	(12,718)
Current special tax for mining companies	**29,752**	7,402
Deferred special tax for mining companies	**14,583**	(27,813)
Special tax for mining companies	**44,335**	(20,411)
Total income tax expense/(benefit) recognized in profit or loss	**$ 184,812**	$(33,129)

A reconciliation of the statutory income tax rate to the effective income tax rate recognized by the Company for financial reporting purposes is as follows:

	2020	2019
Income tax at statutory rate determined in Mexico (30%)	**$ 82,324**	$ 23,769
Effects of inflation for tax purposes	**(43,399)**	(32,651)
Non-deductible costs and expenses	**11,842**	8,848
Effect of foreign currency translation on the tax value of assets and liabilities	**59,308**	(55,356)
Special tax on production and services credit	**(1,517)**	(11,894)
Unrecognized deferred tax assets	**94,352**	53,891
Deferred special tax for mining companies	**(13,134)**	5,603
Other items	**940**	162
Tax incentive in border region	**(50,239)**	(5,090)
Income tax	**$ 140,477**	$(12,718)
Effective income tax rate	**51.2%**	(16.1)%

21. Income Tax and Special Tax for Mining Companies (continued)

Income tax recognized in other comprehensive income

An analysis of deferred income tax recognized directly in equity for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Unrealized loss on valuation of equity instrument financial assets	**$(29,575)**	$(13,961)
Unrealized (loss)/gain on valuation of employee benefits	**(874)**	1,523
Unrealized gain on valuation of hedges	**30,575**	4,096
	$ 126	$(8,342)

Unrecognized deferred tax on equity investments in subsidiaries

Grupo Peñoles has not recognized all the deferred tax liability in respect of distributable reserves of its subsidiaries because it exercises control over those subsidiaries and only a portion of the temporary differences are expected to reverse in the foreseeable future. As at 31 December 2020, the temporary differences for which a differed tax liability has not been recognized amounted to $235,016.

22. Equity and Components of Other Comprehensive Loss

Share capital

The share capital of Industrias Peñoles, S.A.B. de C.V. as at 31 December 2020 and 2019 is represented by common registered shares with no par value. Fixed minimum share capital is represented by Class I shares and variable share capital by Class II shares. An analysis is as follows:

	Shares		Amount	
	2020	2019	**2020**	2019
Share capital authorized and subscribed	**413,264,747**	413,264,747	**$ 403,736**	$ 403,736
Share buybacks	**15,789,000**	15,789,000	**2,337**	2,337
Outstanding nominal share capital	**397,475,747**	397,475,747	**$ 401,399**	$ 401,399

As at 31 December 2020 and 2019, the Company's nominal share capital consists of minimum fixed share capital of $401,399 (equal to Ps. 2,191,210) and variable share capital, which may not exceed ten times the amount of fixed share capital.

Undistributed earnings

Dividends paid to individuals and foreign corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax.

At an ordinary shareholders' meeting held on 9 April 2019, the shareholders resolved that an amount of up to $191,515 (equal to Ps. 3,500 million) could be used to acquire treasury shares in accordance with the Mexican Securities Market Act. The Company has created a reserve for this amount under undistributed earnings.

22. Equity and Components of Other Comprehensive Loss (continued

Legal reserve

The Company is required to appropriate at least 5% of the net profit of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. At date, the Company has fully covered this percentage. This reserve may not be distributed, except in the form of share dividends.

Components of other comprehensive loss

Effect of unrealized gain or loss on valuation of hedges

This includes the effective portion of the gain or loss on valuation of financial instruments classified as cash flow hedges, net of deferred income tax. The unrealized gain or loss is recycled to profit or loss at the time the hedged transaction occurs.

Effect of unrealized gain or loss on valuation of equity instrument financial assets

This corresponds to the fair value changes in equity instrument financial assets, net of deferred income tax. Gains and losses arising from these financial assets will never be reclassified to profit or loss. Dividends are recognized as Other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Foreign currency translation reserve

This item represents the effects of translation to the presentation currency of certain subsidiaries and associates, whose functional currency is the Mexican peso.

Effect of unrealized gain or loss on revaluation of labor obligations

This item represents the actuarial gain or loss arising on changes in liabilities for retirement benefits due to changes made to the actuarial assumptions used to calculate the liability.

An analysis of the Company's components of other comprehensive (loss)/income as at 31 December 2020 and 2019 is as follows:

	Remeasurement effect of employee benefits	Unrealized gain or loss on valuation of hedges	Unrealized gain or loss on valuation of equity instrument financial assets	Translation adjustment	Total
Beginning balance as at 1 January 2020	**$(37,050)**	**$(16,548)**	**$ 46,262**	**$(70,361)**	**$(77,697)**
Other components of comprehensive loss	**4,632**	**(68,109)**	**53,330**	**(10,067)**	**(20,214)**
Balance as at 31 December 2020	**$(32,418)**	**$(84,657)**	**$ 99,592**	**$(80,428)**	**$(97,911)**

22. Equity and Components of Other Comprehensive Loss (continued

	Remeasurement effect of employee benefits	Unrealized gain or loss on valuation of hedges	Unrealized gain or loss on valuation of equity instrument financial assets	Translation adjustment	Total
Beginning balance as at 1 January 2019	$(29,385)	$(6,035)	$ 21,531	$(80,271)	$(94,160)
Other components of comprehensive income	(7,665)	(10,513)	24,731	9,910	16,463
Balance as at 31 December 2019	$(37,050)	$(16,548)	$ 46,262	$(70,361)	$(77,697)

23. (Loss)/Earnings Per Share

(Loss)/earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of Grupo Peñoles by the weighted average number of ordinary shares outstanding during the year.

Basic and diluted (loss)/earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

An analysis of the Company's (loss)/earnings per share as at 31 December 2020 and 2019 is as follows:

	2020	2019
Net (loss)/profit (in thousands of U.S. dollars):		
Attributable to the shareholders of Grupo Peñoles	**$(34,384)**	$ 35,472
Shares (number of shares in thousands):		
Weighted average number of ordinary outstanding shares	**397,476**	397,476
(Loss)/earnings per share:		
Basic and diluted (loss)/earnings per share (in U.S. dollars)	**$(0.09)**	$ 0.09

24. Dividends

An analysis of dividends declared in 2019 is as follows:

	2019		
	U.S. dollar cents per share (1)	Number of shares	Amount
Dividend declared at a regular shareholders' meeting held on 9 April 2019	$ 0.20	397,475,747	$ 78,743
Dividend declared at a regular shareholders' meeting held on 9 April 2019	$ 0.20	397,475,747	78,557
Total dividends paid			$ 157,300

1) Cash dividends equal Ps. 3.78 per share.

25. Related Parties

An analysis of balances due from and to unconsolidated related parties is as follows:

Receivables:	**2020**	2019
Sales:		
Dowa Mining Co. Ltd. (3)	**$ 2,361**	$ -
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**808**	802
Eólica de Coahuila, S. de R.L. de C.V. (2)	**51**	18
Other	**70**	104
	3,290	924
Short-term loans:		
Inmobiliaria Industrial La Barra, S.A. (3)	**7,889**	6,207
Total	**$ 11,179**	$ 7,131

Payables:	**2020**	2019
Current accounts:		
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$ 13,610**	$ 12,483
Línea Coahuila-Durango, S.A. de C.V. (2)	**677**	1,052
Other	**167**	159
	14,454	13,694
Loans:		
Minera los Lagartos, S.A. de C.V. (3)	**64,425**	-
Total	**$ 78,879**	$ 13,694

Transactions with related entities during the periods ended 31 December 2020 and 2019 were as follows:

Revenue:	**2020**	2019
Sales of concentrates and refined metal:		
Dowa Mining Co. Ltd. (3)	**$ 46,979**	$ 53,311
Sumitomo Corporation (3)	**105,776**	39,173
	152,755	92,484
Interest:		
Inmobiliaria Industrial La Barra, S.A. (3)	**1,600**	702
Electricity:		
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**6,663**	7,804
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**486**	779
Instituto Tecnológico Autónomo de México (1)	**108**	234
	7,257	8,817
Other		
Línea Coahuila Durango, S.A. de C.V. (2)	**618**	1,084
Petrobal, S.A.P.I. de C.V. (1)	**270**	184
Petrobal Upstream Delta 1, S.A. de C.V. (1)	**473**	712
Corporación Innovadora de Personal, S.A. de C.V. (1)	**33**	-
Técnica Administrativa Ener, S.A. de C.V. (1)	**68**	-
	1,462	1,980
	$ 163,074	$ 103,983

25. Related Parties (continued)

Expenses:		**2020**		2019
Electricity:				
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$**	**119,391**	$	106,798
Eólica de Coahuila, S. de R.L. de C.V. (4)		**61,003**		50,939
Eólica Mesa la Paz, S. de R.L. de C.V. (4)		**21,285**		-
		201,679		157,737
Administrative fees:				
Servicios Corporativos Bal, S.A. de C.V. (1)		**30,114**		33,709
Técnica Administrativa Bal, S.A. de C.V. (1)		**8**		34
		30,122		33,743
Insurance and bonds:				
Grupo Nacional Provincial, S.A.B. de C.V. (1)		**31,244**		25,836
Other		**210**		311
		31,454		26,147
Air transportation:				
Aerovics, S.A. de C.V. (1)		**7,178**		5,446
Royalties:				
Dowa Mining Co. Ltd. (3)		**9,614**		7,151
Sumitomo Corporation (3)		**1,957**		2,441
		11,571		9,592
Rent:				
MGI Fusión, S.A. de C.V. (1)		**3,053**		2,882
Other		**9,236**		22,111
	$	**294,293**	$	257,658

(1) Affiliates under the common control of Grupo Bal and composed of independent Mexican companies, including Grupo Palacio de Hierro, S.A.B. de C.V.; Grupo Nacional Provincial, S.A.B. de C.V.; Valores Mexicanos Casa de Bolsa, S.A. de C.V.; and Petrobal, S.A.P.I. de C.V.
(2) Associates
(3) Non-controlling interest holders
(4) Other related parties

Grupo Peñoles grants the following benefits to key management personnel, which include its Steering Committee members and the paid members of its Board of Directors:

		2020		2019
Short-term benefits:				
Compensation and other short-term benefits	**$**	**8,391**	$	10,910
Long-term benefits:				
Retirement benefits	**$**	**9,583**	$	9,742

26. Sales

An analysis of sales by product type is as follows:

	2020	2019
Silver	$ **1,427,394**	$ 1,162,185
Gold	**1,622,299**	1,545,359
Zinc	**621,567**	715,092
Lead	**253,152**	271,646
Ore concentrates	**347,346**	311,815
Copper	**85,371**	126,782
Sodium sulfate	**105,137**	114,260
Other products	**211,043**	224,809
	$ **4,673,309**	$ 4,471,948

An analysis of sales by geographical area is as follows:

	2020	2019
Domestic sales	$ **629,201**	$ 711,611
Asia	**429,632**	287,426
United States of America	**2,347,724**	3,060,145
Europe	**629,123**	371,330
Canada	**583,362**	433
South America	**40,493**	20,897
Other	**13,774**	20,106
	$ **4,673,309**	$ 4,471,948

27. Cost of Sales

An analysis of cost of sales for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Personnel expenses (Note 31)	$ **285,560**	$ 280,604
Energy	**374,359**	415,392
Operating materials	**345,539**	373,884
Maintenance and repairs	**311,061**	341,722
Depreciation and amortization (Note 13)	**693,832**	674,990
Amortization of right-of-use assets (Note 15)	**3,986**	3,848
Transfer of by-products	(**92,676)**	(97,161)
Contractors	**415,635**	451,678
Leases of low-value assets (Note 15)	**6,603**	6,107
Other	**174,866**	183,318
Inventory adjustments	(**114,348)**	20,738
Cost of sale of extraction and treatment	**2,404,417**	2,655,120
Cost of metals sold	**1,019,926**	945,991
	$ **3,424,343**	$ 3,601,111

28. Administrative Expenses

An analysis of administrative expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Personnel expenses (Note 31)	**$ 96,123**	$ 109,337
Fees	**79,433**	85,230
Travel expenses	**5,447**	13,425
Information technology expenses	**15,546**	13,526
Amortization of right-of-use assets (Note 15)	**13,299**	11,693
Leases of low-value assets (Note 15)	**14,076**	11,220
Fees, associations and other	**25,745**	21,333
Total administrative expenses	**$ 249,669**	$ 265,764

29. Exploration Expenses

An analysis of exploration expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Personnel expenses (Note 31)	**$ 6,240**	$ 7,238
Contractors	**80,839**	136,962
Taxes and duties	**28,908**	29,181
Operating materials	**434**	778
Amortization of right-of-use assets (Note 15)	**1,095**	1,059
Leases of low-value assets (Note 15)	**2,033**	2,833
Fees, assays and other	**21,489**	30,094
Total exploration expenses	**$ 141,038**	$ 208,145

An analysis of liabilities associated with the exploration and evaluation of mineral resources as at 31 December 2020 and 2019 is as follows:

	2020	2019
Total exploration liabilities	**$ 5,888**	$ 3,925

An analysis of cash flows used in operating activities related to the exploration and evaluation of mineral resources for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Cash flows used in operating activities	**$(62,084)**	$(82,512)

30. Selling Expenses

An analysis of selling expenses for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Freight and transfers	$	**75,803**	$	82,808
Royalties		**8,878**		8,973
Handling		**3,115**		4,287
Extraordinary mining tax		**9,078**		7,877
Amortization of right-of-use assets (Note 15)		**1,957**		2,103
Other expenses		**16,876**		15,868
Total selling expenses	$	**115,707**	$	121,916

31. Personnel Expenses

An analysis of personnel expenses for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Salaries and other employee benefits	$	**234,160**	$	240,030
Employee benefits at retirement		**20,166**		9,942
Social security dues		**61,624**		65,052
Social welfare and other benefits		**71,973**		82,155
Total personnel expenses	$	**387,923**	$	397,179

An analysis of personnel expenses based on their function is as follows:

		2020		2019
Cost of sales	$	**285,560**	$	280,604
Administrative expenses		**96,123**		109,337
Exploration expenses		**6,240**		7,238
Total personnel expenses	$	**387,923**	$	397,179

In 2020 and 2019, the Company's average number of employees (unaudited information) is as follows:

	2020	2019
Number of non-union workers	**4,707**	4,851
Number of unionized workers	**8,825**	9,331
Total	**13,532**	14,182

32. Other (Income)/Expenses

An analysis of other income for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Rental income	$(4,133)	$(1,486)
Income from royalties	(1,067)	(5,186)
Gain on sale of property, plant and equipment	(592)	(4,950)
Gain on sale of other goods and services	-	(251)
Gain on sale of materials and scrap	-	(79)
Gain on sale of concentrates	(9,999)	-
Increase in provision for rehabilitation of closed mines (Note 20)	(13,302)	-
Other income	$(29,093)	$(11,952)

An analysis of other expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Donations	$ 3,173	$ 5,368
Uncapitalized rehabilitation expenses for closed mines (Note 20)	-	3,809
Maintenance expenses for closed mining units	5,314	7,184
Losses from accidents	382	835
Loss on sale of concentrates	-	2,768
Loss on sale of other products and services	573	-
Inventory write-off (Note 11)	22,309	-
Loss on sale of materials and scrap	11,697	-
Restatements and surcharges and others	297	11,768
Other expenses	$ 43,745	$ 31,732

33. Finance Income

An analysis of finance income is as follows:

	2020	2019
Interest income on cash equivalents and other investments	$ 6,741	$ 16,620
Interest income from trade receivables	2,212	829
Finance income on tax refund	11,119	12,005
Other	5,119	99
	$ 25,191	$ 29,553

34. Finance Costs

An analysis of finance costs is as follows:

		2020		2019
Interest arising on financial debt	**$**	**103,616**	$	72,626
Debt restructuring cost (Note 18)		**60,835**		9,792
Reclassification of hedging instruments due to payment of underlying assets (Note 18)		**25,143**		-
Amortization of transaction costs (Note 18)		**6,203**		4,835
Discount of liability provisions (Note 20)		**21,682**		22,612
Net interest on defined benefit obligation (Note 19)		**4,203**		4,509
Finance cost on lease liabilities (Note 15)		**7,730**		7,590
Finance cost on taxes paid (Note 21)		**29,387**		9,007
Other		**997**		7,601
	$	**259,796**	$	138,572

35. Statements of Cash Flows

A reconciliation of consolidated net profit and cash flows provided by operating activities for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Consolidated net profit	**$**	**89,601**	$	112,358
Items not affecting cash flows:				
Depreciation, amortization and depletion (Note 13)		**693,832**		674,990
Lease expense (short-term leases and leases of low-value assets) (Note 15)		**22,768**		20,160
Amortization of right-of-use assets (Note 15)		**20,337**		18,724
Share of profit of associates (Note 14)		**3,321**		1,153
Income tax (Note 21)		**184,812**	(	33,129)
Inventory write-off (Notes 11 and 32)		**22,309**	(	1,043)
Provisions and allowances		**26,942**		69,866
Hedges applied due to early closing of positions	**(**	**55,526)**		-
Other labor obligations (Note 19)		**29,605**		18,067
Foreign exchange loss, net		**22,013**		15,223
Gain on sale and retirement of fixed assets (Note 32)	**(**	**592)**	(	4,950)
Impairment in the value of property, plant and equipment (Note 13)		**166,353**		66,579
Interest income	**(**	**6,885)**	(	16,746)
Interest expense		**180,108**		112,620
Derivative financial instruments		**12,206**	(	6,842)
Other	**(**	**4,238)**		2,430
Subtotal		**1,406,966**		1,049,460
Trade and other accounts receivable		**44,507**	(	204,800)
Inventories	**(**	**225,534)**	(	105,544)
Suppliers and other accounts payable		**29,160**		53,108
Lease expense (short-term leases and leases of low-value assets) (Note 15)	**(**	**22,768)**	(	20,160)
Early closing of positions		**87,664**		-
Income tax paid	**(**	**238,172)**	(	206,289)
Income tax refunds obtained		**68,689**		59,946
Special tax for mining companies paid	**(**	**21,851)**	(	33,939)
Employee profit sharing paid	**(**	**15,599)**	(	21,698)
Net cash flows from operating activities	**$**	**1,113,062**	$	570,084

36. Contingencies

As at 31 December 2020 and 2019, the Company had the following contingencies:

a) Grupo Peñoles is subject to various laws and regulations which, if not observed, could give rise to penalties. The Company's income tax is open to review by the tax authorities (Tax Administration Service) for a period of five years following the filing of the annual corporate income tax return, and during this period the tax authorities have the right determine additional taxes owed by the Company, including penalties and surcharges. Under certain circumstances, these reviews may cover longer periods. As such, there is the risk that transactions, especially those with related parties, that have not been questioned in the past by the tax authorities, could be challenged by the authorities in the future.

   Grupo Peñoles is currently subject to various tax audits by the tax authorities (Tax Administration Service) in relation to income tax, special mining tax and employee profit sharing and has submitted the information and documentation requested by the authorities. On 13 February 2020, the Tax Administration Service initiated a tax audit in relation to the calculation of the 2014 income tax and mining taxes of Desarrollos Mineros Fresne, S. de R.L de C.V. On 3 February 2021, the Tax Administration Service issued its observations as a result of this tax audit, to which the Company should respond by no later than 4 March 2021. These observations relate to the tax treatments of capitalized costs attributable to stripping activities and exploration expenses.

   It is not currently possible to anticipate and estimate the amounts of potential claims or the likelihood of unfavorable outcomes from these tax audits or any future tax audits that the Company may be subject to.

b) On 6 February 2020, the Supreme Court of Justice ruled on the motions for relief (amparos) filed by certain subsidiaries of Grupo Peñoles that operate in Zacatecas against the Revenue Act of Zacatecas that introduces new green taxes. As a result of these motions, Grupo Peñoles was exempted from compliance with the articles related to extraction activities and waste disposal and storage as part of the mining process. However, Grupo Peñoles was not exempted from compliance with the articles imposing taxes on gas emissions to the atmosphere and taxes on emissions of pollutants to the soil, subsoil and water, the estimated annual cost of which beginning in 2017, the year in which the Law came into effect, is not significant for the overall consolidated financial statements.

37. Commitments

Commitments for the purchase of mineral products

As at 31 December 2020 and 2019, the Company has entered into various agreements with third parties to purchase different mineral products in order to optimize productive operations and operate metallurgical plants at their full capacity. The purchase agreements are for a total of approximately \$4,404,000 and \$4,054,000, respectively. These contracts may be canceled upon prior notice without penalties for either party.

Electric power supply

As part of its strategy to ensure the electricity supply for its operations at competitive costs, Grupo Peñoles has the following commitments related to the purchase of electricity.

a) Termoeléctrica Peñoles

   Grupo Peñoles entered into an agreement to acquire, through one of its subsidiaries, electricity from a 230 Megawatt power plant.

37. Commitments (continued)

In addition to the electric power supply agreement, the Company entered into a business trust agreement for the operation and maintenance of a power plant under the self-supply permit granted to Termoeléctrica Peñoles, S. de R.L. de C.V. (TEP). This agreement expires in 2027. To guarantee these purchase commitments, the developers/operators of the plant were extended a sale option ("put option") so that, in the event of default obligations by the subsidiaries, the developers/operators may demand that Grupo Peñoles buy TEP at a price equal to the present value of the remaining payments scheduled for the subsidiaries under the agreement. The estimated cost for electricity consumption for 2021 based on the estimated proportion generation for the year of 2,000 kWh is $130,757.

b) Eólica de Coahuila

On 25 April 2014, the Company entered into a 25-year agreement with Eólica de Coahuila, S. de R.L. de C.V. (EDC) to supply electricity to this entity under a self-supply arrangement. In order to meet its commitments under this agreement, Peñoles' subsidiaries that entered into this agreement shall buy all of the net power production that EDC generates over the agreed term, which is estimated to be 700 million kWh per year, payable on a monthly basis at a fixed determinable price per kWh delivered by EDC to the Federal Electricity Commission at the interconnection point established in the agreement. Electricity production commenced in April 2017. In addition to this agreement, the Company also entered into a put option agreement to transfer the partnership interests of EDC upon occurrence of certain default events. The estimated cost for electricity consumption for 2021 based on the estimated proportion generation for the year of 723.7 kWh is $61,532.

c) Eólica Mesa La Paz

On 25 January 2018, Grupo Peñoles entered into a 25-year power supply agreement with Eólica Mesa La Paz, S. de R.L. de C.V. (MLP) in accordance with the Electric Industry Law. Under this agreement, the Company's subsidiaries will be supplied, through a Qualified Service Provider, with 67.8% of the net energy produced by MLP during the first seven years, which is estimated to be 782.3 million kWh per year. From the eighth year to the expiration of the agreement, the subsidiaries will be supplied with 100% of the net energy produced by MLP, which is estimated to be 1,170.0 million kWh per year. The Company agreed to pay a determinable fixed price per kWh delivered by MLP to the National Electric System at the interconnection point established in the agreement. Electricity production commenced in April 2020. In addition to this agreement, the Company also entered into a put option agreement to transfer the partnership interests of MLP upon occurrence of certain default events. The estimated cost for electricity consumption for 2021 based on the estimated proportion generation for the year of 748.6 kWh is $32,169.

For the years ended 31 December 2020 and 2019, the expense for the power supply received is as follows:

	2020	2019
Power payment	**$ 201,679**	$ 157,737

38. Financial Instruments

Analysis by category

An analysis of financial instruments by category as at 31 December 2020 is as follows:

	At amortized cost	Fair value: Through profit or loss	Fair value: Through OCI	Fair value: Hedging instruments
Financial assets:				
Trade and other accounts receivable	**$ 258,996**	**$ 1,700**	$ -	**$ -**
Other financial assets (Note 10)	**4,116**	**-**	-	**18,607**
Equity instrument financial assets	**-**	**-**	**232,549**	**-**
	$ 263,112	**$ 1,700**	**$ 232,549**	**$ 18,607**

	At amortized cost	At fair value: Through profit or loss	At fair value: Hedging instruments
Financial liabilities:			
Financial debt	**$ 2,901,611**	**$ -**	**$ -**
Suppliers and other accounts payable	**342,737**	**827**	**-**
Other financial liabilities (Note 17)	**-**	**23,273**	**205,438**
	$ 3,244,348	**$ 24,100**	**$ 205,438**

An analysis of financial instruments by category as at 31 December 2019 is as follows:

	At amortized cost	Fair value: Through profit or loss	Fair value: Through OCI	Fair value: Hedging instruments
Financial assets:				
Trade and other accounts receivable	$ 224,714	$ 684	$ -	$ -
Other financial assets (Note 10)	4,350	-	-	32,626
Equity instrument financial assets	-	-	133,966	-
	$ 229,064	$ 684	$ 133,966	$ 32,626

	At amortized cost	Fair value: Through profit or loss	Fair value: Hedging instruments
Financial liabilities:			
Financial debt	$ 2,226,326	$ -	$ -
Suppliers and other accounts payable	308,880	1,768	-
Other financial liabilities (Note 17)	-	-	44,734
	$ 2,535,206	$ 1,768	$ 44,734

38. Financial Instruments (continued)

Fair value of financial instruments and fair value hierarchy

An analysis of the Company's fair value financial instruments as at 31 December 2020 and 2019 is as follows:

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Trade and other accounts receivable	**$ 260,696**	**$ 260,696**	$ 225,398	$ 225,398
Other financial assets	**22,723**	**22,723**	36,976	36,976
Equity instrument financial assets	**232,549**	**232,549**	133,966	133,966
	$ 515,968	**$ 515,968**	$ 396,340	$ 396,340

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Financial debt	**$ 2,901,611**	**$ 3,335,383**	$ 2,226,326	$ 2,338,915
Suppliers and other accounts payable	**343,564**	**343,564**	310,648	310,648
Other financial liabilities	**228,711**	**228,711**	44,734	44,734
	$ 3,473,886	**$ 3,907,658**	$ 2,581,708	$ 2,694,297

The following analysis shows the fair value of the financial instruments measured using three classifications:

Level 1: quoted prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: unobservable inputs for the asset or liability.

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Trade and other accounts receivable:				
Embedded derivatives	**$ -**	**$ 1,700**	**$ -**	**$ 1,700**
Other financial assets:				
Forwards and options	**-**	**18,408**	**-**	**18,408**
Futures	**199**	**-**	**-**	**199**
Equity instrument financial assets	**232,549**	**-**	**-**	**232,549**
	$ 232,748	**$ 20,108**	**$ -**	**$ 252,856**

38. Financial Instruments (continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded derivatives	**$ -**	**$ 827**	**$ -**	**$ 827**
Other financial liabilities:				
Forwards and options	**-**	**228,645**	**-**	**228,645**
Futures	**66**	**-**	**-**	**66**
	$ 66	**$ 229,472**	**$ -**	**$ 229,538**

As at 31 December 2019:

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Trade and other accounts receivable:				
Embedded derivatives	$ -	$ 684	$ -	$ 684
Other financial assets:				
Forwards and options	-	32,119	-	32,119
Futures	507	-	-	507
Equity instrument financial assets	133,966	-	-	133,966
	$ 134,473	$ 32,803	$ -	$ 167,276

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded derivatives	$ -	$ 1,768	$ -	$ 1,768
Other financial liabilities:				
Forwards and options	-	44,392	-	44,392
Futures	342	-	-	342
	$ 342	$ 46,160	$ -	$ 46,502

Hedging instruments

Grupo Peñoles contracts derivatives with various financial institutions to reduce its exposure to changes in the variables and pricing of its transactions. This risk consists of the risk associated with fluctuations in the prices of produced or processed metals and energy, as well as the exchange rates associated with the Company's financial and business transactions.

To minimize its counterparty credit risk, Grupo Peñoles has entered into agreements only with well-known and financially strong financial institutions. Grupo Peñoles does not expect any of its counterparties to default on their obligations and thus does not consider it necessary to create any reserves for counterparty risk.

38. Financial Instruments (continued)

Cash-flow hedges

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized gain as at 31 December 2020 is as follows:

Commodity	Derivative	Notional (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	**4,248,000**	**\$ 20 - \$ 50**	**\$ 1,611**
Silver (ounces)	Future	**1,518,552**	**\$ 27**	**671**
Gold (ounces)	Option	**17,905**	**\$ 1,630 - \$ 2,317**	**63**
Gold (ounces)	Future	**51,671**	**\$ 1,889**	**639**
Lead (tons)	Future	**2,522**	**\$ 603**	**136**
Zinc (tons)	Option	**7,544**	**\$ 2,645 - \$ 2,966**	**144**
Zinc (tons)	Future	**43,758**	**\$ 2,254**	**2,739**
Energy cost hedging program (c):				
Natural gas (MMbtu)	Future	**700,000**	**\$ 3**	**53**
Foreign currency (b):				
U.S. dollar	Option	**37,530,000**	**\$ 22.50 - \$ 31.97**	**4,499**
Euro	Future	**8,308,516**	**\$ 2.38**	**212**
Swedish krona	Future	**10,213,084**	**\$ 8.74**	**80**
Financial interest rate (d):				
Interest rate	IRS	**300,000,000**	**1.42**	**561**
Total (Note 10)				**\$ 11,408**

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized loss as at 31 December 2020 is as follows:

Commodity	Derivative	Notional (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	**21,559,200**	**\$ 17- \$ 21**	**\$(140,426)**
Silver (ounces)	Future	**906,444**	**\$ 27**	**(640)**
Gold (ounces)	Option	**317,135**	**\$ 1,576 - \$ 2,024**	**(21,228)**
Gold (ounces)	Future	**3,258**	**\$ 1,576**	**(74)**
Copper (ounces)	Option	**600**	**\$ 6,670 - \$ 7,947**	**(167)**
Lead (tons)	Future	**2,522**	**\$ 1,356**	**(110)**
Zinc (tons)	Option	**16,120**	**\$ 2,384 - \$ 2,905**	**(1,205)**
Zinc (tons)	Future	**46,561**	**\$ 1,018**	**(944)**
Energy cost hedging program (c):				
Natural gas	Future	**1,500,000**	**\$ 2.58**	**(229)**
Financial interest rate (d):				
Interest rate	IRS	**58,298,835**	**2.03**	**(3,690)**
Total (Note 17)				**\$(168,713)**

38. Financial Instruments (continued)

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized gain as at 31 December 2019 is as follows:

Commodity	Derivative	Notional (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	8,432,500	$ 17 - $ 22	$ 4,557
Silver (ounces)	Future	193,500	$ 18	53
Gold (ounces)	Option	133,520	$1,429 - $ 1,819	2,072
Gold (ounces)	Future	34,997	$ 1,515	40
Lead (ounces)	Option	13,896	$ 2,094 - $ 2,285	2,683
Lead (tons)	Future	2,004	$ 2,210	224
Zinc (tons)	Option	15,558	$ 2,645 - $ 2,887	6,119
Zinc (tons)	Future	13,518	$ 1,882	2,363
Foreign currency (b):				
Euro	Future	$ 6,709	$ 1.13	114
Swedish krona	Future	$ 28,457	$ 9.50	61
Financial interest rate (d):				
Interest rate	IRS	$ 368,015	2.0	3
Total (Note 10)				$ 18,289

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized loss as at 31 December 2019 is as follows:

Commodity	Derivative	Notional (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	20,523,500	$ 16 - $ 18	$(18,152)
Silver (ounces)	Future	2,557,755	$ 17	(3,388)
Gold (ounces)	Option	152,824	$ 1,306 - $ 1,587	(5,120)
Gold (ounces)	Future	11,118	$ 1,514	(43)
Lead (tons)	Future	766	$ 2,210	(136)
Zinc (tons)	Future	78	$ 1,983	(2,152)
Foreign currency (b):				
Euro	Future	$ 593	$ 1.13	(240)
Swedish krona	Future	$ 13,724	$ 9.35	(22)
Financial interest rate (d):				
Interest rate	IRS	$ 368,015	2.5	
				(12,305)
Total (Note 17)				$(41,558)

Note:

(1) The prices in the above table reflect the weighted average sale or purchase price of forwards and the weighted average strike price of put and call options.

(2) Contracts that commit a portion of the Company's production from 2021 to 2022.

a) Metal price hedging program

Grupo Peñoles values its transactions based on the international market prices listed on the London Metal Exchange (for base metals) and the London Bullion Market Association (for precious metals).

38. Financial Instruments (continued)

As a result, the income of Grupo Peñoles may be affected by variances in the above-mentioned market prices and for this purpose, the Company establishes hedge programs based on its budgeted production using derivative financial instruments, such as "forwards" and "put" and "call" options.

Hedging positions

Due to current metal price conditions , the Company decided to close a portion of the market value of its gold, silver and zinc hedging positions in advance and thus monetize $87,664.According to the cash flow hedge accounting, realized gains are recognized in other comprehensive income and the profit generated by the closing of the hedged items will be recognized on the dates on which the forecasted transactions take place for the period from 30 April 2020 to 31 December 2021. As at 31 December 2020, the Company recognized a hedge amortization expense of $55,526.

	31 December	
	2020	2019
Hedge protection program		
Metals		
Silver	**$ 32,138**	$ -

b) Foreign currency hedging program

As at 31 December 2020, the Company has the following derivative contracts to hedge a portion of its fixed asset acquisitions denominated in euros (EUR) and Swedish kronor (SEK):

c) Energy cost hedging program

This program is aimed at stabilizing the Company's costs in U.S. dollars associated with changes in natural gas prices for its subsidiaries that buy natural gas and assuring the continuity of the Company's operations.

d) Interest rate hedging program

The aim of this program is to use swaps to stabilize the borrowing costs of the Company's loans in U.S. dollars and/or Mexican pesos. Grupo Peñoles contracts hedge instruments covering its financing costs related to loans with floating interest rates.

As at 31 December 2020, the Company has debt under the Export Credit Agency (ECA) structure that bears floating interest at a rate equal to the LIBOR. The Company's strategy has been to fully hedge the interest rate of its current debt. See Note 18.

Likewise, the Company contracted foreign currency hedges to mitigate any potential adverse effect of a significant revaluation in the Mexican peso/U.S. dollar exchange rate on its production costs denominated in Mexican pesos.

38. Financial Instruments (continued)

The fair value of financial instruments classified as cash flow hedges, net of deferred income tax recognized in equity, is as follows:

	2020	2019
Fair value of financial instruments	**$(157,305)**	$(23,269)
Hedges balance due to early closing of positions	**32,138**	-
Ineffectiveness and effect of time value of options excluded from hedges	**1**	17
Deferred income tax	**37,551**	6,976
Net fair value of deferred income tax recognized directly in equity	**$(87,615)**	$(16,276)

Changes in the unrealized profit (loss) on valuation of hedges for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
Beginning balance as at 1 January	**$(16,276)**	$(6,720)
Loss reclassified to earnings	**(34,643)**	(193)
Deferred income tax	**10,393**	58
Reclassification of hedging instruments due to payment of underlying assets	**(25,143)**	-
Deferred income tax	**7,543**	-
Realized gain on hedges due to early closing of positions	**87,664**	-
Reclassification to profit or loss of realized loss on hedges due to early closing of positions	**(55,526)**	-
Deferred income tax	**(9,641)**	-
Changes in the fair value of hedges	**(74,266)**	(13,459)
Deferred income tax	**22,280**	4,038
Unrealized loss net of deferred income tax as at 31 December	**$(87,615)**	$(16,276)

As at 31 December 2020, derivative contracts consist of forecast transactions that the Company expects to carry out between 2021 and 2026. An analysis of the anticipated reclassification (in years) from equity to profit or loss is as follows:

	1	2 or more	Total
Unrealized loss	$(113,569)	$ 25,954	$(87,615)

An analysis of the net unrealized gain on the settlement of derivate contracts is as follows:

	2020	2019
Sales	**$(34,499)**	$(2,613)
Cost of sales	**58,688**	9,224
Interest expense	**(3,234)**	(1,593)
Total	**$ 20,955**	$ 5,018

38. Financial Instruments (continued)

Fair value hedges

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at 31 December 2020 is as follows:

Commodity	Derivative	Notional	Strike price (1)	Fair value
Metal price:				
Lead (tons)	Futures	880	$ 2,199	$ 169
Lead (tons)	Futures	7,500	$ 1,906	36
Zinc (tons)Futures	Futures	12,217	$ 2,734	3,163
Total (Note 10)				$ 3,368

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized loss as at 31 December 2020 is as follows:

Commodity	Derivative	Notional	Strike price (1)	Fair value
Metal price:				
Gold (ounces)	Futures	13,000	$ 1,833	$(59)
Gold (ounces)	Futures	3,000	$ 1,891	(19)
Silver (ounces)	Futures	1,201,000	$ 24	(16)
Zinc (tons)Futures	Futures	303,375	$ 2,500	(15,692)
Total (Note 17)				$(15,786)

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at 31 December 2019 is as follows:

Commodity	Derivative	Notional	Strike price (1)	Fair value
Metal price:				
Lead (tons)	Future	1,037	$ 1,677	$ 288
Zinc (tons)	Future	12,178	$ 2,440	4,791
Zinc (tons)	Future	245,775	$ 2,363	623
Copper (tons)	Future	65	$ 6,107	6
Total (Note 10)				$ 5,708

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized loss as at 31 December 2019 is as follows:

Commodity	Derivative	Notional	Strike price (1)	Fair value
Metal price:				
Lead (tons)	Future	31,600	$ 2,060	$(42)
Gold (ounces)	Future	10,000	$ 1,482	(344)
Silver (ounces)	Future	1,801,000	$ 17	(190)
Copper (tons)	Future	1,996	$ 5,956	(417)
Total (Note 17)				$(993)

Note:

(1) The prices in the above table reflect the weighted average sale or purchase price of futures and the weighted average strike price of put and call options.

38. Financial Instruments (continued)

Metal price hedging program

Grupo Peñoles values its transactions based on the international market prices listed on the London Metal Exchange (for base metals) and the London Bullion Market Association (for precious metals).

As a result, the income of Grupo Peñoles may be affected by variances in the above-mentioned market prices and for this purpose, the Company establishes hedge programs based on its budgeted sales using derivative financial instruments, such as "forwards" and "put" and "call" options.

The following analysis shows the gains on the Company's hedging instruments and the loss attributable to the risk being hedged:

	2020		2019	
	Effect of derivative	Hedged item	Effect of derivative	Hedged item
Gain	**$(12,418)**	**$ 15,135**	$ 4,715	$ 3,729

Derivatives at fair value through profit or loss

An analysis of derivatives at fair value though profit or loss as at 31 December 2020 is as follows:

Commodity	Derivative	Notional amount (2)	Exercise price (1)	Fair value
Interest rate	IRS	300,000,000	1.42	$ 23,835

Corresponds to certain swaps contracted as cash flow hedges covering the variable interest rates of debt that was prepaid in 2020 and that ceased to comply with the conditions for hedge accounting. As a result, the unrealized gains and losses on valuation of hedges that had been previously recognized in equity were reclassified to profit or loss.

39. Financial Risk Management

The principal financial instruments of Grupo Peñoles comprise financial assets and financial liabilities. The Company's principal financial liabilities, other than derivatives, comprise accounts payable, bond debt and debentures. The main purpose of these financial instruments is to manage short-term cash flows and secure financing for the Company's capital expenditure program. Grupo Peñoles has various financial assets, such as accounts receivable and cash and short-term cash deposits, which arise directly from its operations.

Grupo Peñoles is exposed to the following risks associated with its use of financial instruments:

a) Market risk, which includes foreign currency risks, commodity price risk (precious metals and base metals), equity instrument pricing and interest rate risks
b) Credit risks
c) Liquidity risks

39. Financial Risk Management (continued)

Grupo Peñoles manages its exposure to key financial risks in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security. The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risks. Management reviews and agrees policies for managing each of these risks which are summarized below.

The Company's senior management oversees the management of financial risks. The Company's management is supported by a financial risk committee that advises on financial risks and the appropriate governance framework for proper financial risk identification, measurement and management. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: metal price risk, interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payable, accrued liabilities, and derivative financial instruments.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

The analyses exclude the impact of movements in market variables on the carrying amount of pension and other post-retirement obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to derivatives and Mexican peso denominated accounts receivables;

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as at 31 December 2020 and 2019.

- The impact on equity is the same as the impact on profit before tax.

Commodity price risk

Due to the nature of its business and economic environment, the Company uses hedging derivatives to reduce the variability in its cash flows and operating margins arising from various factors, such as:

39. Financial Risk Management (continued)

Price fluctuations:

- of the metals it produces (silver, gold, zinc, lead and copper)

- of the supplies and raw materials it consumes and/or processes (mineral concentrates, natural gas, etc.)

The following chart shows the sensitivity of changes in commodity prices, with all other variables held constant, with a range of more than 15% and less than 45% and the impact of these changes on the Company's equity and profit before taxes.

These changes in commodity prices were estimated based on the volatility in the historical prices of the last two years.

	15%-45% increase 31 December 2020		15%-20% increase 31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$ 86,732**	**$ -**	$ 17,192	$ -
Financial liabilities:				
Suppliers and other accounts payable	**8,138**	**-**	(4,631)	-
Derivative financial instruments	**15,031**	**(364,470)**	16,977	(133,787)
	$ 109,901	**$(364,470)**	$ 29,538	$(133,787)

	15%-45% decrease 31 December 2020		10%-15% decrease 31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$ (82,170)**	**$ -**	$(13,946)	$ -
Financial liabilities:				
Suppliers and other accounts payable	**(7,506)**	**-**	3,795	-
Derivative financial instruments	**(14,955)**	**304,258**	(17,143)	88,055
	$ (104,631)	**$ 304,258**	$(27,294)	$ 88,055

Risk of fluctuations in the prices of equity instruments

Grupo Peñoles is exposed to the risk of fluctuations in the prices of equity instruments, represented by shares of companies listed primarily in the Canadian Stock Exchange. Equity investments are classified in the consolidated statement of financial position as equity instrument financial assets.

The following table demonstrates the sensitivity of equity instrument financial assets to a reasonably possible change in the market price of equity instruments. The impact on equity corresponds to the recognition of the unrealized gain/(loss) on valuation and on the consolidated statement of profit or loss, as a possible recognition of impairment of the financial instrument.

39. Financial Risk Management (continued)

This sensitivity analysis carried out based on the volatility in the historical prices of the last two years is as follows:

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Increase 70% - (70% in 2019)	**$ -**	**$ 162,087**	$ -	$ 93,776
Decrease 40% - (25% in 2019)	**$ -**	**$(93,266)**	$ -	$(33,492)

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's financial assets and liabilities with floating interest rates.

As at 31 December 2020, Grupo Peñoles has a combination of debt bearing interest at variable rates and floating rates tied to the London Interbank Offered (LIBOR) rate. The Company fixes its floating interest rates using interest rate swaps.

Grupo Peñoles's risk management policy is focused on providing certainty regarding its future cash flows. As at 31 December 2020 and 2019, the Company has hedge instruments that it has contracted in order to obtain fixed interest rate for its loans that bear variable interest rates. The derivative that the Company has contracted, through which it swaps its floating interest equal to the LIBOR, is designed to fully hedge the interest rate of its current debt under the ECA structure. In this interest rate swap, Grupo Peñoles pays a fixed interest rate and receives the underlying floating rate applied to the current nominal balance of the loan.

The following table shows the sensitivity of the Company's financial assets and liabilities to a reasonably possible change in the interest rates applied on a complete year basis as of the consolidated statement of financial position date, with all other variables held constant.

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
25 basis point increase (50 in 2019)	**$ 6,810**	**$ 385**	$ 4,455	$ 7,053
20 basis point decrease (50 in 2019)	**$(5,037)**	**$(474)**	$(4,455)	$(7,303)

Foreign currency risk

Grupo Peñoles manages its foreign currency risk by contracting derivatives.

The main foreign currency to which the Company is exposed (other than the U.S. dollar, which is its functional currency) is the Mexican peso, which is the currency of a significant portion of the Company's operating costs and investments, as well as certain equity investments denominated in other currencies such as the euro and Swedish krona.

The Company's Board of Directors has appointed a Hedging Committee to establish the strategies and limits for matching receipts in U.S. dollars and costs incurred in Mexican pesos as well as certain equity investments denominated in other currencies such as the euro and Swedish krona, through hedge agreements (derivatives).

39. Financial Risk Management (continued)

As at 31 December 2020, the sensitivity of the Company's financial assets, financial liabilities and cash and cash equivalents denominated in foreign currencies, expressed in the presentation currency, is as follows:

	In Mexican pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	**$ 26,550**	**$ 316**	**$ 26,866**
Trade and other accounts receivable	**43,002**	**2,129**	**45,131**
Financial liabilities:			
Suppliers and other accounts payable	**(39,605)**	**(14,020)**	**(53,625)**
	$ 29,947	**$ (11,575)**	**$ 18,372**

As at 31 December 2019, the sensitivity of the Company's financial assets, financial liabilities and cash and cash equivalents denominated in foreign currencies, expressed in the presentation currency, is as follows:

	In Mexican pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	$ 19,282	$ 236	$ 19,518
Trade and other accounts receivable	42,140	981	43,121
Financial liabilities:			
Suppliers and other accounts payable	(36,641)	(12,404)	(49,045)
	$ 24,781	$(11,187)	$ 13,594

The following table demonstrates the sensitivity of the Company's financial assets and liabilities to a reasonably possible change in the Mexican peso / U.S. dollar exchange rate and the effect on the Company's profit before taxes, based on the foreign currency risk exposure maintained as at 31 December 2020 and 2019 and the Company's derivatives whose underlying are the peso-to-dollar exchange rate (assuming that all other variables are held constant):

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Increase 20% - Mexican peso (5% in 2019)	**$ (18,193)**	**$ -**	$(4,366)	**$ -**
Decrease 15% - Mexican peso (5% in 2019)	**$ 19,263**	**$ -**	$ 4,826	$ -

Grupo Peñoles is exposed to the risk of fluctuations in the exchange rates of the euro and Swedish krona to the U.S. dollar, since a portion of its fixed asset acquisitions are made in these currencies. The following table shows the sensitivity of the financial assets and liabilities to potential fluctuations in the exchange rates of euro and Swedish krona and the U.S. dollar, expressed in the presentation currency:

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Increase 10% - euro (5% in 2019)	**$(1,260)**	**$ 994**	$(511)	$ 411
Decrease 10% - euro (5% in 2019)	**$ 1,260**	**$(1,040)**	$ 511	$(408)

39. Financial Risk Management (continued)

	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
Increase 15% - Swedish Krona (10% in 2019)	**$(7)**	**$(160)**	$(76)	$(136)
Decrease 15% - Swedish Krona (10% in 2019)	**$ 7**	**$ 289**	$ 76	$ 201

b) Liquidity risk

Liquidity risk is the risk of not being able to meet its financial liabilities and obligations when they come due.

Grupo Peñoles has established a treasury policy to manage its liquidity risk, which primarily includes maintaining a balance between short-, medium- and long-term funds, borrowing facilities available and access to other financing. The Company conducts on-going debt maturity profile analyses of its financial assets and liabilities and constantly monitors its projected cash flows.

An analysis of the borrowing facilities available as at 31 December 2020 and 2019 is as follows:

	2020			2019		
	Credit limit	Credit used	Unused credit	Credit limit	Credit used	Unused credit
Aa2	**$ 80,000**	$ **-**	**$ 80,000**	$ -	$ -	$
-						
P-1	**-**	**-**	**-**	480,000	-	480,000
P-2	**-**	**-**	**-**	269,500	-	269,500
Ba1	**89,500**	**-**	**89,500**	-	-	-
Baa1	**595,000**	**25,000**	**570,000**	-	-	-
Total	**$ 764,500**	$ **25,000**	**$ 739,500**	$ 749,500	$ -	$ 749,500

Grupo Peñoles has available lines of credit that are rolled-over annually and bear no fees to maintain them.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at 31 December 2020:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	**$ 6,050,372**	**$ 152,787**	**$ 152,667**	**$ 470,426**	**$ 5,274,492**
Suppliers and other accounts payable	**342,737**	**342,737**	**-**	**-**	**-**
Lease liability	**108,351**	**15,640**	**11,582**	**7,359**	**73,770**
Other financial liabilities:					
Hedging instruments	**228,711**	**208,014**	**20,697**	**-**	**-**
	$ 6,730,171	**$ 719,178**	**$ 184,946**	**$ 477,785**	**$ 5,348,262**

39. Financial Risk Management (continued)

As at 31 December 2019:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	$ 3,726,157	$ 123,786	$ 123,732	$ 123,732	$ 3,354,907
Suppliers and other accounts payable	308,880	308,880	-	-	-
Lease liability	114,907	16,021	12,920	9,167	76,799
Other financial liabilities:					
Hedging instruments	44,734	34,307	10,427	-	-
	$ 4,194,678	$ 482,994	$ 147,079	$ 132,899	$ 3,431,706

c) Credit risk

The Company's credit risk arises as part of its ordinary course of business. There is credit risk in all the Company's financial assets, which include cash and cash equivalents, trade accounts receivable and other accounts receivable, as well as equity instrument financial assets and the acquired rights over derivative financial instruments.

The Company only carries out transactions with well-known and solvent financial counterparties. It is the Company's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position.

The Company obtains collateral as security from its customers to mitigate the risk of financial losses due to default. In addition, receivables balances are monitored on an ongoing basis with the result that the Company's exposure to expected losses is not significant.

Regarding the credit risk related to other financial assets, primarily cash and investments and derivative assets, the Company's exposure relates to potential counterparty default. The Company's maximum exposure is equal to the book value of these instruments, securities or transactions. The Company limits its counterparty credit risk on these assets by dealing only with financial institutions with strong credit ratings.

The expected credit loss for trade receivables balances is determined considering the probability of default of payment for each client where a risk rating is assigned derived from the financial and commercial analysis of the entity. A bad debt factor by business unit is applied to the result, calculated with the behavior of the portfolio during the last 18 months. Additionally, factors such as the existence of collateral and bad debt (clients who have had a default in payment) are incorporated, which factors into expected credit loss.

39. Financial Risk Management (continued)

Cash and cash equivalents and short-term investments

An analysis of the credit ratings of financial institutions with which the Company maintains cash and cash equivalents is as follows:

Cash and cash equivalents

	2020	2019
A-2	**$ 660,132**	$ 152,802
A-1	**903,258**	252,422
BBB	**27,756**	46,289
mxA+	**1,504**	74,834
	$ 1,592,650	$ 526,347

Trade and other accounts receivable

An analysis of trade receivables aging is as follows:

As at 31 December 2020:

	Not impaired				
	Not yet payable	From 1 to 30 days	From 31 to 60 days	More than 60 days	Impairment
Trade receivables	**$ 152,040**	**$ 42,402**	**$ 6,578**	**$ 4,846**	**$ 2,232**
Related parties	**11,179**	**-**	**-**	**-**	**-**
Other accounts receivable	**43,963**	**-**	**-**	**-**	**2,265**
	$ 207,182	**$ 42,402**	**$ 6,578**	**$ 4,846**	
Impairment	**$ 1,050**	**$ 768**	**$ 11**	**$ 2,668**	**$ 4,497**

As at 31 December 2019:

	Not impaired				
	Not yet payable	From 1 to 30 days	From 1 to 30 days	More than 60 days	Impairment
Trade receivables	$ 171,024	$ 1,874	$ 654	$ 5,309	$ 2,968
Related parties	7,131	-	-	-	-
Other accounts receivable	38,895	-	-	-	1,927
	$ 217,050	$ 1,874	$ 654	$ 5,309	
Impairment	$ 1,686	$ 480	$ 1	$ 2,728	$ 4,895

39. Financial Risk Management (continued)

Other financial assets

The credit risk of other financial assets consists primarily of loans extended to contractors to finance acquisitions of machinery to allow the contractors to maintain the level of service they provide at the mining units. Company policy is to keep the acquired machinery as collateral, which is stored in the facilities of Grupo Peñoles. Also, the Company's policy is to partially credit its payments due for services received against the financing balance.

Capital management

The Company manages its capital structure in a way that ensures its survival as a going concern, maintains investor confidence and the confidence of the financial markets, and sustains the future development of its medium- and long-term projects in order to maximize shareholder return.

To ensure that it maintains a strong credit rating and healthy capital ratios, the Company aims to maintain a capital structure with an adequate debt to capital ratio. Management believes that such optimum capital structure is reflected in the equity shown in the consolidated statement of financial position, excluding non-controlling interests.

Grupo Peñoles has no capital requirements or restrictions that might affect its capital management capacity. The Company has met its legal obligation to create a legal reserve equal to 20% of the value of its share capital. The legal reserve as at 31 December 2020 and 2019 is $52,304 (equal to Ps. 683,026), respectively.

40. Assets Held for Sale

In July 2020, Grupo Peñoles entered into an agreement with a company for the sale of real and personal property related to the Zimapán unit for an amount of $20,000. The related assets and liabilities are recognized separately as part of the assets and liabilities held for sale caption. The carrying amount of these assets and liabilities is $8,346 and $10,937. On 28 July 2020, Company management approved the sale plan.

The Zimapán unit sale is expected to be completed in 2021. As at 31 December 2020, the Zimapán unit assets were classified as a disposal group held for sale within the base metal mines segment and represented 0.43% of the total assets recognized in the segment and 0.13% of the total revenue recognized in the segment. The revenue earned from and expenses incurred by this unit totaled $1,343 and $3,757, respectively. These amounts are immaterial and therefore, are not presented separately in the consolidated statement of comprehensive income.

An analysis of the principal class of assets and liabilities of the Zimapán unit classified as held for sale as at 31 December 2020 is as follows:

	2020
ASSETS	
Property, plant and equipment	$ 8,346
LIABILITIES	
Provisions	$ 10,937

Disclaimer

This Annual Report contains certain forward-looking information relating to Industrias Peñoles, S.A.B. de C.V. and its subsidiaries (Peñoles or the Company) that is based on assumptions made by its management. Such information, as well as the statements with respect to future events and expectations are subject to certain risks, uncertainties and factors that could cause the actual results, performance or achievements of the Company to be materially different at any time. Such factors include changes in general economic, governmental policy and/or business conditions nationally and globally, as well as changes in interest rates, inflation rates, exchange rates, mining performance in general, metal demand and quotations, and raw material and fuel prices, among others. Due to these risks and factors, actual results may vary materially from the estimates described herein, for which reason Peñoles does not assume any obligation with respect to such variations or to information provided by official sources.

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