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)

	Share capital	Legal reserve	Retained earnings: Undistributed earnings	Retained earnings: Net profit/(loss) for the year	Retained earnings: 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**

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

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