



Report on company's performance presented by the Chief Executive Officer to the Board of Directors, for fiscal year 2022

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

In my capacity as Chief Executive Officer of Industrias Peñoles, S.A.B. de C.V., and in accordance with the provisions of the Securities Market Law, I hereby submit for your consideration the Annual Report on the performance and results of the company for fiscal year 2022, as well as the Financial Statements and their accompanying notes, which include the principal policies and criteria for accounting and reporting followed in preparing the financial information presented herein.

In 2022, the pace of global economic activity slowed down, despite a gradual recovery from the worst effects of the COVID-19 pandemic. A geopolitical conflict that broke out between Russia and Ukraine in February triggered an energy crisis and drove up inflation. To contain rising prices, the central banks of the world's leading economies—including Mexico—introduced a series of interest rate hikes, particularly in the second half of the year. This, together with a real-estate crisis in China, fueled uncertainty and fears of a new recession.

Inflation in Mexico rose to 7.82%, while gross domestic product grew by 3.1%, led by stronger manufacturing production and exports. The interbank interest rate advanced into the double digits, reaching 10.5% by the close of 2022.

In this complex international scenario, metal prices were highly volatile. Gold fell sharply after recording an historical US\$ 2,000 per ounce in March, amid geopolitical tensions and high inflation, then climbed back as the last quarter drew to a close, when the US Federal Reserve moderated its hiking rate path and China relaxed its zero-COVID policy. The average quotation for gold in 2022 was US\$ 1,800 per ounce, similar to 2021. Silver averaged US\$ 21.76 per ounce, dropping 13.6% from the previous year, affected by weakness in

investment and a fragile industry. For the latter, lead and copper prices, at US\$ 0.97 and US\$ 3.99 per pound, respectively, dropped by 2.5% and 5.6%. In contrast, the price of zinc rose by an annual average of 15.7%, to US\$ 1.58 per pound, responding to a shortage in the production of this refined metal caused by high energy costs, mainly in Europe.

The Mexican peso firmed against the dollar. Average parity was Ps. 20.13 per dollar, which is a year-over-year appreciation of 0.8%, and closed 2022 at Ps. 19.36, 5.9% stronger than at the end of 2021. Its strength was supported by higher exports, the interest rate spread, and a growing influx of remittances from Mexican workers in the United States.

In 2022 our contingency plan remained in place amid new waves of COVID-19, working to prevent its spread among our personnel. We reinforced sanitary protocols and protection measures in all our operations, applied 99,473 diagnostic tests and provided medical care and tracking of the cases detected. Despite our efforts, there were 12,117 positive cases, and we are deeply saddened to report that three of our employees lost their lives to the illness. In the communities where we operate, we have made donations and continue to publicize preventive measures and carry out vaccination campaigns in coordination with the authorities. Over the course of the year more than 347,000 vaccine doses were given to our employees and others.

In coordination with the new Baluarte Minero structure, and under the leadership of our Chairman of the Board, Industrias Peñoles continued the transformation begun in 2021. We also launched a new financial health initiative to improve operating efficiency, streamline our costs, expenses and investment in working capital, while rationalizing our capital expenditures.

The following are the highlights of our operating and financial results for 2022. Financial figures are stated in millions of dollars unless otherwise indicated, and changes were calculated with respect to the close of 2021.

In 2022, our Capex investment totaled US\$ 748 (1.9% lower than the year before), primarily in: (i) completing the Juanicipio mine project owned by Fresnillo plc; (ii) operating continuity; and (iii) the purchase of mobile equipment for assimilated activities, responding to the labor reform that took effect in 2021.

We also invested US\$ 217 in exploration, a 27.1% increase over 2021. The work focused on higher-potential projects to optimize our use of resources, which was one of the tenets of our financial health plan, while continuing progress on priority explorations. At the Capela unit, the drilling campaign begun in late 2020 concluded, generating inferred resources of 5.4 million metric tons of ore with 4.3% of copper equivalent, which can be converted into reserves for this mining unit. At Reina del Cobre, which neighbors Velardeña mine in Durango, preparations continued with the aim of beginning development of underground mine work in 2023 and improving the reliability of the resources detected. In the Fortuna del Cobre disseminated copper project in Sonora, parametric drilling in the discovered body has not yet yielded favorable findings for a possible mining operation that would fit the company's current parameters. Meanwhile, in the portfolio of international projects, through drilling at the Racaycocha copper-gold-molybdenum project in Peru, additional copper and polymetallic mineralization was detected and will be quantified in 2023. Finally, at the Yastai copper-gold project in Chile, a first estimation of reserves justified the start of a second phase of drilling to expand the discovered body.

Meanwhile, at Fresnillo plc, intensive drilling programs were conducted at operating mines with good results, both in infill drilling and in converting resources to reserves. Drilling was also carried out in early and advanced projects in the Fresnillo, San Julián, and Guanajuato districts. Internationally, drilling was also conducted at two projects in Peru and work intensified on the Capricornio project in Chile.

The Capela polymetallic mine improved the metallurgical recoveries and quality of concentrates produced at the beneficiation plant, by adjusting the dosing of reagents and milling parameters. Several challenges affected the pace of ore extraction and processing, however, like changes in the mining sequence to improve safety, the limited availability of water and various highway blockages. All of this affected the volume of ore processed, which was lower than in 2021. A storage reservoir is now being built and geo-hydrological studies carried so that the plant can be assured of a sustainable water supply going forward.

In the Mines Division, the volume of ore deposited rose 6.2%, equivalent to 24.5 million metric tons, due primarily to increased extraction at Herradura and the resumption of extraction activities at the Milpilllas copper mine. The results of these operations offset the expected decline in volume deposited by Noche Buena, as this mine approaches the end of its useful life. The volume of ore milled at the mining plants declined slightly (-1.6%) to 21.7 million metric tons. Increased production at Fresnillo and Juanicipio—the ore from which was processed at the Saucito and Fresnillo beneficiation plants— offset the reduction in volume processed by Saucito, Ciénega, Sabinas and Capela, primarily.

We launched a financial health initiative to improve operating efficiency and streamline our costs, expenses and working capital investment, while rationalizing our capital expenditures.

We continued to deploy technology in line with our Intelligent Mine vision to automate and optimize operating processes and increase productivity and the safety of our personnel.

Also, higher volume deposited by Herradura partially offset the lower ore grade; however, the recovery rate of gold contained in leaching pads was slower as more sulfides were processed. As a result, in addition to the reduction in the volume of lower grade ore from Noche Buena, annual gold production fell 13.3% from 2021 to 704,008 ounces in 2022.

Silver mining production totaled 67 million ounces, a 3.9% year-to-year growth. The improvement was fueled primarily by the contribution of ore processing from Juanicipio with better grades, and, to a lesser extent, an increase in volume processed with higher grades and recoveries at the Fresnillo mine, once the operating restrictions that had hampered production in 2021 were resolved. These mines offset the reduction in silver produced by (i) San Julián (from the Disseminated Ore Body), due to an expected decline in ore grade; (ii) Ciénega, Sabinas and Capela, with lower volume processed and lower grades, in addition to lower recoveries at the latter; and (iii) lower ore milling at Saucito, whose effect was partially offset by better grades.

In mining production of industrial metals, lead content was 78,241, similar to the preceding year (-0.7%), due to an increase in the volume of ore processed at Fresnillo and Juanicipio with better grades, and higher grades and recoveries at Sabinas, Velardeña and Tizapa. All of these made up for the drop in production at Saucito resulting from a lower volume of ore processed with lower grades, and at San Julián, due to lower grade. The volume of zinc also fell slightly by 1.7%, to 269,262 metric tons, affected as well by the decline in beneficiated volume at Saucito with lower ore grade. The same was the case at Velardeña and San Julián. These shortfalls were offset in part by production at Fresnillo and Juanicipio, both with higher ore processing with better grades.

Copper production in concentrates decreased 12.1%, a result of lower ore beneficiation with lower grade and recovery at Sabinas, lower grade and recovery at Velardeña, as well as lower volume processed by Tizapa. This was offset by Capela, which showed an improvement in ore grade and metallurgical recovery. In contrast, copper cathodes volume rose 80.4%, as the good outlook for copper prices motivated the resumption of activity at Milpillas. As previously reported, operations at this mining unit had been suspended in 2020 due to the sharp drop in the price of the red metal, combined with high operating costs and low grades.

Meanwhile, we continue our comprehensive management of tailings storage facilities based on international standards. We currently have a solid governance and management structure made up of a panel of independent experts, an Executive Tailings Committee and tailings operation committees at each operating unit, among other safeguards. Our goal is to apply technologies, controls, practices and methods at all of our tailings facilities to ensure a safe, responsible handling of our mineral waste and avoid damage to neighboring communities and the environment. This year, our mining operations made significant progress on implementing the panel's recommendations. Tizapa also moved forward on installation of the tailings thickening tank to improve process water recovery; this facility is slated for startup in the first half of 2023.

We also continued to deploy technology in line with our Intelligent Mine vision to automate and optimize operating processes at our mining units, increase productivity and the safety of our personnel. During the year, we made progress on installing remote blasting systems, strengthened the mine information system and began advanced control of milling at the Capela beneficiation plant. We also extended the installation of drowsiness and fatigue sensors in our transportation equipment, began a pilot anticollision warning system at Velardeña and Sabinas, and installed an on-demand ventilation system at San Julián.

At the end of the year the Juanicipio mining project was connected to the national power grid, once all the technical requirements requested by the Federal Electricity Commission (CFE) were met and testing was successfully completed. A total of US\$ 440 was invested in the project, which is jointly owned by Fresnillo plc (with 56%) and MAG Silver Corp (with 44%). This mining unit was thus able to officially start up operations. Average annual production is expected at 11.7 million ounces of silver and 43,500 ounces of gold. Meanwhile, the tailings flotation plant at the Fresnillo mine, where silver and gold content will be recovered (Pyrite phase II), complementing phase I at Saucito, is still awaiting its connection to the electrical network to begin operations.

In the metallurgical operations, the volumes of concentrates and other materials processed in the lead-silver circuit declined year-to-year. The main challenge in the smelter was to achieve an adequate balance of the mixtures to be treated, due to the low lead grades in the concentrates received and the high presence of copper, in addition to the variable quality of the lead-silver cements from the zinc plant. This caused corrective stoppages in furnaces and failures in the sintering stage, which affected bullion production to feed the lead-silver refinery, where less dorés were also received from Herradura and Noche Buena, as well as precipitates from Ciénega. Consequently, productions in this circuit were lower compared to 2021: gold by 9.4% (with 1,013,151 ounces), silver by 1.9% (with 73.8 million ounces) and refined lead by 9.4% (with 109,060 metric tons).

In the zinc circuit, we continued normalizing operations. The difficulties were resolved in the roasting process and in balancing the interaction between the old acid-roasting plant and the new direct leaching plant. Recoveries of zinc in concentrates and silver in lead-silver cements approached their design levels at 93% and 83%, respectively. The biggest challenge continues to be in the electrolysis area, where anodes damaged by unplanned shutdowns in 2021 and 2022 are being replaced. After some delays in their reception, this process is now expected to be completed in the first quarter of 2023. After the new anodes are in place, they should improve the efficiency of electrical

use, reduce the consumption of electricity per metric ton of production and gradually increase production to achieve the installed capacity of 350,000 metric tons of refined zinc per year by 2024. Additionally, because of efforts to preserve the quality and purity of refined zinc, the volume of treated concentrates was lower than in 2021, and annual refined zinc production dropped by 10.3% to 237,127 metric tons. In the silver recovery process, some 5 million ounces of silver contained in cements were produced, although not all this volume could be treated at the smelter. We continue to analyze various alternatives to improve the quality of our cements to process them more quickly at the smelter without affecting the sintering process.

Inorganic chemicals performed well in 2022, particularly magnesium oxide, with a production of 87,822 metric tons (15.1% more than in 2021), due to strong demand in our core markets in North America and Europe —although this weakened in the second half of the year due to the economic slowdown. To meet clients' needs in this business, some operating strategies were introduced, like optimizing preventive maintenance and furnace efficiency programs. Sodium sulfate volume totaled 764,089 metric tons, alike to 2021 (+0.3%). Magnesium sulfate broke an annual production record with 66,497 metric tons thanks to strong performance by the domestic agricultural industry. We also obtained our registry from the Organic Materials Review Institute (OMRI) which improves our product's competitiveness in the organic crops niche.

With regards to energy, 2022 posed new challenges. Changes in national energy policy were compounded by high prices of fuel, natural gas and pet-coke as a result of the war in Ukraine. Despite this adverse climate, we remain committed to the goals of our strategy, which are to ensure a continuous supply of electric power for our operations at a competitive cost and to use fuel more efficiently. Furthermore, motivated by our firm commitment to sustainability and environmental stewardship, we worked on charting a roadmap for decarbonizing our operations. We will remain alert for opportunities in emerging green technologies, like hydrogen and emission-free ammonia, not just for supplying electricity but as a potential replacement for fuel in vehicles and production equipment.

Our portfolio of power plants generated 83.5% of the energy required by our operations. Renewable sources generated the equivalent of 49.0% of our consumption.

At Peñoles, we have overcome major challenges and capitalized on the lessons learned to improve the efficiency and productivity of our operations.

In 2022 our portfolio of power plants generated energy equivalent to 83.5% of what was required by our operations, in a year in which electrical demand rose a slight 0.6% over 2021. We continue to work with the authorities on migrating some charges to the wholesale power market (WPM), so much of the energy generated by the Mesa La Paz wind farm was sold to the market operator and only 11.5% could be assigned to the Capela unit. The rest (16.5%) was purchased from the CFE. The generation of electricity from renewable sources increased from 47.8% of our consumption in 2021 to 49.0% in 2022.

The unit cost of the electricity we consumed was 10.7% higher than the year before (US¢ 8.71 per kWh), for the following reasons: (i) an increase in CFE rates; (ii) a higher participation by Eólica de Coahuila in the supply to consume energy inventory, which meant a higher transmission cost; (iii) a substantial increase in the cost of the coke used by Termoeléctrica Peñoles (TEP) starting in October, as the fixed-rate supply contract it had been operating under since its startup expired; (iv) inflation of costs originating in pesos (like coke shipping and TEP operating and maintenance expenses); and (v) the reduction in the average peso-dollar exchange rate, which drove up the cost of peso-denominated costs when expressed in dollars.

The financial results for the year, expressed in millions of dollars, were the following:

Sales —excluding hedging results— declined 8.5% to US\$ 5,527, due to a reduction in sales volume, particularly gold and zinc, and lower silver prices. Hedging of metal prices and exchange rates, which reduce the risk of major fluctuations and lower EBITDA volatility, generated an opportunity cost of US\$ 3, which is an improvement from the US\$ 71 cost reported in 2021. Net sales therefore amounted to US\$ 5,523, a 7.5% year-to-year decline.

The cost of goods sold rose 1.7% to US\$ 4,491, driven by production cost increases that were in turn influenced by various factors: (i) inflation in our basket of operating inputs; (ii) work on the reinforcement of tailings storage facilities, and mine preparation and development; (iii) repairs; and (iv) to a lesser extent, the cost of resuming mining extraction activities at Milpillas. These effects were compounded by the adverse effect of the peso's appreciation against the dollar on peso-denominated costs (which represent around 50% of our production costs). With fewer concentrates and other material purchased from third parties for our metallurgical operations, and given lower silver and lead prices, the cost of metal was lower, an effect partially offset by lower treatment revenues, also related to this lower volume purchased.

Consequently, gross income totaled US\$ 1,032, 33.6% less than in 2021. General expenses came to US\$ 652, an 11.5% growth due especially to exploration and selling expenses. With this, EBITDA of US\$ 1,071 and operating income of US\$ 380 were 36.9% and 60.8% lower, respectively, when compared to the previous year. Net financial expense was up 3.6%, to US\$ 158, primarily due to high interest rates, which affected short-term loans and closing reserves, as well as tax updates, though this was mitigated by an increase in the interest earned on our investments. And while we brought in other net revenues of US\$ 11 in 2021, last year we reported other net expenses totaling US\$ 1. This was attributed chiefly to: (i) losses from the sale of concentrates; (ii) engineering write-offs for a new lead smelting technology; and (iii) the increased cost for remediation at closed mining units. This was partially offset by income from the right granted to a third party to expand their pit on the company's concessions, and for a reversal of asset impairment at the Madero mine.

The annual income tax provision of -US\$ 125 was favorable versus US\$ 229, as a result of lower taxable income for the year and the adjustment of deferred taxes as effect of higher inflation on the company's net monetary assets and the appreciation of the Mexican peso versus de dollar. Similarly, provision for special mining right of US\$ 22 was lower than the provision of US\$ 32. For reasons explained above, net income for fiscal 2022 of US\$ 183, was lower than US\$ 391 obtained in the previous year.

At Industrias Peñoles, we maintain our commitment to “Living the Community”. Therefore, our social management system is based on the principles of sustainable development, respect for human rights and cultural diversity, building trust, a sense of belonging, as well as cooperation and co-responsibility between communities and authorities. We maintain harmonious relations with communities, authorities and stakeholders, and we encourage dialogue and engagement to achieve common goals. We are also determined to respond to the challenge of climate change and assume our responsibility by joining the efforts of various economic, government and social agents to avert its worst effects. With this in mind, we have begun scenario planning and risk analysis to define goals and targets that will translate into mitigation and adaptation actions to contribute to the solution of this global problem. We will be gradually fine-tuning this process as we develop and implement roadmaps to decarbonize our operations.

In matters of safety, we continue to implement our High-Potential Management strategy focused on three dimensions: (i) managing critical risks and controls; (ii) managing behaviors and leadership practices; and (iii) managing incidents. In 2022, we reinforced and controlled critical risks identified in our operations through verifications, training and education. Industrias Peñoles also encourages visible onsite leadership, with direct involvement by the Chief Operating Officers to foster a culture of accident prevention. We also publish communiqués, alerts and lessons on accidents and incidents. Unfortunately, despite our efforts in this regard, we regret to announce the death of three of our employees at Fresnillo, Milpillas and Met-Mex. We have carried out the corresponding root cause analysis to define the actions that must be taken to prevent and avoid this type of risks.

In 2022, we continued supporting labor modernization to drive productivity improvements, a better quality of life and income for our workers. Collective bargaining agreements with our unions were negotiated in a climate of cordiality, respect, cooperation and mutual benefit.

In the process of cultural evolution and comprehensive well-being led by Baluarte Minero, we are determined to be more agile and innovative, to create solutions as a team, and to shape a renewed leadership to become an increasingly inclusive, diverse and equitable workplace. As part of this effort, this past year we published our Policy on Workplace Equality and Non-discrimination to guarantee respect for human dignity. Because integrity is a part of how we do business, we operate in strict compliance with national and international laws and regulations. Our conduct is guided by the institutional values of Confidence, Responsibility, Integrity and Loyalty, to which this year we added Respect. We also continue to strengthen our regulatory framework and work to ensure that our principles permeate throughout the value chain.

Peñoles has overcome big challenges in the past, and we have used these lessons to improve the efficiency and productivity of our operations today. We continue to evolve, aligning our goals and actions with our strategic pillars, all in the service of our Vision, which is “to be a company of excellence worldwide with extraordinary results, a leader in its sector with safe and sustainable operations, driven by its agility and capacity for transformation, in harmony with the environment and society.”

I would like to thank the Chairman and the members of the Board of Directors and Executive Committee for their confidence, their invaluable support and unerring guidance. I am also grateful to our employees for their remarkable dedication and efforts. Together I am sure we can continue overcoming the challenges that the future holds.

Rafael Rebollar

Chief Executive Officer

We published our Policy on Workplace Equality and Non-discrimination to guarantee respect for human dignity.