Financial statements

Consolidated Financial Statements **As of and for the years ended December 31, 2022 and 2021 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 of December 31, 2022 and 2021, 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 of December 31, 2022 and 2021 and their consolidated financial performance and their consolidated cash flows for the years 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. Finally, 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 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 2021. 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.

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 as of December 31, 2022, 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 of December 31, 2022 and 2021.

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.

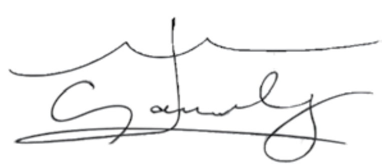
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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,
March 6, 2023.

Consolidated Statements of Financial Position

(Amounts in thousands of U.S. dollars)

	Note	As of December 31 2022	2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	8	**$ 1,468,918**	$ 1,817,094
Trade and other accounts receivable, net	9	**598,735**	547,508
Recoverable income tax		**75,812**	101,423
Other financial assets	10	**46,059**	73,621
Inventories	11	**1,880,641**	1,718,065
Prepaid expenses		**52,221**	36,024
Total current assets		**4,122,386**	4,293,735
Non-current assets classified as held for sale	40	**21,362**	-
NON-CURRENT ASSETS:			
Trade and other accounts receivable, net	9	**39,415**	59,028
Other financial assets	10	**5,518**	15,806
Inventories	11	**91,620**	91,620
Financial assets in equity instruments	12	**167,123**	176,560
Property, plant and equipment, net	13	**4,710,657**	4,707,344
Equity investments in associates	14	**72,181**	55,120
Right-of-use assets	15	**98,422**	99,244
Deferred income tax	21	**702,938**	280,961
Other assets		**10,905**	13,841
Total non-current assets		**5,898,779**	5,499,524
Total assets		**$ 10,042,527**	$ 9,793,259

Consolidated Statements of Financial Position

(Amounts in thousands of U.S. dollars)

	Note	As of December 31 2022	2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Suppliers and other accounts payable	16	**$ 671,994**	$ 776,097
Other financial liabilities	17	**54,399**	107,030
Financial debt	18	**376,840**	81,034
Employee benefits	19	**54,644**	51,933
Lease liabilities	15	**13,793**	15,428
Income tax payable		**209,089**	168,481
Total current liabilities		**1,380,759**	1,200,003
Liabilities directly associated with non-current assets classified as held for sale	40	**35,609**	-
NON-CURRENT LIABILITIES:			
Financial debt	18	**2,531,178**	2,855,788
Employee benefits	19	**49,747**	52,599
Other financial liabilities	17	**97,627**	15,685
Income tax	21	**-**	4,723
Lease liabilities	15	**94,215**	92,578
Provisions	20	**432,417**	463,005
Deferred income tax	21	**132,699**	84,998
Total liabilities		**4,754,251**	4,769,379
EQUITY:			
Share capital	22	**401,399**	401,399
Legal reserve	39	**52,304**	52,304
Retained earnings		**3,635,377**	3,455,520
Components of other comprehensive loss	22	**(14,781)**	(41,919)
Equity attributable to equity holders of the parent		**4,074,299**	3,867,304
Non-controlling interests	3	**1,213,977**	1,156,576
Total equity		**5,288,276**	5,023,880
Total liabilities and equity		**$ 10,042,527**	$ 9,793,259

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 years ended December 31 2022	2021
Sales	26	**$ 5,523,358**	$ 5,971,814
Cost of sales	27	**4,490,904**	4,416,007
GROSS PROFIT		**1,032,454**	1,555,807
Administrative expenses	28	**292,704**	283,543
Exploration expenses	29	**217,132**	170,869
Selling expenses	30	**142,329**	130,416
Reversal of impairment in the value of long-lived assets	13	**(21,362)**	-
Other expenses	32	**97,103**	34,931
Other income	32	**(74,940)**	(45,880)
		652,966	573,879
OPERATING PROFIT		**379,488**	981,928
Finance income	33	**(45,891)**	(20,262)
Finance costs	34	**201,146**	171,472
Foreign exchange loss, net		**3,118**	1,622
Share of (loss) gain of associates	14	**(1,418)**	5,607
PROFIT BEFORE INCOME TAX		**222,533**	823,489
Income tax	21	**(103,042)**	260,914
CONSOLIDATED NET PROFIT		**$ 325,575**	$ 562,575
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$ 183,363**	$ 391,348
NON-CONTROLLING INTERESTS	3	**142,212**	171,227
		$ 325,575	$ 562,575
EARNINGS PER SHARE (basic and diluted in U.S. dollars)	23	**$ 0.46**	$ 0.98

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 years ended December 31 2022	2021
CONSOLIDATED NET PROFIT		$ 325,575	$ 562,575
COMPONENTS OF OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain/loss on valuation of hedges:			
Profit (Loss) reclassified to earnings	38	4,844	(123,894)
Deferred income tax	21 and 38	(1,453)	37,168
Changes in the fair value of hedges	38	14,171	237,609
Deferred income tax	21	(4,251)	(71,283)
Net effect of unrealized gain on valuation of hedges		13,311	79,600
Share of profit/ (loss) of associates	14	4,486	(1,153)
Foreign currency translation reserve		13,327	1,427
Other comprehensive income items to be reclassified to profit or loss		31,124	79,874
COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain on valuation of employee benefits:			
Actuarial gain	19	9,450	13,562
Deferred income tax	21	(1,503)	(2,156)
		7,947	11,406
Unrealized gain on valuation of financial assets in equity instruments:			
Unrealized loss	12	(9,437)	(55,989)
Deferred income tax	21	2,831	16,794
		(6,606)	(39,195)
Other comprehensive (loss)/income items that will not be reclassified to profit or loss		1,341	(27,789)
TOTAL COMPONENTS OF OTHER COMPREHENSIVE INCOME		32,465	52,085
COMPREHENSIVE INCOME		$ 358,040	$ 614,660
Attributable to:			
EQUITY HOLDERS OF THE PARENT		$ 210,501	$ 447,340
NON-CONTROLLING INTERESTS		147,539	167,320
		$ 358,040	$ 614,660

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

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2022 and 2021
(Amounts in thousands of U.S. dollars)

	Note	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 December 31, 2021		$ 401,399	$ 52,304	$ 3,150,945	$ (34,384)	$ 3,116,561	$ (97,911)	$ 3,472,353	$ 1,058,185	$ 4,530,538
Changes in equity interest in associates	14			(2,387)		(2,387)		(2,387)		(2,387)
Net profit for the year					391,348	391,348		391,348	171,227	562,575
Components of other comprehensive income							55,992	55,992	(3,907)	52,085
Comprehensive income					391,348	391,348	55,992	447,340	167,320	614,660
Shareholders' resolutions:										
Allocation of net loss from prior year				(34,384)	34,384					
Increase in non-controlling interests	3								31,886	31,886
Dividends declared	24			(50,002)		(50,002)		(50,002)	(100,815)	(150,817)
Balance as at December 31, 2021		401,399	52,304	3,064,172	391,348	3,455,520	(41,919)	3,867,304	1,156,576	5,023,880
Changes in equity interest in associates	14			**(859)**		**(859)**		**(859)**		**(859)**
Acquisition of non-controlling interest	3			**(2,647)**		**(2,647)**		**(2,647)**	**2,647**	**-**
Net profit for the year					**183,363**	**183,363**		**183,363**	**142,212**	**325,575**
Components of other comprehensive income						**-**	**27,138**	**27,138**	**5,327**	**32,465**
Comprehensive income					**183,363**	**183,363**	**27,138**	**210,501**	**147,539**	**358,040**
Shareholders' resolutions:										
Allocation of net profit from prior year				**391,348**	**(391,348)**					
Increase in non-controlling interests	3								**10,143**	**10,143**
Dividends declared									**(102,928)**	**(102,928)**
Balance as at December 31, 2022		**$ 401,399**	**$ 52,304**	**$ 3,452,014**	**$ 183,363**	**$ 3,635,377**	**$ (14,781)**	**$ 4,074,299**	**$ 1,213,977**	**$ 5,288,276**

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 December 31 2022	2021
OPERATING ACTIVITIES			
Net cash flows from operating activities	35	**$ 663,005**	$ 1,163,468
INVESTING ACTIVITIES			
Purchase of property, plant, and equipment		**(734,673)**	(747,839)
Interest capitalized in property, plant, and equipment		**(12,830)**	(14,220)
Purchase of intangible assets		**(5,082)**	(6,127)
Proceeds from sale of property, plant, and equipment		**12,366**	30,836
Collection of loans granted to contractors		**6,513**	4,370
Cash dividends received		**-**	99
Revenue from the redemption of shares of associates		**8**	-
Interest received		**38,196**	17,701
Increase in equity investments in associates	14	**(12,024)**	(32,107)
Cash flows received from the Layback Agreement	4ii	**15,000**	25,000
Net cash flows used in investing activities		**(692,526)**	(722,287)
FINANCING ACTIVITIES:			
Interest paid	18 y 25	**(159,262)**	(144,719)
Interest rate hedges of derivative financial instruments		**6,327**	1,690
Loans obtained	18	**1,529,655**	1,005,217
Repayment of loans	18	**(1,576,939)**	(976,358)
Transaction costs paid on loan	18	**(24)**	(40)
Principal and interest paid for leases	15	**(24,399)**	(24,595)
Cash dividends paid to equity holders of the parent		**(2)**	(49,902)
Cash dividends paid to non-controlling interests		**(102,657)**	(99,566)
Increase in non-controlling interests	3	**10,143**	31,886
Loans from holders of non-controlling interests	25	**8,626**	41,756
Payment of loans from partners in non-controlling investments	25	**(10,008)**	(91)
Net cash flows (used in)/from financing activities		**(318,540)**	(214,722)
(Decrease) Increase in cash and cash equivalents		**(348,061)**	226,459
Net foreign exchange difference		**(115)**	(2,015)
Cash and cash equivalents at beginning of year		**1,817,094**	1,592,650
Cash and cash equivalents at end of year		**$ 1,468,918**	$ 1,817,094

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

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2022 and 2021
(Amounts in thousands of U.S. dollars)

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). Grupo Peñoles is the ultimate holding company. Its corporate offices are located in Mexico City at Calzada Legaria No. 549, Colonia 10 de Abril.

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 Grupo Peñoles, if fees related to exploitation activities are not paid to the Mexican government or if environmental, health and safety standards are not observed.

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.

COVID-19 pandemic

During the last years, the COVID-19 outbreak rapidly spread causing a significant number of infections all over the world. In 2022, the COVID-19 pandemic is still a concern. 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 2022 and 2021, 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 Grupo Peñoles in implementing COVID-19 safety measures totaled $6,380 and $9,640, respectively, and were recognized as expenses for the years ended December 31, 2022, and 2021. To face and mitigate the effects of the COVID-19 outbreak, from March 30 to May 31, 2020, the Mexican government established quarantine requirements and restrictions on certain economic activities that were considered non-essential. However, as of June 2020, mining activities were declared essential activities; accordingly, all mines are currently operating at its normal production capacity. 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 Grupo Peñoles financial and non-financial assets and liabilities. As of December 31, 2022, and 2021, there were no material changes in the value of Grupo Peñoles assets and liabilities due to COVID-19.

2. Basis of Preparation

On March 6, 2023, the consolidated financial statements and these notes were authorized by Grupo Peñoles Chief Executive Officer, Chief Financial Officer, Administrative Services Director, and the General Counsel, for their issue and subsequent approval by Grupo Peñoles Board of Directors. Grupo Peñoles shareholders have the authority to approve and 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 a), which is the functional currency of Industrias Peñoles and most of its subsidiaries, and all values are rounded to the nearest thousand, unless otherwise indicated. Amounts in Mexican pesos ("Ps") are expressed in thousands of Mexican pesos, unless otherwise indicated.

The accompanying consolidated financial statements cover the following periods:

- Statements of financial position as of December 31, 2022, and 2021
- Statements of profit or loss for the years ended December 31, 2022, and 2021
- Statements of comprehensive income for the years ended December 31, 2022, and 2021
- Statements of changes in equity for the years ended December 31, 2022, and 2021
- Statements of cash flows for the years ended December 31, 2022, and 2021

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
- Financial assets in equity instruments
- Certain inventories valued at fair value

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 Grupo Peñoles.

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 Grupo Peñoles 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 Grupo Peñoles 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.

3. Consolidation (continued)

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. The 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 Grupo Peñoles 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.

Significant subsidiaries

The significant subsidiaries are as follows:

Subsidiary	Country	Functional currency (1)	% Equity interest December 31 **2022**	2021
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
Arrendadora Mapimí, 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

3. Consolidation (continued)

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, with the remaining 25% non-controlling interest 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, with non-controlling interests held by Dowa Mining and Sumitomo Corporation of 49%.

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

			Non-controlling interests in net profit for the year		Non-controlling interests in equity	
Subsidiary	**2022 %**	2021 %	**2022**	2021	**2022**	2021
Fresnillo plc	**25**	25	**$ 107,068**	$ 126,198	**$ 1,150,314**	$ 1,083,764
Minera Tizapa	**49**	49	**35,675**	44,194	**64,384**	75,489
Other			**(531)**	835	**(721)**	(2,677)
			$ 142,212	$ 171,227	**$ 1,213,977**	$ 1,156,576

For the years ended December 31, 2022, and 2021, Equipos Chaparral, S.A de C.V.; Exploraciones y Desarrollos Mineros Coneto, S.A.P.I 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 $10,143 and $31,886, respectively, in the caption non-controlling interests in the consolidated statements of changes in equity.

During December 2022, Grupo Peñoles acquired 49% of the capital of its subsidiary Flobarco, S.A de C.V that was owned by a third-party shareholder for a total amount of $1, with this purchase Grupo Peñoles owns the total of the stockholder's equity. Since the acquisition of the non-controlling interest did not give rise to a change of control, the acquisition mentioned was considered an equity transaction, therefore the amount of the non-controlling interest that amounted to a deficit of $2,647, was recognized with in the retained earnings caption.

The condensed financial information before eliminations as at and for the years ended December 31, 2022 and 2021 of the significant subsidiaries with non-controlling interests is as follows:

3. Consolidation (concludes)

Statement of financial position:

	2022		2021	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Assets:				
Current Assets	**$ 1,940,181**	**$ 118,884**	$ 2,123,054	$ 147,529
Non-current assets	**3,974,099**	**90,062**	3,644,413	85,841
Total assets	**$ 5,914,280**	**$ 208,946**	$ 5,767,467	$ 233,370
Current liabilities	**$ 687,930**	**$ 55,293**	$ 465,546	$ 38,779
Non-current liabilities	**$ 1,309,413**	**$ 21,060**	$ 1,499,249	$ 30,096
Total liabilities	**$ 1,997,343**	**$ 76,353**	$ 1,964,795	$ 68,875
Equity	**$ 3,916,937**	**$ 132,593**	$ 3,802,672	$ 164,495
Total liabilities and equity	**$ 5,914,280**	**$ 208,946**	$ 5,767,467	$ 233,370
Dividends paid	**$ 201,950**	**$ 106,999**	$ 245,561	$ 79,999

Statement of comprehensive income:

	2022		2021	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Sales	**$ 2,432,990**	**$ 265,419**	$ 2,703,095	$ 284,882
Operating profit	**$ 283,593**	**$ 109,840**	$ 666,733	$ 145,127
Net profit	**$ 308,291**	**$ 2,379**	$ 438,496	$ 98,149
Components of other comprehensive (loss)/income	**$ 624**	**$ 123**	$(35,693)	$ 8,531
Comprehensive income	**$ 308,915**	**$ 2,502**	$ 402,803	$ 106,680

Statement of cash flows:

	2022		2021	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Net cash flows from operating activities	**$ 502,185**	**$ 88,713**	$ 895,140	$ 123,662
Net cash flows used in investing activities	**(514,182)**	**(121,024)**	(501,565)	(90,977)
Net cash flows (used in)/from financing activities	**(254,225)**	**(61)**	(228,708)	(9,888)
Net increase in cash and cash equivalents	**(266,222)**	**(32,372)**	164,867	22,797
Cash and cash equivalents at beginning of year	**1,235,282**	**101,540**	1,070,415	78,743
Cash and cash equivalents at end of year	**$ 969,060**	**$ 69,168**	$ 1,235,282	$ 101,540

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of Grupo Peñoles 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. Accordingly, 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 as follows:

Judgments

i) Recognition and classification of assets at Soledad and Dipolos mine

In 2009, five members of the El Bajio agrarian community in the state of Sonora, who claimed rights over certain surface land in the proximity of the operations of Minera Penmont S. de R.L. de C.V. ('Penmont'), subsidiary of Fresnillo Plc submitted a legal claim before the Unitarian Agrarian Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface 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.

In addition to, but separate from, the lands mentioned above, Penmont is the legal and registered owner of the land where the Soledad & Dipolos leaching pads are located but has not yet been able to gain physical access to these pads due to opposition by certain local individuals. This land was purchased by Penmont from the Federal Government of Mexico in accordance with due legal process. 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. This expectation considers different scenarios, including but not limited to potential negotiation scenarios and the different legal proceedings that Penmont has presented in order to regain access to the lands, as well as other ongoing proceedings including claims by members of the agrarian community requesting the cancellation of Penmont's property deed over this area, which claims Penmont believes are without merit. All such proceedings are pending final resolution. Therefore, Penmont continues to recognize property, plant and equipment and inventory related to Soledad & Dipolos at $35,600 and $91,620, respectively. Due to the fact that it is not yet certain when access may be granted so that the inventory can be processed, this inventory is classified as a non-current asset.

Furthermore, claimants from the El Bajío community also presented claims against occupation agreements they entered into with Penmont, covering land parcels other than the surface land where Soledad & Dipolos is located. Penmont has had no significant mining operations or specific geological interest in the affected parcels and these lands are therefore not considered strategic for Penmont. The Agrarian Court has issued rulings declaring such occupation agreements over those land parcels to be null and void and that Penmont must remediate such lands to the state that they were in before Penmont's occupation as well as returning any minerals extracted from this area. The case relating to the claims over these land parcels remains subject to final conclusion. However, given that Penmont has not conducted significant mining operations or had specific geological interest in these land parcels, any contingencies relating to such land parcels are not considered material by the Group. There are no material assets recognized in respect of these land parcels at December 31, 2022 or December 31, 2021.

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

ii) Layback agreement

In December 2020, Grupo Peñoles, through its subsidiary Fresnillo, plc, entered into multiple contracts with Orla Mining Ltd. and its Mexican subsidiary, Minera Camino Rojo, S.A. de C.V. (together herein referred to as "Orla"), granting Orla the right to expand the Camino Rojo oxide pit onto Fresnillo's "Guachichil D1" mineral concession. Based on the terms of the contracts, Grupo Peñoles will transfer the legal rights to access and mine the mineral concession to Orla.

Due to the fact that the contracts were negotiated together, Grupo Peñoles has considered the layback contracts as a single agreement (Layback Agreement). Grupo Peñoles determined that this transaction should be accounted for as the sale of a single intangible asset and in accordance with IFRS 15 – *Revenue from Contracts with Costumers* is recognizing as such, at a point in time in which control transfers and it is when the performance obligation is satisfied.

The effectiveness of this agreement was subject to the approval of the Mexican Federal Competition Commission (COFECE), which was granted in February 2021.

The consideration under this agreement includes three partial payments: $25,000 in February 2021, $15,000 in November 2022 and $22,800 in 2023. The future amounts bear interest at an annual rate of 5%. Grupo Peñoles recognized the contractual consideration ($67,182 dollars) at fair value, discounted at a risk-free rate.

On December 31, 2022, Grupo Peñoles concluded the process of providing support to Orla in respect of other negotiations relevant to the acquisition of the rights to access from the communal land. Therefore, Grupo Peñoles considers all the performance obligations established in the Layback Agreement fulfilled and recognizes the total value of the agreement on results within the item of other income. As of December 31, 2022 Grupo Peñoles based on the expected time of complete the transfer of control of the asset, recognized the total value of the agreement as deferred income and classified it as a current liability.

iii) Juanicipio project

Grupo Peñoles assesses the stage of each mine under development/construction to determine when a mine enters into the production phase, this being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the nature of each mining project, considering its complexity, location and other relevant factors.

The criteria to assess this date considers the level of capital expenditure compared with the estimated construction cost, the availability of ore reserves to sustain ongoing extraction from production areas, and production feasibility considering the operating resources available. When the production phase is considered to have commenced, all related costs are transferred from "Construction in progress" to the corresponding class of "Property, plant and equipment". At this stage, capitalization of development costs ceases, depreciation commences, and additional costs are either recognized as inventory costs or expenses, except those that qualify for capitalization related to additions or improvements to mining assets, underground mine development, or development of exploitable reserves.

During 2021, Grupo Peñoles finalized construction of the Juanicipio project. As of January 1, 2022, the mine started commercial production, while the plant commissioning activities were postponed for the end of the year due to delays in the connection of the plant to the national electricity grid. Consequently, Grupo Peñoles assessed the production start date for the mine and the plant separately. As a result, Grupo Peñoles determined that the Juanicipio mine began operations as of January 1, 2022. During 2022 the activities necessary to connect the plant to the national electricity grid continued and in December were concluded satisfactorily. Grupo Peñoles has determined that as of December 31, 2022, the plant facilities are substantially complete, and the start-up process has begun. As of December 31, 2022, the assets of the plant amount to $228,300, which are presented under property, plant and equipment, and their depreciation will begin once production takes place. The costs incurred as part of the testing of the equipment prior to the connection to the power grid, including employees training, have been considered as unabsorbed production costs in the amount of $2,592.

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

iv) Subsidiaries with non-controlling interests

For subsidiaries with non-controlling interests, Grupo Peñoles 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.

v) Climate Change

Grupo Peñoles set out its assessment of climate risks and opportunities. Grupo Peñoles recognizes that there may be potential financial statement implications in the future in respect of the mitigation and adaptation measures to the physical and transition risks. The potential effect of climate change would be in respect of assets and liabilities that are measured based on an estimate of future cash flows. Grupo Peñoles specifically considers the effect of climate change on the valuation of property, plant and equipment, deferred tax assets, and the provision for mine closure cost. Grupo Peñoles does not have assets or liabilities for which measurement is directly linked to climate change performance (for example: Sustainability-linked Bonds).

The main ways in which climate has affected the preparation of financial statements are:

• Grupo Peñoles has already made certain climate-related strategic decisions, such as to focus on decarbonization and to increase wind energy. Where decisions have been approved by the Board of Directors, the effects were considered in the preparation of these financial statements by way of inclusion in future cash flow projections underpinning the estimation of the recoverable amount of property, plant and equipment and deferred tax assets, as relevant.

Grupo Peñoles' strategy consists of mitigation and adaptation measures. To mitigate the impacts by and on climate change, Grupo Peñoles relies on renewable electricity, fuel replacement, and efficiency opportunities to reduce its carbon footprint. The approach to adaptation measures is based on climate models to produce actionable information for the design, construction, operation and closure of its mining assets, considering climate change. Future changes in Grupo Peñoles' climate change strategy or signs of global decarbonization signposts may impact significant judgments and key estimates of Grupo Peñoles and result in material changes to financial results and the carrying values of certain assets and liabilities in future reporting periods. However, as of the balance sheet date, Grupo Peñoles believes that there is no material impact on the values of assets and liabilities shown in the financial statements. Although this is an estimate, it is not considered a critical estimate.

A summary of the principal judgments and estimates used is shown below:

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 Grupo Peñoles 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.

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

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 fair value less costs of disposal and the value in use of the asset, and if the asset is therefore impaired. For this impairment evaluation, assets are grouped into CGU and their recoverable amount 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 cash generating unit 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 CGU comprised of the different mining units and estimates the projection periods for the cash flows. Subsequent changes in CGU 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. Grupo Peñoles 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 Grupo Peñoles. 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

Grupo Peñoles 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 costs incurred for rehabilitation, reclamation, and re-vegetation of affected areas. 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 Grupo Peñoles corporate social responsibility policies.

Environmental costs are also estimated by Grupo Peñoles 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 Grupo Peñoles 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.

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

e) Retirement benefits

Assumptions are used to calculate Grupo Peñoles 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, estimated working lives, and expected inflation rate, 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. Grupo Peñoles evaluates the probability of losing its on-going litigations based on the estimates of its legal advisors and these evaluations are reassessed periodically.

h) Leases

Group Peñoles (as lessee) determines the term as the non-cancellable term of the lease, together with any periods covered by an option to extend 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.

Grupo Peñoles 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 to this end, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, Grupo Peñoles 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. Grupo Peñoles included the renewal period as part of the lease term for certain plant and machinery.

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

Whenever Grupo Peñoles cannot readily determine the interest rate implicit in the lease, it uses the incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that Grupo Peñoles would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment at contract inception date. The IBR therefore reflects what Grupo Peñoles would “have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). Grupo Peñoles estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

Lease liabilities are measured at the present value of the outstanding lease payments. Lease payments are discounted using the implicit interest rate in the lease if that rate can be readily determined. If the rate cannot be easily determined, the lessee's incremental borrowing rate is used. Subsequently, 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, carrying amount of liabilities are remeasured if there is a lease modification or reassessment. As at December 31, 2022 and 2021, the weighted average incremental borrowing rate applied to lease liabilities was 5.64% and 5.40%, respectively.

5. Changes in Accounting Policies

New standards, interpretations, and amendments

Grupo Peñoles applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022 (unless otherwise indicated). Grupo Peñoles has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Conceptual Framework References - Modifications to IFRS 3.

The amendments replace the references contained in the Standard in relation to the Framework for the preparation and presentation of financial statements to the current version of the IASB's Conceptual Framework issued in March 2018 without significantly changing its requirements.

The amendments also add an exception to the initial recognition of IFRS 3 “Business Combinations” to avoid the issue of potential “day 2” gains or losses arising from liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for acquisition-date recognition.

In accordance with the transitional provisions, Grupo Peñoles applies the amendments prospectively, that is, to business combinations that occur after the beginning of the annual reporting period in which the amendments are applied for the first time (the date of initial application).

These amendments had no impact on the consolidated financial statements of Grupo Peñoles since there were no business acquisitions or contingent assets, liabilities or contingent liabilities within the scope of these amendments that emerged during the period.

5. Changes in Accounting Policies (concludes)

Amendment to IAS 16 – Property Plant and Equipment: Proceeds before Intended Use.

The modification prohibits entities to deduct from the cost of an item of property, plant and equipment any proceeds from the sale of items produced before that asset is available for use, this means, revenue while bringing the asset to the necessary location and condition so that it can function in the manner intended by the administration. Instead, an entity recognizes the annual revenue from the sale of such products and the costs of producing reports beginning on those items in profit or loss.

In accordance with the transitional provisions, Grupo Peñoles applies modifications retroactively only to items of property, plant and equipment available for use starting the first period presented when the entity applies for the first time the modification as of January 1, 2022.

These modifications had no impact on the consolidated financial statements of Grupo Peñoles since there was no income from such items produced by property, plant and equipment available for use on or after the beginning of the first period presented.

IFRS 9 Financial Instruments – Definition of transaction costs in the 10% test for derecognition of financial liabilities.

The amendment clarifies that when applying the "10 percent" test to assess whether the terms of the new contract or amendment are materially different from the terms of the original financial liability, the entity should only include transaction costs, including only those paid or received between the entity and the creditor, in the same way consider the costs paid or received by the entity or the creditor on behalf of a third party. To date, no similar amendment has been proposed to IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, Grupo Peñoles applies the modification to financial liabilities that are modified or exchanged from the beginning of the annual reporting period in which the entity first applies the modification (January 1, 2022).

These modifications had no impact on the consolidated financial statements of Grupo Peñoles since there were no modifications to the financial instruments of Grupo Peñoles during the period.

Amendments to IAS 37. Costs of fulfilling an onerous contract.

The modifications specify that the cost of completing a contract includes costs that are directly related to the contract.

Costs that are directly related to a contract consist of both the increased costs of fulfilling that contract (for example, direct labor or materials) and an allocation of other costs that are directly related to fulfilling contracts (an example would be allocation of the depreciation expense of an item of property, plant and equipment used to fulfill the contract).

These modifications had no impact on the consolidated financial statements of Grupo Peñoles since it does not maintain onerous contracts.

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 of 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 income 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:

	2022	2021
Exchange rate as at December 31 (Mexican pesos per U.S. dollar)	**19.36**	20.58
Average exchange rate (Mexican pesos per U.S. dollar)	**20.12**	20.28

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

Initial recognition and measurement

Upon initial recognition, Grupo Peñoles values investments in financial instruments held for trading and in financial instruments to collect or sell at their fair value.

The classification of financial assets at initial recognition depends on the contractual characteristics of the cash flows of the financial asset and the business model of Grupo Peñoles to manage those assets. With the exception of accounts receivable that do not contain a significant financing component, Grupo Peñoles initially values a financial asset at its fair value plus, in the case of financial assets that are not measured at fair value through profit or loss. Accounts receivable that does not contain a significant financing component are valued at the transaction price determined in accordance with IFRS 15.

In order for a financial asset to be classified and valued at its amortized cost or at fair value with changes in OCI (Other Comprehensive Income), such asset must give rise to cash flows that are solely payments of principal and interest,(SPPI) with respect to the outstanding principal. This evaluation is known as the financial instrument test to collect principal and interest and is carried out at the instrument level. Financial assets with cash flows that are not solely payments of principal and interest are classified and valued at fair value through profit or loss, regardless of the business model.

Grupo Peñoles' business model for managing its financial assets refers to the way it manages its financial assets to generate cash flows for the business when carrying out its activities and not on a particular intention to hold an instrument. The business model determines whether the cash flows will be derived from obtaining contractual cash flows, from the sale of financial assets, or from both.

Purchases or sales of financial assets that require the delivery of assets within a time frame established by a market regulation or agreement (regular-way trades) are recognized on the trade date; that is, the date on which Grupo Peñoles commits to buy or sell the asset.

Upon initial recognition, Grupo Peñoles measures a financial asset at its fair value plus, in the case of a financial asset that is not at fair value through profit or loss (FVTPL), the transaction costs that are directly attributable to the purchase of the financial asset. Transaction costs of financial assets measured at FVTPL 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.

Subsequent recognition

For the purpose of its subsequent recognition, 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.

6. Summary of Significant Accounting Policies (continued)

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 Grupo Peñoles elected to classify irrevocably its equity investments as equity instruments designated at fair value through OCI (FVTOCI).

Grupo Peñoles 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 Grupo Peñoles commits to purchase or sell the asset.

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.

Grupo Peñoles financial assets at amortized cost mainly consist of trade receivables (except for trade receivables measured at fair value through profit or loss).

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

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 at fair value through OCI 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 Grupo Peñoles 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.

6. Summary of Significant Accounting Policies (continued)

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.

When Grupo Peñoles has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Grupo Peñoles continues to recognize the transferred asset to the extent of its continuing involvement. In that case, Grupo Peñoles also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Grupo Peñoles has retained.

Grupo Peñoles enters into factoring agreements with the purpose of obtaining better term conditions in the collection of certain accounts receivables from clients, assuming a financial cost. As at December 31, 2022 and 2021, the financial assets that were derecognized due to the substantial transfer of all risks and rewards amount to $23,161 and $39,161, respectively.

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, Grupo Peñoles 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.

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.

6. Summary of Significant Accounting Policies (continued)

Grupo Peñoles' transactions with derivatives are limited in volume and confined to risk management activities. Grupo Peñoles senior management takes an active part in the analysis and monitoring of the design, performance and impact of Grupo Peñoles 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.

Grupo Peñoles 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.

Fair value hedges

Grupo Peñoles 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 Grupo Peñoles 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 Grupo Peñoles fair value hedging strategy is to offset changes in the value of its metal inventories.

Embedded derivatives

Grupo Peñoles 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.

6. Summary of Significant Accounting Policies (continued)

f) Fair value measurement

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

Fair value is the price that will 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.

Grupo Peñoles 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.

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, Grupo Peñoles 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 the purpose of 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.

6. Summary of Significant Accounting Policies (continued)

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 (based on normal operating capacity), 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, Grupo Peñoles 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.

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.

Grupo Peñoles 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, including provisions for decommissioning or retirement, as well as interest costs. The cost of internally built assets includes materials, direct labor, and an appropriate allocation of indirect costs of construction.

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. The estimate useful life of each asset has been evaluated considering the limitations of its physical life and the estimate of the economically recoverable mineral reserves of the mine where the assets are located.

6. Summary of Significant Accounting Policies (continued)

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 on the basis of 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 Grupo Peñoles will obtain economic benefits from the mining units; this land is amortized over the same period.

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

	No. of years
Mining properties	10
Metallurgic and chemical plants	7
Buildings and land	10 and 7
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.

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 income of the period

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.

6. Summary of Significant Accounting Policies (continued)

When the stripping activity includes the removal of materials to improve access to the ore body and also includes 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 are capitalized as components of 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 Grupo Peñoles 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.

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 and until such time as 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

At the beginning of the contract Grupo Peñoles evaluates whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Grupo Peñoles applies a single recognition and measurement approach to all leases, except short-term leases and leases of low-value assets. 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.

6. Summary of Significant Accounting Policies (continued)

Right-of-use asset measurement

Right-of-use assets are amortized from the commencement date to the end of their useful life or to the end of the lease term. If ownership of the underlying asset transfers 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, amortization is calculated from the commencement date to the end of the useful life of the underlying asset.

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 amortized on straight-line basis over the shorter of the useful life of the assets and the lease term as follows:

- Buildings from 1 to 10 years
- Machinery and equipment from 7 to 22 years
- Computer equipment and other assets from 2 to 5 years

If ownership of the leased asset is transferred to Grupo Peñoles at the end of the lease term or the cost reflects the exercise of a purchase option, amortization is calculated using the estimated useful life of the asset.

Right-of-use assets are also subject to impairment tests as they are non-financial assets.

Lease liability measurement

At the commencement date of the lease, Grupo Peñoles 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.
- 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.

6. Summary of Significant Accounting Policies (continued)

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.

Short-term leases and leases in which the underlying asset is of low value

Grupo Peñoles applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the inception date and do not contain a purchase option). Grupo Peñoles also applies the exemption to the recognition of leases of low-value assets to office equipment leases and others that are considered to be of low value.

Lease payments for short-term leases and leases of low-value assets are recognized as an expense as they accrue on a straight-line basis over the lease term.

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 Grupo Peñoles 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. Grupo Peñoles 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 disposal cost. 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 an after-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 most recent 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 Grupo Peñoles 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 post-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 by such increase. 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 term. Grupo Peñoles also recognizes derivatives do not comply with the requirements 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 effective interest rate method (EIR) 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.

The amortized cost is calculated by taking into consideration any discount or acquisition premium and the fees or costs that are an integral part of the effective interest rate method. The amortization of the effective interest rate is recognized under financial expenses in the income statement.

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

Grupo Peñoles 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 Grupo Peñoles 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 Grupo Peñoles 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 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, Grupo Peñoles is required to pay a premium equal to 12 days' salary (capped at twice the minimum wage) 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. Grupo Peñoles 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.

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 Grupo Peñoles obligation to pay such amounts can be reliably demonstrated and when Grupo Peñoles recognizes restructuring costs according to IAS 37 *Provisions*, and the restructuring involves the payment of termination benefits.

6. Summary of Significant Accounting Policies (continued)

Employee profit sharing (EPS)

In accordance with Mexican legislation, Grupo Peñoles must distribute an employee profit sharing which is determined based on the ten percent of the annual profit tax of each subsidiary. For this benefit a limit was established for each of the entitled employees in terms of article 127, section VII of the Federal Labor Law, which consists of a maximum of three-month salary or the average employee profit sharing paid on the last three years. Employee profit sharing is accounted for as employee benefits and is calculated based on the services provided by employees during the year, considering their most recent salaries. The liability is recognized by decreasing the consolidated results. The employee profit sharing paid in each fiscal year is deductible for purposes of income tax.

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.

Deferred income tax assets and deferred income tax liabilities are offset, only if Grupo Peñoles has a legally enforceable right to do so and if the assets and liabilities derive from income tax corresponding to the same tax authority.

6. Summary of Significant Accounting Policies (continued)

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 (IFRIC 23), 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 over 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 Grupo Peñoles 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 physically 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 the rendering of freight services, both are considered a single performance obligation within the context of the contract. Revenue is recognized as the performance obligation is satisfied.

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 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 *Financial Instruments* and not within the scope of IFRS 15 *Revenue from Contracts with Customers*. 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.

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.

6. Summary of Significant Accounting Policies (continued)

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 Grupo Peñoles 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 Grupo Peñoles has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Grupo Peñoles 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 Grupo Peñoles performs under the contract.

Interest income is recognized as it accrues using the effective interest rate method, 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.

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.

- 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.

6. Summary of Significant Accounting Policies (continued)

u) Changes in accounting standards

Grupo Peñoles 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 Grupo Peñoles consolidated financial statements are disclosed below. Grupo Peñoles 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 1: Classification of Liabilities as Current or Non-Current.

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. Grupo Peñoles is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

The amendments are not expected to have a material impact on Grupo Peñoles.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur from the start of that period.

Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on Grupo Peñoles.

6. Summary of Significant Accounting Policies (concludes)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

Grupo Peñoles is currently assessing the impact of the amendments to determine the impact they will have on its accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which restrict the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal cumulative and deductible temporary differences.

The modifications must be applied to transactions that occur on or after the beginning of the first comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and cumulative temporary differences associated with leases and lease dismantling obligations.

Grupo Peñoles is currently evaluating the impact of the modifications.

Measurement of a sale-leaseback lease liability - Amendments to IFRS 16

On September 22, 2022, the Board issued amendments to IFRS 16 related to a lease liability in a leaseback sale. The amendment to IFRS 16 specifies the requirements that a seller-lessee uses to measure the lease liability arising in a leaseback sale, to ensure that the seller-lessee does not recognize any gain or loss that relates to the right of use that it retains.

The amendment is intended to improve the requirements for sale-leaseback transactions under IFRS 16. This amendment does not change the accounting for leases not related to sale-leaseback transactions.

The amendment is applied retrospectively to annual periods beginning on or after January 1, 2024. Earlier application is permitted.

Grupo Peñoles is currently evaluating the impact of the modifications.

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 Grupo Peñoles Chief Executive Officer. Grupo Peñoles is organized into business units based on its products.

7. Segment Information (continued)

The CODM monitors the operating results of the business units separately for 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 consolidated financial statements. In addition, Grupo Peñoles financing and income taxes are managed at the corporate level and are not allocated to the operating segments, except for those entities that are managed separately.

Grupo Peñoles 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. Grupo Peñoles 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 of 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 40% 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 Grupo Peñoles 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 December 31, 2022 is as follows:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Third-party sales	$ 61	$ 412,469	$ 4,883,984	$ 230,042	$(3,198)	$ 5,523,358
Intra-group sales	2,432,929	704,949	74,992	293,405	(3,506,275)	-
Total sales	2,432,990	1,117,418	4,958,976	523,447	(3,509,473)	5,523,358
Cost of sales	1,896,969	791,362	4,989,617	204,173	(3,391,217)	4,490,904
Gross profit	536,021	326,056	(30,641)	319,274	(118,256)	1,032,454
Administrative expenses	94,123	94,870	112,048	205,656	(213,993)	292,704
Exploration expense	165,790	54,022	193	1,667	(4,540)	217,132
Selling expenses	25,619	50,459	32,809	35,062	(1,620)	142,329
Impairment review of long-term assets	-	(21,362)	-	-		(21,362)
Other expenses (income), net	(33,105)	29,440	16,240	(26,958)	36,546	22,163
	252,427	207,429	161,290	215,427	(183,607)	652,966
Operating profit/(loss)	$ 283,594	$ 118,627	$(191,931)	$ 103,847	$ 65,351	379,488
Finance Income						(45,891)
Finance Costs						201,146
Foreign exchange gain, net						3,118
Share of loss of associates						(1,418)
Profit before income tax						222,533
Income tax						(103,042)
Consolidated net profit						$ 325,575

Statement of financial position:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Segment assets	$ 5,926,671	$ 2,034,897	$ 2,526,353	$ 8,096,052	$(8,541,446)	$10,042,527
Segment liabilities	$ 2,009,732	$ 879,460	$ 2,217,551	$ 3,023,221	$(3,375,713)	$ 4,754,251
Depreciation	$ 496,063	$ 75,251	$ 62,684	$ 22,905	$ 14,834	$ 671,737
Fixed asset investments	$ 590,562	$ 97,030	$ 44,341	$ 15,570	$ -	$ 747,503
Investments in associates	$	$	$	$ 74,832	$(2,651)	$ 72,181

7. Segment Information (concludes)

An analysis of segment information as at and for the year ended December 31, 2021 is as follows:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Third-party sales	$	$ 527,333	$ 5,322,964	$ 192,476	$(70,959)	$ 5,971,814
Intra-group sales	2,703,096	832,248	37,135	350,041	(3,922,520)	-
Total sales	2,703,096	1,359,581	5,360,099	542,517	(3,993,479)	5,971,814
Cost of sales	1,766,170	889,965	5,264,897	190,519	(3,695,544)	4,416,007
Gross profit	936,926	469,616	95,202	351,998	(297,935)	1,555,807
Administrative expenses	103,533	103,435	131,843	254,596	(309,864)	283,543
Exploration expenses	130,292	43,719	282	4,645	(8,069)	170,869
Selling expenses	25,035	43,706	31,484	31,398	(1,207)	130,416
Other expenses/(income), net	11,332	(17,659)	(14,835)	(17,590)	27,803	(10,949)
	270,192	173,201	148,774	273,049	(291,337)	573,879
Operating profit/(loss)	$ 666,734	$ 296,415	$(53,572)	$ 78,949	$(6,598)	981,928
Finance income	-	-	-	-	-	(20,262)
Finance costs	-	-	-	-	-	171,472
Foreign exchange gain, net	-	-	-	-	-	1,622
Share of profit of associates	-	-	-	-	-	5,607
Profit before income tax	-	-	-	-	-	823,489
Income tax	-	-	-	-	-	260,914
Consolidated net profit	-	-	-	-	-	$ 562,575

Statement of financial position:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Segment assets	$ 5,827,795	$ 1,868,597	$ 2,761,374	$ 7,899,655	$(8,564,162)	$ 9,793,259
Segment liabilities	$ 2,025,119	$ 698,709	$ 2,056,135	$ 3,139,908	$(3,150,492)	$ 4,769,379
Depreciation	$ 524,159	$ 104,032	$ 61,803	$ 23,226	$(7,960)	$ 705,260
Fixed asset investments	$ 611,659	$ 80,821	$ 50,504	$ 19,075	$ -	$ 762,059
Investments in associates	$ -	$ -	$ -	$ 57,771	$(2,651)	$ 55,120

In 2022, three customers (two customers in 2021) from the Metallurgical segment each individually exceeded 10% of the value of Grupo Peñoles net sales and they jointly represented 39.4% of net sales for the year (35.2% in 2021).

Information on revenue obtained by geographical zone is presented in Note 26.

As at December 31, 2021 and 2021 Grupo Peñoles non-current assets outside Mexico totaled $50,685 and $49,279, respectively.

8. Cash and Cash Equivalents

An analysis of cash and cash equivalents is as follows:

		2022		2021
Cash in hand and in banks	**$**	**72,214**	$	65,849
Liquid investments (1)		**1,396,704**		1,751,245
	$	**1,468,918**	$	1,817,094

(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:

		2022		2021
Trade receivables (1)	**$**	**266,844**	$	203,154
Other accounts receivable		**17,578**		29,919
Less:				
Expected credit losses for trade receivables (Note 39)	**(**	**1,880)**	(	2,034)
Expected credit losses for other accounts receivable (Note 39)	**(**	**1,053)**	(	1,918)
Total trade and other accounts receivable		**281,489**		229,121
Related parties (Note 25)		**14,939**		29,739
Recoverable value added tax		**295,168**		291,418
Advances to suppliers		**20,140**		15,180
Account receivable related to layback agreement (Note 4 ii)		**23,819**		40,598
Other accounts receivable to contractors		**2,595**		480
		638,150		606,536
Less: Non-current maturity				
Other accounts receivable to contractors		**2,595**		480
Long-term account receivable related to layback agreement (Note 4 ii)		**-**		23,914
Recoverable Value Added Tax		**36,820**		34,634
Long-term accounts receivable and other receivables		**39,415**		59,028
Total trade and other current accounts receivable, net	**$**	**598,735**	$	547,508

(1) As at December 31, 2022 and 2021, approximately 76% and 41%, respectively, of Grupo Peñoles' 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 Grupo Peñoles' credit committee), with an average credit term of 30 days.

9. Trade and Other Accounts Receivable (concludes)

An analysis of the changes in the allowance for expected credit losses for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning balance	**$ 3,952**	$ 4,497
Increase for the year	**(69)**	43
Charges	**(950)**	(588)
Ending balance	**$ 2,933**	$ 3,952

10. Other Financial Assets

An analysis of this caption is as follows:

	2022	2021
Fair value of hedging derivatives (Note 38)	**$ 20,069**	$ 22,580
Fair value of derivative financial instruments (Note 38)	**8,731**	12,207
Derivative financial instruments at fair value through profit or loss	**-**	1,988
Accounts receivable from settled derivatives contracts	**18,544**	48,699
Total other financial assets	**47,344**	85,474
Less: Non-current maturity	**(1,285)**	(11,853)
Other current financial assets	**$ 46,059**	$ 73,621
Other non-current financial assets	**$ 1,285**	$ 11,853
Security deposits and other financial assets	**4,233**	3,953
Total other non-current financial assets	**$ 5,518**	$ 15,806

11. Inventories

An analysis of this caption is as follows:

	2022	2021
Inventories stated at cost:		
Refined metals and ore concentrates (1)	**$ 1,620,760**	$ 1,489,193
Raw materials and chemical products in process	**27,677**	33,560
Operating materials (1)	**252,406**	208,079
	1,900,843	1,730,832
Inventories measured at fair value:		
Refined metals	**71,418**	78,853
Inventories,	**1,972,261**	1,809,685
Less: Non-current portion	**91,620**	91,620
Inventories, current potion	**$ 1,880,641**	$ 1,718,065

(1) As at December 31, 2022 and 2021, Grupo Peñoles recognized impairment in the net realizable value of its inventories of $26,770 and $7,268, respectively.

12. Financial assets in equity instruments

An analysis of this caption is as follows:

	2022	2021
Equity investments in entities listed on the Canadian Stock Exchange (1):		
Cost	$ **62,732**	$ 62,732
Increase in fair value	**103,243**	112,285
Subtotal	**165,975**	175,017
Equity investments in entities listed on the U.S. Stock Exchange:		
Cost	**180**	180
Increase in fair value	**968**	1,363
Subtotal	**1,148**	1,543
Total	$ **167,123**	$ 176,560

An analysis of changes in these equity investments for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Opening balance	$ **176,560**	$ 232,549
Loss reclassified to components of other comprehensive loss	**(9,437)**	(55,989)
Ending balance	$ **167,123**	$ 176,560

(1) As at December 31, 2022 and 2021, approximately 91% of Grupo Peñoles equity investments corresponds to its 9,746,193 shares of Mag Silver, Corp., equal to $152,271 and its 5% holding in Endeavor, Inc., represented by 2,800,000 shares, equal to $9,059. These investments are in publicly traded mining companies listed on the Canadian Stock Exchange. As at December 31, 2022 and 2021, the price of Grupo Peñoles shares is $21.15 and $4.38 per share and $19.83 and $5.35, respectively, per share.

13. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2022 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
2022 opening balance	$ **6,801,941**	$ **1,661,564**	$ **1,315,750**	$ **18,724**	$ **960,714**	$ **10,758,693**
Additions	**198,994**	**8,242**	**53,244**	**3,042**	**460,325**	**723,847**
Decrease in provision for asset decommissioning	**(37,020)**					**(37,020)**
Capitalized interest					**12,830**	**12,830**
Retirements and disposals	**(160,538)**	**(456)**	**(840)**	**(492)**	**-**	**(162,326)**
Non-current assets held for sale	**(92,937)**	**-**	**(30,010)**	**-**	**-**	**(122,947)**
Transfers and other	**783,368**	**43,143**	**-**	**-**	**(826,511)**	**-**
Translation adjustment	**4,299**	**71**	**46**	**1,221**	**-**	**5,637**
2022 ending balance	**7,498,107**	**1,712,564**	**1,338,190**	**22,495**	**607,358**	**11,178,714**

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:						
2022 opening balance	**(4,485,791)**	**(851,514)**	**(701,348)**	**(9,770)**	**(2,926)**	**(6,051,349)**
Depreciation for the period	**(545,111)**	**(97,081)**	**(33,671)**	**(1,342)**	**-**	**(677,205)**
Retirements and disposals	**139,112**	**387**	**483**	**64**	**-**	**140,046**
Impairment reversal	**16,770**	**-**	**4,592**	**-**	**-**	**21,362**
Accumulated depreciation of non-current assets held for sale	**76,168**	**-**	**25,417**	**-**	**-**	**101,585**
Translation adjustment	**(2,035)**	**(31)**	**(46)**	**(384)**	**-**	**(2,496)**
2022 ending balance	**(4,800,887)**	**(948,239)**	**(704,573)**	**(11,432)**	**(2,926)**	**(6,468,057)**
Net investment	**$ 2,697,220**	**$ 764,325**	**$ 633,617**	**$ 11,063**	**$ 604,432**	**$ 4,710,657**

Changes in property, plant and equipment for the year ended December 31, 2021 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
2021 opening balance	$ 6,545,014	$ 1,590,989	$ 1,260,020	$ 26,073	$ 819,431	$ 10,241,527
Additions	236,213	35,068	60,550	1,237	416,212	749,280
Decrease in provision for Asset decommissioning	(8,608)	-	-	-	-	(8,608)
Capitalized interest	-	-	-	-	14,220	14,220
Retirements and disposals	(216,392)	(5,676)	(4,797)	(11,858)	-	(238,723)
Transfers and other	247,869	41,280	-	-	(289,149)	-
Translation adjustment	(2,155)	(97)	(23)	3,272	-	997
2021 ending balance	6,801,941	1,661,564	1,315,750	18,724	960,714	10,758,693
Depreciation, amortization, depletion and impairment :						
2021 opening balance	(4,169,590)	(768,930)	(612,326)	(15,929)	(3,199)	(5,569,974)
Depreciation for the period	(535,685)	(87,133)	(89,918)	(1,045)	273	(713,508)
Retirements and disposals	214,558	4,500	873	8,246	-	228,177
Translation adjustment	4,926	49	23	(1,042)	-	3,956
2021 ending balance	(4,485,791)	(851,514)	(701,348)	(9,770)	(2,926)	(6,051,349)
Net investment	$ 2,316,150	$ 810,050	$ 614,402	$ 8,954	$ 957,788	$ 4,707,344

Depreciation expense for the years ended December 31, 2022 and 2021 was $677,205 and $709,646, respectively, of which $671,737 and $705,260, respectively, were recognized in profit or loss, while the remaining balance corresponds to depreciation of equipment used in units under construction that was recognized as part of Construction in process.

13. Property, Plant and Equipment (concludes)

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.

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:

	2022	2021
Discount rate	**8.5%- 11.6%**	7.1% -10.0%
Commodity prices (average):		
Gold (US$/oz)	**1,641**	1,580
Silver (US$/oz)	**22**	20
Zinc (cUS$/lb)	**135**	116
Copper (cUS$/lb)	**431**	301
Lead (cU$/lb)	**98**	95

During 2022 y 2021, Grupo Peñoles has not recognized any impairment losses since the expected cash flows (value in use) of the cash generating units showing indicators of impairment exceeded their carrying amount of long term assets.

As mentioned in Note 40, in December, 2022, Grupo Peñoles, received a binding offer for the sale property, plant and equipment from the Madero unit with a third party. Due to the foregoing, a reversal of the impairment of the assets of this unit that were impaired was made for $21,362; this value represents the lower of its carrying amount or its fair value. The amount is shown as an asset held for sale.

Assets under construction

Construction in process includes investments in fixed assets and capitalized pre-operating expenses of $68,930 in 2022 mainly in the acquisition of equipment in Juancipio and during 2021 of $433,495 for the construction and operation of the mining projects in Juanicipio (State of Zacatecas). In addition, in Minera Capela (State of Guerrero) several projects of $16,262, where mineral concentrates containing mostly silver, lead, and zinc are mined, as well as the investment of $21,365 in 2022 ($21,381 in 20221) mainly in the expansion of the Zinc plant structure and equipment additions in the purification area (State of Coahuila). The estimated remaining investment needed to conclude the mining and other projects is approximately $145,274 in 2023. The rate used in 2022 and 2021 to determine the amount of the borrowing costs eligible for capitalization was 4.84% and 4.84%, respectively.

Commitments

As at December 31, 2022 and 2021, Grupo Peñoles has entered into several agreements for the purchase of machinery and equipment, as well as for completion of the mining and metallurgical construction projects. The value of the agreements in 2022 and 2021 is $218,519 and $291,921, respectively.

14. Equity Investments in Associates

An analysis of equity investments in associates as at December 31, 2022 and 2021 is as follows:

	2022	2021	**2022**	2021
Aerovics, S.A. de C.V. (1)	**63.36%**	61.29%	**$ 69,994**	$ 54,475
Línea Coahuila Durango, S.A. de C.V.	**50.00%**	50.00%	**1,664**	-
Other			**523**	645
			$ 72,181	$ 55,120

(1) For the years ended December 31, 2022 and 2021, 30.98% and 36.19%, respectively, of the shares are non-voting. Accordingly, Grupo Peñoles does not exercise control over these investees.

An analysis of changes in the equity investments in associates for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning balance in associates	**$ 55,120**	$ 32,160
Share of loss of associates	**1,418**	(5,607)
Changes in equity interest in associate (1)	**(859)**	(2,387)
Investment return	**(8)**	-
Share capital increase (1)	**12,024**	32,107
Translation adjustment	**4,486**	(1,153)
Ending balance in associates	**$ 72,181**	$ 55,120

The associates in which Grupo Peñoles 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 MGI Fusión (formerly Administradora Moliere 222, S.A. de C.V.) and a 35% equity interest in Administración de Riesgos Bal, S.A. de C.V.

In June 30, 2022 MGI Fusión, (formerly Administradora Moliere 222, S.A de C.V.) shareholders decided to fully redeem the shares owned by Grupo Peñoles for $8. In October 2021, the shareholders of Administradora Moliere 222 and MGI Fusión agreed to merge both companies where MGI Fusión as merging company absorbed Administradora Moliere 222. As a result of this merger, as of November 2021, Grupo Peñoles ceased to account for its equity interest in this associate using the equity method derived from Grupo Peñoles losing significant influence over the investee and a decrease in its percentage of equity interest from 40% to 0.01%.

(1) During January 2022 a capital increase was made to Aerovics, S.A. de C.V. for $12,024. In January, July and October 2021, the share capital of Aerovics, S.A. de C.V. increased by $8,059, $12,024 and $12,024, respectively, adding a total of $32,107 during the whole year. This share capital increase of each year represented a change in Grupo Peñoles' equity interest in the associate. As a result, Grupo Peñoles recognized a deficit of $636 and $2,387 as part of retained earnings, respectively.

14. Equity Investment in Associates (continued)

The condensed financial information of the associates is as follows:

As at and for the years ended December 31, 2022 and 2021

Statement of financial position:

	2022	
	Aerovics	Línea Coahuila Durango
Assets:		
Current assets	**$ 11,351**	**$ 13,040**
Non-current assets	**101,049**	**5**
Total assets	**$ 112,400**	**$ 13,045**
Current liabilities	**$ 1,385**	**$ 4,499**
Non-current liabilities	**549**	**5,218**
Total liabilities	**1,934**	**9,717**
Total equity	**110,466**	**3,328**
Total liabilities and equity	**$ 112,400**	**$ 13,045**

Statement of financial position:

	2021	
	Aerovics	Línea Coahuila Durango
Assets:		
Current assets	$ 7,198	$ 8,892
Non-current assets	83,180	171
Total assets	$ 90,378	$ 9,063
Current liabilities	$ 633	$ 3,420
Non-current liabilities	869	6,310
Total liabilities	1,502	9,730
Total equity	88,876	(667)
Total liabilities and equity	$ 90,378	$ 9,063

14. Equity Investment in Associates (concludes)

Statement of comprehensive income for 2022:

	Aerovics	Línea Coahuila Durango
Sales	$ 16,176	$ 31,536
Operating (loss) income	$ (31)	$ 3,212
Net income	$ 106	$ 2,675
Components of other comprehensive income	$ 6,411	$ 1,522
Comprehensive income	$ 6,517	$ 4,197

Statement of comprehensive income for 2021:

	Aerovics	Línea Coahuila Durango
Sales	$ 10,381	$ 27,071
Operating loss	$ (2,797)	$ (1,341)
Net loss	$ (2,646)	$ (7,990)
Components of other comprehensive (loss) income	$ (7,116)	$ 454
Comprehensive loss	$ (9,762)	$ (7,536)

15. Leases

An analysis of changes in right-of-use assets for the year ended December 31, 2022 is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at January 1, 2022	$ 23,651	$ 72,216	$ 45,302	$ 141,169
Additions	87	3,933	6,896	10,916
Lease modification	1,393	2,457	1,260	5,110
Retirements	(588)	-	(15,496)	(16,084)
Foreign exchange gain	1,711	-	357	2,068
Ending balance as at December 31, 2022	26,254	78,606	38,319	143,179
Amortization:				
Beginning balance as at January 1, 2022	(7,860)	(9,371)	(24,694)	(41,925)
Amortization for the year	(3,049)	(3,553)	(12,240)	(18,842)
Retirements	515	-	15,495	16,010
Ending balance as at December 31, 2022	(10,394)	(12,924)	(21,439)	(44,757)
Net investment	$ 15,860	$ 65,682	$ 16,880	$ 98,422

15. Leases (continued)

An analysis of changes in right-of-use assets as at December 31, 2021 is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at January 1, 2021	$ 21,086	$ 69,342	$ 48,004	$ 138,432
Additions	1,002	-	9,743	10,745
Lease modification	1,729	2,874	602	5,205
Retirements	(166)	-	(13,047)	(13,213)
Ending balance as at December 31, 2021	23,651	72,216	45,302	141,169
Amortization:				
Beginning balance as at January 1, 2021	(5,031)	(6,201)	(24,371)	(35,603)
Amortization for the year	(2,985)	(3,170)	(13,370)	(19,525)
Retirements	156	-	13,047	13,203
Ending balance as at December 31, 2021	(7,860)	(9,371)	(24,694)	(41,925)
Net investment	$ 15,791	$ 62,845	$ 20,608	$ 99,244

An analysis of changes in lease liabilities as at December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning balance as at January 1	**$ 108,006**	$ 108,351
Additions	**10,916**	10,745
Lease modifications	**5,110**	5,205
Accretion of interest	**8,482**	8,311
Payments	**(24,399)**	(24,595)
Retirements	**(64)**	(10)
Foreign exchange loss	**(43)**	(1)
Ending balance as at December 31	**$ 108,008**	$ 108,006

An analysis of the maturity of lease liability as at December 31, 2022 is as follows:

	2022		
	Lease liability	Unaccrued interest	Total
2023	**$ 20,949**	**$(7,156)**	**$ 13,793**
2024	**16,579**	**(6,534)**	**10,045**
2025	**13,960**	**(5,962)**	**7,998**
2026	**12,246**	**(5,383)**	**6,863**
2027 and thereafter	**104,647**	**(35,338)**	**69,309**
	168,381	**(60,373)**	**108,008**
Current portion due	**20,949**	**(7,156)**	**13,793**
Non-current maturity	**$ 147,432**	**$(53,217)**	**$ 94,215**

15. Leases (concludes)

An analysis of the maturity of lease liability as at December 31, 2021 is as follows:

	2021		
	Lease liability	Unaccrued interest	Total
2022	$ 22,282	$(6,854)	$ 15,428
2023	16,752	(6,118)	10,634
2024	13,113	(5,666)	7,447
2025	10,591	(5,263)	5,328
2026 and thereafter	107,425	(38,256)	69,169
	170,163	(62,157)	108,006
Current portion due	22,282	(6,854)	15,428
Non-current maturity	$ 147,881	$(55,303)	$ 92,578

Amortization expense on right-of-use assets as at December 31, 2022 and 2021 was $18,842 and $19,525, respectively.

Expenses relating to short-term leases and leases of low-value assets as at December 31, 2022 and 2021 were $80,598 and $25,511, respectively, which were registered in profit or loss.

During 2022 and 2021, 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:

	2022	2021
Commercial suppliers	**$ 265,871**	$ 222,219
Concentrate and mineral shippers	**132,668**	149,115
Related parties (Note 25)	**29,827**	119,906
Other accrued liabilities	**97,167**	99,016
Interest payable (Note 18)	**41,371**	39,295
Deferred revenue from layback assignment (Note 4ii)	-	67,182
Energy	**92,433**	61,818
Market expenses	**10,620**	15,586
Dividends payable	**2,037**	1,960
	$ 671,994	$ 776,097

17. Other Financial Liabilities

An analysis of this caption is as follows:

	2022	2021
Hedging derivatives (Note 38)	**$ 13,931**	$ 35,050
Fair value of derivative financial instruments (Note 38)	**954**	14,021
Derivative financial instruments at fair value through profit or loss (Note 38)	**8,959**	16,039
Accounts payable on settled derivative contracts	**32,329**	57,605
Accounts payable to related parties (Note 25)	**95,853**	-
Total other financial liabilities	**152,026**	122,715
Less: Non-current maturity	**(97,627)**	(15,685)
Total other current financial liabilities	**$ 54,399**	$ 107,030

18. Financial Debt

An analysis of Grupo Peñoles' short-term debt denominated in U.S. dollars as at December 31, 2022 and 2021 is as follows:

	2022	2021
Unsecured bonds issued by Frensillo plc (1)	**$ 317,486**	$ -
Bank loan (2)	**50,000**	71,752
Short-term maturities of long-term liabilities	**9,354**	9,282
Total current debt denominated in U.S. dollars	**$ 376,840**	$ 81,034

(1) Unsecured Debt Bonds issued by Fresnillo plc; Debt placed in the international market under format 144A/Reg S on November 7, 2013, with a 10 year term, payment of principal at maturity date, semi-annual interest at a fixed rate of 5.50% plus withholding tax and without guarantees. The destination of the funds included investment and development plans, future growth opportunities and corporate purposes in general. Standard Poor's and Moody's Investors Service have assigned the notes BBB and Baa2 ratings, respectively. Movements carried out within the third quarter of 2020 effective in October.
From the 22 to 29 of September, 2020, with settlement on October 2, Fresnillo plc made an offer to repurchase this issue with a result of 60% of the current nominal value.

(2) As of December 31, 2022, direct loan maturing on January 31, 2023 for $50,000, accruing interest at an average rate of 4.83%. The loans correspond to a provision of uncommitted credit lines that are held as of December 31, 2022, likewise, there are amounts available in the short term for Industrias Peñoles, S.A.B. de C.V. with Mexican and foreign banks for $654,500.

18. Financial Debt (continued)

At December 31 the connection between interest payable on short-term and long-term debt is shown below:

	2022	2021
Beginning balance as at January 1	**$ 39,295**	$ 39,137
Interest accrued in the year	**145,877**	132,485
Capitalized interest in property, plant and equipment	**11,299**	12,392
Short and long-term interest payment	**(155,100)**	(144,719)
Ending balance as at December 31	**$ 41,371**	$ 39,295

An analysis of Grupo Peñoles' long-term debt denominated in U.S. dollars as at December 31 is as follows :

	2022	2021
Unsecured bonds issued by IPSAB (1)	**$ 1,172,193**	$ 1,170,496
Unsecured bonds issued by IPSAB (2)	**501,105**	501,524
Unsecured bonds issued by Fresnillo plc	**-**	316,942
Unsecured bonds issued by Fresnillo plc (3)	**829,124**	828,759
Bilateral export credit agency guarantee (4)	**38,110**	47,349
Total	**2,540,532**	2,865,070
Less:		
Current portion due	**9,354**	9,282
Total non-current debt	**$ 2,531,178**	$ 2,855,788

An analysis of Grupo Peñoles' short- and long-term debt without including interests as at December 31 as follows:

	2022	2021
Beginning balance as at 1 January	**$ 2,936,822**	$ 2,901,611
Debt acquired	**1,529,655**	1,005,217
Debt paid	**(1,576,939)**	(976,358)
Transaction costs paid	**(24)**	(40)
Amortization of transaction costs	**2,688**	2,816
Foreign exchange gain	**15,816**	3,576
Ending balance as at December 31	**$ 2,908,018**	$ 2,936,822

Long-term financial debt maturities starting in 2024 are as follows:

	Amount
2024	$ 9,501
2025	9,584
2026	9,670
2027-2050	2,502,423
	$ 2,531,178

18. Financial Debt (continued)

(1) Unsecured bonds of $1,100,000 issued on 5 September 2019 by Grupo Peñoles in the international bond market as a 144A/Reg-S offering. The bonds were issued in two equals 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 gave the bonds. Additionally, on 30 July 2020, the issuance ratings of the original bonds were 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 Grupo Peñoles 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) Unsecured bonds of $850,000 issued on 29 September 2020 by Fresnillo plc, and settled on 2 October, 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 4.25% 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.

(4) 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 Metalurgica 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, which is the export credit agency of the supplier's home country, guaranteed 95% of this loan, with this 95%-portion covering the goods and services that are eligible for the guarantee under the corresponding agreement, as well as local costs. The amount of this loan is up to $94,520, which includes $90,130 that corresponds to eligible goods and services (85%) and directly related local costs (100%), plus the $4,400 million premium that was paid to Finnerva in return for its guarantee.

The drawdown period matured in November 2018 with a total notional amount of $82,590. The loan will be repaid in 17 semi-annual payments spanning from 28 September 2018 until 30 September 2026. The loan bears interest at the six-month LIBOR plus 0.94% on outstanding balances (excluding the guarantee fee paid to Finnvera Plc (the Finnish export credit agency). The floating portion of the interest rate has been hedged through an interest rate swap.

In relation to the benchmark interest rate, on 23 October 2020, the International Swaps and Derivatives Association (ISDA) published in its 2006 ISDA Definitions the revised definition of LIBOR , as well as a modification to the definition of other IBOR rates, and a new protocol was issued. Currently, Grupo Peñoles is abiding by the applicable protocol ISDA IBOR ¨Fallback¨.

18. Financial Debt (concludes)

Others: Credit ratings by rating agencies.

As at December 31, 2022 and 2021, the S&P global rating of Grupo Peñoles' unsecured senior debt is BBB with a stable outlook and Fitch Ratings global rating is BBB with a stable outlook.

In addition, the S&P global rating of Fresnillo plc's unsecured senior debt is BBB with a stable outlook and Moody's Investors Services global rating is Baa2 with a stable outlook.

As at December 31, 2021, the S&P global rating of Grupo Peñoles' unsecured senior debt is BBB with a stable outlook and Fitch Ratings global rating is BBB with a stable outlook.

In addition, the S&P global rating of Fresnillo plc's unsecured senior debt is BBB with a stable outlook and Moody's Investors Services global rating is Baa2 with a stable outlook.

19. Employee Benefits

Employee benefits

An analysis of current employee benefit obligations is as follows:

	2022	2021
Salaries and other employee benefits payable	**$ 25,436**	$ 28,883
Paid annual leave and vacation premium payable	**13,838**	10,553
Social security dues and other provisions	**15,370**	12,497
	$ 54,644	$ 51,933

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.

19. Employee Benefits (continued)

Defined contribution component

The defined contribution component of the plan consists of periodic contributions made by employees, as well as matched contributions made by Grupo Peñoles 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 Grupo Peñoles' 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 December 31, 2022 and 2021 is as follows:

	2022	2021
Defined benefit obligation of active workers	**$ 53,503**	$ 60,953
Defined benefit obligation of retired workers (1)	**69,271**	70,893
Defined benefit obligation	**122,774**	131,846
Unfunded defined benefit obligation (2)	**33,850**	32,383
	156,624	164,229
Fair value of plan assets	**(106,877)**	(111,630)
Employee benefits	**$ 49,747**	$ 52,599

(1) This obligation is currently fully funded.
(2) Corresponds primarily to seniority premiums for unionized personnel

An analysis of pensions, defined contribution and seniority premiums recognized in the consolidated statement of profit or loss for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Current-year service cost	**$ 4,352**	$ 4,246
Interest cost (Note 34)	**11,204**	11,807
Return on plan assets (Note 34)	**(7,044)**	(7,458)
Defined contribution	**12,893**	11,829
Total	**$ 21,405**	$ 20,424

An analysis of changes in the remeasurement of the defined benefit obligation recognized directly in equity is as follows:

	2022	2021
Actuarial gains	**$ 9,450**	$ 13,562

19. Employee Benefits (continued)

A reconciliation of the actuarial value of the defined benefit obligation as at December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning balance of the defined benefit obligation	**$ 164,229**	$ 189,317
Current-year service cost	**4,352**	4,246
Interest cost	**11,204**	11,807
Actuarial gain (loss) from experience adjustments	**14,531**	(6,517)
Actuarial gain from adjustments in financial assumptions	**(32,499)**	(13,825)
Benefits paid	**(15,488)**	(14,006)
Foreign exchange gain	**10,295**	(6,793)
Ending balance of the defined benefit obligation	**$ 156,624**	$ 164,229

A reconciliation of the actuarial value of plan assets as at December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning balance of plan assets	**$ 111,630**	$ 122,979
Current return on plan assets	**7,044**	7,458
Loss from experience adjustments	**(8,518)**	(6,781)
Plan contributions	**1,603**	2,485
Benefits paid	**(12,578)**	(10,412)
Foreign exchange loss	**7,696**	(4,099)
Ending balance of plan assets	**$ 106,877**	$ 111,630

An analysis of plan assets is as follows:

	2022	2021
Debt instruments issued by Federal and state-owned entities	**$ 56,121**	$ 69,211
Investment funds	**21,070**	6,128
Equity instruments	**29,686**	36,291
Total plan assets	**$ 106,877**	$ 111,630

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 December 31, 2022, Grupo Peñoles does not expect to make contributions to the defined benefit plan in 2022.

The most significant assumptions used in calculating the defined benefit obligation, plan assets and the net periodic benefit expense were as follows:

Actuarial assumptions

	2022	2021
Average discount rate to reflect present value	**10.22%**	7.96%
Average salary increase rate	**5.25%**	5.00%
Expected inflation rate	**3.75%**	3.50%

19. Employee Benefits (continued)

The most significant demographical assumptions for 2022 and 2021 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 December 31, 2022 is 9.18 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 to be 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 December 31, 2022, with all other variables held constant, is as follows:

	Increase in assumption		Decrease in assumption	
	Effect	%	Effect	%
Discount Rate 0.5%	**$(6,155)**	**(3.9%)**	**$ 6,985**	**4.5%**

The change in the liability resulting from a 1-year increase in the projected working lives of the employees totals $2,635, which represents a change of approximately 1.7%.

A sensitivity analysis showing the potential impact on the defined benefit obligation resulting from an increase/decrease in the assumptions as at December 31, 2021, with all other variables held constant, is as follows:

	Increase in assumption		Decrease in assumption	
	Effect	%	Effect	%
Discount Rate 0.5%	$(7,419)	(4.5%)	$ 8,226	5.0%

The change in the liability resulting from a 1-year increase in the projected working lives of the employees totals $3,151, which represents a change of approximately 1.9%.

20. Provisions

An analysis of provisions is as follows:

	2022	2021
Ecological rehabilitation	**$ 432,417**	$ 463,005

20. Provisions (concludes)

Changes in provisions for ecological rehabilitation for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance as at 1 January	$ 463,005	$ 449,737
(Utilized)/arising during the year (Note 13)	(37,020)	(8,608)
Payments for the year	(4,263)	(3,835)
Increase/(decrease) in provision for rehabilitation of closed mines	17,031	7,518
Increase other accounts payable	2,586	-
Financial discount (Note 34)	27,438	21,291
Provision related to non-current assets classified as held for sale (Note 40)	(35,609)	-
Foreign exchange loss	(751)	(3,098)
Ending balance as at December 31	$ 432,417	$ 463,005

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 Grupo Peñoles.

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 Grupo Peñoles sustainable development policies and 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.

The calculation of the provision includes a number of certain uncertainties related to cost estimates, including possible changes in the applicable legal environment and Grupo Peñoles' 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 changes in the aforementioned assumptions were recognized as an adjustment to the previously recognized decommissioning asset that will be amortized over the average remaining lives of Grupo Peñoles' mining units, which as of December 31, 2022, range from 3 to 35 years.

The present value of the provision was calculated using discount rates from 10.00% to 10.62% in 2022 and 6.39% to 8.36% in 2021.

21. Income Tax and Special Tax for Mining Companies

Tax environment

As previously explained in the consolidated financial statements, Grupo Peñoles is a Mexican corporation with subsidiaries abroad which, as at December 31, 2022 and 2021, were subject to a minor tax effect of $6,002 and $4,563, respectively, which represented -0.006% and 0.002%, respectively, of the income tax for those years. An analysis of income tax matters related to Grupo Peñoles operations in Mexico are as follows:

21. Income Tax and Special Tax for Mining Companies (continued)

2023 Income Tax amendments

For 2023 there are no significant changes that affect the income tax, only for formal issues in force related to the new version of the issuable digital invoice "CFDI" ("Comprobante Fiscal Digital por internet" by its acronym in Spanish) and the bill of lading.

2022 Income Tax amendments

As of 1 January 2022, the most relevant changes in income tax are as follows: (1) interest payable to related parties shall be considered dividends for tax purposes if loans lack business purpose; (2) mining concessions shall not be recognized as an expense in the pre-operating period, but instead shall be amortized over the concession term; (3) constructions in mining plots shall be depreciated at a rate of 5%; (4) in case of a divestment, any tax loss to be deducted from taxable profit shall be divided among the original company and the newly created companies that operate in the same industry; (5) the withholding rate for interest payable by institutions of the financial system shall be reduced from 0.97% in 2021 to 0.08% in 2022.

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 December 31, 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.

21. Income Tax and Special Tax for Mining Companies (continued)

Industrias Peñoles, S.A.B. de C.V. has determined a tax deconsolidation effect as at December 31, 2022 of income tax payable of $5,220, which is primarily the result of the recapture of the tax losses of its consolidated subsidiaries from between 2011 and 2013 that expire in 2023.

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.

Derived from the conversations held with the Tax Administration Service (SAT) in relation to the audits of the income tax for the years 2014, 2015 and 2016 in the subsidiary Desarrollos Mineros Fresne, S. de R.L. de C.V. Grupo Peñoles decided to voluntarily modify the treatment of stripping costs and the deduction of exploration expenses in income tax and mining rights. These modifications were applied from 2014 to 2021 (for the year 2021 they were made in the subsidiary Minera Penmont, S. de R.L. de C.V., as a merging entity of Desarrollos Mineros Fresne) and resulted in an income tax expense of $3,200 and $2,700 of special rights on mining, as well as a balance in favor of income tax for an amount of $3,200. The effect on profit or loss was offset by a decrease in deferred income tax of $3,600. The modification also generated accessories (upgrades and surcharges) in the amount of $11,500.

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:

	2022	2021
2022	**$ -**	$ 5,468
2023	**5,220**	4,550
Total income tax from tax consolidation	**5,220**	10,018
Deferred tax on the reinvestment of CUFINRE earnings	**184**	173
Total income tax	**5,404**	10,191
Less: Current portion due (1)	**(5,404)**	(5,468)
Total non-current portion of income tax recapture	**$ -**	$ 4,723

(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:

	2022	2021
Deferred income tax liabilities:		
Trade and other accounts receivable	**$ 104,681**	$ 82,362
Inventories	**(128,656)**	1,758
Property, plant, and equipment	**(84,095)**	155,292
Other financial assets	**50,726**	47,010
Deferred income tax assets:		
Other financial liabilities	**(7,616)**	(18,580)
Suppliers and other accounts payable	**(138,304)**	(166,973)
Net leases payments	**(7,361)**	(8,808)
Provisions	**(107,925)**	(120,573)
Employee benefits	**(7,774)**	(8,163)
Available tax loss carryforwards	**(226,674)**	(179,991)
Deferred income tax	**(552,998)**	(216,666)
Special tax for mining companies	**(17,241)**	20,703
Deferred income tax liability, net	**$(570,239)**	$(195,963)
Shown in the consolidated statement of financial position:		
Deferred income tax asset	**$ 702,938**	$ 280,961
Deferred income tax liability	**132,699**	84,998
	$(570,239)	$(195,963)

An analysis of tax loss carryforwards as at December 31, 2022 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
2023	**$ 234**	**$ 1**	**$ 233**
2024	**7,202**	**6**	**7,196**
2025	**11,101**	**1**	**11,100**
2026	**15,907**	**9,016**	**6,891**
2027	**5,495**	**775**	**4,720**
2028	**6,381**	**859**	**5,522**
2029	**45,680**	**4,018**	**41,662**
2030	**82,639**	**52,192**	**30,447**
2031	**121,767**	**109,406**	**12,361**
2032	**60,020**	**50,400**	**9,620**
	$ 356,426	**$ 226,674**	**$ 129,752**

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 December 31, 2022 and 2021 is as follows:

	2022	2021
Current income tax	**$ 214,524**	$ 360,554
Deferred income tax related to the creation and reversal of temporary differences	**(338,850)**	(128,858)
Special tax on production and services credit	**(506)**	(2,437)
Current Income tax	**(124,832)**	229,259
Current special tax on mining companies	**58,820**	70,032
Deferred special tax on mining companies	**(37,030)**	(38,377)
Special tax on mining companies	**21,790**	31,655
Total income tax expense recognized in profit or loss	**$(103,042)**	$ 260,914

A reconciliation of the statutory income tax rate to the effective income tax rate recognized by Grupo Peñoles for financial reporting purposes is as follows:

	2022	2021
Income tax at statutory rate determined in Mexico (30%)	**$ 66,758**	$ 247,050
Effects of inflation for tax purposes	**(126,691)**	(88,135)
Non-deductible expenses	**17,612**	12,307
Effect of foreign currency translation on the tax value of assets and liabilities	**(108,343)**	39,280
Special tax on production and services credit	**(506)**	(2,437)
Unrecognized deferred tax assets	**46,595**	17,626
Deferred special tax on mining companies	**(6,692)**	(10,600)
Other items	**5,821**	8,245
Reversal of tax incentive due to merger and tax expense/(benefit) in border region	**(19,386)**	5,923
Income tax	**$(124,832)**	$ 229,259
Effective income tax rate	**(56.1%)**	27.8%

21. Income Tax and Special Tax for Mining Companies (concludes)

Income tax recognized in other comprehensive income

An analysis of deferred income tax recognized directly in equity for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Unrealized gain/(loss) on valuation of financial assets in equity instruments	**$ 2,831**	$ 16,794
Unrealized loss on valuation of employee benefits	**(1,503)**	(2,156)
Unrealized (loss)/gain on valuation of hedges	**(5,704)**	(34,115)
	$(4,376)	$(19,477)

Unrecognized deferred tax on equity investments in subsidiaries

Grupo Peñoles has not recognized all of 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 December 31, 2022 and 2021, the temporary differences for which a deferred tax liability has not been recognized amounted to $678,762 and $879,339, respectively.

22. Equity and Components of Other Comprehensive Income

Share capital

The share capital of Industrias Peñoles, S.A.B. de C.V. as at December 31, 2022 and 2021 is represented by common registered shares with no par value. Fixed minimum share capital is represented by Class I shares and variable share by Class II shares. An analysis is as follows:

	Shares		Amount	
	2022	2021	**2022**	2021
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 December 31, 2022 and 2021, 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 January 1, 2014 shall be subject to an additional 10% withholding income tax.

At an ordinary and shareholders' meeting held on May 31, 2022, the shareholders resolved that an amount of up to $191,515 (equal to Ps. 3,500,000) could be used to acquire treasury shares in accordance with the Mexican Securities Market Act. Grupo Peñoles has created a reserve for this amount under undistributed earnings.

22. Equity and Components of Other Comprehensive Income (continued)

Legal reserve

Grupo Peñoles 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 Grupo Peñoles' share capital. At date, Grupo Peñoles 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 financial assets in equity instruments

This corresponds to the fair value changes in financial assets in equity instruments, 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 Grupo Peñoles 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.

Cumulative translation adjustment

This item represents the effects of translation to the presentation currency (U.S. dollar) 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 Grupo Peñoles' components of other comprehensive (loss)/income as at December 31, 2022 and 2021 is as follows:

	Remeasurement effect of employee benefits	Unrealized gain or loss on valuation of hedges	Unrealized gain or loss on valuation of equity instruments at FVTOCI	Translation adjustment	Total
Beginning balance as at January 1, 2022	**$(21,732)**	**$(7,495)**	**$ 68,737**	**$(81,429)**	**$(41,919)**
Other components of comprehensive income (loss)	**8,167**	**12,805**	**(5,606)**	**11,772**	**27,138**
Balance as at December 31, 2022	**$(13,565)**	**$ 5,310**	**$ 63,131**	**$(69,657)**	**$(14,781)**

22. Equity and Components of Other Comprehensive Income (concludes)

	Remeasurement effect of employee benefits	Unrealized gain or loss on valuation of hedges	Unrealized gain or loss on valuation of equity instruments at FVTOCI	Translation adjustment	Total
Beginning balance as at January 1, 2021	$(32,418)	$(84,657)	$ 99,592	$(80,428)	$(97,911)
Other components of Comprehensive income (loss)	10,686	77,162	(30,855)	(1,001)	55,992
Balance as at December 31, 2021	$(21,732)	$(7,495)	$ 68,737	$(81,429)	$(41,919)

23. Earnings Per Share

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 earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

An analysis of Grupo Peñoles' earnings per share as at December 31, 2022 and 2021 is as follows:

	2022	2021
Net profit (in thousands of U.S. dollars):		
Attributable to the shareholders of Grupo Peñoles	**$ 183,363**	$ 391,348
Shares (number of shares in thousands):		
Weighted average number of ordinary outstanding shares	**397,476**	397,476
Earnings Per Share		
Basic and diluted earnings per share (in U.S. dollars)	**$ 0.46**	$ 0.98

24. Dividends

An analysis of dividends declared in 2021 is as follows:

	2021		
	U.S. dollar cents per share	Number of shares	Amount
Dividend declared at a regular and extraordinary shareholders' meeting held on April 29, 2021	$ 0.1258	397,475,747	$ 50,002

25. Related Parties

An analysis of balances due from and to unconsolidated related parties is as follows:

		2022		2021
Receivables:				
Sales:				
Dowa Mining Co. Ltd. (3)	**$**	**2,674**	$	3,843
Sumitomo Corporation (3)		**-**		15,616
Grupo Palacio de Hierro, S.A.B. de C.V. (1)		**987**		934
Eólica de Coahuila, S. de R.L. de C.V. (4)		**243**		341
Other		**96**		80
		4,000		20,814
Short-term loans:				
Inmobiliaria Industrial La Barra, S.A. (4)		**10,939**		8,925
Total	**$**	**14,939**	$	29,739
Payables:				
Short-term accounts payable:				
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$**	**18,790**	$	11,202
Línea Coahuila-Durango, S.A. de C.V. (2)		**1,138**		584
Other		**789**		202
		20,717		11,988
Loans:				
Minera los Lagartos, S.A. de C.V. (3)		**9,110**		107,918
Total	**$**	**29,827**	$	119,906
Long-term loans				
Minera los Lagartos, S.A. de C.V. (3)	**$**	**95,853**	$	-

As of December 31, the connection of the loans and interests with Minera los Lagartos, S.A. de C.V. is as follows:

		2022		2021
Beginning balance as at January 1	**$**	**107,918**	$	64,425
Loans		**8,626**		41,756
Amortization loan	**(**	**10,008)**	(	91)
Accrued interest		**1,058**		-
Capitalized interest in property, plant and equipment		**1,531**		1,828
Interest payment	**(**	**4,162)**		-
Ending balance as at December 31	**$**	**104,962**	$	107,918

25. Related Parties (continued)

Transactions with related entities during the periods ended December 31, 2022 and 2021 were as follows:

(a) Grupo Peñoles, through its subsidiary Minera Tizapa, sold lead, zinc, gravimetric and copper concentrates. The selling price of these concentrates was determined by reference to the international markets and based on the metal content payable.
(b) Grupo Peñoles, through a subsidiary, has entered into several power supply agreements with its related parties under a self-supply scheme. For further information, see Note 37.
(c) Grupo Peñoles has entered into several power supply agreements with its related parties under a self-supply scheme and wholesale electricity market. For further information, see Note 37.
(d) Transaction corresponding to insurance paid to Grupo Nacional Provincial, S.A.B. de C.V.
(e) Business consulting and corporate management services.

	2022	2021
Revenue (a):		
Sales of concentrates and refined metal:		
Dowa Mining Co. Ltd. (3)	**$ 65,858**	$ 71,662
Sumitomo Corporation (3)	**217,469**	262,344
	283,327	334,006
Interest:		
Inmobiliaria Industrial La Barra, S.A. (4)	**844**	1,191
Electricity *(b):*		
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**10,295**	9,312
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**678**	456
Instituto Tecnológico Autónomo de México (1)	**208**	129
	11,181	9,897
Other:		
Línea Coahuila Durango, S.A. de C.V. (2)	**268**	356
Petrobal, S.A.P.I. de C.V. (1)	**464**	406
Petrobal Upstream Delta 1, S.A. de C.V. (1)	**400**	342
Corporación Innovadora de Personal, S.A. de C.V. (1)	**-**	31
Técnica Administrativa Ener, S.A. de C.V. (1)	**-**	67
	1,132	1,202
	$ 296,484	$ 346,296
Expenses:		
Electricity (c):		
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$ 125,390**	$ 122,262
Eólica de Coahuila, S.A de C.V. (4)	**71,513**	63,561
Eólica Mesa la Paz, S. de R.L. de C.V. (4)	**36,180**	33,882
	233,083	219,705
Administrative fees:(e):		
Servicios Corporativos Bal, S.A. de C.V. (1)	**40,635**	33,094

25. Related Parties (concludes)

	2022	2021
Insurance and bonds (d):		
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**40,035**	42,375
Other	**350**	348
	40,385	42,723
Air transportation:		
Aerovics, S.A. de C.V. (2)	**17,871**	37,551
Royalties:		
Dowa Mining Co. Ltd. (3)	**8,586**	11,454
Dowa Holdings Co. Ltd (3)	**2,485**	-
Sumitomo Corporation (3)	**3,308**	2,952
	14,379	14,406
Rent:		
MGI Fusión, S.A. de C.V. (2)	**3,632**	3,058
Other	**9,333**	9,395
	$ 359,318	$ 359,932

(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:

	2022	2021
Short-term benefits:		
Compensation and other short-term benefits	**$ 11,785**	$ 11,970
Long-term benefits:		
Retirement benefits	**$ 8,523**	$ 9,376

26. Sales

An analysis of sales by product type is as follows:

		2022		2021
Silver	**$**	**1,587,367**	$	1,787,603
Gold		**1,838,024**		2,040,104
Zinc		**879,372**		849,239
Lead		**310,480**		304,088
Ore concentrates		**387,627**		545,751
Copper matte		**131,163**		132,357
Sodium sulfate		**130,130**		109,232
Other products		**259,195**		203,440
	$	**5,523,358**	$	5,971,814

An analysis of sales by geographical area is as follows:

		2022		2021
Domestic sales	**$**	**1,137,146**	$	952,589
Asia		**680,939**		713,360
United States of America		**2,238,716**		2,552,157
Europe		**805,716**		674,250
Canada		**613,690**		1,001,783
South America		**31,711**		58,053
Other		**15,440**		19,622
	$	**5,523,358**	$	5,971,814

27. Cost of Sales

An analysis of cost of sales for the years ended December 31, 2022 and 2021 is as follows:

		2022		2021
Personnel expenses (Note 31)	**$**	**377,181**	$	307,417
Energy		**481,605**		437,114
Operating materials		**454,303**		384,709
Maintenance and repairs		**431,675**		343,504
Depreciation and amortization (Note 13)		**671,737**		705,260
Amortization of right-of-use assets (Note 15)		**4,551**		3,788
Transfer of by-products	**(**	**153,158)**	(	119,481)
Contractors		**468,602**		454,273
Leases of low-value assets (Note 15)		**60,451**		7,453
Other		**263,878**		221,313
Inventory adjustments	**(**	**98,919)**		105,783
Cost of sale of extraction and treatment		**2,961,906**		2,851,133
Cost of metals sold		**1,528,998**		1,564,874
Total cost of sales	**$**	**4,490,904**	$	4,416,007

28. Administrative Expenses

An analysis of administrative expenses is as follows:

	2022	2021
Personnel expenses (Note 31)	$ 122,300	$ 110,631
Fees	91,246	90,796
Travel expenses	10,146	7,273
Information technology expenses	15,755	14,017
Amortization of right-of-use assets (Note 15)	11,284	13,034
Leases of low-value assets (Note 15)	15,806	14,967
Fees, associations and other	26,167	32,825
Total administrative expenses	$ 292,704	$ 283,543

29. Exploration Expenses

An analysis of exploration expenses is as follows:

	2022	2021
Personnel expenses (Note 31)	$ 20,238	$ 12,407
Contractors	126,804	102,500
Taxes and duties	33,423	30,748
Operating materials	1,465	760
Amortization of right-of-use assets (Note 15)	1,072	1,205
Leases of low-value assets (Note 15)	3,314	1,853
Fees, assays and other	30,816	21,396
Total exploration expenses	$ 217,132	$ 170,869

An analysis of liabilities associated with the exploration and evaluation of mineral resources as at December 31, 2022 and 2021 is as follows:

	2022	2021
Total exploration liabilities	$ 2,366	$ 30,351

An analysis of cash flows used in operating activities related to the exploration and evaluation of mineral resources is as follows:

	2022	2021
Cash flows used in operating activities	$(98,054)	$(42,120)

30. Selling Expenses

An analysis of selling expenses is as follows:

	2022	2021
Freight and transfers	$ 90,415	$ 79,100
Royalties	10,192	11,110
Handling	2,600	3,953
Extraordinary mining tax	11,271	11,406
Amortization of right-of-use assets (Note 15)	1,935	1,498
Other expenses	25,916	23,349
Total selling expenses	$ 142,329	$ 130,416

31. Personnel Expenses

An analysis of personnel expenses is as follows:

		2022		2021
Salaries and other employee benefits	$	313,947	$	264,496
Employee benefits at retirement		14,769		10,614
Social security dues		90,663		72,663
Social welfare and other benefits		100,340		82,682
Total personnel expenses	$	519,719	$	430,455

An analysis of personnel expenses based on their function is as follows:

		2022		2021
Cost of sales	$	377,181	$	307,417
Administrative expenses		122,300		110,631
Exploration expenses		20,238		12,407
Total personnel expenses	$	519,719	$	430,455

In 2022 and 2021, Grupo Peñoles' average number of employees (unaudited information) is as follows:

	2022	2021
Number of non-union workers	5,413	5,126
Number of unionized workers	11,438	10,597
Total	16,851	15,723

Labor outsourcing reform in Mexico

In August 2021, as a result of the labor outsourcing reform, some of Grupo Peñoles subsidiaries transferred their employees transferring the corresponding liabilities using the book-value method. These transfers had no effect on the Grupo Peñoles' consolidated financial statements and there was no consideration paid.

In addition, Grupo Peñoles hired 427 employees. Grupo Peñoles did not recognize any accounting effects from this transaction in the consolidated financial statements as at December 31, 2021.

Mexican Federal Labor Law Reform on vacation matters

During December 2022, articles 76 and 78 of the Mexican Federal Labor Law were amended, where the minimum benefits to which workers are entitled to by law are increased, this includes an increase in the number of vacation days, and therefore, the vacation premium, except in cases where the benefits granted to workers by internal policy are equal to or greater than the changes established in these articles. As of December 31, 2022, Grupo Peñoles recognized an increase in its vacation reserve and vacation premium for a total of $12,544, which is included in the vacation reserve and vacation premium payable caption (See Note 19).

32. Other (Income) Expenses

An analysis of other (income)/expenses is as follows:

	2022	2021
Rental income	**$(935)**	$(1,709)
Income from royalties	**(122)**	(469)
Gain on sale of property, plant, and equipment	**-**	(20,418)
Gain on sale of concentrates	**-**	(12,332)
Income from sale of other products and services	**(6,701)**	-
Income from layback agreement (Note 4ii)	**(67,182)**	-
Other	**-**	(10,952)
Other income	**$(74,940)**	$(45,880)

An analysis of other expenses is as follows:

	2022	2021
Donations	**$ 11,771**	$ 2,920
Maintenance expenses and increase on ecological reserve provision in closed mines	**34,921**	15,881
Losses from accidents	**4,205**	6,697
Loss on sale of material and waste	**3,750**	3,030
Loss on sale of other products and services	**-**	2,541
Fixed asset disposals	**-**	3,862
Loss on sale of fixed asset	**7,482**	-
Loss on sale of concentrates	**20,253**	-
Cancellation of investment projects	**12,843**	-
Other	**1,878**	-
Other expenses	**$ 97,103**	$ 34,931

33. Finance Income

An analysis of finance income is as follows:

	2022	2021
Interest income on cash equivalents and other investments	**$ 31,787**	$ 7,571
Interest income from trade receivables	**3,478**	3,581
Finance income on tax refund	**4,285**	7,529
Other	**6,341**	1,581
	$ 45,891	$ 20,262

34. Finance costs

An analysis of finance costs is as follows:

	2022	2021
Interest arising on financial debt	**$ 146,941**	$ 132,480
Financial discount of liability provisions (Note 20)	**27,438**	21,291
Net interest on defined benefit obligation (Note 19)	**4,160**	4,349
Finance cost on lease liabilities (Note 15)	**8,482**	8,311
Other	**14,125**	5,041
	$ 201,146	$ 171,472

35. Statements of Cash Flows

A reconciliation of consolidated net profit and cash flows provided by operating activities for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Consolidated net profit	**$ 325,575**	$ 562,575
Items not affecting cash flows:		
Depreciation, amortization, and depletion (Note 13)	**671,737**	705,260
Amortization of right-of-use assets (Note 15)	**18,842**	19,525
Net periodic benefit expense (Note 19)	**21,405**	20,424
Share of profit of associates (Note 14)	**(1,418)**	5,607
Income tax (Note 21)	**(103,042)**	260,914
Inventory write-off (Note 11)	**26,770**	7,268
Provisions and allowances	**31,962**	8,030
Hedges applied due to early closing of positions	**-**	(32,138)
Other labor obligations	**24,089**	25,941
Foreign exchange (gain)/loss	**23,078**	(17,343)
(Gain)/loss on sale and retirement of fixed assets (Note 32)	**7,482**	(20,418)
Reversal of impairment of property, plant, and equipment (Note 13)	**(21,362)**	-
Fixed asset disposals	**631**	3,862
Interest income	**(33,911)**	(10,172)
Interest expense	**174,379**	157,606
Investment projects cancellation (Note 32)	**12,843**	-
Derivative financial instruments	**8,025**	9,671
Other	**2,424**	1,909
Subtotal	**1,189,509**	1,708,521
Trade and other accounts receivable	**(18,829)**	(99,765)
Inventories	**(189,226)**	(164,725)
Suppliers and other accounts payable	**(53,655)**	215,806
Income tax paid	**(195,104)**	(430,335)
Labor obligations (Note 19)	**(4,513)**	(6,079)
Ecological rehabilitation (Note 20)	**(4,263)**	(3,835)
Income tax refunds obtained	**35,911**	17,812
Special tax for mining companies paid	**(68,982)**	(41,821)
Employee profit sharing paid	**(27,843)**	(32,111)
Net cash flows from operating activities	**$ 663,005**	$ 1,163,468

36. Contingencies

As at December 31, 2022 and 2021, Grupo Peñoles had the following contingencies:

a) Grupo Peñoles is subject to various laws and regulations which, if not observed, could give rise to penalties. Grupo Peñoles' 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 Grupo Peñoles, 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.

   - Metalúrgica Met Mex Peñoles (Grupo Peñoles subsidiary) is currently subject to a tax audit by the Tax Administration Service in relation to its 2014 and 2015 income tax obligations. The Tax Administration Service has issued several observations regarding the subsidiary's tax treatment of its trademark use right, its payment of electricity and purchase in raw material and maquila. The subsidiary is currently providing information and documentation required by the tax authorities and is in the process of a conclusive agreement with the PRODECON. To date and based on the arguments that support the tax treatment applied in that year, it is likely that this tax audit will result in no economic contingencies for Grupo Peñoles.

37. Commitments

Commitments for the purchase of mineral products

As at December 31, 2022 and 2021, 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 $1,391,500 and $1,428,942, 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.

   In addition to the electric power supply agreement, Grupo Peñoles 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 trust will be terminated early in 2023 and its rights and obligations will be housed directly in 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 that the subsidiaries default on their obligations, 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 2023 based on the estimated proportion generation for the year of 2,014.8 Kwh is $161,759.

37. Commitments (concludes)

b) Eólica de Coahuila

On April 25 2014, Grupo Peñoles 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, Grupo Peñoles 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 2023 based on the estimated proportion generation for the year of 751.3 Kwh is $68,150.

c) Eólica Mesa La Paz

On January 25 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, Grupo Peñoles' 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. Grupo Peñoles 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, Grupo Peñoles 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 2023 based on the estimated proportion generation for the year of 832.3 Kwh is $36,905.

38. Financial Instruments

Analysis by category

An analysis of financial instruments by category as at December 31, 2022 and 2021 is as follows:

		Fair value		
	At amortized cost and nominal amount (*)	Through profit or loss	Through OCI	Hedging instruments
Financial assets:				
Cash and cash equivalents (*)	**$ 1,468,918**	**$ -**	$ -	$ -
Trade and other accounts receivable	**340,020**	**1,567**	-	-
Other financial assets (Note 10)	**4,233**	-	-	**47,344**
Financial assets in equity instruments (Note 12)	-	-	**167,123**	**-**
	$ 1,813,171	**$ 1,567**	**$ 167,123**	**$ 47,344**

38. Financial Instruments (continued)

	At amortized cost	At fair value: Through profit or loss	At fair value: Hedging instruments
Financial liabilities:			
Financial debt (Note 18)	**$ 2,908,018**	**$ -**	**$ -**
Suppliers and other accounts payable	**427,311**	**1,055**	**-**
Other financial liabilities (Note 17)	**95,853**	**8,959**	**47,214**
	$ 3,431,182	**$ 10,014**	**$ 47,214**

An analysis of financial instruments by category as at December 31, 2021 is as follows:

	At amortized cost and nominal amount (*)	Fair value: Through profit or loss	Fair value: Through OCI	Fair value: Hedging instruments
Financial assets:				
Cash and cash equivalents (*)	$ 1,817,094	$ -	$ -	$ -
Trade and other accounts receivable	311,855	2,038	-	-
Other financial assets (Note 10)	3,953	-	-	85,474
Financial assets in equity instruments (Note 12)	-	-	176,560	-
	$ 2,132,902	$ 2,038	$ 176,560	$ 85,474

	At amortized cost	At fair value: Through profit or loss	At fair value: Hedging instruments
Financial liabilities:			
Financial debt	$ 2,936,822	$ -	$ -
Suppliers and other accounts payable	489,533	1,707	-
Other financial liabilities (Note 17)	-	16,039	106,676
	$ 3,426,355	$ 17,746	$ 106,676

38. Financial Instruments (continued)

Fair value of financial instruments and fair value hierarchy

An analysis of Grupo Peñoles' fair value financial instruments as at December 31, 2022 and 2021 is as follows:

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	**$ 1,468,918**	**$ 1,468,918**	$ 1,817,094	$ 1,817,094
Trade and other accounts receivable	**341,587**	**341,587**	313,893	313,893
Other financial assets	**51,577**	**51,577**	89,426	89,426
Financial assets in equity instruments	**167,123**	**167,123**	176,560	176,560
	$ 2,029,205	**$ 2,029,205**	$ 2,396,973	$ 2,396,973

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Financial debt	**$ 2,908,018**	**$ 2,482,177**	$ 2,936,822	$ 3,215,522
Suppliers and other accounts payable	**428,366**	**428,366**	491,240	491,240
Other financial liabilities	**152,026**	**152,026**	122,715	122,715
	$ 3,488,410	**$ 3,062,569**	$ 3,550,777	$ 3,829,477

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.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Trade and other accounts receivable:				
Embedded derivatives	**$ -**	**$ 1,567**	**$ -**	**$ 1,567**
Other financial assets:				
Forwards and options	**-**	**47,330**	**-**	**47,330**
Futures	**14**	**-**	**-**	**14**
Financial assets in equity instruments	**167,123**	**-**	**-**	**167,123**
	$ 167,137	**$ 48,897**	**$ -**	**$ 216,034**

38. Financial Instruments (continued)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded derivatives	**$ -**	**$ 1,055**	**$ -**	**$ 1,055**
Other financial liabilities:				
Forwards and options	**-**	**56,162**	**-**	**56,162**
Futures	**11**	**-**	**-**	**11**
	$ 11	**$ 57,217**	**$ -**	**$ 57,228**

As at December 31, 2021:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Trade and other accounts receivable:				
Embedded derivatives	$ -	$ 2,038	$ -	$ 2,038
Other financial assets:				
Forwards and options	-	85,353	-	85,353
Futures	121	-	-	121
Financial assets in equity instruments	176,560	-	-	176,560
	$ 176,681	$ 87,391	$ -	$ 264,072

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded derivatives	$ -	$ 1,707	$ -	$ 1,707
Other financial liabilities:				
Forwards and options	-	122,681	-	122,681
Futures	34	-	-	34
	$ 34	$ 124,388	$ -	$ 124,422

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 Grupo Peñoles' 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 loss as at December 31, 2022 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	**11,656,400**	**$22 - $32**	**$ 5,477**
Silver (ounces)	Futures	**2,135,671**	**$24**	**372**
Gold (ounces)	Option	**42,142**	**$1,651- $2,109**	**106**
Gold (ounces)	Futures	**188,888**	**$1,809**	**1,240**
Lead (tons)	Swaps	**4,341**	**$2,146**	**377**
Zinc (tons)	Option	**6,275**	**$2,645- $3,326**	**67**
Zinc (tons)	Swaps	**74,610**	**$3,092**	**9,557**
Energy cost hedging program (d):				
Natural gas (MMbtu)	Futures	**320,000**	**$4.25**	**379**
Foreign currency (b):				
Euro	Futures	**17,827,747**	**$2.09**	**355**
Financial interest rate (d):				
Interest rate	IRS	**38,865,890**	**0.02**	**2,139**
Total (Note 10)				**$ 20,069**

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized loss as at December 31, 2022 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	**1,554,000**	**$22- $26**	**$ 164**
Silver (ounces)	Futures	**158,414**	**$24**	**39**
Gold (ounces)	Option	**49,275**	**$1,650- $2,081**	**806**
Gold (ounces)	Futures	**228**	**$1,822**	**7**
Copper (ounces)	Swaps	**4,897**	**$8,063**	**1,686**
Lead (tons)	Swaps	**11,198**	**$2,100**	**1,906**
Zinc (tons)	Option	**25,153**	**$2,645- $3,263**	**477**
Zinc (tons)	Swaps	**10,797**	**$2,894**	**1,647**
Energy cost hedging program (d):				
Natural gas	Futures	**3,520,000**	**$4.25**	**6,679**
Foreign currency (b):				
Euro	Futures	**6,748,077**	**$2.21**	**520**
Total (Note 17)				**$ 13,931**

38. Financial Instruments (continued)

Al An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized gain as at December 31, 2021 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	20,556,000	$ 44 - $ 81	$ 18,879
Silver (ounces)	Futures	151,642	$ 23	58
Gold (ounces)	Option	158,690	$ 1,671 - $ 2,124	1,523
Gold (ounces)	Futures	128,055	$ 1,809	1,212
Lead (tons)	Option	1,056	$ 2,095 - $ 2,602	23
Lead (tons)	Futures	151	$ 2,325	-
Zinc (tons)	Futures	1,894	$ 3,163	384
Energy cost hedging program (c):				
Natural gas (MMbtu)	Futures	590,000	$ 4	205
Foreign currency (b):				
Euro	Futures	13,532,922	$ 2.27	45
Financial interest rate (d):				
Interest rate	IRS	962,325,000	6.01	251
Total (Note 10)				$ 22,580

A An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized loss as at December 31, 2021 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Futures	679,502	$ 23.01	$ (133)
Gold (ounces)	Option	77,110	$ 1,667 - $ 2,028	(639)
Gold (ounces)	Futures	4,747	$ 1,804	(81)
Copper (ounces)	Futures	2,066	$ 9,456	(405)
Lead (tons)	Option	96	$ 2,095 - $ 2,575	-
Lead (tons)	Futures	11,413	$ 2,313	(346)
Zinc (tons)	Option	76,700	$ 5,123 - $ 6,407	(20,077)
Zinc (tons)	Futures	44,651	$ 3,303	(8,733)
Energy cost hedging program (c):				
Natural gas	Futures	3,250,000	$ 4.09	(2,729)
Foreign currency (b):				
Euro	Futures	19,655,898	$ 2.34	(978)
Swedish krona	Futures	5,587,555	$ 9.03	(23)
Financial interest rate (d):				
Interest rate	IRS	48,582,362	2.03	(906)
Total (Note 17)				$ (35,050)

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 Grupo Peñoles' production from 2022 to 2023.

38. Financial Instruments (continued)

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).

As a result, the income of Grupo Peñoles may be affected by variances in the above-mentioned market prices and for this purpose, Grupo Peñoles establishes hedge programs based on its budgeted production using derivative financial instruments, such as "forwards" and "put" and "call" options.

Hedging positions

Due to 2020 metal price conditions, Grupo Peñoles 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 April 30 2020 to December 31, 2021. As at December 31, 2022 and 2021, Grupo Peñoles recognized a hedge amortization expense of $- and $32,138 respectively.

b) Foreign currency hedging program

As at December 31, 2022 and 2021, Grupo Peñoles has the following derivative contracts to hedge a portion of its fixed asset acquisitions denominated in euros (EUR), Swedish kronor (SEK) and pound sterling (GBP).

c) Energy cost hedging program

This program is aimed at stabilizing Grupo Peñoles' costs in U.S. dollars associated with changes in natural gas prices for its subsidiaries that buy natural gas and assuring the continuity of Grupo Peñoles' operations.

d) Interest rate hedging program

The aim of this program is to use swaps to stabilize the borrowing costs of Grupo Peñoles' 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 December 31, 2022 and 2021, Grupo Peñoles has debt under the Export Credit Agency (ECA) structure that bears floating interest at a rate equal to the LIBOR. Grupo Peñoles' strategy has been to fully hedge the interest rate of its current debt. See Note 18.

Likewise, Grupo Peñoles 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:

	2022	2021
Fair value of financial instruments	**$ 6,264**	$(12,187)
Hedges balance due to early closing of positions	-	-
Ineffectiveness and effect of time value of options excluded from hedges	**1,303**	740
Deferred income tax	**(2,270)**	3,434
Net fair value of deferred income tax recognized directly in equity	**$ 5,297**	$(8,013)

Changes in the unrealized profit (loss) on valuation of hedges for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Beginning balance as at 1 January	**$(8,014)**	$(87,615)
Gain/loss reclassified to earnings	**4,844**	(123,894)
Deferred income tax	**(1,453)**	37,168
Realized gain on hedges due to early closing of	**-**	32,138
Reclassification to profit or loss of realized loss on hedges due to early closing of positions	**-**	(32,138)
Deferred income tax		-
Changes in the fair value of hedges	**14,171**	237,609
Deferred income tax	**(4,251)**	(71,283)
Unrealized loss net of deferred income tax as at December 31	**$ 5,297**	$(8,013)

As at December 31, 2022, derivative contracts consist of forecast transactions that Grupo Peñoles expects to carry out between 2022 and 2027. An analysis of the anticipated reclassification (in years) from equity to profit or loss is as follows:

	2022		
	1	2 or more	Total
Unrealized loss	**$ 161**	**$ 5,136**	**$(5,297)**

	2021		
	1	2 or more	Total
Unrealized loss	$(16,678)	$ 8,665	$(8,013)

38. Financial Instruments (continued)

An analysis of the net unrealized gain on the settlement of derivate contracts is as follows:

	2022	2021
Sales	**$(3,198)**	$(70,959)
Cost of Sales	**(2,297)**	21,749
Interest expense	**(6,907)**	(284)
Total	**$(12,402)**	$(49,494)

Fair value hedges

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at December 31, 2022 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)	Fair value
Metal price:				
Lead (tons)	Futures	**679**	**$ 2,587**	**$ 459**
Lead (tons)	Futures	**5,300**	**$ 2,235**	**(278)**
Zinc (tons)	Futures	**26,596**	**$ 3,469**	**8,537**
Copper (tons)	Futures	**243**	**$ 8,596**	**13**
Total (Note 10)				**$ 8,731**

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized loss as at December 31, 2022 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)	Fair value
Metal price:				
Gold (ounces)	Futures	**-**	**-**	**$ 12**
Silver (ounces)	Futures	**300,000**	**$ 24**	**602**
Zinc (tons)	Futures	**27,950**	**$ 3,021**	**(1,474)**
Copper (tons)	Futures	**306**	**$ 8,045**	**(94)**
Total (Note 17)				**$(954)**

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at December 31, 2021 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)	Fair value
Metal price:				
Lead (tons)	Futures	364	$ 2,597	$ 347
Lead (tons)	Futures	4,150	$ 2,299	(40)
Zinc (tons)	Futures	22,625	$ 3,655	11,900
Total (Note 10)				$ 12,207

38. Financial Instruments (continued)

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized loss as at December 31, 2021 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)	Fair value
Metal price:				
Gold (ounces)	Futures	-	-	$ 11
Silver (ounces)	Futures	600,000	$ 23	(247)
Zinc (tons)	Futures	212,125	$ 3,310	(13,785)
Total (Note 17)				$(14,021)

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.

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, Grupo Peñoles 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 Grupo Peñoles’ hedging instruments and the loss attributable to the risk being hedged:

	2022		2021	
	Effect of derivative	Hedged item	Effect of derivative	Hedged item
Gain	**$ 7,777**	**$ 10,655**	$(1,810)	$ 10,390

Derivatives at fair value through profit or loss

An analysis of derivatives at fair value though profit or loss as at December 31, 2022 is as follows:

2022				
Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Interest rate	IRS	**300,000,000**	**0.63**	**$ 8,959**

38. Financial Instruments (concludes)

2021				
Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Interest rate	IRS	300,000,000	1.48	$ 16,017

Corresponds to certain swaps contracted as cash flow hedges covering the variable interest rates of debt that was prepaid in 2021 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. Grupo Peñoles' principal financial liabilities, other than derivatives, comprise accounts payable, financial debt and debentures. The main purpose of these financial instruments is to manage short-term cash flows and secure financing for Grupo Peñoles' 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

Grupo Peñoles manages its exposure to key financial risks in accordance with Grupo Peñoles' financial risk management policy. The objective of the policy is to support the delivery of Grupo Peñoles' financial targets while protecting future financial security. The main risks that could adversely affect Grupo Peñoles' financial assets, liabilities or future cash flows are market risks.

Grupo Peñoles' senior management oversees the management of financial risks. Grupo Peñoles' 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 Grupo Peñoles' 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.

39. Financial Risk Management (continued)

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 December 31, 2022 and 2021.

- 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, Grupo Peñoles uses hedging derivatives to reduce the variability in its cash flows and operating margins arising from various factors, such as:

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, and the impact of these changes on Grupo Peñoles' equity and profit before taxes.

	10%-20% increase December 31, 2022		10%-25% increase December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$ 29,326**	**$ -**	$ 26,304	$ -
Financial liabilities:				
Suppliers and Other Accounts Payable	**(17,125)**	**-**	(14,638)	-
Derivative financial instruments	**11,899**	**(15,987)**	16,816	(94,300)
	$ 24,100	**$(15,987)**	$ 28,482	$(94,300)

39. Financial Risk Management (continued)

	10%-15% decrease December 31, 2022		10%-15% decrease December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$(23,283)**	**$ -**	$(20,855)	$ -
Financial liabilities:				
Suppliers and other accounts payable	**14,786**	**-**	12,341	-
Derivative financial instruments	**(11,853)**	**8,359**	(14,556)	73,009
	$(20,350)	**$ 8,359**	$(23,070)	$ 73,009

These changes in commodity prices were estimated based on the volatility in the historical prices of the last two years.

	2022		2021	
	Increase	Decrease	Increase	Decrease
Silver	**20%**	**15%**	15%	15%
Gold	**10%**	**10%**	10%	10%
Zinc	**20%**	**15%**	25%	15%
Lead	**15%**	**15%**	15%	15%

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 financial assets in equity instruments.

The following table demonstrates the sensitivity of financial assets in equity instruments 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.

This sensitivity analysis carried out based on the volatility in the historical prices of the last two years is as follows:

	December 31, 2022		December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
10% increase (25% in 2021)	**$ -**	**$ 16,422**	$ -	$ 44,138
25% increase (45% in 2021)	**$ -**	**$(41,054)**	$ -	$(79,449)

Interest rate risk

Grupo Peñoles exposure to the risk of changes in market interest rates relates to Grupo Peñoles financial assets and liabilities with floating interest rates.

39. Financial Risk Management (continued)

As at December 31, 2022 and 2021, Grupo Peñoles has a combination of debt bearing interest at variable rates and floating rates tied to the London Interbank Offered (LIBOR) rate. Grupo Peñoles 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 December 31, 2022 and 2021, Grupo Peñoles 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 Grupo Peñoles 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

	December 31, 2022		December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
25 basis point increase (25 in 2021)	**$ 15,418**	**$ 682**	$ 5,777	$(1,940)
0 basis point decrease (20 in 2021)	**$ 1,003**	**$(317)**	$ -	$ -

Foreign currency risk

Grupo Peñoles manages its foreign currency risk by contracting derivatives.

The main foreign currency to which Grupo Peñoles 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 Grupo Peñoles' operating costs and investments, as well as certain equity investments denominated in other currencies such as the euro, Swedish krona, and pound sterling.

Grupo Peñoles' 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).

As at December 31, 2022, the sensitivity of Grupo Peñoles' 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	**$ 55,302**	**$ 237**	**$ 55,539**
Trade and other accounts receivable	**55,654**	**7,888**	**63,542**
Financial liabilities:			
Suppliers and other accounts payable	**(52,467)**	**(22,317)**	**(74,784)**
	$ 58,489	**$(14,192)**	**$ 44,297**

39. Financial Risk Management (continued)

As at December 31, 2021, the sensitivity of Grupo Peñoles' 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	$ 22,369	$ 181	$ 22,550
Trade and other accounts receivable	39,213	1,570	40,783
Financial liabilities:			
Suppliers and other accounts payable	(58,530)	(23,512)	(82,042)
	$ 3,052	$(21,761)	$(18,709)

The following table demonstrates the sensitivity of Grupo Peñoles' financial assets and liabilities to a reasonably possible change in the Mexican peso / U.S. dollar exchange rate and the effect on Grupo Peñoles' profit before taxes, based on the foreign currency risk exposure maintained as at December 31, 2022 and 2021 and Grupo Peñoles' derivatives whose underlying are the peso-to-dollar exchange rate (assuming that all other variables are held constant):

	December 31, 2022		December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
5% increase – Mexican peso (10% in 2021)	**$ 3,078**	**$ -**	$ 339	$ -
5% decrease – Mexican peso (5% in 2021)	**$(2,785)**	**$ -**	$ (145)	$ -

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:

	December 31, 2022		December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
5% increase – euro (5% in 2021)	**$(704)**	**$ 1,049**	$(1,140)	$ 1,707
5% decrease – euro (5% in 2021)	**$ 704**	**$(1,042)**	$ 1,140	$(2,058)

	December 31, 2022		December 31, 2021	
	Profit or loss	Equity	Profit or loss	Equity
10% increase – Swedish Krona (10% in 2021)	**$(4)**	**$ -**	$(4)	$(46)
5% decrease – Swedish Krona (5% in 2021)	**$ 2**	**$ -**	$ 2	$ 31

39. Financial Risk Management (continued)

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. Grupo Peñoles 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 December 31, 2022 and 2021 is as follows:

	2022			2021		
	Credit limit	Credit used	Unused credit	Credit limit	Credit used	Unused credit
Aa3	**$ 80,000**	**$ -**	**$ 80,000**	$ 80,000	$ -	$ 80,000
Aaa	**250,000**	**50,000**	**200,000**	75,000	25,000	50,000
Baa1	**374,000**	**-**	**374,000**	609,500	45,000	564,500
Total	**$ 704,500**	**$ 50,000**	**$ 654,500**	$ 764,500	70,000	$ 694,500

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 Grupo Peñoles' financial liabilities based on contractual undiscounted payments.

As at December 31, 2022:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	**$ 5,198,377**	**$ 471,863**	**$ 135,108**	**$ 134,598**	**$ 4,456,808**
Suppliers and other accounts payable	**427,311**	**427,311**	**-**	**-**	**-**
Lease liabilities	**168,381**	**20,949**	**16,579**	**13,960**	**116,893**
Other financial liabilities:					
Hedging instruments	**56,173**	**54,399**	**1,774**	**-**	**-**
Non-controlling interest loans	**104,963**	**9,110**	**95,853**	**-**	**-**
	$ 5,955,205	**$ 983,632**	**$ 249,314**	**$ 148,558**	**$ 4,573,701**

39. Financial Risk Management (continued)

As at December 31, 2021:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	$ 5,347,435	$ 152,615	$ 470,385	$ 134,016	$ 4,590,419
Suppliers and other accounts payables	489,533	489,533	-	-	-
Lease liabilities	170,163	22,282	16,752	13,113	118,016
Other financial liabilities:					
Hedging instruments	122,715	107,030	15,685	-	-
	$ 6,129,846	$ 771,460	$ 502,822	$ 147,129	$ 4,708,435

c) Credit risk

Grupo Peñoles' credit risk arises as part of its ordinary course of business. There is credit risk in all Grupo Peñoles' financial assets, which include cash and cash equivalents, trade accounts receivable and other accounts receivable, as well as financial assets in equity instruments and the acquired rights over derivative financial instruments.

Grupo Peñoles only carries out transactions with well-known and solvent financial counterparties. It is Grupo Peñoles' 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.

Grupo Peñoles 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 Grupo Peñoles' exposure to expected losses is not significant.

Regarding the credit risk related to other financial assets, primarily cash and investments and derivative assets Grupo Peñoles 'exposure relates to potential counterparty default. Grupo Peñoles' maximum exposure is equal to the book value of these instruments, securities, or transactions. Grupo Peñoles 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 Grupo Peñoles maintains cash and cash equivalents is as follows:

Cash and cash equivalents

	2022	2021
A-2	**$ 1,019**	$ 520,876
A-1	**492,170**	625,685
F1	**50,461**	609,830
BBB	**67,005**	60,703
P1	**853,209**	-
P2	**5,054**	-
	$ 1,468,918	$ 1,817,094

Trade and other accounts receivable

An analysis of trade receivables aging is as follows:

As at December 31, 2022:

		Not impaired			
	Not yet payable	From 1 to 30 days	From 31 a 60 days	More than 60 days	Impairment
Trade receivables	**$ 239,706**	**$ 6,731**	**$ 4,725**	**$ 13,802**	**$ 1,880**
Related parties	**14,939**	-	-	-	-
Other accounts receivable	**36,665**	-	-	-	**1,053**
	$ 291,310	**$ 6,731**	**$ 4,725**	**$ 13,802**	
Impairment	**$ -**	**$ 511**	**$ -**	**$ 2,422**	**$ 2,933**

As at December 31, 2021:

		Not impaired			
	Not yet payable	From 1 to 30 days	From 31 a 60 days	More than 60 days	Impairment
Trade receivables	$ 172,353	$ 1,071	$ 3,254	$ 24,442	$ 2,034
Related parties	29,739	-	-	-	-
Other accounts receivable	43,181	-	-	-	1,918
	$ 245,273	$ 1,071	$ 3,254	$ 24,442	
Impairment	$ 740	$ 721	$ -	$ 2,491	$ 3,952

39. Financial Risk Management (concludes)

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, Grupo Peñoles' policy is to partially credit its payments due for services received against the financing balance.

Capital management

Grupo Peñoles 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, Grupo Peñoles 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. Grupo Peñoles 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 December 31, 2022 and 2021 is $52,304 (equal to Ps. 683,026).

40. Assets Held for Sale

In December 2022, Grupo Peñoles received a binding offer for the sale of property, plant and equipment related to the Madero unit. In February 24, 2023 the master contract for assets was signed for an amount of $47,000 subject to certain conditions; 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 add up to $21,362 and $35,609.

As at December 31, 2022, the Madero unit assets were classified as a disposal group held for sale within the base metal mines segment and represented 1.05% of the total assets recognized in the segment and 0.01% of the total revenue recognized in the segment. The revenue and expense of this unit is $710 and $6,790 respectively, due to the non-significant amount such items are not presented separately in the statement of comprehensive income.

An analysis of the principal class of assets and liabilities of the Madero unit classified as held for sale as at December 31, 2022, is as follows:

	2022
ASSETS	
Property, plant, and equipment	$ 21,362
LIABILITIES	
Provisions	$ 35,609