2021 ANNUAL REPORT

PEÑOLES

Evolving

toward a sustainable future

We have embarked on a transformation to become more resilient in the face of uncertainty, achieve greater operational and administrative efficiency, and improve performance, results, and accountability.

In a changing world, we seek not only to endure, but also to thrive. This evolutionary process is the foundation for the sustainable future of the company, for the benefit of our stakeholders and our country.

Evolving

to generate value

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

Contents

In our Annual Report 2021, we present our progress in the transformation process toward a sustainable future for Peñoles.

The following abbreviations will be used throughout the report:

- **oz** = ounces
- **lb** = pounds
- **Mm³** = million cubic meters
- **Ml** = million liters
- **Mlb** = million pounds
- **Mlbe** = million pounds equivalent
- **Moz** = million ounces
- **koz** = thousand ounces
- **t** = metric tons
- **Mt** = million metric tons
- **kt** = thousand metric tons
- **US$ M** = million dollars
- **US$/t** = dollars per metric ton
- **US$/oz** = dollars per ounce
- **US¢/lb** = dollar cents per pound
- **US¢/lbe** = dollar cents per pound equivalent
- **g/t** = grams per metric ton
- **k** = thousands
- **GWh** = Gigawatt per hour
- **MWh** = Megawatt per hour
- **MW** = Megawatt
- **KWh** = Kilowatts per hour
- **tCO_2eq** = metric tons of carbon dioxide equivalent
- **CO_2e** = carbon dioxide equivalent

ESR

PE&OLES

FTSE4Good

Corporate profile

Peñoles, founded in 1887, is a mining group with integrated operations for the smelting and refining of non-ferrous metals and the manufacture of chemical products. Peñoles is one of the two largest global producers of refined silver; Latin America's leading producer of gold and refined lead, and among the world's leading producers of refined zinc and sodium sulfate.

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

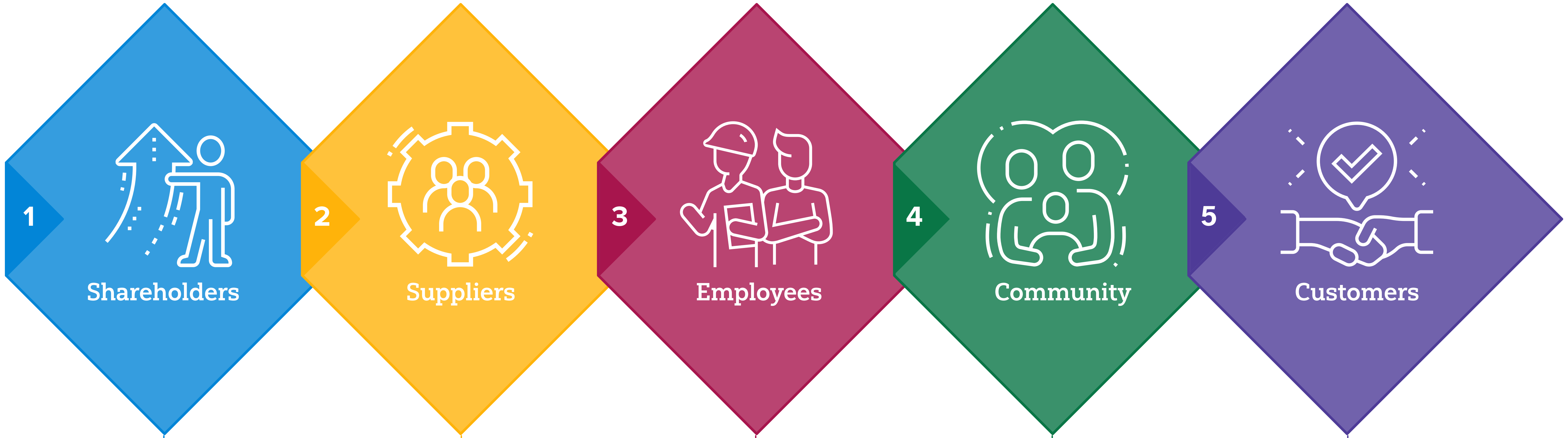
VISION
To be a company of excellence worldwide with extraordinary results, a leader in its sector with safe and sustainable operations, driven by its agility and capacity for transformation, in harmony with its environment and society.

MISSION
To generate value from non-renewable natural resources in a sustainable manner.

VALUES
To act according to our values of Confidence, Responsibility, Integrity and Loyalty.

Our purpose is to generate opportunities and wellbeing by providing essential resources in a sustainable manner.

Stakeholders



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

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

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

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

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

Corporate structure*

Industrias Peñoles, S.A.B. de C.V.

Fresnillo plc[1]

75%

- Minera Fresnillo (100%)
- Minera Penmont (100%)
- Minera Mexicana La Ciénega (100%)
- Minera Saucito (100%)
- Minera San Julián (100%)
- Minera Juanicipio (56%)
- Comercializadora de Metales Fresnillo (100%)
- Exploraciones Mineras Parreña (100%)

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

Minas Peñoles

100%

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

Química Magna

100%

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

Infraestructura Peñoles

100%

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

(2) Operated by third parties, they supply electricity under long-term contracts.

Others

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

** Main subsidiaries are included.*

Peñoles at a glance

31,552
direct jobs

31,582
indirect jobs

A diversified portfolio of metals and chemical products

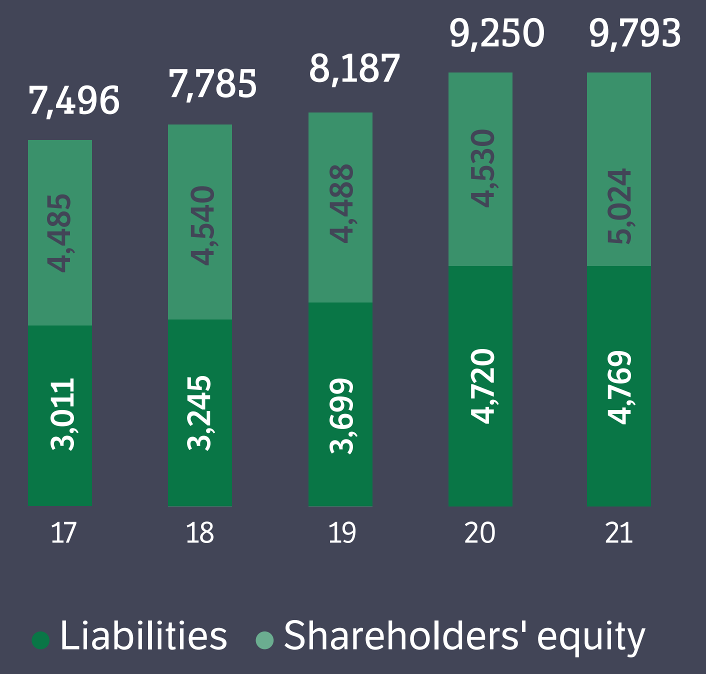
11
mining operations

9
plants and facilities

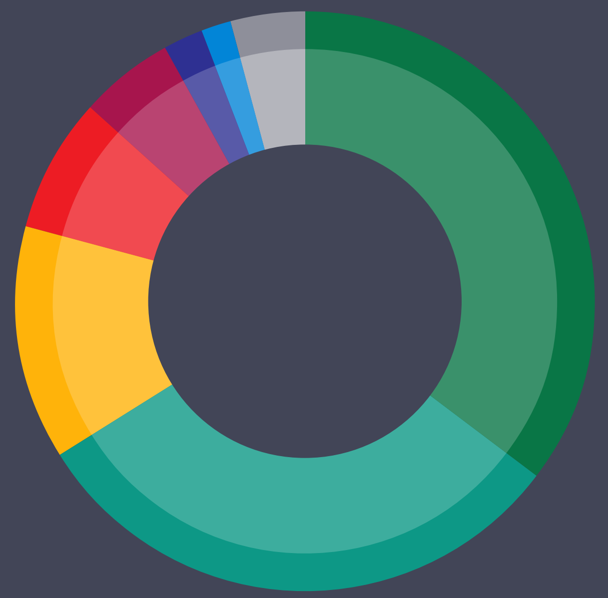
21
administrative offices

Net debt/EBITDA of 0.7 times

Total assets (US$ M)



Sales by product



	%	US$ M
Gold	34.2	2,040
Silver	29.9	1,788
Zinc	14.2	849
Concentrates	9.1	546
Lead	5.1	304
Copper matte	2.2	132
Sodium sulfate	1.8	109
Others	3.5	203
Total	100.0	5,972

US$ 5,972 M
in sales, 84.0% in exports to 33 countries

Peñoles at a glance

Value generated and distributed*

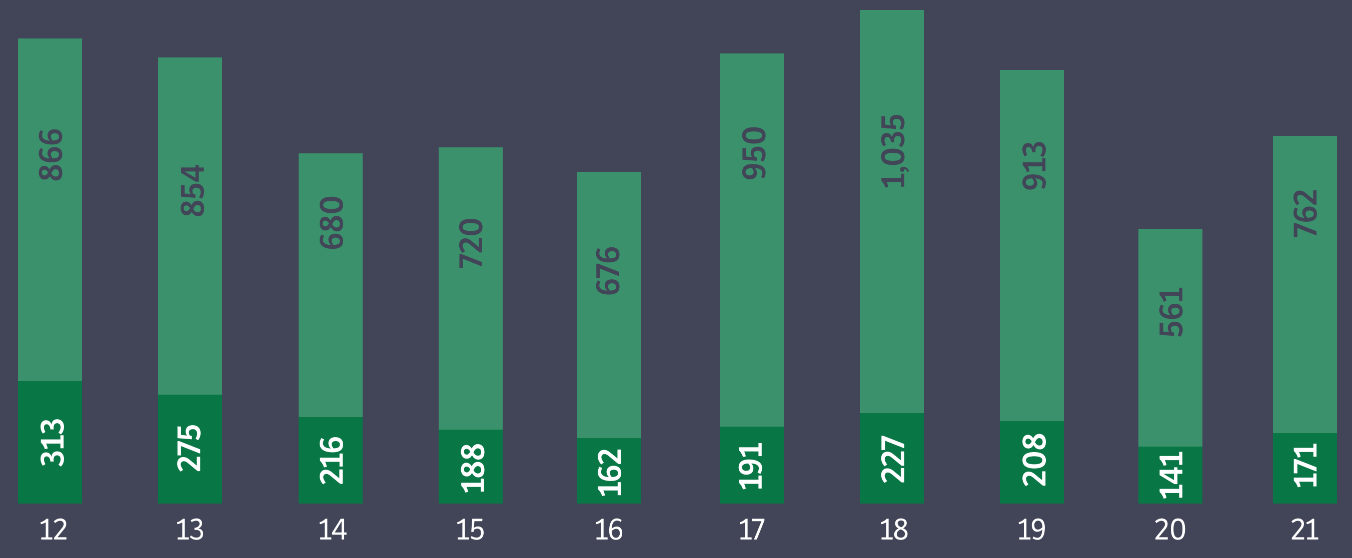
	%
Reinvestment	33.5
Contractors	31.2
Employees	13.2
Government	10.0
Interests	4.7
Shareholders	4.7
Community and environment	2.7
	100.0

* *Value generated and distributed = net sales – costs and expenses (domestic and foreign). These data include operations of Industrias Peñoles and subsidiaries.*
Source: Fourth financial statement, 2021 Sustainability Development Report.

US$ 3,212 M
distributed value, +14.8% compared to previous year

US$ 1,696 M EBITDA,
+16.4% compared to previous year

Investments (US$ M)



US$ 10,110 M
in investments in the past 10 years

Long term value for our stakeholders

Operations

Peñoles is a proudly Mexican company with international presence, that has created development and opportunities in the regions where it has operated for more than thirteen decades.

Mining operations

Base metals

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

Precious metals

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

*Operations were suspended in these units.

Metallurgical operations

- 17 Metalúrgica Met-Mex
- 18 Bermejillo
- 19 Aleazin

Infrastructure

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

Chemical operations

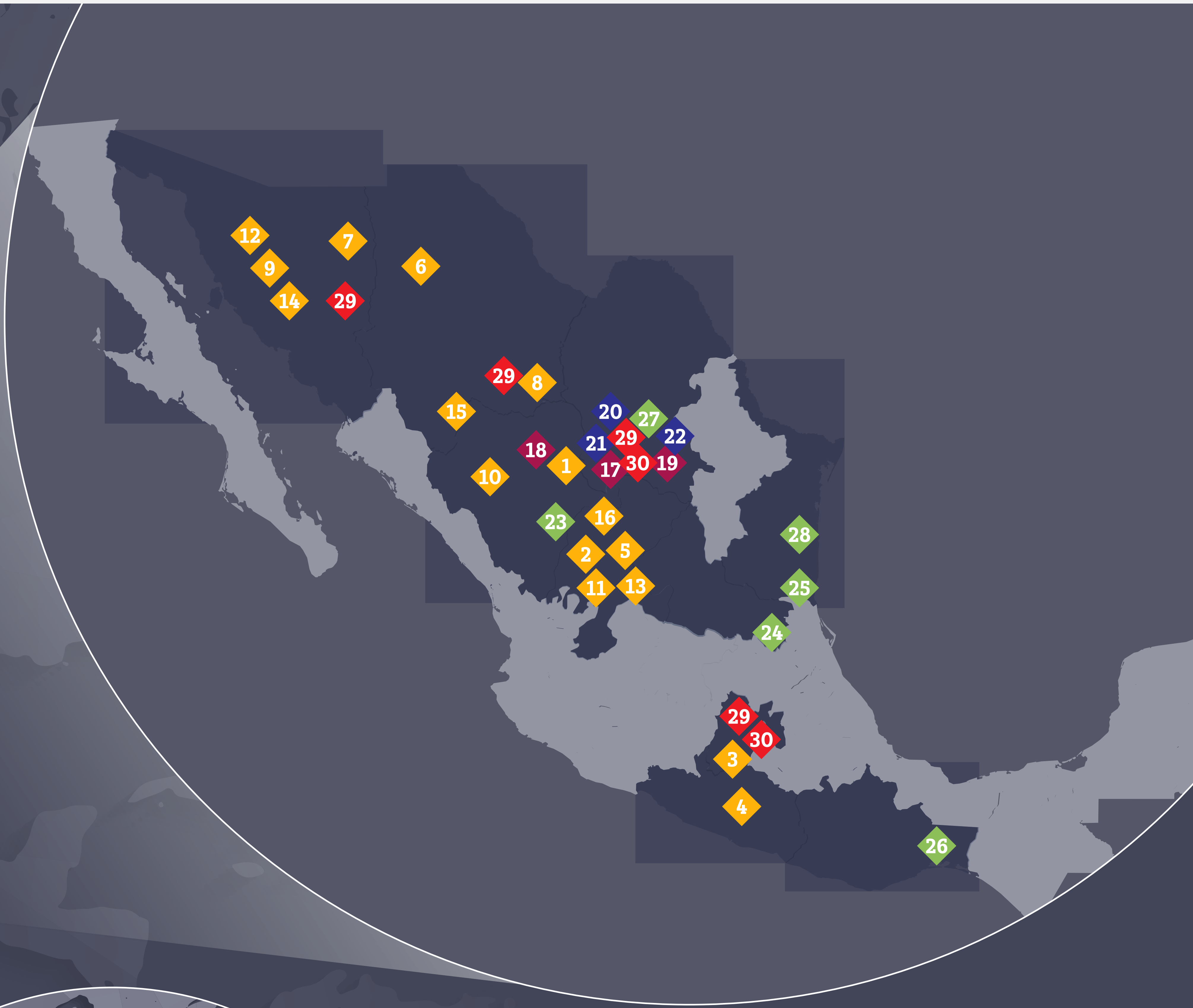
- 20 Química del Rey
- 21 Fertirey
- 22 Industrias Magnelec

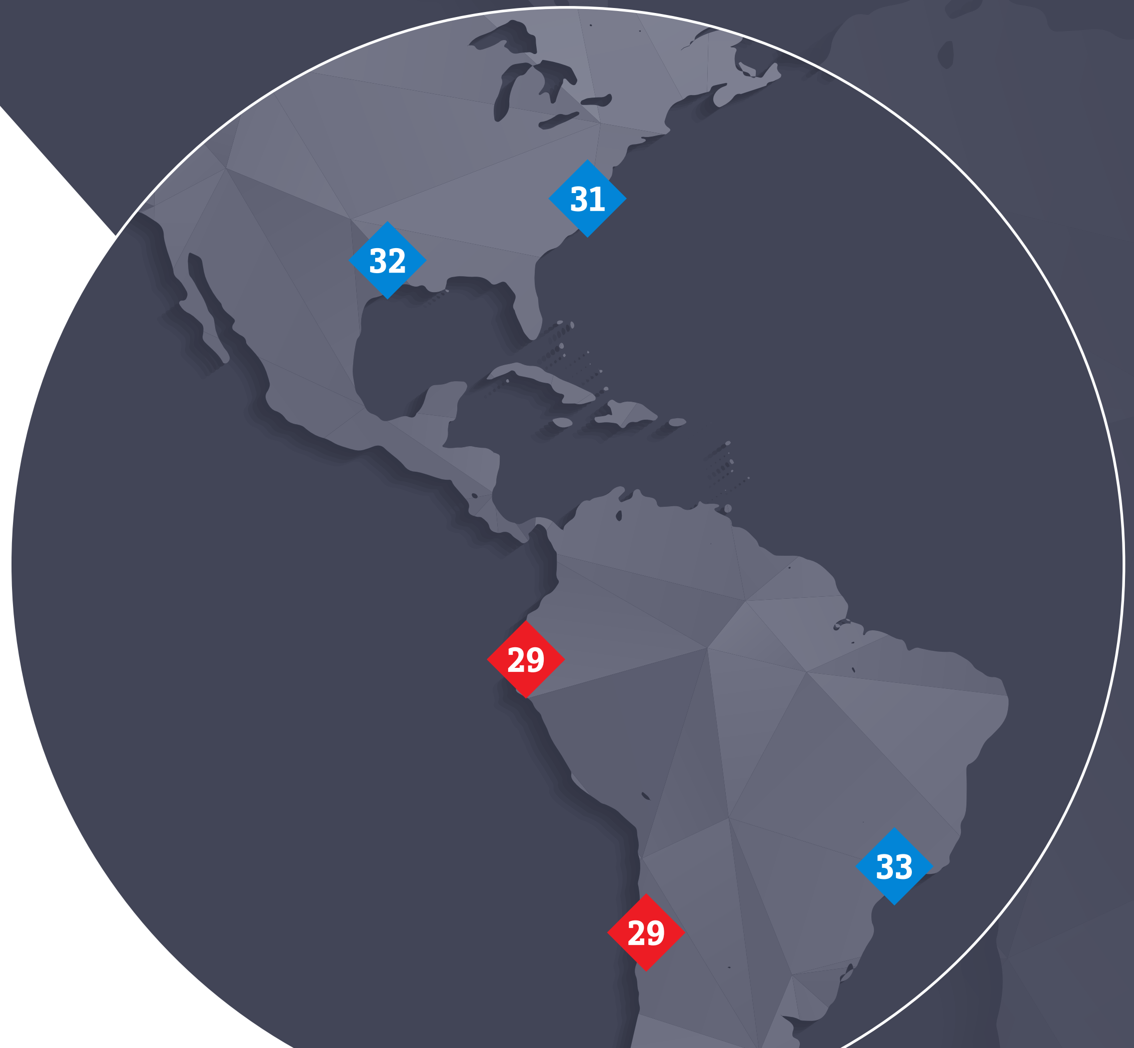
Offices

- 29 Exploración
- 30 Corporativo

Commercial offices

- 31 Bal Holdings
- 32 Wideco
- 33 Quirey do Brasil





134 years

generating development and opportunities

Business model

Our vertically integrated operations include a polymetallic portfolio, from exploration to production of refined metals and additional value-added products. We focus on being a low-cost producer and we make ongoing investments in exploration, capacity expansions and operating efficiencies throughout the business cycle. This strategy, combined with our sustainable development initiatives, talented people, a healthy capital structure, and sound corporate governance practices, distinguishes Peñoles and enables us to add long-term value for our shareholders.

For more information on the value chain, please visit www.penoles.com.mx

Our new strategy consists of 6 pillars, each of which contains a set of 5-year projects, targets and metrics.

Strategic plan

1. EVIRONMENTAL, SAFETY AND HEALTH PERFORMANCE

- All our operations must excel in environmental, safety and health performance, meeting the most stringent industry standards.

2. OPERATIONAL FOCUS AND EFFICIENCY

- Normalize and achieve nameplate capacity in our operations.
- Maximize efficiency and profitability.

3. GROWTH STRATEGY*

- Exploration strategy.
- Organic growth.
- Empowered portfolio.

4. MANAGEMENT OF REGULATORY RISKS AND COMPLIANCE

- Reinforce risk management to guarantee operating continuity of our units.
- Ensure full compliance with the applicable laws and regulations, with a special emphasis on tailings storing facilities and non-hazardous waste.

5. RELATIONS WITH COMMUNITIES AND LOCAL GOVERNMENTS*

- Become an indispensable ally for communities and local governments.

6. IMPLEMENTATION OF PEÑOLES' TRANSFORMATION STRATEGY*

- Become an indispensable ally for our stakeholders and develop optionality for our shareholders.

*To be developed with Baluarte Minero.

US$ 762 M

investment in fixed assets.

Highlights

Financial results improved substantially compared to the previous year.

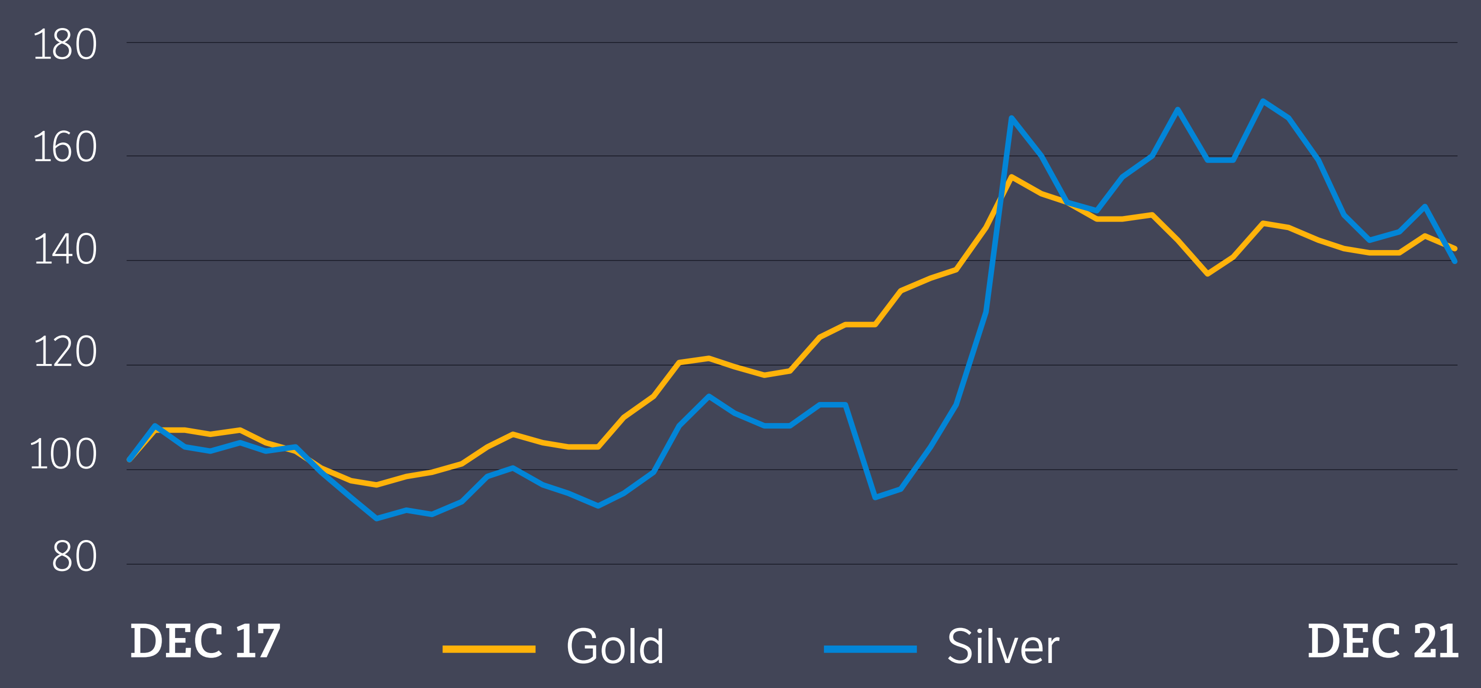
Financial highlights

US$ M	2021	2020	% Chge.	2019	2018	2017*
Net sales[1]	**5,971.8**	4,673.3	27.8	4,471.9	4,390.3	4,536.1
Gross profit	**1,555.8**	1,249.0	24.6	870.8	1,289.1	1,706.3
Exploration expenses	**170.9**	141.0	21.2	208.1	227.0	191.2
EBITDA[2] [3]	**1,695.8**	1,456.7	16.4	968.7	1,286.2	1,720.0
Operating income[3]	**971.0**	742.6	30.8	275.0	707.1	1,185.5
Financial and exchange result	**152.8**	283.8	-46.2	108.3	48.6	143.9
Controlling interest in net income (loss)	**391.3**	-34.4	1,038.2	35.5	323.7	589.0
Capital expenditures	**762.1**	561.3	35.8	913.3	1,035.3	949.6
Dividens paid to majority shareholders	**49.9**	-	n.a.	155.2	270.0	232.7
Cash and investments[4]	**1,817.1**	1,592.7	14.1	526.3	785.4	1,040.8
Property, plant and equipment, net	**4,707.3**	4,671.6	0.8	4,978.4	4,746.8	4,309.3
Total assets	**9,793.3**	9,250.4	5.9	8,186.7	7,784.7	7,496.2
Financial debt	**2,936.8**	2,901.6	1.2	2,226.3	1,876.2	1,453.9
Deferred taxes	**-196.0**	-47.7	310.8	74.2	333.5	450.4
Total liabilities	**4,769.4**	4,719.9	1.0	3,698.8	3,244.8	3,011.2
Total shareholders' equity	**5,023.9**	4,530.5	10.9	4,487.9	4,539.8	4,485.0

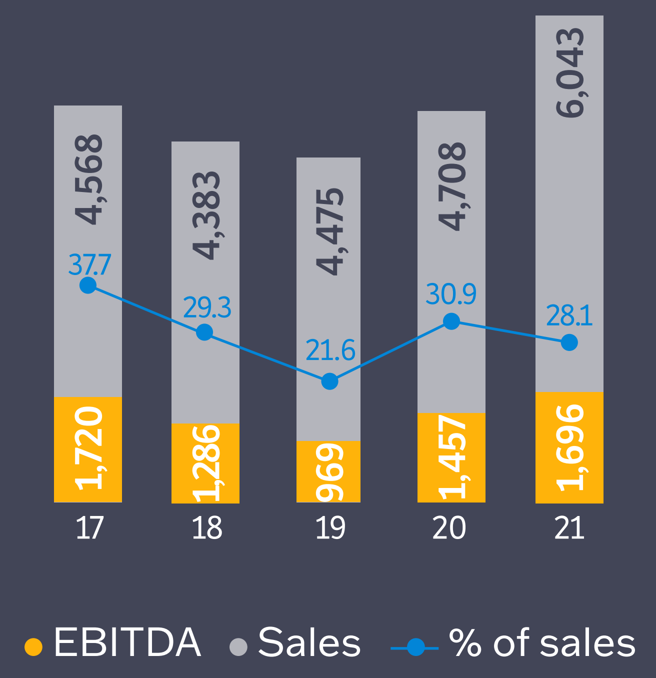
** Unaudited figures*
Figures prepared in accordance with International Financial Reporting Standards (IFRS).
(1) Includes hedging results.
(2) Earnings before interests, taxes depreciation and amortization.
(3) Does not include other income (expense) nor impairment loss.
(4) Includes cash, cash equivalents and short-term investments.

Financial indicators

Precious metals indices
December 2017 = 100

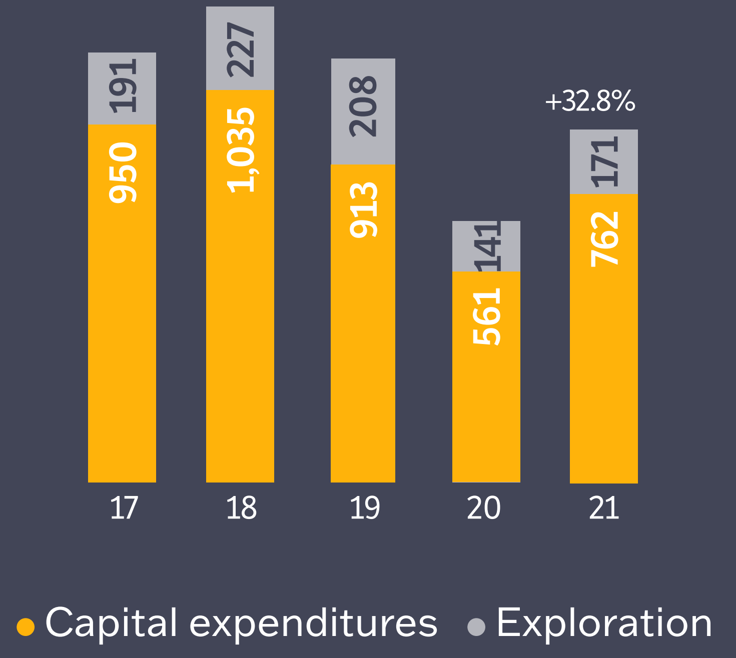


Sales* / EBITDA
US$ M

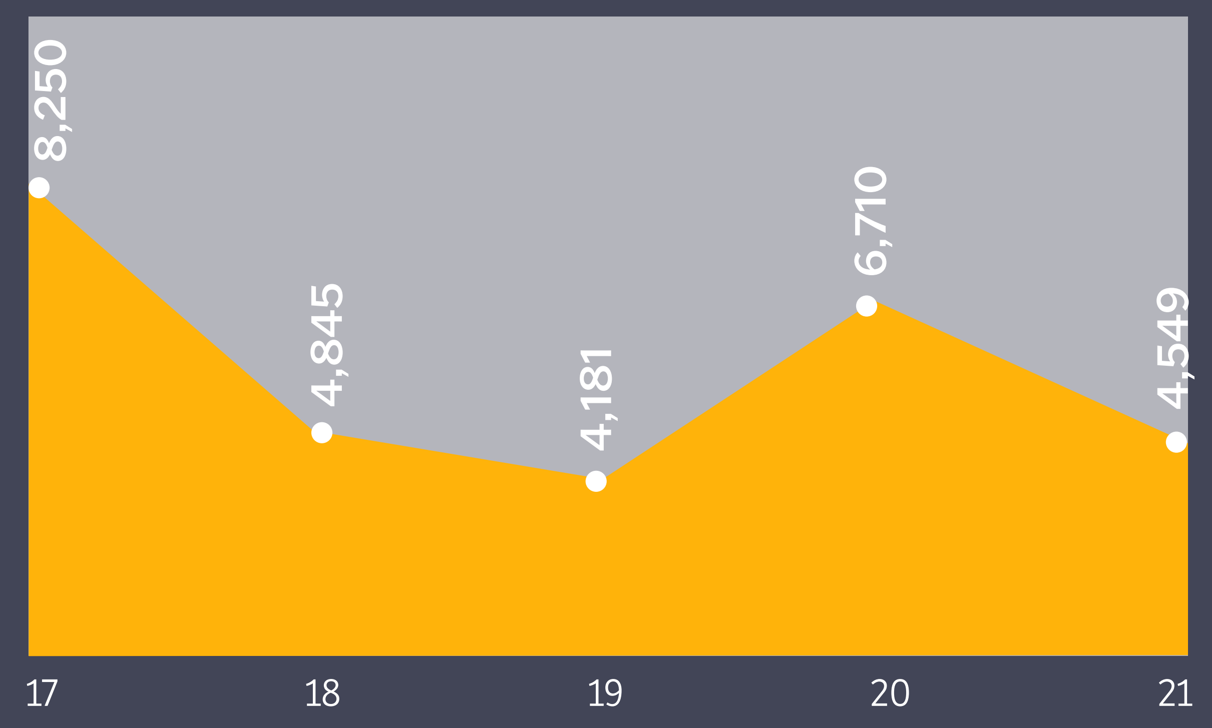


* Not including hedging results.

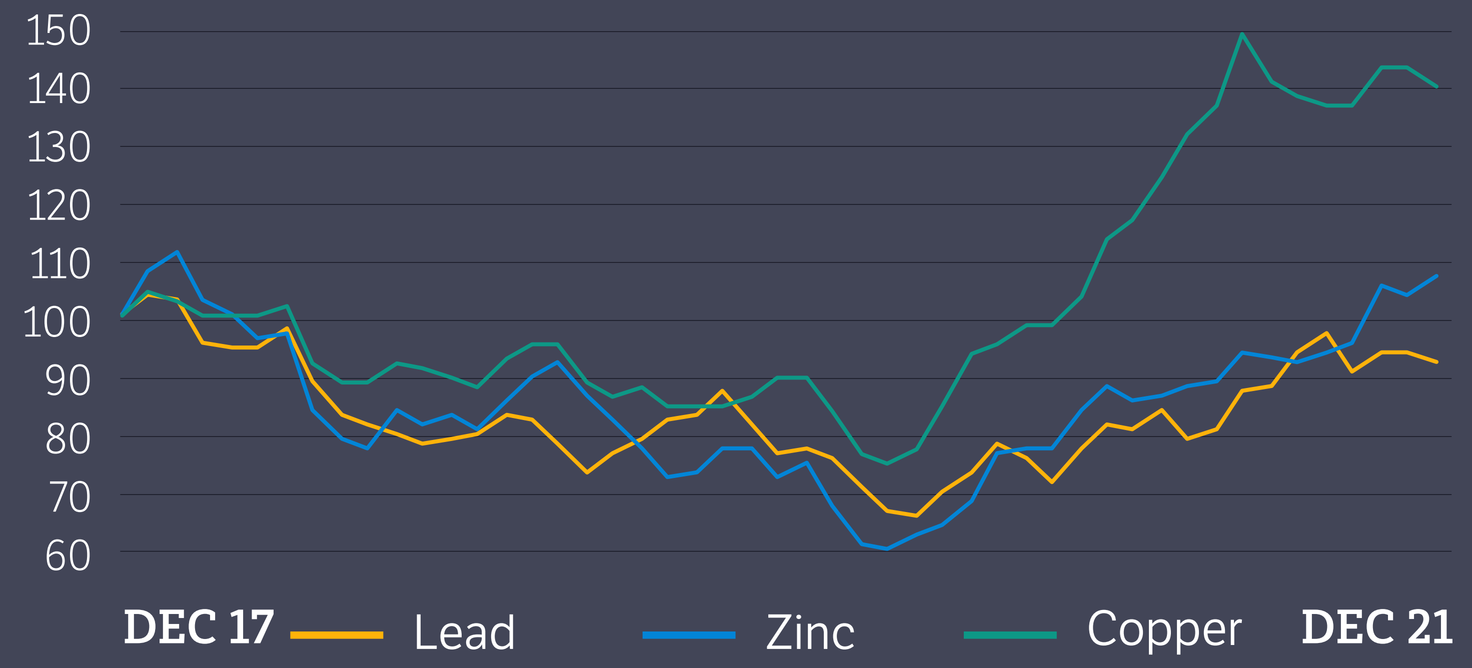
Investments
US$ M



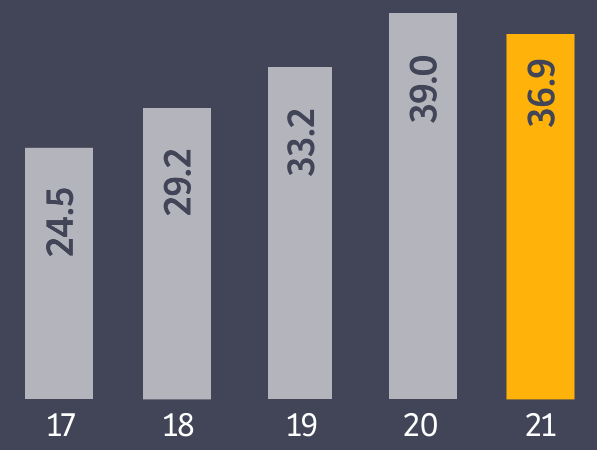
Market capitalization
US$ M



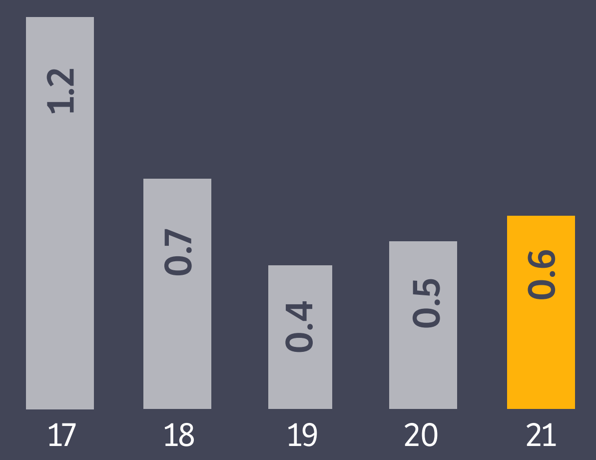
Base metals indices
December 2017 = 100



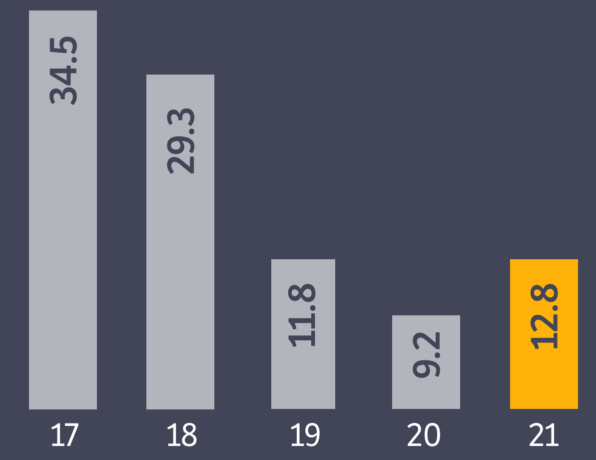
Debt / Capitalization
(%)



EBITDA / Total debt
Times



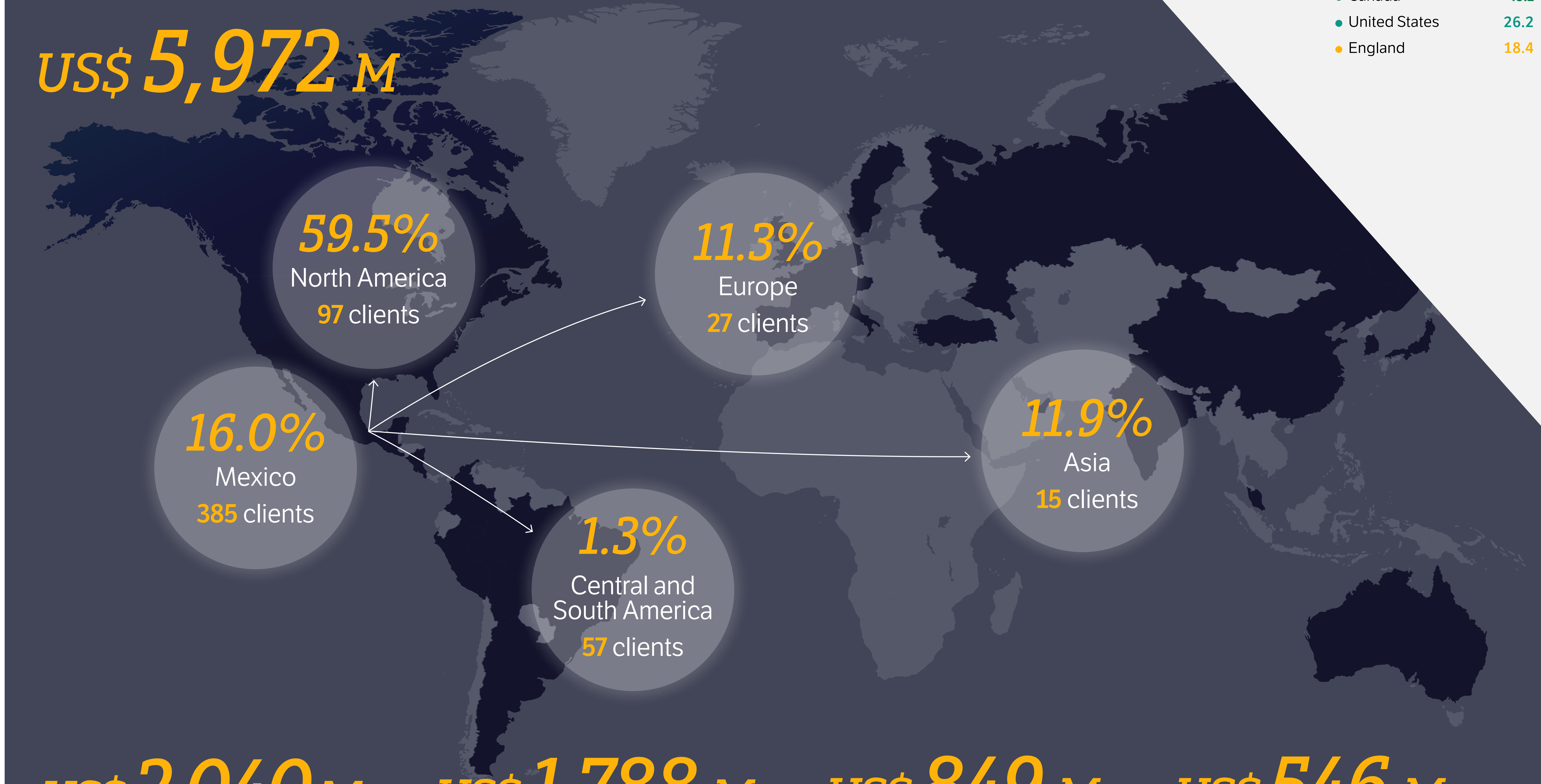
EBITDA / Interests
Times



Total sales

We increased our participation worldwide, with sales to 33 countries besides Mexico, distributed among the Americas, Europe, Asia and Oceania.

US$ 5,972 M



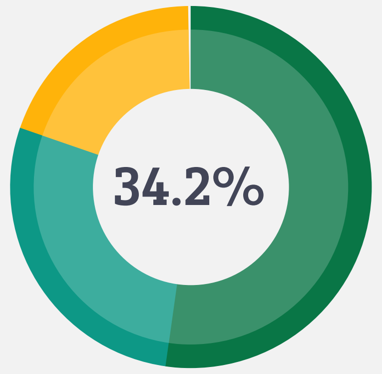
US$ 2,040 M gold

US$ 1,788 M silver

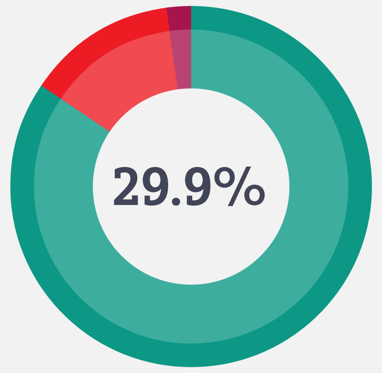
US$ 849 M zinc

US$ 546 M concentrates

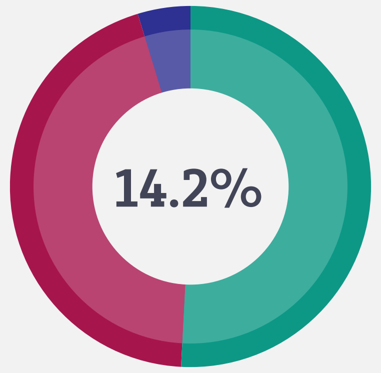
US$ 749 M other products



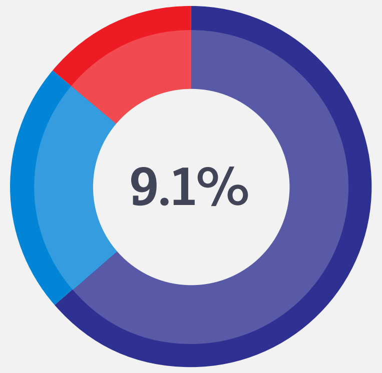
Gold	%
Canada	49.1
United States	26.2
England	18.4



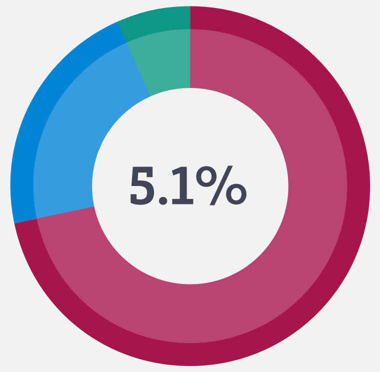
Silver	%
United States	83.5
Japan	13.3
Mexico	2.0



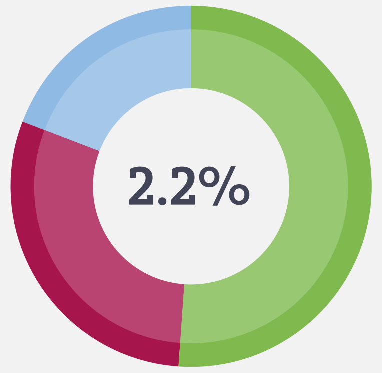
Zinc	%
United States	44.0
Mexico	38.4
Singapore	3.8



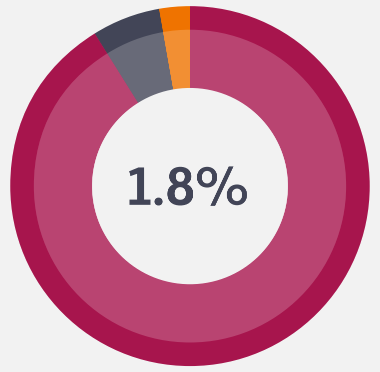
Concentrates	%
Singapore	60.3
Switzerland	21.2
Japan	13.1



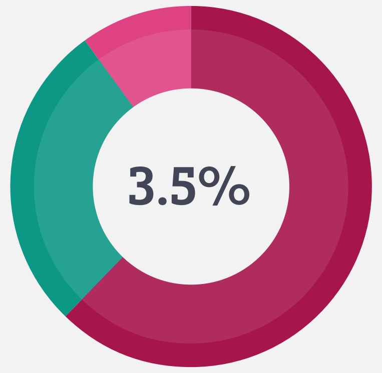
Lead	%
Mexico	71.0
Switzerland	21.4
United States	6.6



Copper matte	%
Korea	51.2
Mexico	29.7
Belgium	19.1



Sodium sulfate	%
Mexico	89.9
Colombia	5.8
Brazil	2.7



Other products	%
Mexico	57.4
United States	23.4
Germany	8.1

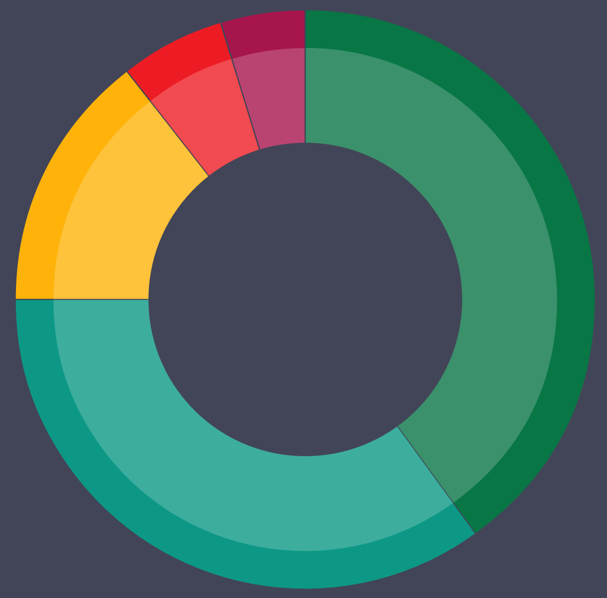
Note: Top three destination countries by product.

Mining Division sales*

	US$ M	%
Gold	1,400	36.3
Silver	1,450	37.6
Zinc	706	18.3
Lead	162	4.2
Copper	135	3.6
Total	3,853	100.0

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

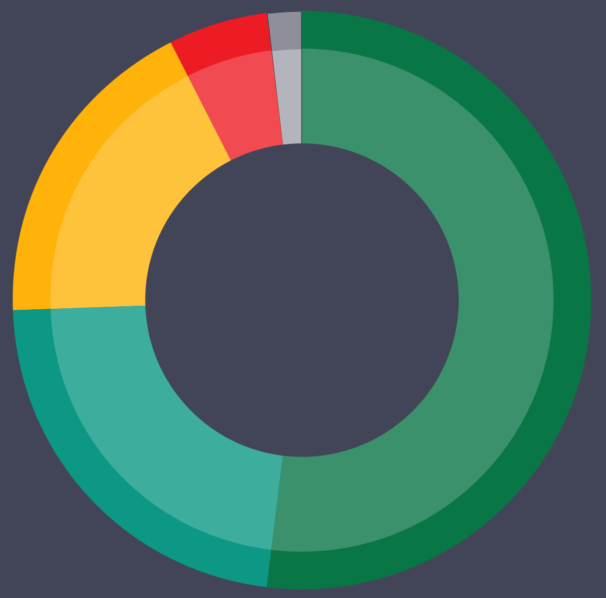
Metals Division sales**



	US$ M	%
Gold	2,029	38.9
Silver	1,845	35.4
Zinc	793	15.2
Lead	309	5.9
Others	235	4.6
Total	5,211	100.0

***Does not include Bal Holdings.*

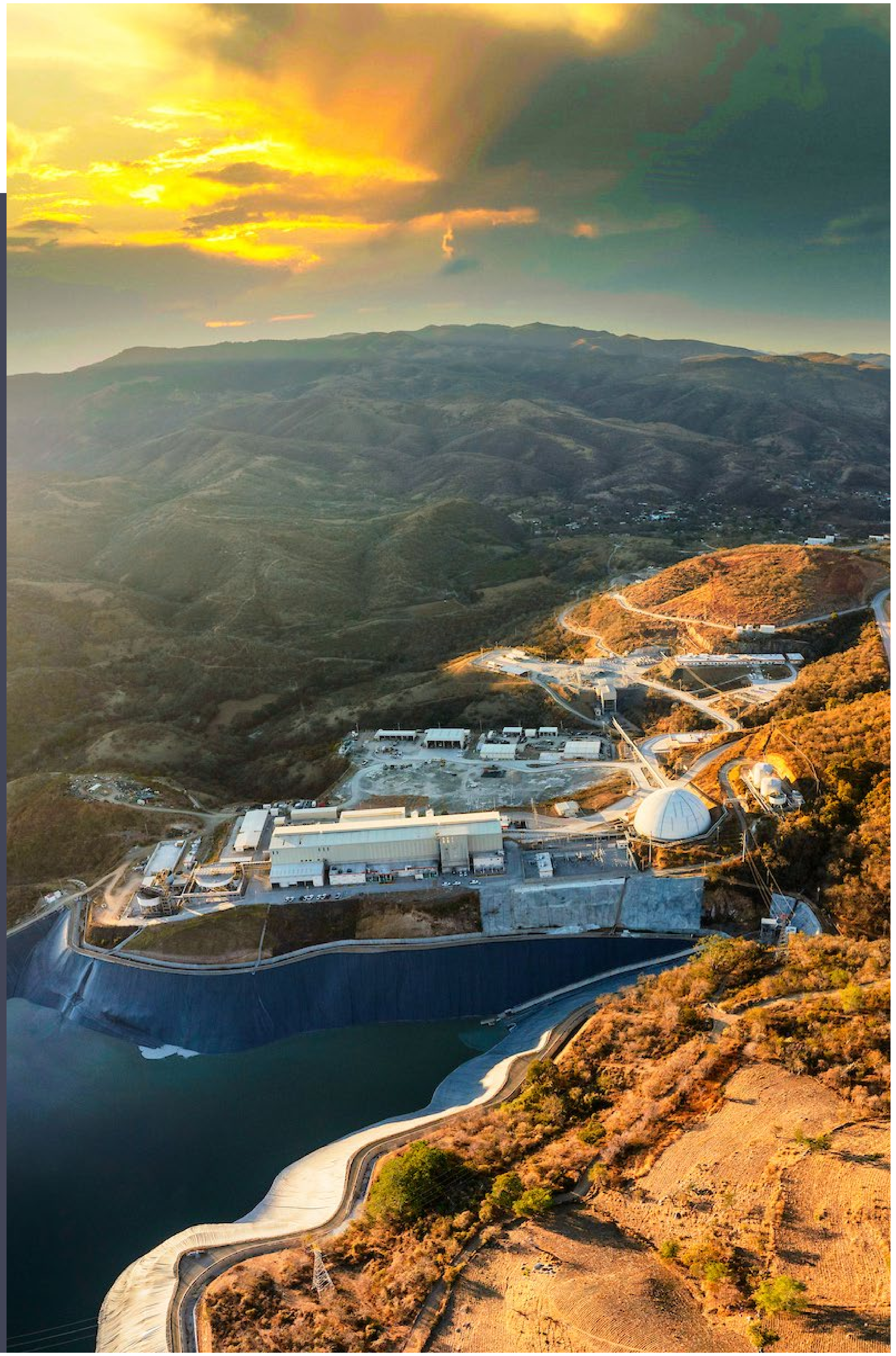
Chemicals Division sales



	US$ M	%
Sodium sulfate	106	47.1
Magnesium oxide	64	28.5
Ammonium sulfate	37	16.4
Magnesium sulfate	12	5.5
Others	7	2.5
Total	226	100.0

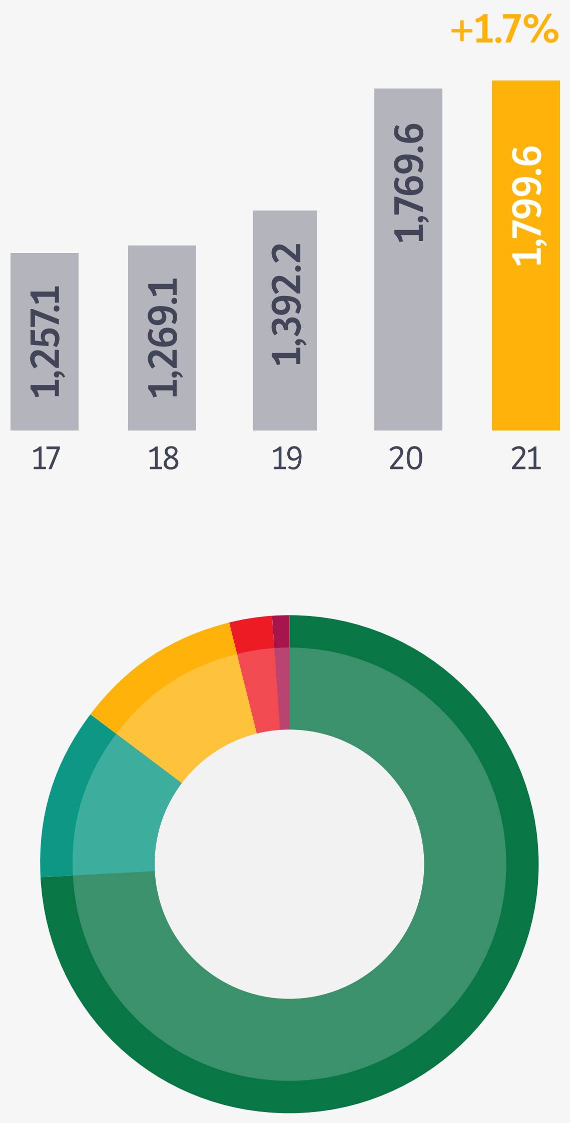
Production costs

	US$ M	%
Depreciation and amortization	709	25.8
Contractors	454	16.6
Energy	437	15.9
Operating materials	385	14.0
Maintenance and repairs	344	12.5
Human capital	307	11.2
Others	109	4.0
Total	2,745	100.0



Prices and use of metals

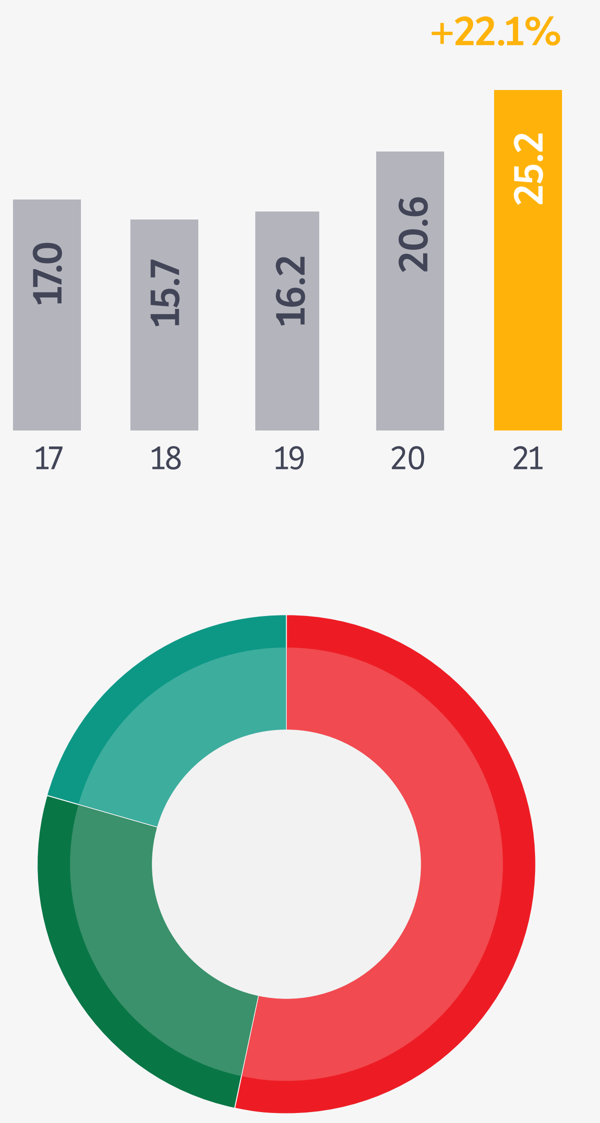
Gold (London)
US$/oz



	%
Jewerly	66.0
Medals and coins	16.6
Electronics	13.2
Industrial	3.1
Dental and medical work	1.1

Source: GFMS, Refinitiv Gold 2021.

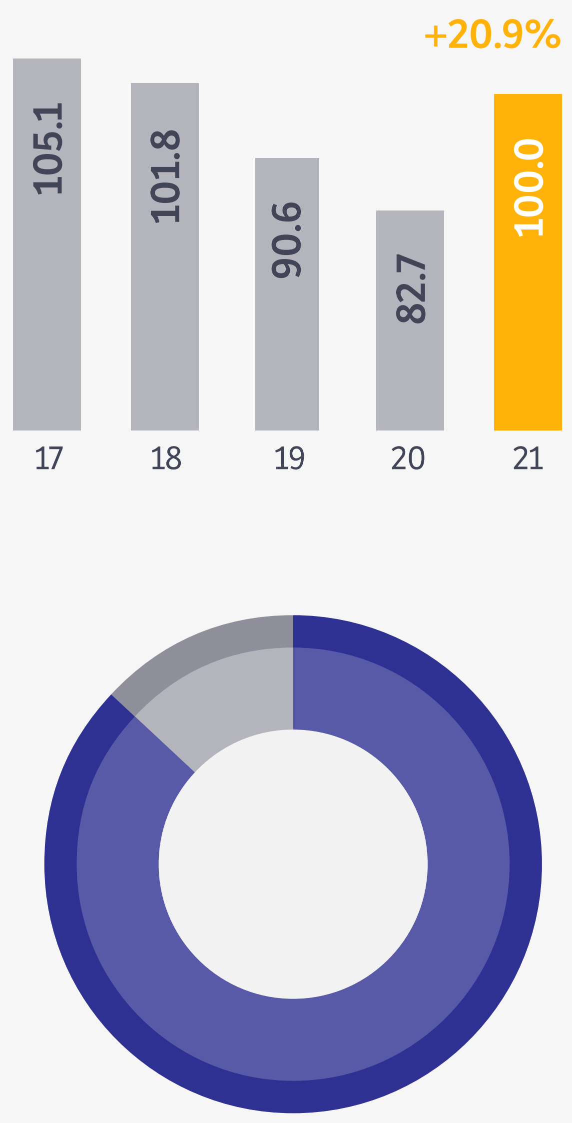
Silver (Comex)
US$/oz



	%
Industrial	61.1
Jewelry and metalwork	22.7
Coins	16.2

Source: World Silver Survey 2021, The Silver Institute.

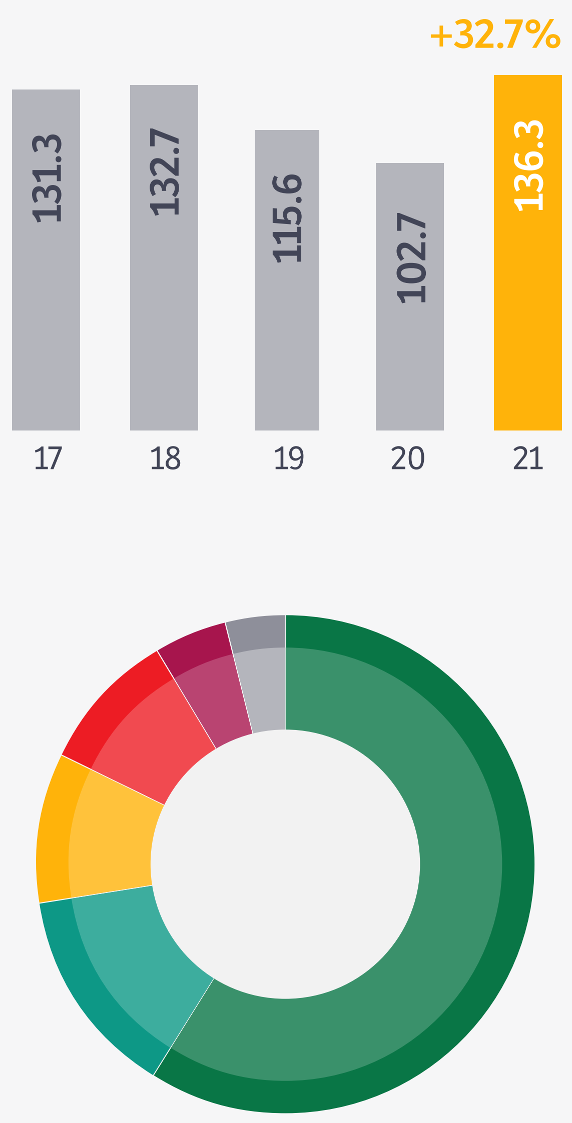
Lead (LME)
US¢/lb



	%
Batteries	87.2
Others	12.8

Source: Wood Mackenzie, Lead outlook Q4 2021.

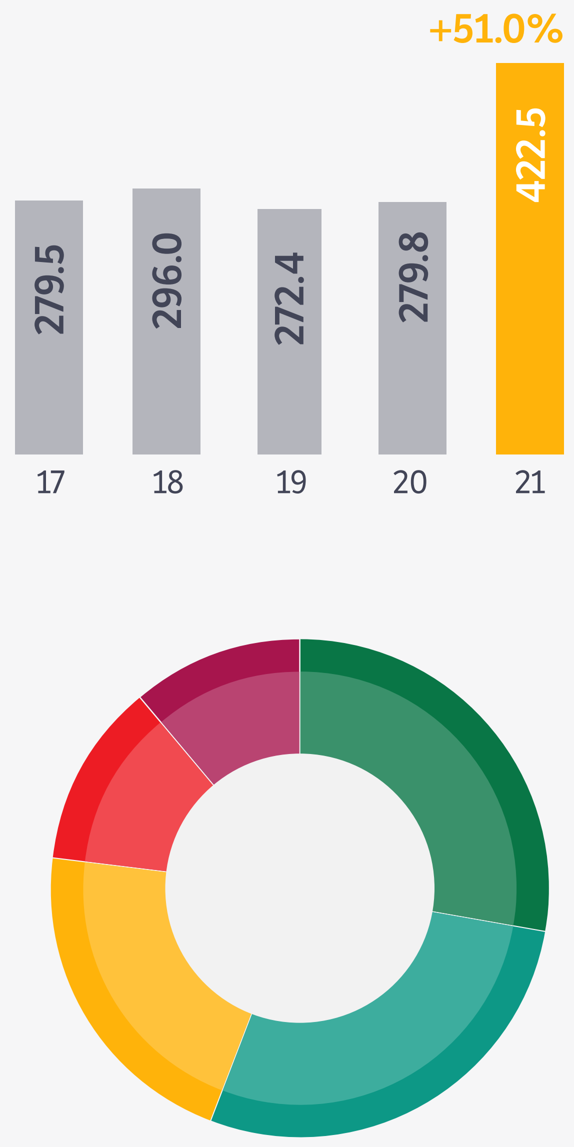
Zinc (LME SHG)
US¢/lb



	%
Galvanizing	58.7
Brass	14.1
Oxides and chemical products	9.5
Pressure smelting	9.1
Rolled and extruded products	4.6
Others	4.0

Source: Wood Mackenzie, Zinc outlook Q4 2021.

Copper (LME)
US¢/lb



	%
Construction	29.0
Electrical network	27.0
Consumer products	22.0
Transportation	11.0
Industrial machinery	11.0

Source: Wood Mackenzie, Copper outlook Q4 2021.

Gold and silver do not include demand for financial investment purposes.

US$ 391 M

net profit for the year.

Management reports

In the first year of a new administration, we received a mandate from the Board of Directors to be more efficient, productive, and results-focused through collaborative work within and outside the organization.

Annual report of the Board of Directors to the Shareholders' meeting, corresponding to fiscal year 2021

Dear shareholders:

As Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on its behalf, I present this report based on an analysis of the information provided by the Chief Executive Officer in his Annual Report on the company's performance, the financial and operating results obtained in fiscal year 2021, material aspects relating to the environment, safety and health, relations with the communities where we operate, and corporate governance, as well as a report on the main activities of the Board of Directors.

In 2021, after the economic crisis caused by the COVID-19 pandemic, industrial activity gradually regained growth, particularly during the first half of the year. The recovery was stronger in advanced economies, while lower-income countries were hit harder by the sanitary, economic and social effects of the crisis.

The recovery of industrial production was a strong stimulus for metals demand. Because of its status as a safe haven for investment, the price of gold held steady, while the price of silver—along with those of base metals—grew at average double-digit rates over the previous year.

During the year, Peñoles continued its emergency plan to avoid propagation of COVID-19 and protect the life and health of its employees through the application of sanitary protocols, testing, work from home, support and medical follow-up on detected cases. In collaboration with the authorities, we set up vaccination centers at our facilities, where more than 163,000 vaccine doses were given to people in the communities where we operate and to employees. We also continued our donations of medical supplies, personal protection equipment, staple food supplies and facemasks. Our social investment in the period, in addition to the payment of mining rights to the nation, totaled US$ 8 million.

Industrias Peñoles reiterates its priority commitment to its employees' health and safety and to protecting the environment. To this end, we reinforced safety and environmental programs, with special attention paid to the tailings storage facilities.

We invested US$ 171 million in exploration last year (21.2% more than in 2020). We carried out drilling programs at the operating mines and in their areas of influence to generate resources and strengthen reserves. In addition, we resumed field work in several projects and continued to assess our portfolio of prospects.

The pace of operations in 2021 improved in comparison to 2020. For instance, we were able to complete construction of the processing plant at the Juanicipio gold-silver mining unit in Zacatecas. This was our largest development project during the year, but its final startup depends on its connection to the electrical grid. Since mid-year the ore extracted at this project has been processed at the Fresnillo beneficiation plant to produce gold and silver in concentrates. On the other hand, the tailings flotation plant at Fresnillo was unable to start up operations in the third quarter of 2021 as planned, because of delays in the electrical connection permit. At the Capela mining unit in Guerrero, which began operations in 2020, process stabilization continued to move toward the expected production levels. Investments in fixed assets in fiscal year 2021 totaled US$ 762 million, 35.8% more than in the previous year.

Gold mining production totaled 812.0 thousand ounces, slightly less than the year before. Silver production was 64.4 million

Construction of the processing plant at the Juanicipio gold-silver project in Zacatecas was completed.

We reviewed and validated the Strategic Plan update and risk matrix, and reinforced workplace and environmental safety.

ounces, above 2020, thanks to higher head grades at San Julián and Sabinas, as well as the contributions from Juanicipio and Capela. Copper production in concentrates rose thanks to higher recovery rates at Capela.

In the metallurgical business, gold production volume increased by 16.8% to 1,118,200 ounces. Silver production totaled 75.2 million ounces and lead production 120,355 metric tons, 6.5% and 7.9% higher, respectively, due to higher grades in the concentrates treated and the cements received from the zinc refinery. In the latter, refined zinc production saw a marginal growth of 3,423 metric tons (+1.3%) over the previous year, for various reasons: difficulties in the process of stabilizing the zinc plant and the silver recovery plant, which are taking more time than expected; disruptions in the supply of energy and natural gas due to the freezing weather in Texas in February 2021, and the lack of liquid oxygen, which is attributed to the emergency conditions caused by the pandemic. For these reasons, a plan is in place for this plant to reach its nameplate capacity over the course of 2022.

Financial results for the year were substantially better than the year before. Sales rose above their 2020 level due to the recovery in metal prices and higher sales volume. Costs and expenses also rose, however, due to the acceleration of operations and the impact of inflation on certain inputs. Financial expenses were lower, after an upturn in 2020 due to the extraordinary expense of bond placements and debt restructuring. There were no losses from impairment of long-lived assets as there had been in 2020 caused mainly by the shutdown of three mining units. Net sales totaled US$ 5.97 billion—a 27.8% increase—while gross income rose 24.6% to US$ 1.56 billion; EBITDA increased 16.4% to US$ 1.70 billion, and operating income grew 30.8% to US$ 971 million. The bottom line shows net profits of US$ 391 million for 2021, an improvement compared to the net loss of US$ 34 million reported in fiscal-year 2020. The company paid dividends totaling US$ 149 million to shareholders, and the balance sheet remains solid and conservative with a net debt/EBITDA ratio of 0.7 times.

The Board of Directors adheres to solid corporate governance practices. In the discharge of its duties, the Board relies on the support of committees that have been created as recommended in the Code of Best Principles and Practices for Corporate Governance. The Board met six times in 2021. Among the topics discussed and approved during those sessions, the most important were the following:

- Follow-up on the COVID-19 emergency plan.
- Reinforcement of workplace and environmental safety programs.
- Strategic Plan update.
- Review of the risk matrix.
- Metal hedging and exchange rate program.
- Analysis and adjustments to the investment and financing programs.
- Review of the budget for the 2021 and 2022 fiscal years.
- Amendments to the company's Code of Conduct.
- Actions necessary for complying with the new law on outsourcing.

The most relevant activities of the committees, whose members are listed in the Corporate Governance section of the Annual Report, include the following:

- The Executive Committee reviewed budgets and operating and financial performance for each business, including safety data. It also followed up on actions to prevent COVID-19 contagion and validated the bases of the Strategic Plan.
- The Audit and Corporate Governance Committee reviewed the operating and financial results, performance, and the internal and external audit plans and the plan of the Compliance Department. It evaluated the external audit services and validated compliance with regulatory requirements. It also reviewed accounting policies, transactions with related parties and legal matters.
- The Finance and Planning Committee reviewed financial projections, evaluated investment projects and reviewed the company's financial position.
- The Nomination, Evaluation and Compensation Committee conducted its annual evaluation of senior management performance, in accordance with policy, and authorized increases in salaries and benefits, as well as bonuses and other results-based recognitions. The compensation package for senior management consists of a base salary, benefits as required by law, and other elements common to the industry in Mexico. It also validated the capacity and experience of the members of the Board of Directors and recommended their compensation.

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

Submitted herein for the consideration of this Shareholders' Meeting is a report on the main accounting policies and criteria that served as the basis for preparing the financial statements, which include, among others, the basis of presentation and consolidation, significant accounting policies, and new accounting pronouncements, which were audited by the external auditors and are an integral part of this report. The company's financial statements were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

In the opinion of the Board of Directors, the report presented to this Shareholders' Meeting by the Chief Executive Officer reasonably reflects the financial position and results of the company, as well as the key developments of the business during 2021.

Through the transformation we have undertaken, we aim to become more resilient in the face of uncertainty, achieve greater operational and administrative efficiency, and improve performance, results and accountability. Whatever happens, we must not only endure, but thrive. This evolutionary process is the foundation for the sustainable future of the Company for the benefit of our stakeholders and our country.

Dear shareholders:
The passing of our Honorary Chairman, and Chairman of the Board for 54 years, on February 2, 2022, moves me to express a heartfelt recognition for the formidable legacy he left our company and Mexico. The best way to honor his memory is to preserve and build upon this legacy, a task to which I and all the other Board Members and employees of this company are firmly committed.

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

Alejandro Baillères
Chairman of the Board of Directors

The best way to honor Don Alberto Baillères memory is to preserve and build upon his formidable legacy.

Report on the company's performance presented by the Chief Executive Officer to the Board of Directors, for fiscal year 2021

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

In my capacity as Chief Executive Officer of Industrias Peñoles, S.A.B. de C.V., and in accordance with the provisions of the Securities Market Law, I hereby submit for your consideration the Annual Report corresponding to the company's performance and results in the 2021 fiscal year, as well as the Financial Statements and their accompanying notes, which include the principal policies and criteria for accounting and reporting followed in preparing the financial report presented herein.

In 2021, the global economy showed a remarkable growth after the deepest recession in a decade, caused by the COVID-19 pandemic. The recovery has been uneven, however, stronger in advanced economies, and still lagging in most of the emerging and developing countries.

Supply chain disruptions resulting from the pandemic, combined with imbalances in the supply-demand ratio and rising energy prices, unleashed inflationary pressures in various regions. In Mexico, headline inflation reached 7.36%, the highest in 21 years, while the growth in Gross Domestic Product was 5.0%, supported largely by the recovery of the U.S. economy.

Industrial activity recovered boosting demand for base metals and driving prices. Copper benefited the most from this trend—due to infrastructure development in China— reaching an average quotation of 422.51 cents per pound—51.0% higher than the year before. Zinc and lead prices also rose, gaining 32.7% and 20.9% on average, respectively. Silver quotations averaged US$ 25.18/oz (a 22.1% increase over 2020), supported by both its uses in manufacturing and its value as an investment. Gold—considered safe haven for investment—saw ups and downs as some central banks began withdrawing monetary stimulus measures, and uncertainty returned regarding the course of COVID-19 and the uptick in inflation. Gold prices, however, remained high, averaging US$ 1,799.58/oz during the year (1.7% above the 2020 average).

For almost the entire year, peso/dollar parity was stable in the range of Ps.20 per dollar. This situation changed toward the end of the year, however, on the growing strength of the greenback and an economic slowdown in Mexico. At year-end, the peso stood at Ps.20.58 per dollar (a 3.2% depreciation) while the average annual exchange rate stood at Ps.20.28 per dollar (an appreciation of 5.6% compared to the average in 2020).

In the first year of the new management of Industrias Peñoles, we received a mandate from the Board of Directors to be more efficient, productive and results-oriented, through collaborative work within and beyond the organization. In coordination with the new

In a more favorable environment, the recovery of industrial activity boosted the demand and prices of metals.

With a renewed mission and vision, we restructured our strategy, made up of six pillars that will guide us toward our future aspirations.

structure of Baluarte Minero, we are evolving toward a sustainable future in every aspect, to benefit all our stakeholders. This way, as our Chairman of the Board has instructed us, we can ensure that the company not only endures but prospers in an increasingly uncertain and changing environment. This profound transformation has prompted deep-searching reflection in every sphere of the organization. It will undoubtedly bring a cultural shift and a new way of doing things. Sustained by a renewed mission and vision, we restructured our strategy, which is now made up of six pillars that will guide us as we advance toward our future aspirations.

In the past year, our priority has been following strict sanitary protocols to avoid the propagation of COVID-19 within our facilities. We continued to apply hygiene and protection measures in all of our workplaces and extended the work-from-home scheme for administrative staff, while bolstering prevention measures for all of our operating staff. We provided 122,682 rapid tests and offered permanent medical and psychological assistance. Despite our efforts, we recorded 3,213 positive cases in the Peñoles family, and tragically, 10 lives were lost to the illness.

We also continued our active support for the communities where we operate, donating hospital supplies, personal protection equipment and pantry staples. We made our facilities available for vaccination campaigns, in coordination with the authorities, where more than 163,000 vaccine doses were administered to our personnel and to others.

The pace of our operation improved over the previous year. The following are the highlights of our operating and financial results for 2021. Financial figures are stated in millions of dollars unless otherwise indicated, and changes were calculated with respect to the close of 2020.

Our Capex investment last year totaled US$ 762 (this is, US$ 201 or 35.8% higher than the year before), a large part of which went to development of the Juanicipio mine project of Fresnillo plc, which was in its final phase of construction. In contrast, our pace of investment was markedly slower in 2020 because of measures taken to protect employee health and preserve liquidity amid the pandemic. That year, however, we were able to complete construction and start up some major projects, like the Capela mining unit in Guerrero and the Silver Recovery Plant II at Met-Mex Torreón.

We invested another US$ 171 in exploration (a 21.2% increase over 2020). We resumed some field work, still partial in some cases, primarily in zones neighboring our existing mines. At the Capela mine we continued the drilling campaign begun in late 2020 to generate resources feasible to turn into reserves. This work enabled us to detect the continuity of mineralized mantles at the western end of the mine, which will be quantified in 2022. At Reina del Cobre, adjacent to Velardeña, in Durango, we began preparing for underground mining work to locate the adequate drilling positions and increase the reliability of the resources detected. In La Industria zone, also close to Velardeña, we drilled into veins to increase resources and reinforce inventory at this mine. At the Fortuna del Cobre project in Sonora we completed the first phase of drilling and found ore bodies with copper in oxides and sulfurs; this information is being analyzed to decide on a continuation of the work. We also prepared a potential portfolio of early opportunities with other mining groups for possible partnerships or acquisitions.

Meanwhile, at Fresnillo plc, intensive drilling programs were conducted at operating mines and emerging prospective zones were evaluated in the Fresnillo, San Julián, Guanajuato and Capricornio districts (the last in Chile). The results enabled us to begin additional drilling programs and advance toward quantification of new mineralized structures.

The Capela polymetallic mine, which began operating in 2020, was in the phase of process stabilization, which increased the pace of ore milling and ore processing and contributed to the production of metallic contents. Work is still ongoing, however, on reaching this mine's nameplate capacity. Among the most important adjustments, we tested different configurations for circuits and chemical schemes at the processing plant to optimize flotation in the lead-copper separation phase. As a result, lead and copper recoveries improved, but there were delays in the mine fill work, which resulted in lower-than-expected levels of ore extraction. There were also some unscheduled interruptions at the plant. Multi-disciplinary teams were assembled and have been able to solve some of the challenges, thus we expect that with the lessons learned and measures taken, the mining unit can reach full capacity in 2022.

In the Mining Division, the volume of ore deposited rose by 7.9% to 29.3 million metric tons, due primarily to increased production at Herradura and Noche Buena. In 2020, the mining division was affected by the extension of sanitary restrictions to open-pit operations. Last year, these mines offset the lack of ore production at Milpillas after extraction was halted because of plunging copper prices and high operating costs. The volume of ore milled and processed at underground mining units, on the contrary, fell by 5.6%, partly due

We worked to stabilize processes at the Capela mining unit to reach its installed capacity. We also made progress in the management of tailings storage facilities based on international standards.

to the suspension of operations at Bismark (due to exhaustion of reserves) and Madero (due to the decline in zinc price, low grades and high costs), as we reported at the time. This was offset by a rise in production at Capela (compared to the start-up months in 2020) and Velardeña (due to optimization of milling and processing). Adding to this was the ore from the Juanicipio project, which was processed at the Fresnillo plant while construction of its own beneficiation plant was under way.

Increased production of higher-grade ore at Herradura and Noche Buena, together with a higher volume processed at Capela and the ore from Juanicipio mitigated a slower recovery of gold content in the ore deposited at the leaching pads, so that gold production reached an annual volume of 811,992 ounces (down 1.5% from the previous year).

Silver mining production totaled 64.4 million ounces, 3.0% year-to-year gain, primarily because of better-than-expected grade at San Julián (disseminated body), a rise in processed volume with better head grades at Juanicipio and Sabinas, and a higher volume of ore processed at Capela with better grades and recoveries. These operations offset the lower production at Saucito, where processed volume decreased with lower head grades (this due to problems with mine instability that limited access to higher-grade bodies); at Fresnillo and Herradura (both because of lower head grades and recoveries) and Ciénega, due to lower-than expected grade.

In mining production of industrial metals, lead content declined by 8.9%, to 78,758 metric tons, primarily because of a reduction in the volume of ore processed by Saucito, Fresnillo and Ciénega, combined with lower head grades in these latter two units. Zinc volume also fell by 4.9%, to 274,049 metric tons, primarily because of the lack of production of Madero and Bismark. These shortfalls were partly offset by production from Capela, Velardeña and Tizapa, helped by higher ore processing, and a higher content in the processed ore from Juanicipio.

Copper production in concentrates grew 25.8% chiefly due to a higher volume processed with better grade and an increased rate of recovery at the Capela unit. Before work at the Milpillas mine was halted, this unit was turning out cathode copper from the ore deposited at the leaching pads. As we reported in 2020, extraction work at this unit's mine was temporarily suspended due to an abrupt drop in copper prices, high operating costs and low grades.

Furthermore, we continued to implement the governance framework for tailings storage facilities, with the support of a panel of independent experts. We also bolstered our internal structure for managing deposits based on international standards. Foremost in this effort was the work at Sabinas and Velardeña, where intensive construction and tailings management efforts were undertaken to guarantee operating continuity. Because of this we have safe facilities for disposing of this waste, which is not classified as hazardous nor does it constitute a source of pollution. We also obtained the environmental permits needed to adjust the design of various operating tailings facilities.

In line with our "intelligent mine" vision, we are working to automate and optimize operating processes at our mining units. This year's actions include the optimization of explosives consumption at all units, as well as the automatic dosing of reagents at the Tizapa concentrator plant, which, due to its good results, will be extended to the rest of the operations.

In the last quarter of 2020, construction of the tailings flotation plant was completed at the Fresnillo mine for recovery of silver and gold content (Pyrites phase II) complementing phase I, which is already operating at Saucito. The startup had to be pushed back because of the pandemic and the delay in obtaining the permits due to certain additional technical requirements requested by the Federal Electricity Commission (CFE).

We also completed development of the Juanicipio mining project in Zacatecas (a 56%-44% joint venture between Fresnillo plc and MAG Silver Corp), with a total investment of US$ 440.0 million. Average production is targeted at 11.7 million ounces of silver and 43,500 ounces of gold. At the close of the year, both load and water testing were carried out, along with tests of key systems. Commissioning will depend on the facility's connection to the electrical grid.

The metallurgical operations processed higher volumes of concentrates and other materials in the lead-silver circuit, which boosted annual production of precious metals and lead. We also acquired concentrates with a high lead content to balance our mixtures and improve silver recovery. Refined gold production reached 1,118,196 ounces, a 16.8% increase, due to higher treatment of dorés at the lead-silver refinery and an improvement of grades in the mixtures that fed the smelter. For the same reasons, besides processing silver cements resulting from the recovery of this metal at the zinc plant, silver production grew 6.5% to 75.2 million ounces, while lead production increased 7.9% to a total of 120,355 metric tons.

We increased production and sales volumes of refined metals and chemical inputs. Our portfolio of power plants generated clean electricity equivalent to 47.8% of our consumption.

In the zinc circuit, our efforts focused on normalizing the interaction between the old roasting plant and the new direct leaching plant, in order to gradually build up production and achieve the full annual production capacity of 350,000 metric tons of refined zinc production in 2023. To improve zinc quality and energy efficiency, this year we began a program to replace anodes and electrodes in poor condition in the electrolytic cells. There were also disruptions in the supply of energy and natural gas due to freezing weather in Texas in February, and a scarcity of oxygen relating to the COVID-19 pandemic, along with some chemical imbalances in the leaching-purification circuit and failures in the roasters that derived in unscheduled shutdowns.
All these factors resulted in a slightly lower volume of concentrates treated, which also affected zinc recovery. Nevertheless, annual output of refined zinc reached 264,366 metric tons (1.3% higher than in 2020), along with 4.6 million ounces of silver content in cements. Some of these cements (86.5%) were sent for processing to the smelter, and the remainder were sold. We are currently analyzing various alternatives to improve the quality of cements in order to process them faster in the smelter, without affecting the sintering process.

Among our inorganic chemicals, magnesium oxide stands out with a production of 76,273 metric tons (47.6% more than in 2020), due to a recovery of demand, particularly for refractory, caustic grade and hydroxide, in our core markets in North America and Europe. Sodium sulfate volume was 761,854 metric tons, up 2.1% over 2020 even though production was affected by disruptions in the supply of natural gas due to below-freezing weather in Texas in February of last year. Magnesium sulfate once again reached a new production record of 64,197 metric tons because of strong performance in the domestic agricultural industry.

In the energy area, uncertainty persisted over the regulatory framework for private participation in the energy sector. This situation does not alter our goals, but it does complicate them, as we remain committed to environmental sustainability, the search for continuous and secure sources of supply at a competitive cost, and the management of energy efficiency. We are also aware of our stakeholders' demand for a decarbonization plan for our operations; therefore, we continue to explore the development of technologies that offer cleaner options, focused on establishing environmental and social goals and programs that will make us an increasingly sustainable company.

In 2021, our electricity demand decreased by 2.7% because of the shutdown of three mining units. Our power plant portfolio generated energy equivalent to 85.0% of our self-supply. With the Eólica Mesa La Paz wind farm operating for a full year, we were able to increase the proportion of renewable sources in our consumption mix from 40.6% to 47.8%. However, only 6.5% of the electricity generated by this plant was delivered to Capela, while the rest was sold to the Wholesale Power Market (WPM) because the Energy Regulatory Commission (CRE) is still in the process of migrating loads to the WPM. Because of this, we had to purchase electricity from the CFE, which accounted for 15.0% of our consumption. The unit cost of this electricity was 14.8% higher than the year before (US¢ 7.87/ kWh), also affected by the increase in transmission rates in legacy contracts from mid-2020, whose constitutionality is currently being discussed.

In our financial results (figures in millions), sales—excluding hedging results—totaled US$ 6,043, a 28.4% increase due to the recovery in metal prices and higher sales volume. Hedging of metal prices and exchange rates, aimed at reducing the risk of significant fluctuations and the volatility of our EBITDA, generated an opportunity cost of US$ 71, which unfavorably compares to the cost of US$ 34 reported in 2020. Thus, net sales came to US$ 5,972, 27.8% higher than the year before.

The cost of goods sold rose 29.0% to US$ 4,416, attributable to higher cost of metal resulting from increased prices and volume of metal content in various materials purchased from third parties for processing at our metallurgical plants, and a rise in production costs due to the accelerated pace of operations. This meant more consumption and increased development work at our mines, a full year of operation at Capela, and inflation in certain cost items, particularly energy, labor and operating materials. Adding to this was the adverse effect of the peso's appreciation against the dollar on peso-denominated costs (approximately 50% of our production costs). Finally, we entered a charge for inventory movements, offsetting the credit in 2020, primarily because that year there was a recognition of additional gold inventory at the Herradura leaching pads.

Consequently, gross income totaled US$ 1,556, 24.6% more than in 2020. General expenses amounted to US$ 585, a 15.5% growth due to higher activity this past year. With this, EBITDA rose to US$ 1,696 and operating income to US$ 971, 16.4% and 30.8% higher, respectively, than in 2020. Net financial expense was down 46.2%, to US$ 153, primarily due to the extraordinary expense from the 2020 debt restructuring and a foreign-exchange loss in the same year. We also received other revenues totaling US$ 11 from the sale of concentrates and from the Zimapán unit, which was formerly leased out, among other items. In contrast, 2020 figures under this line showed other expenses of US$ 181, due primarily to impairment in the value of long-lived assets, especially at mining units where activities were suspended.

The income tax provision was US$ 261, a US$ 76 increase over the year before, corresponding to higher profits. This was offset by a deferred tax credit resulting from higher inflation in the year, while in 2020 the company made a voluntary adjustment to the tax treatment of expenses incurred in mining work for the 2013-2019 period. There was also an increase in the provision for special mining rights, due to a higher tax base. For these reasons, net income in fiscal-year 2021 was a profit of US$ 391, compared to a loss of US$ 34 the year before.

At Peñoles we will continue working to improve the efficiency and productivity of our operations, focusing especially on performance at the zinc plant and its silver recovery, and the Capela mine, with the aim of reaching full nameplate capacity at these facilities. We are aligning our efforts with the company's strategic pillars through concrete actions like implementation and reinforcement of critical controls and identification of value drivers to carry out the transformation that our Chairman of the Board demands from us.

Over the year, we began a process of cultural evolution and comprehensive wellbeing led by Baluarte Minero, so that everyone in our staff can achieve their maximum personal and professional potential, feeling committed and motivated to achieve extraordinary results together. Our actions in 2021 included a diagnosis of current culture and the identification of employees with the potential for transformative leadership.

At Industrias Peñoles, we not only strictly abide by national and international laws and regulations and conduct our business with integrity, but we also act based on the values of Confidence, Responsibility, Integrity and Loyalty. We intend to transmit these values to our entire value chain and all our stakeholders. We have a policy of zero tolerance for crime, fraud and corruption. That is why we are continually strengthening our regulatory system, compliance controls and due diligence in our relationship with third parties. We are also reinforcing our cybersecurity governance to protect our assets and encourage the responsible use of information technology.

We also continue to support labor modernization to improve productivity, life quality and the income of our employees. Our negotiations under collective bargaining agreements with unions were conducted in a cordial, respectful manner and in a climate of cooperation and mutual benefit.

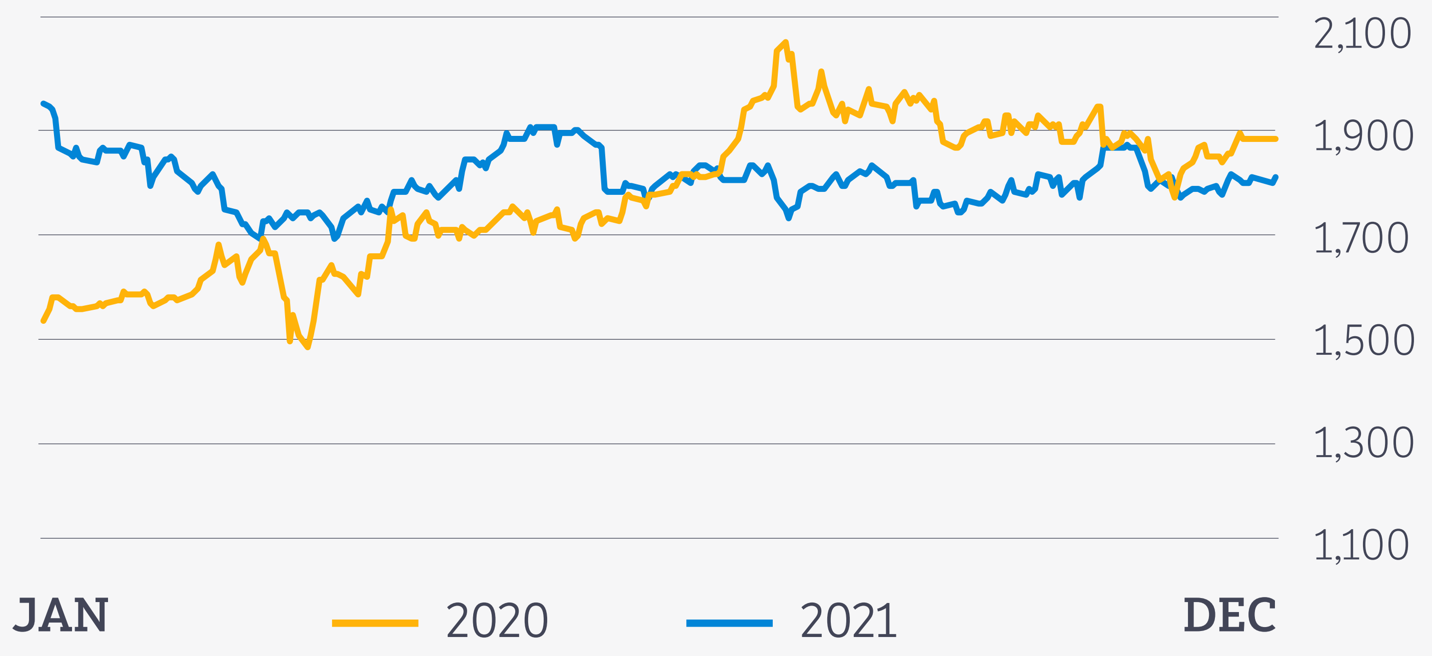
Finally, I wish to express, on behalf of all the people of Industrias Peñoles, S.A.B. de C.V., our deep regret at the passing of Mr. Alberto Baillères, Honorary Chairman and Chief Executive Officer of the company for 54 years. We all recognize that his leadership, vision and direction have been invaluable to the outstanding performance of our organization, and his humanism, example, inspiration and teaching for all of us.

I would like to thank the Chairman and the members of the Board of Directors and Executive Committee for their confidence, their invaluable support and unerring guidance. I am also grateful to our employees for their impressive commitment and dedication. We are all key players in this evolution toward the sustainable future the world needs.

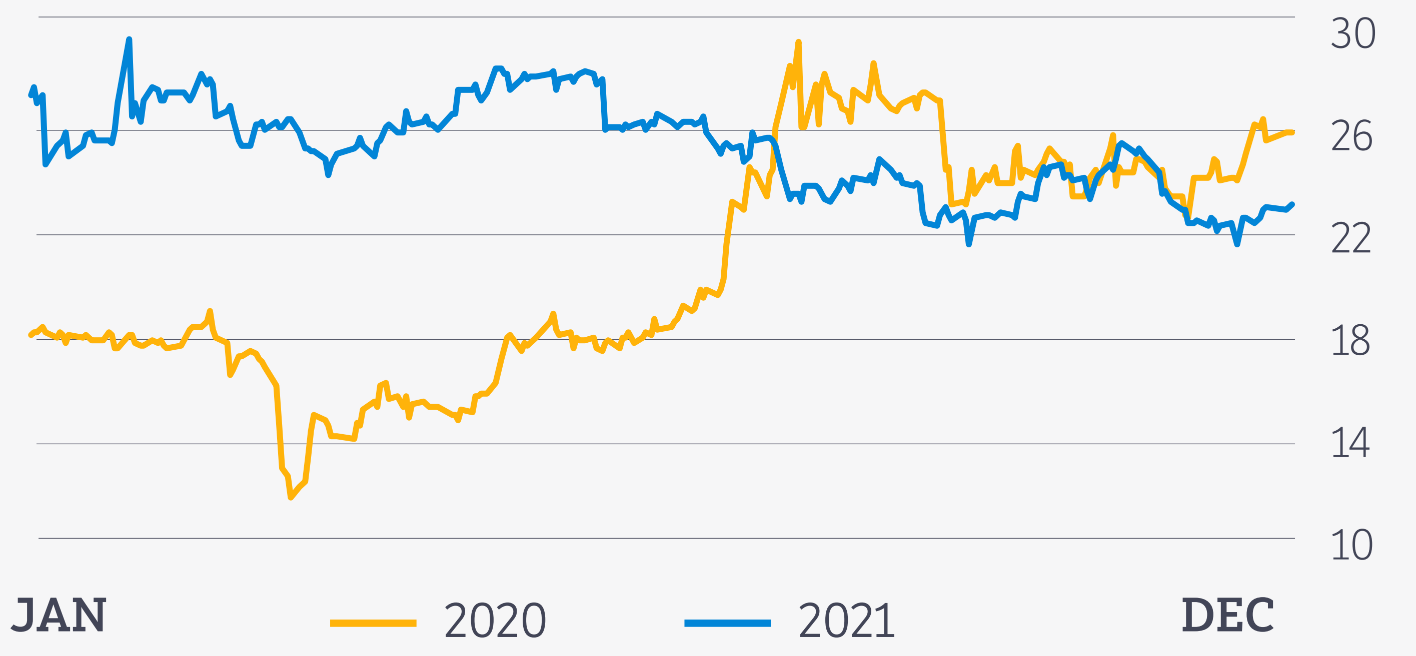
Rafael Rebollar González
Chief Executive Officer

Prices and exchange rate

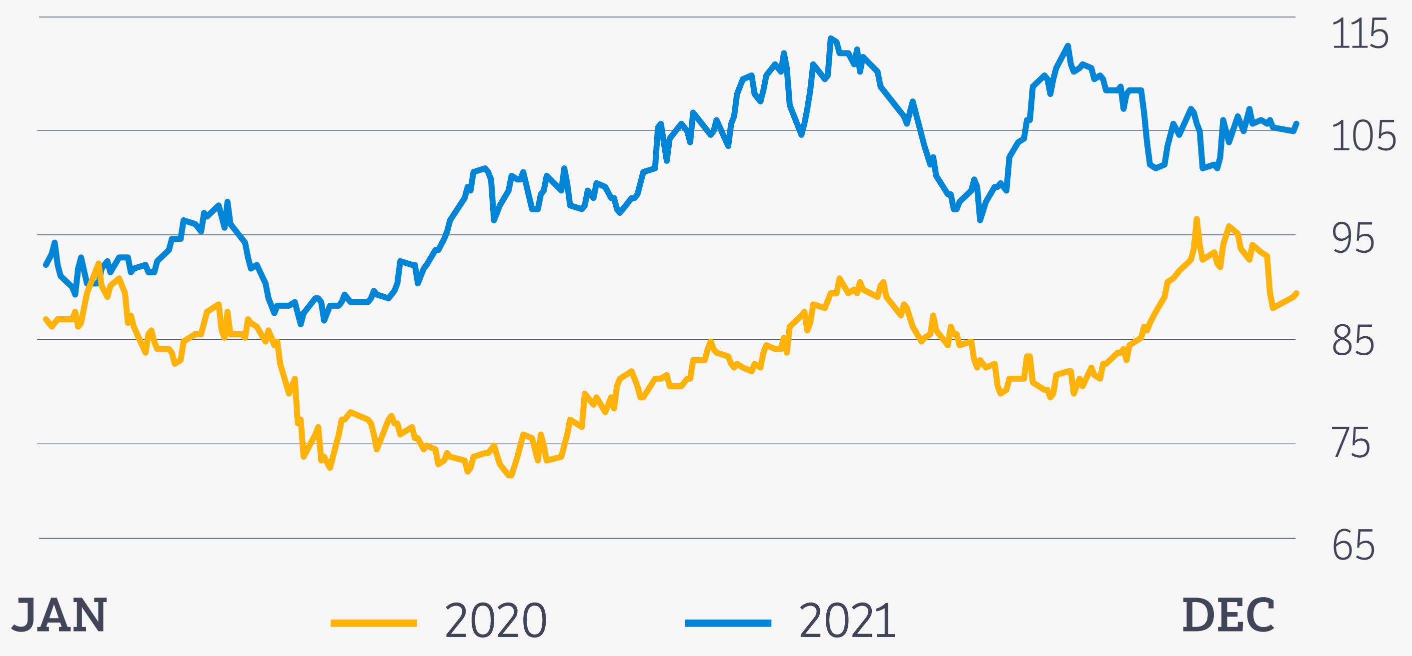
Gold (London)
US$oz



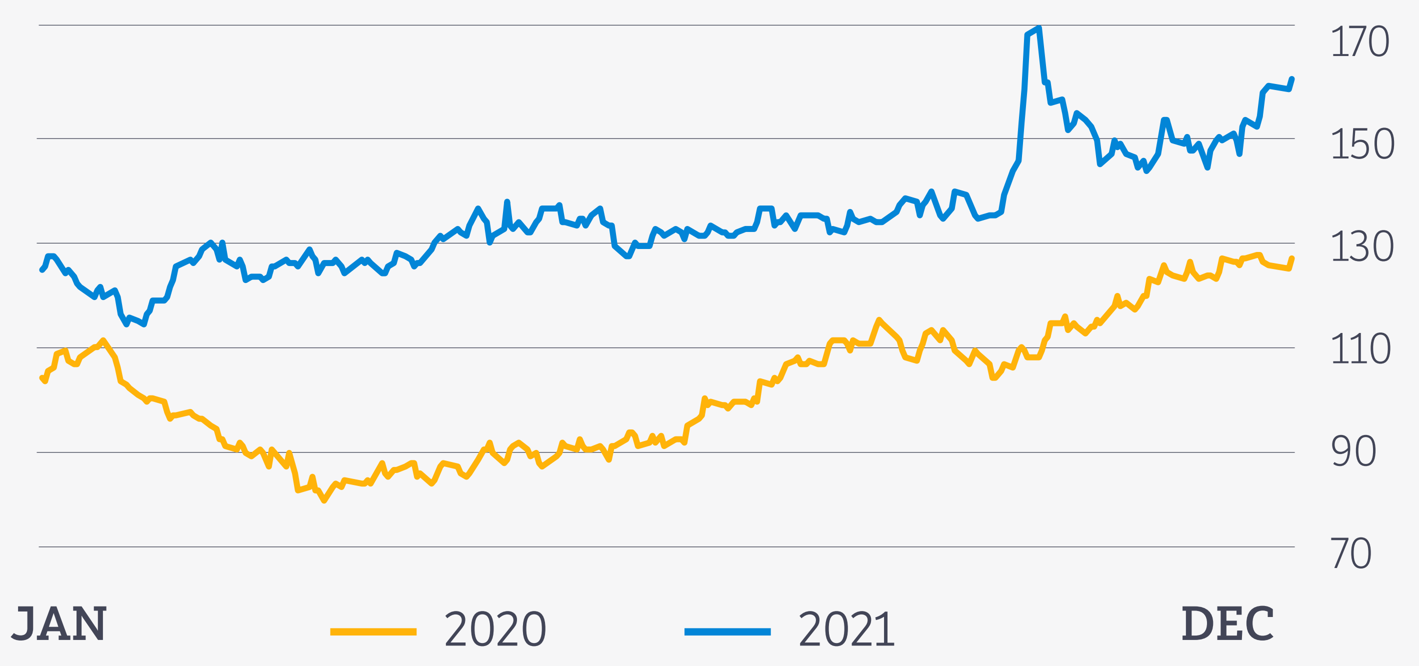
Silver (Comex)
US$oz



Lead (LME)
US¢/lb

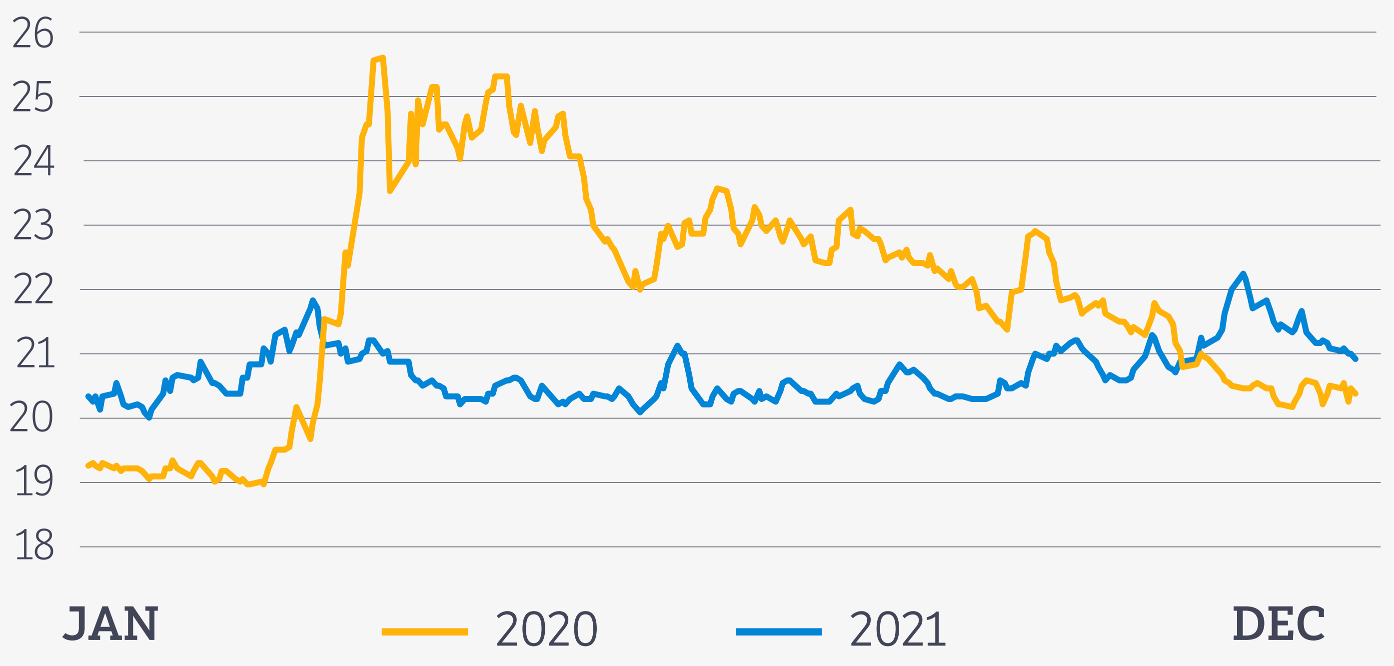


Zinc (LME SHG)
US¢/lb



Copper (LME)
US¢/lb

Official exchange rate
(MX/US$)



Audit and Corporate Governance Committee

ANNUAL REPORT
Mexico City, March 1, 2022.

To the Board of Directors of
Industrias Peñoles, S.A.B. de C.V.
Present.

Dear Board Members:

In accordance to article 43 of the Securities Market Law ("SML"), in my capacity as Chairman and on behalf of the Audit and Corporate Governance Committee of Industrias Peñoles, S.A.B. of C.V. (the "Company"), as well as in compliance to our Rules of Operation and the Code of Principles and Best Practices of Corporate Governance (Código de Principios y Mejores Prácticas de Gobierno Corporativo), I hereby submit the Annual Report of activities of such Committee corresponding to the 2021 fiscal year.

The Committee held four sessions regarding the fiscal year of 2021 to review and follow up the business performance, according to the following:

- We were informed about the most important projects of the Company and their progress, with particular follow up on the labor and commercial situation resulting from the effects of the Covid-19 pandemic.
- It was reviewed that the external auditors firm, as well as the external auditor and its team, fulfilled and maintained, during the term of their external audit services, the independence, personal and professional requirements, and that they had the quality control system set in the General Regulations Applicable to the Public Companies Supervised by the National Securities and Bank Commission that hire External Audit Services of Basic Financial Statements (Disposiciones de Carácter General Aplicables a las Emisoras Supervisadas por la Comisión Nacional Bancaria y de Valores que Contratan Servicios de Auditoría Externa de Estados Financieros Básicos) (hereinafter referred to as the "Regulations").
- We became acquainted of and followed up the Annual Plan of the External Auditor, including the scope, nature and opportunity of the audit processes, the meaningful procedures that they decided to analyze, as well as the risks and key matters that they determined for this audit. We evaluated the performance of the firm, concluding that it fulfilled the necessary requirements for the execution of the assigned job, in accordance with the Regulations and the additional services received met the assigned objectives. In addition, during the year, the internal control findings reported in the suggestions letter were followed.
- The Annual Plan of the Internal Auditor was approved, and we reviewed its quarterly reports on the status of the internal control system, the important aspects observed during the execution of the Plan, as well as the corrections made during 2021 and, as the case may be, those aspects that remained outstanding.
- We reviewed the Statement issued by the external auditors referred to in article 35 of the Regulations, so we were aware of the materiality and the tolerable error considered in their audit, the evaluated meaningful processes, the nature of the audit adjustments and their amount, as well as the conclusion they reached. They reported that all significant audit differences observed and confirmed by the administration were contained in the audited Financial Statements.
- Each quarter we followed up the financial information of the Company. Also, the consolidated and individual Financial Statements prepared by the management as of December 31, 2021, were analyzed, as well as the unqualified opinion expressed by the external auditors on their opinion about them.
- We followed up the legal, accounting and tax matters presented by the management as well as by the external and internal auditors during the fiscal year, we were informed about different internal control issues presented by the administration. Additionally, we paid special attention to the outsourcing reform and the electric reform initiative.
- The main risks to which the Company is exposed were disclosed, with special emphasis in the cybersecurity risks, and the way the Company is managing them.

- We were informed about the corporate restructuring of the Company and the main changes that it had in the business performance.
- We assessed the report presented by the Chief Executive Officer ("CEO") in accordance to article 42, section II, subparagraph e) of the SML; we consider that the information contained therein reflects in a reasonable manner the financial position and the results of the Company, due to: (i) the accounting policies and criteria applied in the preparation of the financial information, included in the notes to the audited Financial Statements, are adequate and sufficient, taking into consideration the specific circumstances of the Company; (ii) the certification of the people responsible for signing the Financial Statements, referred to in article 32 of the Regulations, was obtained and, (iii) the accounting policies and criteria have been consistently applied. Therefore, the Committee recommends to the Board of Directors the approval of the consolidated and individual Financial Statements corresponding to the fiscal year 2021, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.
- There was no knowledge that Shareholders, Board Members, Relevant Officers, employees or, in general, any third party, had made observations regarding the accounting, internal controls and issues related to internal or external audit, or of complaints made during 2021 regarding irregularities in the management.
- The management kept informed to the Committee on the compliance of the Code of Conduct and the complaints received through the mechanism of disclosure of undue acts and protection to informants.
- In several minutes of ordinary sessions of the Board of Directors, resolutions were included regarding the operations and activities in which the Committee intervened in accordance to the SML, therefore the Secretary of the Board of Directors certified the resolutions of the Shareholders Meetings and the Board of Directors corresponding to the 2021 fiscal year. Likewise, through this Certification it was informed that, during this year, the Board of Directors did not grant any waiver to Directors, Relevant Officers or individuals with Power of Command, to take advantage of business opportunities for their own benefit or for that of third parties that correspond to the Company or to legal entities controlled by it or in which the Company has a significant influence.
- The Nomination, Compensation and Evaluation Committee of the Company submitted a report to the Committee, in which it reported that, during 2021, it reviewed the performance of the Relevant Officers without finding any remark, and that it examined the compensation packages of the CEO and the Relevant Officers which, in opinion of the Nomination, Compensation and Evaluation Committee, are in accordance with the policy approved by the Board of Directors.

Finally, it is hereby informed that the most significant transactions, carried out with related parties, subsidiaries and other affiliate companies of the consortium of which the Company is part, during 2021, correspond, among others, to the sale of metals, treatment fees, concentrates purchase, energy purchase, royalties, rendering of services and revenues for financial instruments. These transactions, as informed by the management, were made at market prices and most of them have transfer pricing studies prepared by independent specialists.

On behalf of the Audit and Corporate Governance Committee,

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

We seek to standardize and achieve capacity in our operations, maximize efficiency and profitability.

Performance

The pace of operations improved compared to the previous year. We remained focused on protecting the health of our people as the pandemic continued, and we strengthened security and control of critical risks.

Exploration

We conduct exploration activities under strict ethical standards, with respect and support for the communities and environmental protection.

Peñoles' Exploration Division is dedicated to detecting and developing new polymetallic and copper projects in Mexico and South America, where we hold concessions for over 1.3 million hectares. It also supports our mining units through exploration campaigns in their areas of influence, to strengthen their position by generating mineral resources, while building a powerful portfolio of early opportunities with other mining groups for potential partnerships or acquisitions in high-impact projects.

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

Consolidated investment in exploration—Peñoles and Fresnillo—totaled US$ 171 million in 2021, 21.0% more than in the previous year. Of this amount, US$ 18.2 million were allocated to new Peñoles projects, US$ 22.5 million for exploration of mines to replenish and increase reserves, and the rest to mines and projects at Fresnillo plc.

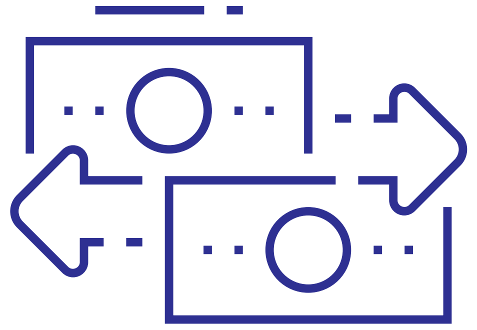
In 2021 we conducted direct exploration on six projects totaling 47,313 meters of drilling, both in the areas of influence of the current mining units and in new projects. Geological, geochemical and geophysical work also took place at 31 prospects for further exploration with drilling and subsequent assessment. Prospecting also intensified, with the analysis of eight external projects in search of opportunities.

The most important results were obtained in the following projects:

Reina del Cobre (polymetallic)

Location: Cuencamé, Durango

The polymetallic skarn project is located 20 km from the Velardeña unit. As of the close of 2021, the detected (inferred) resources totaled 19 million metric tons with 1.9% of equivalent copper. Considering the depth of the ore bodies, we began preparing to conduct 1,400 meters of underground mining work in order to locate appropriate drilling positions for ensuring a higher level of reliability of the resources and increase these to the extent possible. We expect to begin drilling in 2023 and to have a new estimate on the resources by the end of 2024.



US$ 171 M
investment allocated to increase resources and reserves and resume field work on our project portfolio.

We worked on integrating a potential portfolio of early opportunities for possible high-impact partnerships or acquisitions.

Capela (polymetallic)

Location: Teloloapan, Guerrero

We carried out a drilling campaign to determine the possible extent of current ore bodies. So far, we have drilled 7,740 meters there and intercepted the ore continuity in an area measuring 500 x 500 meters at the western end of the mine. We expect to have sufficient information by the first quarter of 2022 to generate resources feasible to convert into new reserves for the mining unit.

Fortuna del Cobre (copper)

Location: Pitiquito, Sonora

In this disseminated copper deposit, we have historic information indicating inferred resources of 10 million metric tons of ore with 1.2% copper, in a secondary enrichment zone. In-house geological studies and drilling over 16,000 meters this past year signaled a significant expanse of copper ore in oxides and sulfurs. The first phase of the drilling campaign was completed, enabling us to quantify the resources, conduct preliminary economic assessments and decide on whether to begin detailed drilling and create a new advanced project.

La Industria (silver-polymetallic)

Location: Cuencamé, Durango

At this project, adjacent to the Velardeña unit, explorations in previous years revealed resources totaling 5.2 million metric tons in veins with silver-lead-zinc values that will be processed at this facility. Exploration of this zone in 2021 included 18,600 meters of drilling to search for the extension of these veins. Preliminary quantification indicates 2 million metric tons more in resources, which will strengthen the current inventory. Work is continuing in this zone.

INTERNATIONAL EXPLORATION

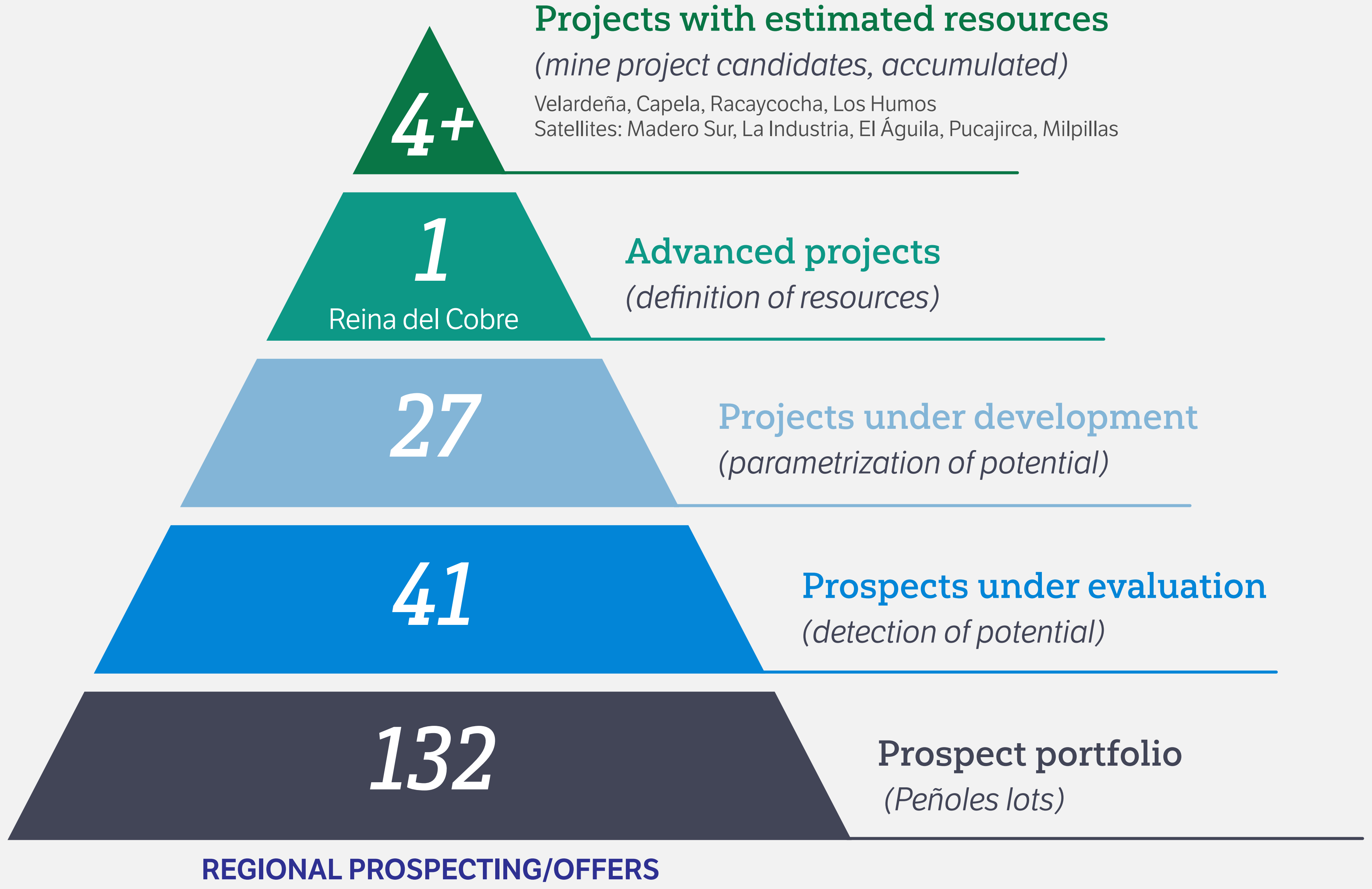
We reviewed and reinforced our international exploration structure to further advance projects in Chile and Peru.

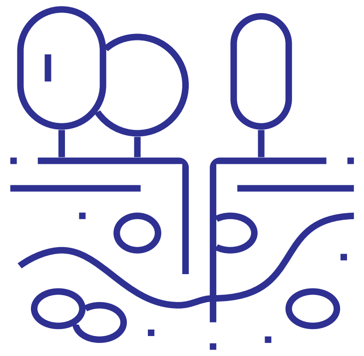
In our portfolio of international projects, the global public health emergency prevented us from making significant progress in talks regarding the acquisition of land for future mining operations for the Racaycocha copper-gold-molybdenum project in Peru, where we maintain excellent relations with surrounding communities. In the fourth quarter we began drilling work at the northern end of the project, where we found evidence of other mineralized bodies. With 4,000 meters of drilling complete in 2021 the areas of interest detected warrant a continuation of this work.

We also began drilling at the Tambopata polymetallic project in Junín, Peru, where 3,000 meters of drilling was conducted, revealing promising anomalous zones. The work will continue in 2022.

At the Némesis and Pichasca copper-gold projects in Chile, preparations were made to begin drilling campaigns in 2022. In both cases, the work indicates a favorable geological environment for high-potential ore deposits.

BASE METAL MINING PROJECTS





With more than
800 km
of drilling activities, work was intensified in the mines and precious metal projects.

FRESNILLO PLC

Fresnillo plc, engaged in exploration of potential deposits with gold and silver content, has mining concessions and exploration projects in Mexico, Peru and Chile.

In 2021, drilling campaigns intensified in both the mining units and the Exploration Division. In the mines, 21% more was drilled compared to 2020, boring 609,000 meters, focused on increasing the certainty of grade distribution to support short- and medium term planning, as well as converting inferred to indicated resources and increasing overall resources.

Drilling by the Exploration Division grew by 27% over 2020, completing a total of 225,500 meters. Seventy percent of this was focused on the Fresnillo and San Julián districts; the rest was distributed among advanced projects (22%) and early exploration (8%). Another five early-stage projects were also drilled during the year, including two in Chile.

Fresnillo plc has four advanced projects in Mexico—Rodeo, Orisyvo, Tajitos and Guanajuato—and the Pilarica advanced project in Peru. Drilling activity in the Fresnillo, San Julián and Guanajuato districts yielded interesting results, including the identification of new mineralized structures. Exploration at these sites will continue in 2022 with the aim of generating additional gold and silver resources.

This year we also intensified regional prospecting activities from our six regional exploration offices to define drilling targets in various zones of Mexico, Peru and Chile.

As always, this work is being conducted under strict sanitary protocols because of the pandemic. It is worth noting that we have forged closer relations with communities in all three countries where we operate and closely followed the applicable laws and regulations, while conducting our own safety and environmental care initiatives in all exploration activities.

New mineralized structures with gold and silver content were identified in the districts of Fresnillo, San Julián and Guanajuato.

Mines

We introduced a new High-Potential Management System on safety, and moved forward on our Intelligent Mine vision to ensure a sustainable future for our mining operations.

Peñoles operates four underground mining units in Mexico that produce zinc, lead and copper concentrates: Velardeña in Durango; Sabinas in Zacatecas; Capela in Guerrero—all of these wholly-owned by the company—and Tizapa in the State of Mexico, in which we own a 51% stake. We also consolidate the production of Fresnillo plc, a subsidiary that produces gold and silver in concentrates, dorés, precipitates and other materials in seven mines: Fresnillo and Saucito, in Zacatecas; San Julián, in Chihuahua; Ciénega and San Ramón—satellite—in Durango, all of them underground mines; and Herradura and Noche Buena, two open-pit mines in Sonora.

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

MANAGEMENT OF THE PUBLIC HEALTH EMERGENCY

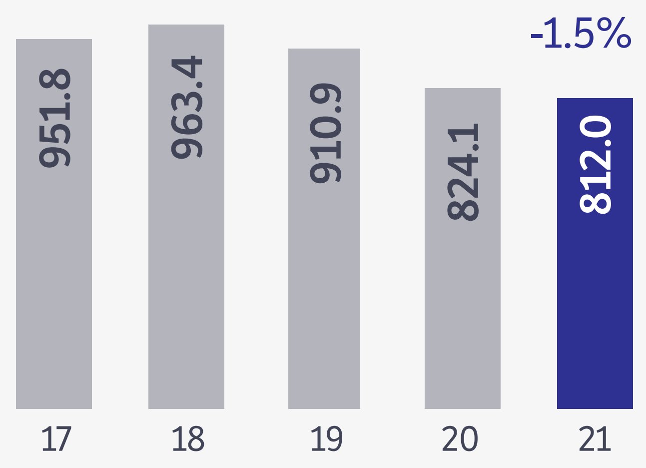
During 2021, mining operations worked at a faster pace compared to the previous year, when they were affected by the health emergency restrictions resulting from the pandemic, especially open-pit mines. We continued to apply the guidelines established by the Mexican Social Security Institute (IMSS) and the Ministry of Labor and Social Planning, along with internal protocols to prevent the spread of infection among employees and contractors. Our administrative personnel were assigned to work from home, and when they needed to come to the office to provide technical or administrative support, they followed strict sanitary protocols. We also continued to support our communities by sharing information on preventive measures and donating personal protection equipment, basic supplies and materials, for a total of US$ 0.5 million.

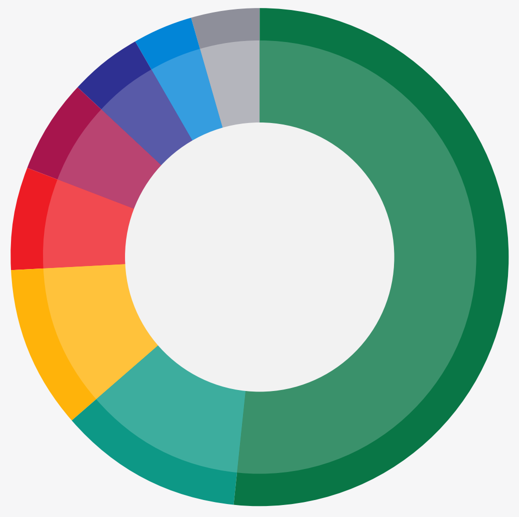
We invested US$ 692.5 million during the year, mainly in sustaining our operations and construction of the Juanicipio project at Fresnillo plc. In coordination with Baluarte Minero, we applied a new High-Potential Management System to improve monitoring of safety indicators, reinforce critical controls and enhance safety performance.

US$ 693 M
invested in sustaining mining units and construction of Juanicipio.

Mining production

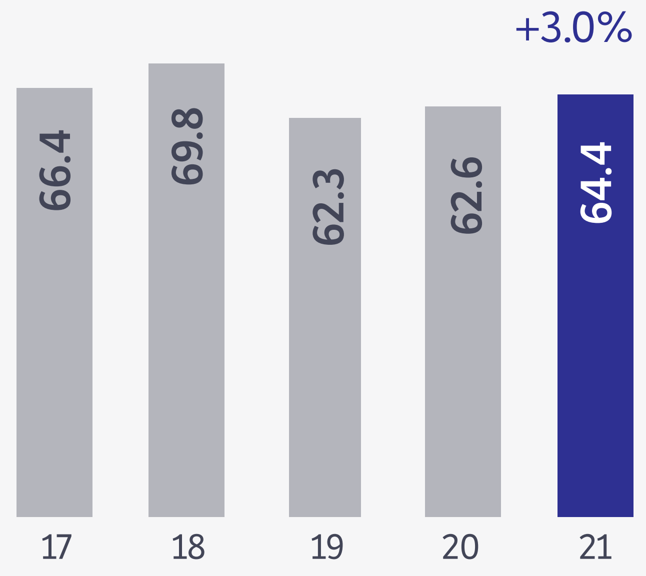
Gold
koz

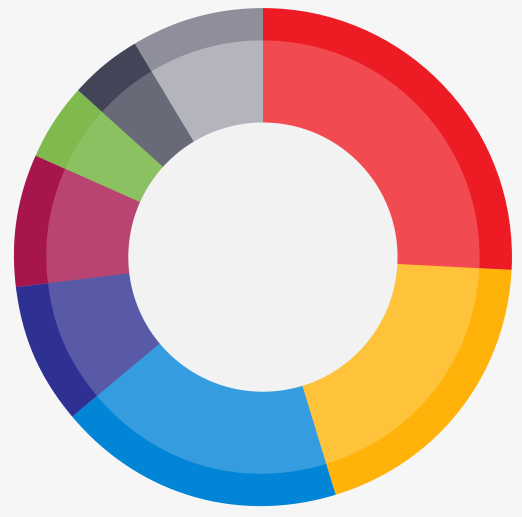




	%
Herradura	51.9
Noche Buena	11.9
Saucito	10.5
San Julián	6.7
Ciénega	6.0
Tizapa	4.9
Fresnillo	3.8
Others	4.3

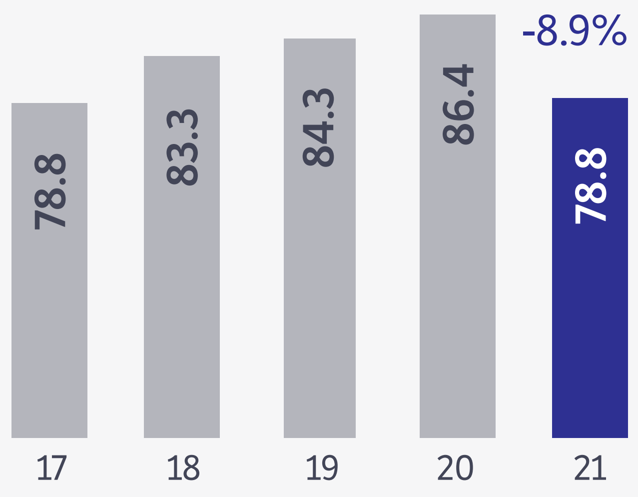
Silver
Moz

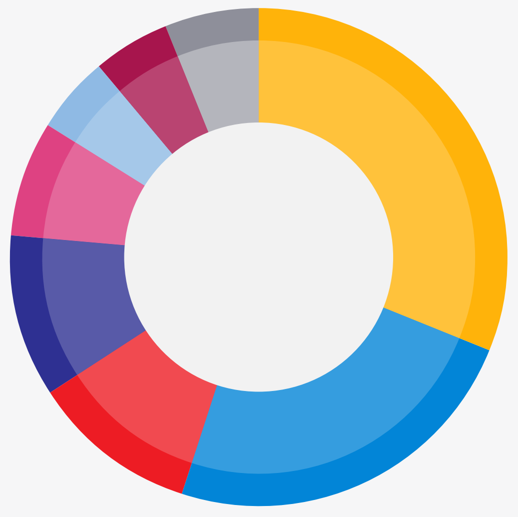




	%
San Julián	26.0
Saucito	19.3
Fresnillo	18.6
Tizapa	9.3
Ciénega	8.5
Juanicipio	5.0
Capela	4.9
Others	8.4

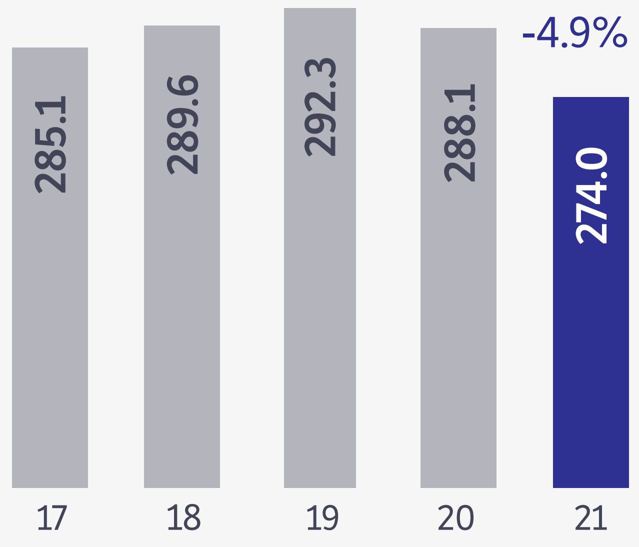
Lead
kt

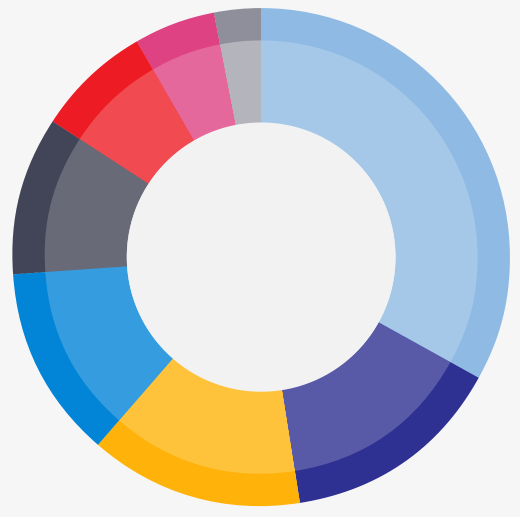




	%
Saucito	31.3
Fresnillo	23.9
San Julián	10.8
Tizapa	10.5
Sabinas	7.4
Velardeña	5.2
Ciénega	5.0
Others	5.9

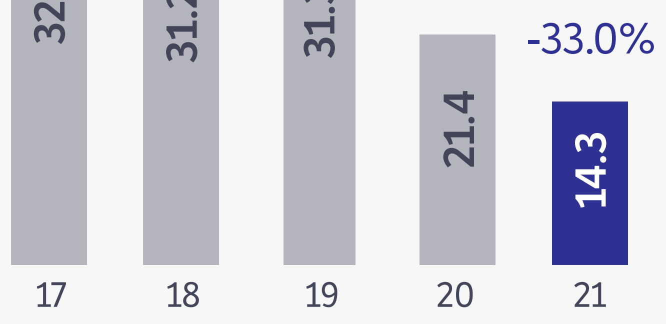
Zinc
kt

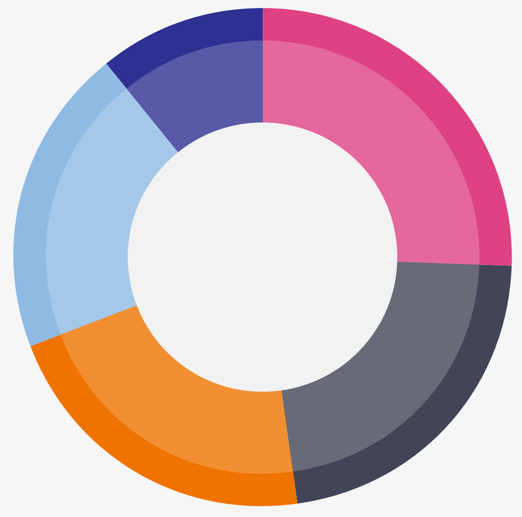




	%
Velardeña	33.1
Tizapa	14.6
Saucito	13.7
Fresnillo	12.6
Capela	10.4
San Julián	7.3
Sabinas	5.3
Others	3.0

Copper*
kt

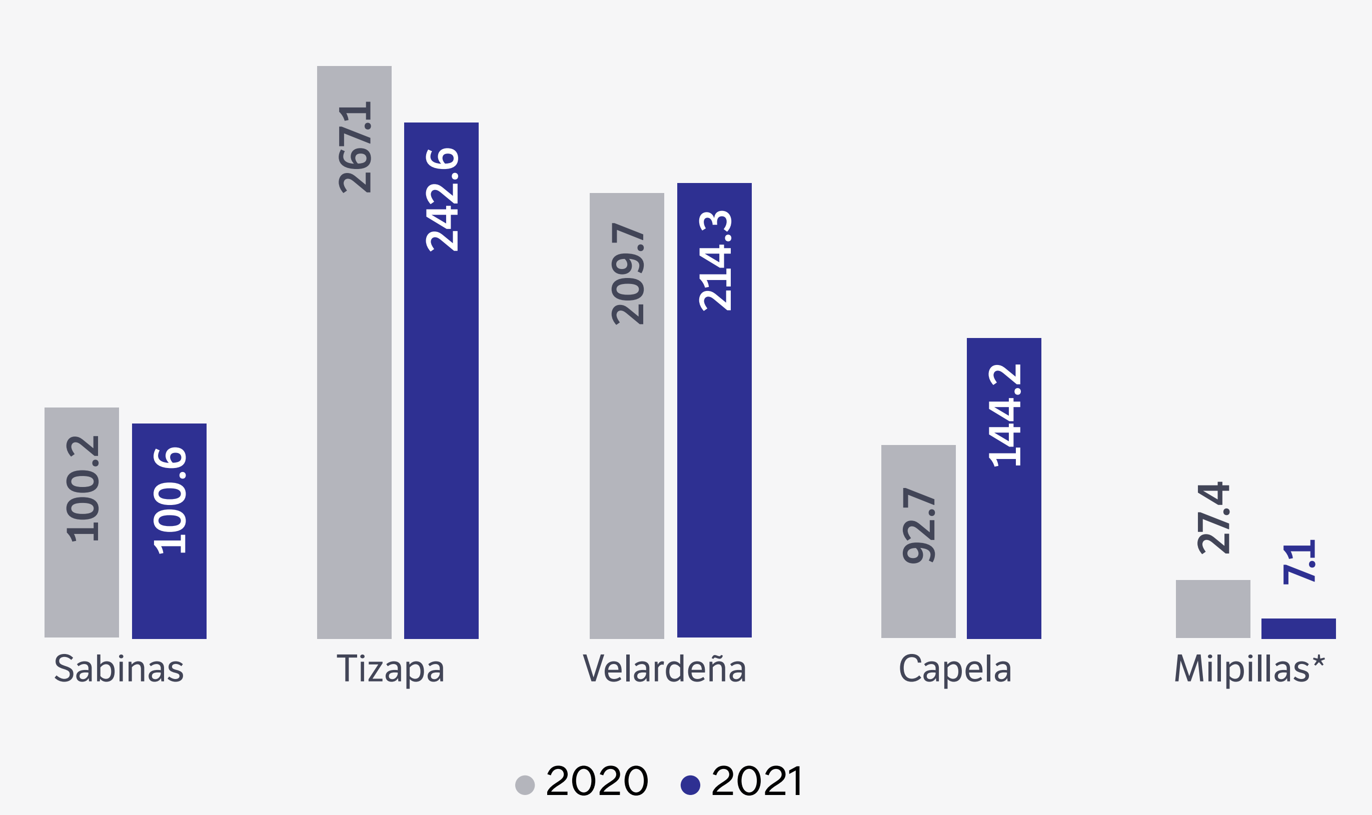




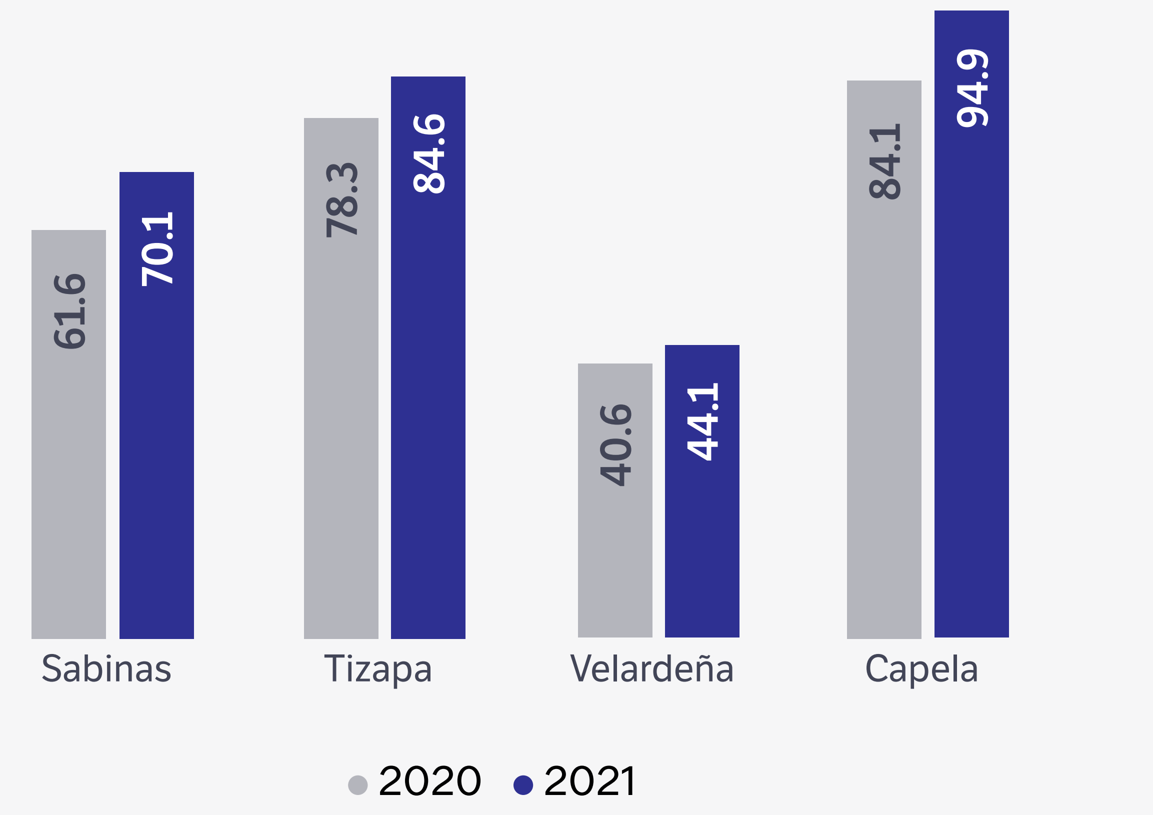
	%
Sabinas	25.6
Capela	22.4
Milpillas*	21.4
Velardeña	20.0
Tizapa	10.6

*Includes cathodic copper.

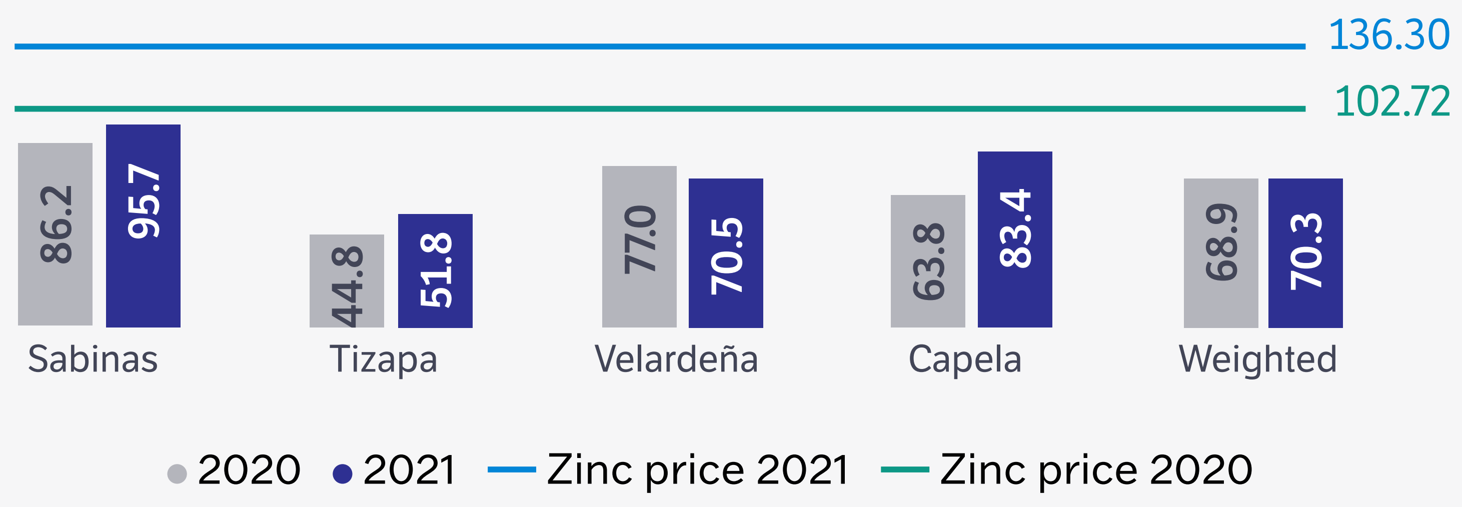
Pounds equivalent[1][2]
Mlb zinc and copper*



Unit costs
US$/t



C1 Cash cost (zinc)[3]
US¢/lbe



C1 Cash cost (copper)[3]
US¢/lbe

(1) *Pounds of zinc equivalent: total gross sales / average zinc price.*
(2) *Pounds of copper equivalent: total gross sales / average copper price.*
(3) *Cash cost = [Cost of goods sold (production cost - depreciation + - change in inventories) + sales expense (treatment charges, shipping and write-downs, extraordinary mining rights)] / pounds of zinc or copper equivalent.*

Production at Capela partially mitigated deficits at Bismark and Madero, whose activities were suspended in 2020.

Production and performance

Consolidated mining production (including 100% of payable production by Fresnillo plc) in 2021, and the change against the previous year, was as follows:

	2021	2020	% Chge.
Ore milled and deposited (Mt)	45.2	44.0	2.7
Gold (oz)	811,992	824,087	-1.5
Silver (koz)	64,441	62,551	3.0
Lead (t)	78,758	86,420	-8.9
Zinc (t)	274,049	288,072	-4.9
Copper (t)	11,281	8,969	25.8
Copper cathodes (t)	3,066	12,444	-75.4

Our operational mining units performed well during the year, as expected. In contrast to the year before, production was affected by a suspension of activities at Bismark (Chihuahua) in April of that year due to exhaustion of its reserves. Activities were also suspended indefinitely at Madero (Zacatecas), and extraction activities were halted at Milpillas (Sonora) due to a steep drop in zinc and copper prices, combined with high operating costs and low grades.

The volume of ore deposited was 29.3 million metric tons, 7.9% higher than in the previous year when pandemic-related operating restrictions were extended to open pit mines (Herradura and Noche Buena); this offset the lack of ore production out of Milpillas.

The volume of ore milled totaled 15.9 million metric tons, a 5.6% decline, due mainly to the suspension of operations at Bismark and Madero, which was mitigated partially by the volume produced in the first full year of activity at Capela.

Gold production—811,992 ounces—was slightly lower than in 2020 (1.5%) because of lower-than-expected head grade at Ciénega and lower grades and slower recovery at Herradura, as well as lower volume, grades and recovery at Fresnillo and San Julián. These effects were offset by production from Noche Buena—where the volume of better-grade ore deposits mitigated a slower recovery—higher volume and recovery at Capela and, to a lesser extent, the ore produced at Juanicipio, which continued to be processed at Fresnillo while its own beneficiation plant was under construction.

Silver production totaled 64.4 million ounces, a 3.0% increase, driven by higher-than-expected ore grade at San Julián and an increase in ore processing from Juanicipio. Capela and Sabinas also contributed with a higher volume of ore processed; and Sabinas also saw an improvement in ore grade. These operations offset lower production at Saucito and Fresnillo due to a lower volume of ore processed with lower grades, the suspension of operations at Bismark and Madero, and the slow recovery at Velardeña.

The production of lead in concentrates reached a total volume of 78,758 metric tons, 8.9% below the 2020 level, affected by the suspension of work at Madero and Bismark, the reduction in milling and lower grades at Saucito, Fresnillo and Ciénega and, to a lesser extent, lower grades at Tizapa and Velardeña. This was mitigated by production at Capela

Margins for the Mining Division improved in the year with rising metal prices and lower refining charges.

and Juanicipio, where processing volume was higher and, in the case of Juanicipio, grades were better. San Julián contributed with better grades and recovery, and Sabinas, with higher volume, grades and recovery.

Production of zinc content dropped by 4.9% to a total 274,049 metric tons, due to the shutdowns at Madero and Bismark, in addition to a lower volume processed with lower grades at Saucito and Ciénega, and lower recovery at the latter. These were partly offset by Capela and Velardeña—due to higher of ore milling and processing, better grades and recovery—, Juanicipio, because of higher volume and a better ore grade, and Tizapa and Sabinas, both of which processed more ore and improved recovery.

Copper output grew 25.8% to 11,281 metric tons, attributable largely to Capela, which processed a higher volume, with higher grades and recovery; followed by Tizapa, for the same reasons, and Sabinas, because of an increase in milled ore with better grades. These units offset the absence of production at Bismark and Madero. On the other hand, copper cathode volume was significantly lower due to the halt to extraction at the Milpillas mine, which continued production in the electrolysis plant from ore deposited in the leaching pads.

Margins for the Mining Division improved in the year with rising metal prices and lower refining charges in the metallurgical business than the year before, even though production costs were pushed higher by the stronger pace of operations and inflation in some inputs—particularly energy. Costs of a full year of operations at Capela, which started up in April 2020, were mitigated by the savings from the suspension of activities at Bismark and Madero, and extraction activities at Milpillas.

Under our new strategic plan we have set five-year goals for all the value drivers of our mining operations: volume of ore processed, ore grade, recovery and development of mining work, among others.

Mining unit highlights

VELARDEÑA

zinc

Ownership:	100% Peñoles
Operational:	Since 2013
Location:	Cuencamé, Durango
Operation type:	Underground
Production capacity:	Milling 2.3 Mt/yr.
Reserves (proven and probable):	16 years
Investment in 2021:	US$ 23.3 M

Production	2021	2020	% Chge.
Ore milled (kt)	2,758	2,688	2.6
Content			
Gold (oz)	6,088	4,743	28.4
Silver (koz)	776	813	-4.6
Lead (t)	4,119	4,450	-7.5
Zinc (t)	90,679	85,902	5.6
Copper (t)	2,871	3,042	-5.6
Ore grade			
Gold (g/t)	0.23	0.19	23.1
Silver (g/t)	14.71	14.59	0.8
Lead (%)	0.24	0.27	-13.2
Zinc (%)	3.69	3.66	0.9
Copper (%)	0.17	0.18	-6.3
Costs			
Cost per metric ton milled (US$/t)	44.1	40.6	8.5
Pounds equivalent sold (million)	214.3	209.7	2.2
Cash cost (US¢/lbe zinc)	70.5	77.0	-8.5

Velardeña increased production and processing of ore for the eighth year in a row, due primarily to optimization of the pace of milling (from 8,000 to 8,200 metric tons per day) and of maintenance programs, along with improvements in the expert flotation system. This, combined with higher ore grades and recovery, contributed to higher production of zinc and gold. Metallurgical recovery of zinc grew from 87.4% in 2020 to 89.1% in 2021. For the other elements, the higher volume processed was unable to offset lower grades of lead and copper, and lower recovery affected silver.

Gross sales totaled US$ 292.1 million, consisting 79% from zinc, 9% from copper, 6% from silver, and 3% from lead and gold.

We invested US$ 8.6 million in mine development and equipment to reach La Industria body, with probable reserves totaling 1.7 million metric tons and average grades of 235 g/t of silver, 0.90% zinc and 3.15% lead. Currently, exploration activities are under way through direct work on the structures, and a total of US$ 2.0 million was invested in infrastructure and mine and reserve preparation. With this, there were 2.7 million metric tons ready for extraction by the close of 2021, which represents a full year of operation at the current pace.

At tailings deposit 3, work was done to raise the borders in order to keep them functioning according to operating standards. Cutting-edge instrumentation allows us to continuously monitor the integrity of

the tailings storage facilities, and the recommendations of the panel of experts are now 90.5% in place.

Sales totaled 214.3 million pounds equivalent of zinc, slightly higher than in 2020, mainly due to higher zinc production and prices. This was accompanied by an 11.4% increase in production costs due to a higher volume of ore milled and processed, and because of the work of contractors needed on the tailings deposits to comply with the recommendations of an independent panel of experts. Adding to this were higher unit costs due to the increased distance between production areas, and the acquisition of high-cost components to maintain the facilities. Nevertheless, an increase in sales, together with a reduction in treatment charges for lead and zinc concentrates, offset the effect of higher production costs, so that cash cost at Velardeña was 8.4% lower than the previous year. The unit cost per metric ton milled and processed increased by 8.5%.

In terms of safety, High-Potential Management indicators improved as follows: The total recordable injury frequency rate (TRIFR) came down from 6.68 to 4.24 and the lost time injury frequency rate (LTIFR) from 1.67 to 1.54. We began applying tools for verifying critical controls at this unit, according to the new methodology.

Record volume of ore processing for the eighth year in a row.

SABINAS

Polymetallic: zinc-lead-silver-copper

Ownership:	100% Peñoles
Operational:	Under Peñoles control since 1995
Location:	Sombrerete, Zacatecas
Operation type:	Underground
Production capacity:	Milling 1.3 Mt/yr.
Reserves (proven and probable):	14 years
Investment in 2021:	US$ 14.7 M

Production	2021	2020	% Chge.
Ore milled (kt)	1,285	1,243	3.4
Content			
Silver (koz)	3,134	2,780	12.7
Lead (t)	5,802	5,187	11.9
Zinc (t)	14,452	14,135	2.2
Copper (t)	3,676	3,415	7.6
Ore grade			
Silver (g/t)	86.29	77.29	11.6
Lead (%)	0.71	0.67	6.5
Zinc (%)	1.53	1.59	-3.5
Copper (%)	0.43	0.40	8.2
Costs			
Cost per metric ton milled (US$/t)	70.1	61.6	13.8
Pounds equivalent sold (million)	100.6	100.2	0.4
Cash cost (US¢/lbe zinc)	95.7	86.2	11.1

Higher milling, together with better ore grades, boosted production of metallic contents at Sabinas. Grade was slightly lower only for zinc, but this was offset by an increase in recovery from 71.6% to 73.4%. Silver grade rose due to the extraction from richer stopes.

Improvements were made to the lead-copper separation process at Plant 1, and at Plant 2 with sequential flotation. With these efforts, lead recovery improved from 62.4% to 63.4%. Similarly, silver content in lead concentrates increased from 2,041 g/t to 2,295 g/t, zinc content in concentrates rose from 46.8% to 48.6%, and silver content increased from 207 to 218 g/t.

A five-year strategic plan was developed for Sabinas with the aim of improving profitability by enhancing three value drivers: (i) silver grade, (ii) silver and copper recovery, and (iii) extraction and milling volume. These goals will be achieved through investment, continuous improvement and technology projects that will comprise the annual operating plans. To this end, US$ 13.9 million were invested last year, US$ 1.1 million of which went to installation of a vertical grind mill to improve recoveries of silver, lead and zinc at Plant 1. Investment in mining work totaled US$ 2.9 million, to develop infrastructure and deepening work to guarantee preparation of the ore bodies and meet annual production budgets. Also, to maintain productivity in the mining process, US$ 3.17 million went toward replacing and rebuilding heavy mobile equipment.

Gross sales totaled US$ 137.1 million, 44% of which came from silver, 26% from zinc, 22% from copper and the remaining 8%, from lead.

In pounds equivalent of zinc, sales were up by a modest 0.4%, to 100.4 million. Production costs rose, chiefly in the area of contractors due to increased infill drilling, mineral haulage and development works, which required more operating materials, as well as work carried out on the tailings storage facilities to comply with new operating standards. As a result, both the cost per metric ton milled and cash cost rose by 13.8% and 11.1%, respectively.

In terms of safety, the facility reported a reduction in High-Potential Management indicators: the TRIFR went from 17.60 to 15.90, and the LTIFR from 5.42 to 3.98 from 2020 to 2021. Five key critical risks were identified at Sabinas, along with their respective controls, according to the new methodology.

ISO 14001:2015 certification extended for **three years.**

TIZAPA

Polymetallic: zinc-lead-copper-silver-gold

Ownership:	51% Peñoles, 39% Dowa Mining and 10% Sumitomo Corporation
Operational:	Since 1994
Location:	Zacazonapan, State of Mexico
Type of operation:	Underground
Production capacity:	Milling 950 kt/yr.
Reserves (proven and probable):	9 years
Investment in 2021:	US$ 14.7 M

Production	2021	2020	% Chge.
Ore milled (kt)	984	938	4.8
Content			
Gold(oz)	39,751	38,875	2.3
Silver (koz)	5,991	5,973	0.3
Lead (t)	8,299	8,462	-1.9
Zinc (t)	40,129	38,305	4.8
Copper(t)	1,526	808	88.7
Ore grade			
Gold (g/t)	1.47	1.54	-4.3
Silver (g/t)	205.17	215.48	-4.8
Lead (%)	1.17	1.24	-5.9
Zinc (%)	5.03	5.07	-0.8
Copper (%)	0.34	0.30	15.0
Costs			
Cost per metric ton milled (US$/t)	84.6	78.3	8.0
Pounds equivalent sold (M)	242.6	267.1	-9.1
Cash cost (US¢/lbe zinc)	51.8	44.8	15.6

This unit milled and processed 4.8% more ore by volume than in 2020, with a higher production of metallic contents, except for lead due to lower grade and recovery. The lower grade of gold was offset by a better copper-lead grade ratio, together with application of an alternative reagent that helped control the presence of lead in the copper circuit and improve recovery. Copper recovery saw an outstanding improvement from 28.6% to 45.4%.

Gross sales in the year totaled US$ 330.7 million, 41% of which were silver, 32% zinc, 18% gold, 5% lead and the remaining 4%, copper.

The installation and startup of a vertical regrind mill was completed in the second half of the year. This new equipment should improve recovery and quality of zinc concentrates. Operating adjustments were made to optimize the benefits of this US$ 751,000 investment, with zinc recovery rising from 80.6% to 81.1%. We also invested US$ 2.8 million in the purchase and reconstruction of heavy mobile equipment to maintain operating productivity.

In mine preparation, the goal was to maintain a minimum of one year of ore ready for extraction. At the close of the year the mine reported 1.75 million metric tons prepared, equivalent to 1.8 years of extraction.

Tizapa sold a total 242.6 pounds of zinc equivalent, 9.1% less than the previous year, due primarily to the higher price of zinc, which meant that the content of other metals

represented fewer pounds equivalent of zinc. Production costs rose as well, primarily in the areas of contractors, maintenance and repairs. Contractors costs were higher due to the works on tailings storage facilities to comply with the new standards and maintain operating continuity, longer hauling distances and robbins raise development; maintenance costs because we deployed a major repair program to replace critical components for operations, to ensure on-site spare parts and electrical maintenance. Therefore, the cost per ton milled and cash cost were 8.0% and 15.6% higher, respectively, than those recorded in 2020.

Regarding safety performance, during the last quarter of the year we began the deployment of a new methodology to improve high-potential accident indicators and take actions to mitigate critical risks aimed at reducing accidents. The TRIFR was 24.36 in 2021, compared to 21.35 in 2020, while the LTIFR went from 7.29 to 6.46.

Recertified for **ISO 14001:2015** in January.

CAPELA

Polymetallic: zinc-lead-silver-copper

Ownership:	100% Peñoles
Operational:	Since 2020
Location:	Teloloapan, Guerrero
Operation type:	Underground
Production capacity:	Milling 1.48 Mt/yr.
Reserves (proven and probable):	17 years
Investment in 2021:	US$ 19.0 M

Production	2021	2020	% Chge.
Ore milled (kt)	1,386	933	48.5
Content			
Gold (oz)	19,441	12,178	59.6
Silver (koz)	3,173	2,127	49.2
Lead (t)	3,438	2,335	47.3
Zinc (t)	28,578	16,412	74.1
Copper (t)	3,208	1,175	173.0
Ore grade			
Gold (g/t)	1.00	1.00	-0.3
Silver (g/t)	99.29	98.87	0.4
Lead (%)	0.61	0.60	2.0
Zinc (%)	2.78	2.59	7.5
Copper (%)	0.54	0.48	13.8
Costs			
Cost per metric ton milled (US$/t)	94.9	84.1	12.9
Pounds equivalent sold (million)	144.2	92.7	55.6
Cash cost (US¢/lbe zinc)	83.4	63.8	30.8

Following its startup in April 2020, activities at the Capela mining unit focused on stabilizing operating processes at the mine and plant. A number of challenges arose, including delays in the infill work inside the mine and in haulage work—due to lower availability of equipment and personnel, and unscheduled interruptions in the processing plant because of adjustments to the mills and a lack of water in the crushing phase. In the beneficiation process, metallurgical research and industrial testing continued, with the priority of improving the performance of separation in the lead-copper circuit. Multi-disciplinary teams were formed and made progress in solving problems to stabilize operations and achieve the expected production.

Although the stabilization process continues, Capela's overall performance improved in its first full year of operations, with substantial increases in both the volume of ore milled and in the production of contents: this was supported by higher ore grades, except for gold. Recovery rates improved for zinc, from 67.9% to 74.1%; for gold from 40.5% to 43.6%; and most notably for copper, from 26.4% to 42.6%. Silver recovery remained at 71.7%, while lead recovery dropped slightly from 41.6% to 40.5%. The grade of zinc in concentrates also improved from 53.0% to 53.8%.

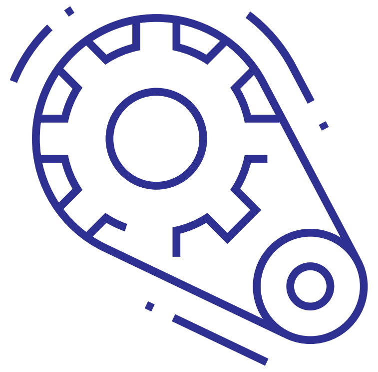
The main investments at Capela were targeted at developing ventilation infrastructure, infill work and electric power to prepare the stopes and diamond drilling stations, which will increase the certainty of the geological models.

The volume of metric tons prepared in 2021 increased by 29% over the previous year, to reach 1.48 million metric tons, equivalent to a full year of production.

Implementation of recommendations to bolster governance of the tailings storage facilities is 72% complete, and the project to develop a new deposit is under way.

Gross sales totaled US$ 196.6 million, from zinc (37%), silver (33%), copper (15%), gold (11%) and lead (4%). Converted to zinc equivalent pounds, sales increased to 144.2 million (+55.6%). Production costs also rose, because of the more intense pace of operation and stabilization efforts that impacted the cost of operating materials, human capital (a larger workforce), the engagement of various contractors, and maintenance and spare parts for mobile and stationary equipment. This resulted in an increased cost per metric ton of ore milled by 12.9%, while the cash cost increased 30.8% due to higher production cost, partly offset by an increase in pounds equivalent sold.

As in the other mining units, the new High-Potential Management System was introduced at Capela to improve safety performance. At the close of the year, safety indicators showed an improvement over 2020: the TRIFR from 30.17 to 20.51 and the LTIFR from 4.19 to 3.80 Intensive work was carried out on the implementation of critical control verification tools.



Work was carried out on stabilizing operational processes to reach the installed capacity and achieve expected production.

MILPILLAS

Copper cathodes

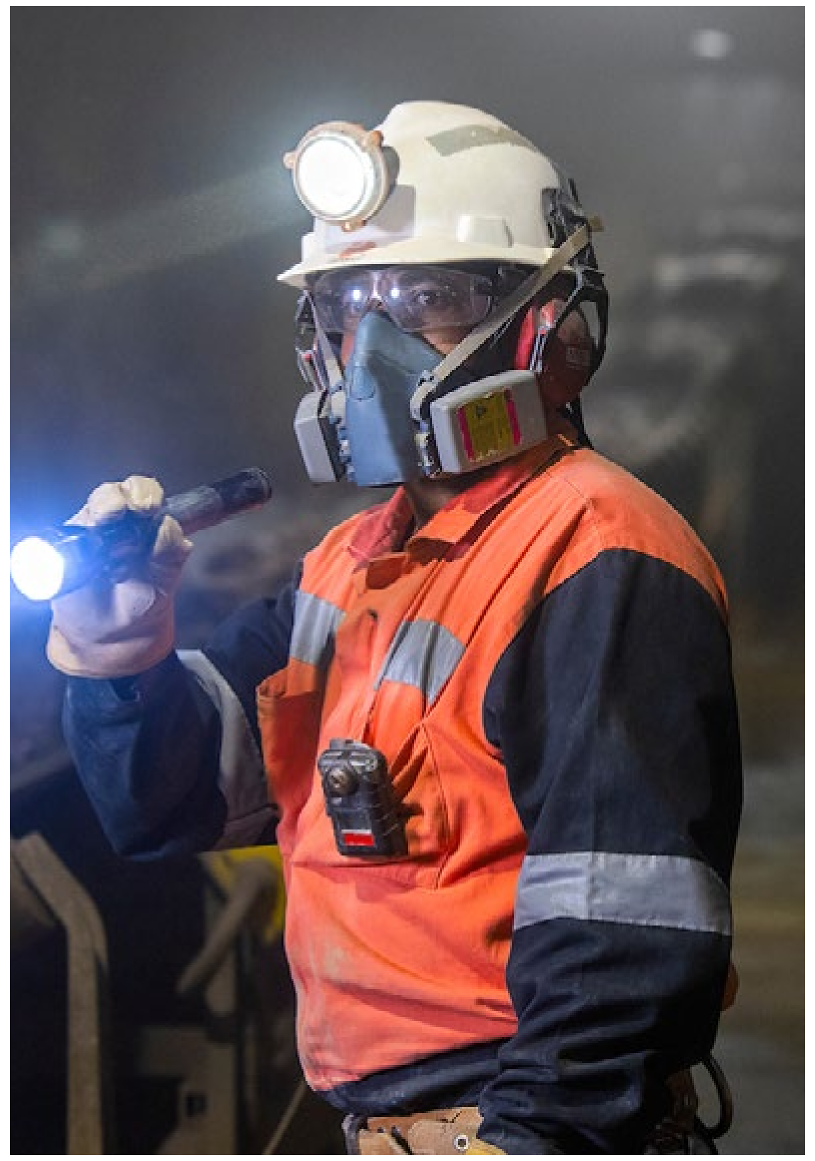
Ownership:	100% Peñoles
Operational:	From 2006 to 2020
Location:	Santa Cruz, Sonora
Operation type:	Underground
Production capacity:	45 kt cathodic copper/yr.
Reserves (proven and probable):	2 years
Investment in 2021:	US$ 0.2 M

Production	2021	2020	% Chge.
Deposited ore (kt)	-	694	n.a.
Copper cathodes (t)	3,066	12,444	-75.4
Ore grade			
Copper (%)	-	0.79	n.a.
Costs			
Cost per metric ton milled (US$/t)	-	80.4	n.a.
Pounds equivalent sold (million)	7.1	27.4	-74.2
Cash cost (US¢/lbe zinc)	259.8	282.2	-7.9

As we have previously reported, in April 2020 ore extraction and crushing operations at Milpillas were suspended indefinitely, due to the steep drop in copper prices, high operating costs and low ore grades. Irrigation activity has continued in the leaching pads, however, to recover copper values from ore deposited and at the electrolytic plant to produce copper cathode out of the resulting rich solution, as well as to mitigate the risk of environmental impact. As an optimization strategy, this year we carried out maneuvers to mix the deposited ore to maximize recovery and produce more cathode.

Due to the rebound in copper prices, toward the end of the year we began analyzing the feasibility of resuming extraction work to produce copper cathodes from the prepared reserves.

On the matter of safety, indicators on the High-Potential Management System showed a reduction between the close of 2020 and the end of 2021. The TRIFR went from 7.10 to 3.30 and the LTIFR from 3.80 to 0, bearing in mind that only the electrolytic plant was operating after suspension of mining activities.



The mixing of ore deposited in the leaching pads helped to increase copper recovery from inventory and cathodes production.

Value creation projects

In line with our philosophy of teamwork and the priority of improving key administrative processes to ensure correct documentation and definition of indicators, 40 value creation projects were incorporated into mines operated by Peñoles in 2021 using the Six Sigma methodology. Particularly important among these because of their economic benefit, with the participation of 100% of non-unionized personnel, were:

Velardeña
(US$ 4.3 M)

Safety, labor modernity, efficiency and cost, planning efficiency, intelligent mine, rock mechanics, development of La Industria and milling.

Sabinas
(US$ 4.0 M)

Efficiency and cost, safety culture, development of a silver master plan, long-hole drilling, availability of diesel equipment, meeting content targets, availability of surface equipment, lead-copper separation, tailings storage facilities, lead recovery.

Tizapa
(US$ 2.4 M)

Health safety and labor coaching, efficiency and cost, environmental excellence, mine infrastructure, intelligent mine, availability of diesel equipment, mine productivity, budget compliance.

Capela
(US$ 0.5 M)

Safety culture, labor modernity, social engagement, optimization of water resources, rock mechanics, operational maintenance, control of grades, management of indicators, operating excellence and metallurgical recovery.

Milpillas
(US$ 1.0 M)

Safety culture and cathode production.

We improved process quality incorporating 40 projects based on the Six Sigma methodology.

With intelligent mining we promote the automation and optimization of operational processes in mining units.

Intelligent Mine vision

In 2021, we reiterated our commitment to expanding, optimizing and automating processes, which is the basis for our Intelligent Mine vision. The main actions this past year were:

Automatic dosing of reagents: We began the process of incorporating a dedicated, autonomous dosing system to control dosing of xanthate and copper sulfate ($CuSO_4$) reagents at four control points in the flotation plant of Tizapa. As the results were satisfactory, the process will be extended to the rest of the mining units next year.

Optimization of explosives consumption and safety of blasting personnel: XControl software was installed in all units with the aim of optimizing performance of the explosive consumption and further ensuring compliance with the guidelines of the Ministry of National Defense. We also began a remote blasting system at the Tizapa, Capela, Velardeña and Sabinas mines.

Mine information management: We began the connection and interaction of operational monitoring systems for low-profile, scoop and jumbo trucks (Epiuroc and Sandvik brands) at the Tizapa, Velardeña and Capela units. With this, through the Center for Safe Operations, we were able to observe the performance of key vehicle operation and maintenance variables, increasing their efficiency and availability, and continuing the direct integration of information to the Mine Information Management System and MAXIMO, both to permit operating management of mine processes and for maintenance purposes.

Vehicle safety: Sleep and fatigue sensors were installed as well as location sensors on the vehicles for real-time monitoring of personnel transport operators at the Sabinas unit, and low-profile trucks at Velardeña, to improve safety. We also conducted tests of the new system to prevent accidents involving vehicles and persons on foot, taking advantage of the technological base and the same components of the location system.

Operational Management System: At Capela and Velardeña the first version of this system was completed, and will continue next year at Tizapa and Sabinas, offering real time view of processes and equipment operation from the web platform, so that they can be measured against goals and budgets.

Telecommunications and electrical infrastructure: We continued to expand our electrical and telecommunications infrastructure to cover operations at the Capela mine with fiber optics and Wi-Fi, enabling remote operation capacities for some equipment, soon to include long-hole drill equipment. This project was successfully implemented at Velardeña in the work areas toward La Industria deposit, with full coverage of fiber optics and Wi-Fi.

We continued actions to improve tailings governance. Organizational structure was reinforced to manage deposits and we made progress on implementing the recommendations of the independent panel of experts.

Tailings storage facilities

To operate in line with best national and international practices, in 2019 we began a new process of managing tailings storage facilities for Peñoles and Fresnillo mines, based on benchmark standards and guidelines from the International Commission on Large Dams (ICOLD), the Canadian Dam Association (CDA), the Mining Association of Canada (MAC) and the International Council on Mining and Metals (ICMM). This past year, along with Baluarte Minero, we raised the organizational governance of tailings deposits by creating the Under Department of Infrastructure, Permits and Controls, which reports to the Deputy Chief Officer for Technical Services at Baluarte Minero. Made up of a corporate tailings manager's office, seven regional tailings managers, seven tailings superintendents, a tailings specialist and a critical control engineer, this new structure seeks to achieve the company's leadership at the local and international level by adopting the best practices in the field.

Also, an independent panel of experts conducted virtual tours to operating sites—in some cases in real time—supported by various technological instruments. We created a work plan for each unit based on their recommendations, in order to address our areas of opportunity.

The work carried out at the tailings storage facilities of our mining units included the following:

- Geotechnical research, specialized studies and update of the geotechnical model of each structure.
- Safety review of each structure through Dam Safety Review (DSR) and Dam Safety Inspection (DSI) tools.
- Application of the MAC's Guide to the Management of Tailings Facilities, primarily the preparation of an Operating, Maintenance and Inspection Manual and a Plan for Emergency Preparedness and Response, which incorporate current procedures and standards.

Other outstanding actions in this area were intense tailings construction and management work that enabled us to create safe facilities for tailings storage at the Sabinas and Velardeña units.

At the Tailings and Mine Waste 2021 congress in Banff, Canada, a document entitled "Developing an observation approach for a TSF raise (Velardeña, México)" was presented, explaining the good practices used in design and construction of the tailings facilities at Velardeña. t was the first time that the group's tailings deposit work was used as a good example in an international forum.

Finally, we applied for and obtained the environmental permits needed to regularize changes in the design of various tailings storage facilities currently in operation, to ensure the continuity of our business units.

Safe tailings management is essential in the life cycle of our mining operations and post-closure phase.

Weighted life of mining units is 12 and 38 years of reserves and resources, respectively.

Reserves

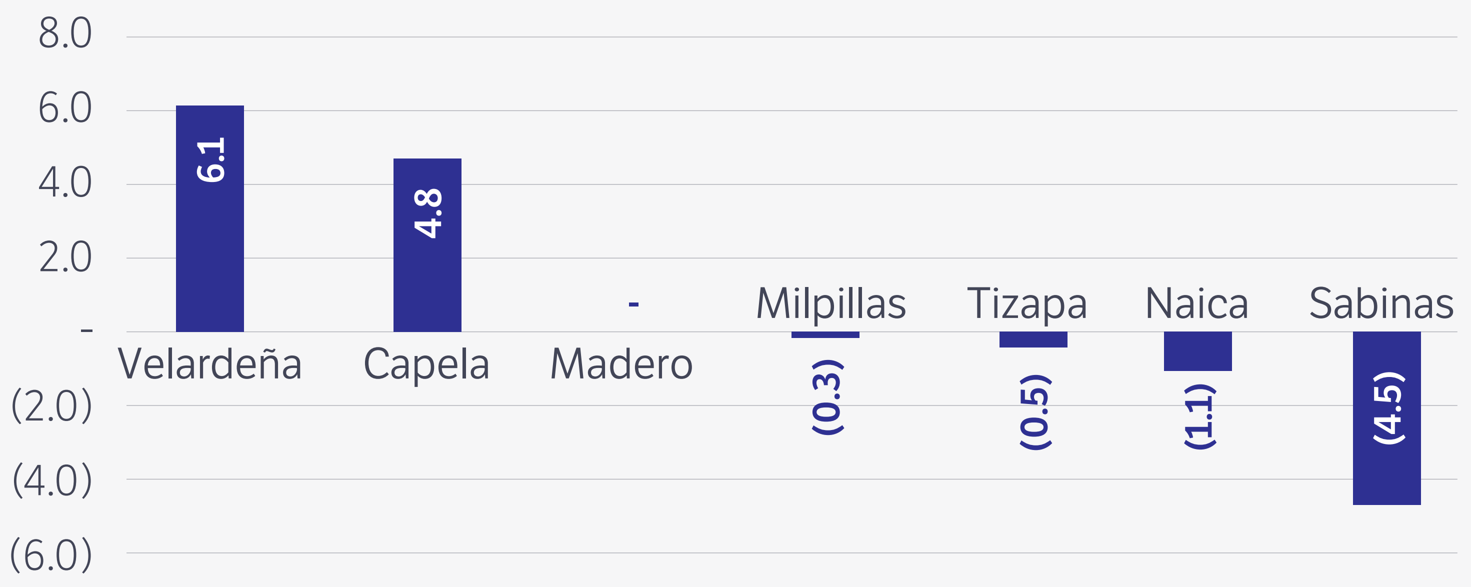
In 2021 we carried out 86,090 meters of diamond drilling at Peñoles-operated mines, with the objective of providing certainty to the proven reserve blocks and generating new mineral resources to ensure operational continuity.

A calculation of reserves of the mining units was conducted in January 2021 to support budget and operating plans for the year. To enhance the certainty of these estimates, mineral reserves and resources were calculated according to the International Code of the Joint Ore Reserves Committee (JORC 2012 version) using MRO software, which optimizes and offers greater precision in locating economic blocks of minable reserves. These calculation processes were audited both by an independent consultant and by the internal audit area. A program was put together to apply recommendations on improvements to our exploration processes, in keeping with International Mineral Resources and Reserves Classification Codes.

The calculation applied Peñoles' long term price projections, which showed the following changes compared to those used for the 2020 projections: gold US$ 1,475/ounce (+18.0%), silver US$ 18.50/ounce (+8.8%), lead US¢ 90.00/pound (-5.3%); zinc US$ 1.10/pound and copper US$ 3.10/pound, the last two without change. Estimated resources and reserves were equivalent to 33 and 11 years of mine life, respectively, at a projected production rate of five years—compared to 33 and 14 that were calculated in the 2020 assessment. Excluding the Bismark, Madero and Milpillas units, weighted life of mines is 12 years of reserves and 38 years of resources.

Compared to the previous year, there was an increase of 4.4 million metric tons of ore reserves. The following graph shows the change for each of the mining units.

Change in reserves per mine
(Mt)



The main reason for the change in reserves was the increase in precious metal quotations over 2020 and good results from the diamond drilling work, which was affected by higher than projected production costs. At Sabinas and Tizapa, the cut-off grade increased while at Velardeña it was slightly lower.

Metal contents and the change in Peñoles' proven and probable reserves, including Fresnillo plc but excluding Bismark due to the close of its operations, were as follows:

Consolidated reserves*	2021	2020	% Chge.
Gold (koz)	9,277	9,757	-4.9
Silver (koz)	664,099	716,382	-7.3
Lead (kt)	1,614	1,755	-8.1
Zinc (kt)	5,786	5,694	1.6
Copper (kt)	398	366	8.8

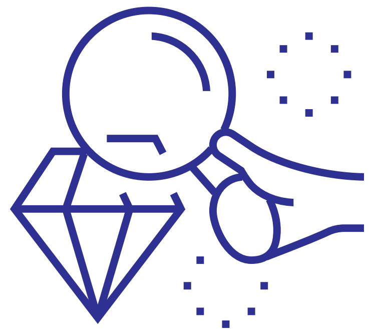
** Includes 56% of attributable reserves of the Juanicipio mine. Does not include reserves at Bismark.*

The calculation assumptions, tonnage and ore grade in the reserves are shown on page 48 of this report.

Fresnillo plc

Production	2021	2020	% Chge.
Ore milled and deposited (kt)[1]	38,675	36,559	5.8
Content			
Gold (oz)	751,203	769,618	-2.4
Silver (koz)	49,961	50,270	-0.6
Silver (koz) Silverstream[2]	3,134	2,780	12.7
Lead (t)	56,573	63,242	-10.5
Zinc (t)	99,397	106,793	-6.9

(1) Does not include the development ore from Juanicipio.
(2) Under the Silverstream contract, Fresnillo plc has the right to receive the revenues (before treatment and refinery charges) less US$ 5.0 per ounce (plus inflation since 2013) from the payable silver produced by Sabinas.



Gold production, although slightly lower, was above our expectations. Silver had a marginal variation.

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

The volume of ore deposited by Herradura and Noche Buena increased 10.7% over 2020, a year in which sanitary restrictions due to the pandemic limited work at open pit mines. There was also a non-hazardous land slide on one of the walls of the pit at Noche Buena during that year, which affected the mining sequence.

Ore milled by the underground operations, in contrast, declined by 7.1%, primarily at Saucito, due to stability problems resulting from an intensification of seismic activity in the Jarillas vein, which limited access to higher-grade areas, and at Fresnillo, due to delays in access works to areas in the eastern zone, a temporary failure of ventilation systems and the increased presence of water in the San Alberto area. In addition, there were the temporary effects of power outages, the labor reform and absenteeism due to covid-19 in the last quarter.

Annual gold production was 2.4% lower than in 2020, primarily due to lower ore grade at Ciénega, and lower grade and processed ore volume at San Julián veins. This was partially mitigated by higher processed ore volume and higher grade at Noche Buena, while at Herradura gold production was similar due to slower recovery in the leaching pads and lower grade, which was offset by a higher volume of ore processed.

Silver production, excluding the Silverstream contract, saw a marginal change (-0.6%) because the lower volume of ore processed with lower grades at Saucito and Fresnillo were offset by higher-than-expected grade in the San Julián disseminated body, and, to a lesser extent, by the processing of development ore from Juanicipio, which has been processed at Fresnillo's concentrating plant since the year before.

Regarding base metals—which are byproducts for Fresnillo plc—the annual volume of lead was 10.5% lower than in 2020 due to a reduction in processed ore and lower ore grades at Saucito and Fresnillo, along with lower recovery at Fresnillo. Lower grade and recovery at Ciénega were offset in part by production from San Julián (disseminated body) because of better grades and recovery. Zinc production dropped by 6.9%, primarily due to lower volume processed with lower grades at Saucito and Ciénega, along with lower recovery at Ciénega. Juanicipio offset some of these effects, with higher processed volume with better ore grade.

As we reported at the time, in late 2020 we completed construction of the Pyrites II project—a flotation plant at Fresnillo with processing capacity of 14,000 metric tons per day to recover gold and silver from old and new tailings— to complement the Pyrites I plant at Saucito. Together these operations will increase annual production by 3.5 million ounces of silver and 13,000 ounces of gold. By the close of 2021, however, Pyrites II had not yet begun operations, due to certain additional technical requirements by the authorities, which delayed energy permits. We are working to resolve these requirements to complete the connection with the national power grid and startup of the plant, which we estimate to happen in the first half of 2022.

Finally, construction of the Juanicipio project in Zacatecas (a 56-44% joint venture between Fresnillo plc and Mag Silver Corp) was satisfactorily completed within budget in the last quarter of the year. The new mining unit will produce an average of 11.7 million ounces of silver and 43,500 ounces of gold. Plant startup was postponed for about six months, however, because the CFE had not issued its approval for connection to the national power network by the close of 2021. The delay is directly related to the effects of the pandemic on the CFE, particularly a lack of personnel, which limited its ability to perform three activities: reviewing existing facilities, supervising the physical connection to the electrical grid, and approving devices to prevent power interruptions. As project operator, Fresnillo plc will continue working closely with the CFE and the National Energy Control Center to expedite the necessary approvals.

Although there is still uncertainty as to when the Juanicipio project could be connected to the power grid, the current estimate —subject to changes that may occur due to covid-19— is that the plant will be commissioned after the first week of May 2022. In the meantime, mine development activities and stope preparation will continue. To minimize any potential adverse effects, unused installed capacity at the Fresnillo and Saucito beneficiation plants will be used to process the mineralized material mined at Juanicipio to produce gold and silver in concentrate during this period.

Construction of the gold-silver Juanicipio project was satisfactorily completed within budget.

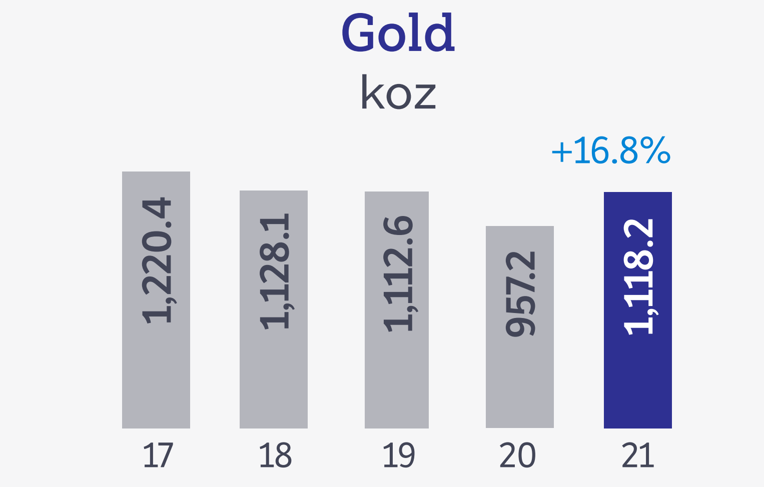
Mining operations: production and reserves

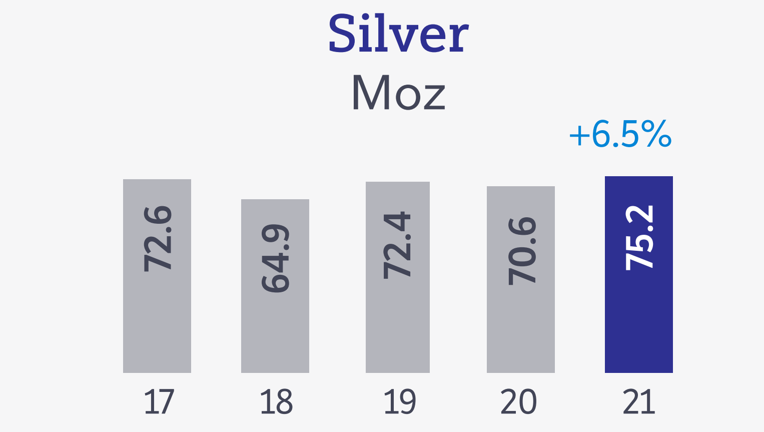
Mine	Participation %	Ore processed (kt) 2021	Ore processed (kt) 2020	Total reserves(kt) 2021	Total reserves(kt) 2020	Average ore grades in reserves				
PRECIOUS METALS						Gold	Silver	Lead	Zinc	
Underground						(g/t)	(g/t)	%	%	
Minera Fresnillo[1][2]	75	**2,216**	2,337	**13,224**	15,401	0.72	234.12	1.17	3.41	
Ciénega[1][2]	75	**1,282**	1,318	**5,402**	4,523	1.90	199.25	0.83	1.22	
Saucito[1][2]	75	**2,434**	2,767	**17,721**	14,323	1.03	219.22	1.12	1.96	
San Julián Veins[1][2]	75	**1,203**	1,255	**5,310**	3,489	1.72	243.75			
San Julián Disseminated[1][2]	75	**2,071**	2,230	**6,338**	7,953	0.09	161.75	0.47	1.16	
Juanicipio[1][2][3]	42	**252**	72	**9,089**	8,869	1.53	295.00	2.36	4.18	
Open pit										
Herradura[1][2]	75	**20,312**	19,797	**240,601**	250,578	0.73				
Noche Buena[1][2]	75	**8,997**	6,683	**13,727**	20,054	0.49				
BASE METALS						Gold	Silver	Lead	Zinc	Copper
Underground						(g/t)	(g/t)	%	%	%
Velardeña [4][5]	100	**2,758**	2,688	**42,777**	36,682	0.09	18.26	0.29	3.92	0.19
Sabinas [4][5]	100	**1,285**	1,243	**18,123**	22,658		90.18	1.08	1.70	0.30
Tizapa [4][5]	51	**984**	938	**8,320**	8,840	1.31	197.42	1.21	4.83	0.25
Capela [4][5]	100	**1,386**	933	**25,284**	20,511	1.18	98.56	0.65	2.84	0.78
Madero [4][5][6]	100		664	**14,940**	14,981		22.16	0.92	2.41	0.07
Milpillas [4][5][6]	100		694	**4,007**	4,299					0.81
Naica [4][5][6]	100			**8,679**	9,791	0.01	82.56	2.88	11.54	0.04

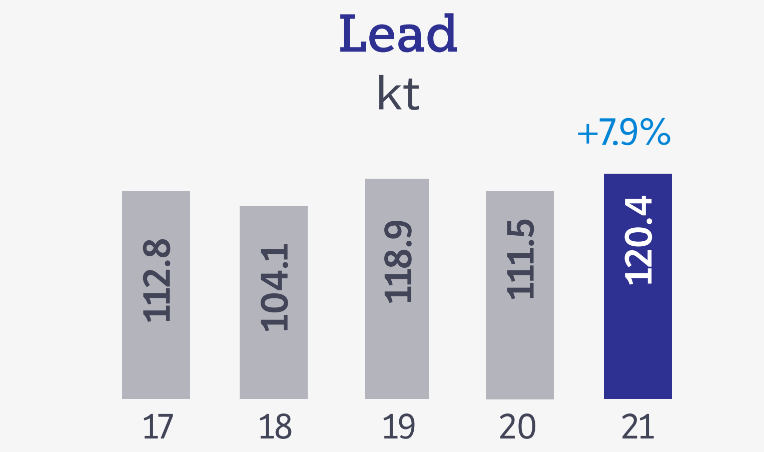
(1) *As of May 31, 2021; proven and probable reserves in thousands of metric tons, on a 100% basis. Audited figures.*
(2) *Metal price assumptions considered for the calculation of metal equivalent grades are: gold US$/oz 1,450.00, silver US$/oz 18.50, lead US¢/lb 90 and zinc US$/lb 1.20.*
(3) *Mining unit under construction. Total reserves (kt) calculated on a 56% basis.*
(4) *As of January 31, 2021; proven and probable reserves in thousands of metric tons, on a 100% basis.*
(5) *Determination of 2021 reserves is based on the following metal prices: Gold US$/ oz 1,475.00, Silver US$/oz 18.50, Lead US¢/lb.90, Zinc US$/lb 1.10 and Copper US$/lb 3.10.*
(6) *Operations at these mining units are suspended.*

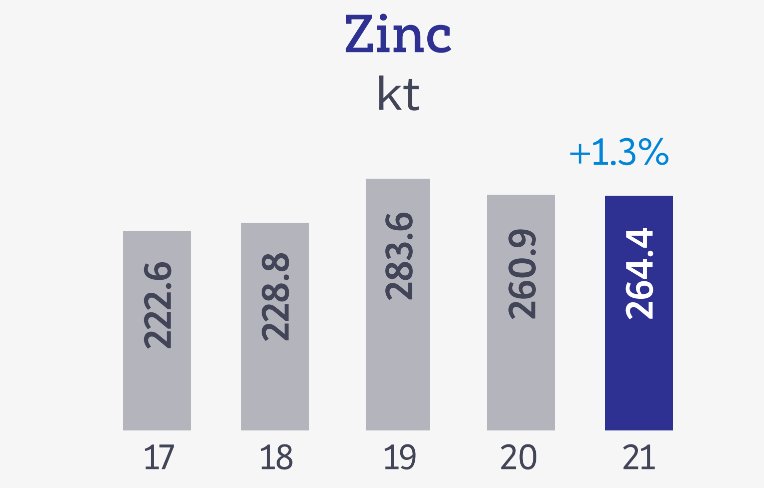
Metals

We focused our efforts on normalizing zinc plant operations with stricter control processes, personnel training and asset management.









Our metallurgical operations process complex concentrates and other materials from our own mines, from those of our subsidiaries and from outside shippers, to produce refined metals with high quality and purity, special alloys and other products useful for industry and society.

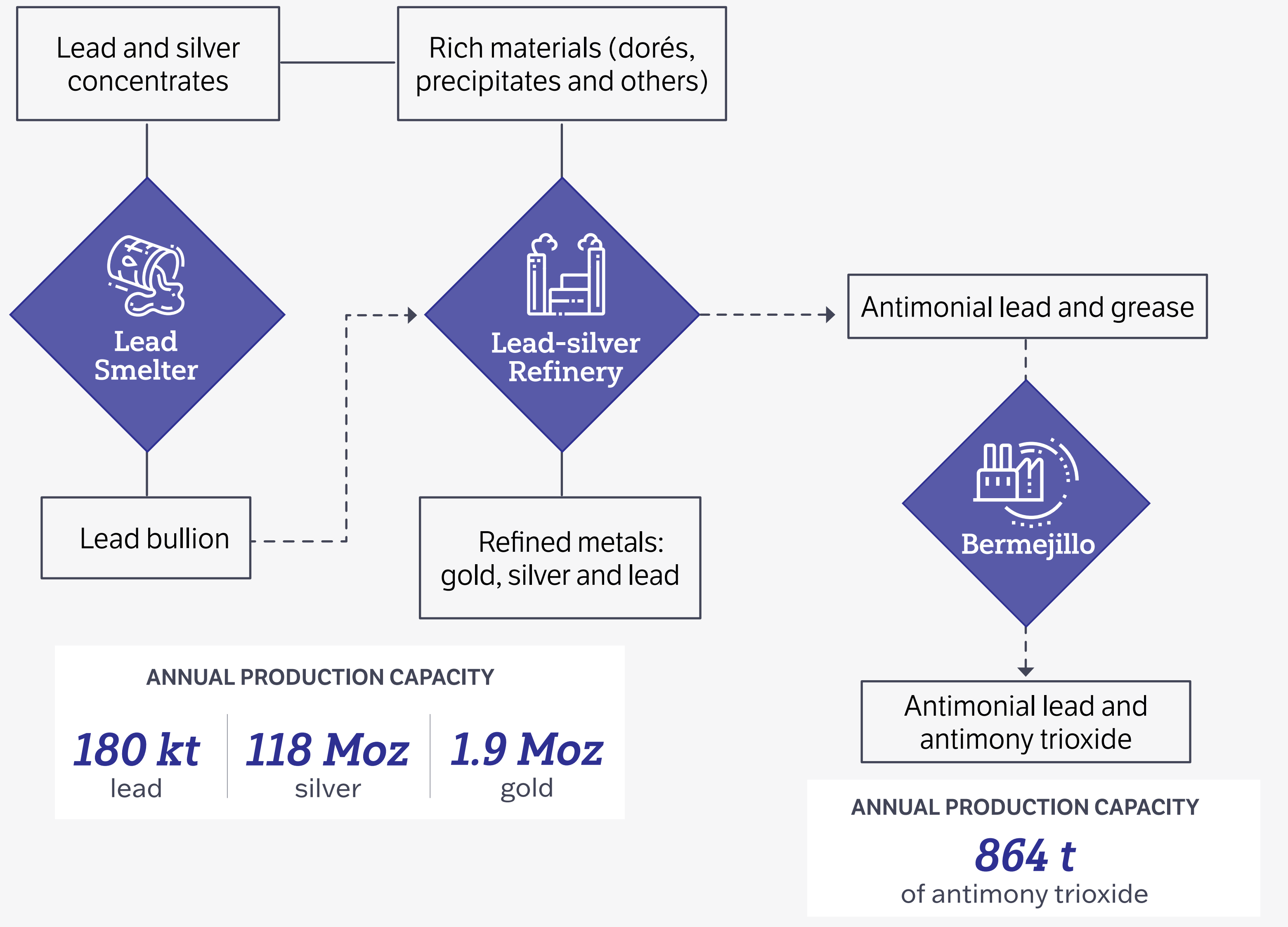
The Metals Division is made up of a metallurgical complex located in Torreón, Coahuila, which produces refined gold, silver, lead and zinc; the Aleazin plant in Ramos Arizpe, Coahuila, which manufactures specialty zinc alloys; and the Bermejillo plant in Durango, where byproducts are processed for producing copper sulfate, zinc sulfate and antimony trioxide. Together, these plants comprise the company Metalúrgica Met-Mex Peñoles (Met-Mex), one of the largest and most important metallurgical complexes in the world.

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

Met-Mex has two primary circuits:

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

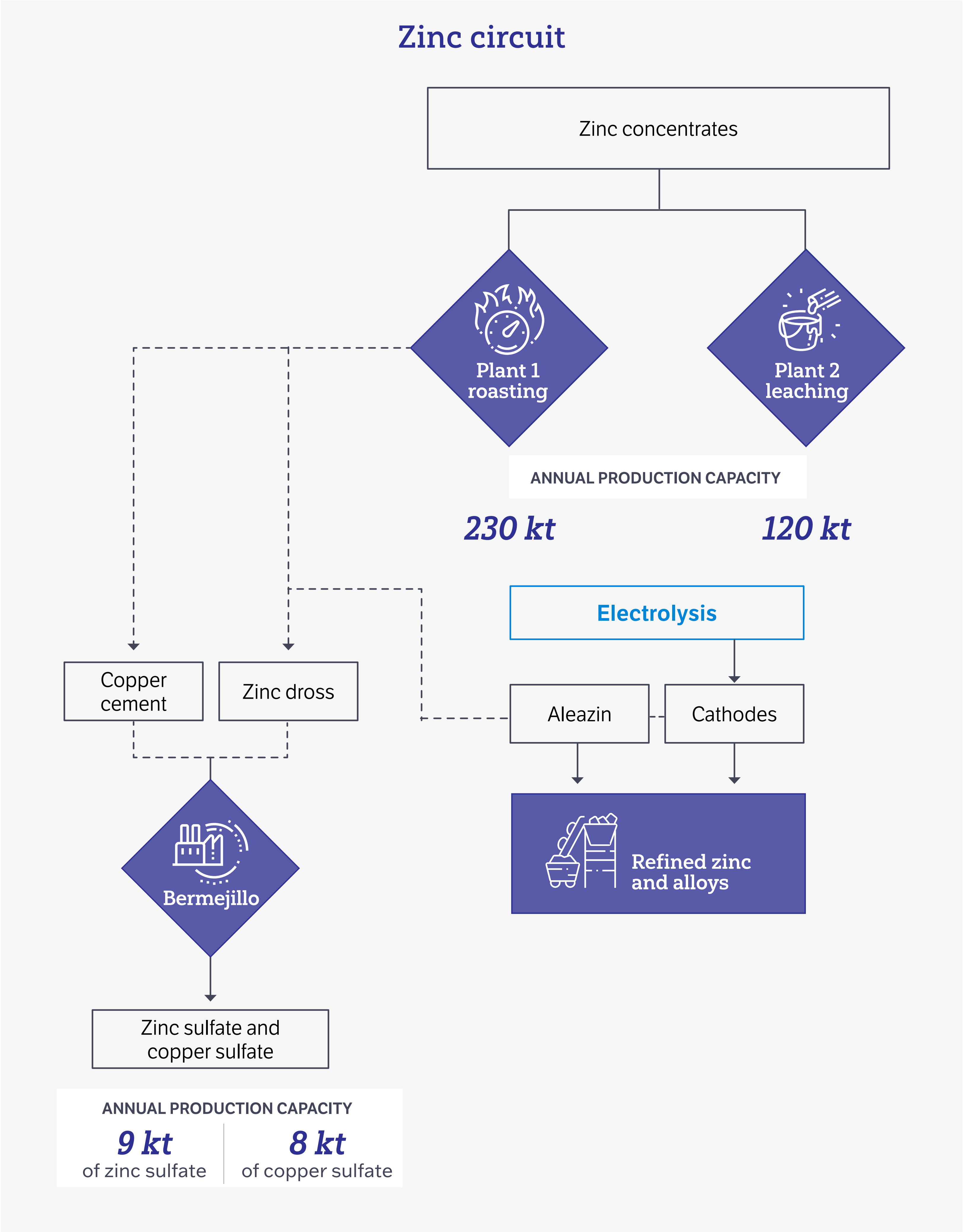
Lead-silver circuit



US$ 51 M

invested in maintenance and efficiency of metallurgical operations.

The **zinc circuit** is fed with zinc concentrates, which are treated by an electrolytic process to produce refined zinc in different qualities and presentations. With an annual production capacity of 350,000 metric tons, this circuit comprises two plants: the concentrate acid-roasting plant and the direct leaching plant, which started operations in 2019 and uses some of the residual sulfuric acid from the sulfuric acid plant.



MANAGEMENT OF THE PUBLIC HEALTH EMERGENCY

We continued to strictly apply the protocols recommended by the Mexican Social Security Institute (IMSS), the Ministry of Labor and Social Planning (STPS) and internal regulations to prevent the spread of COVID-19 in the plants and premises of the metallurgical business.

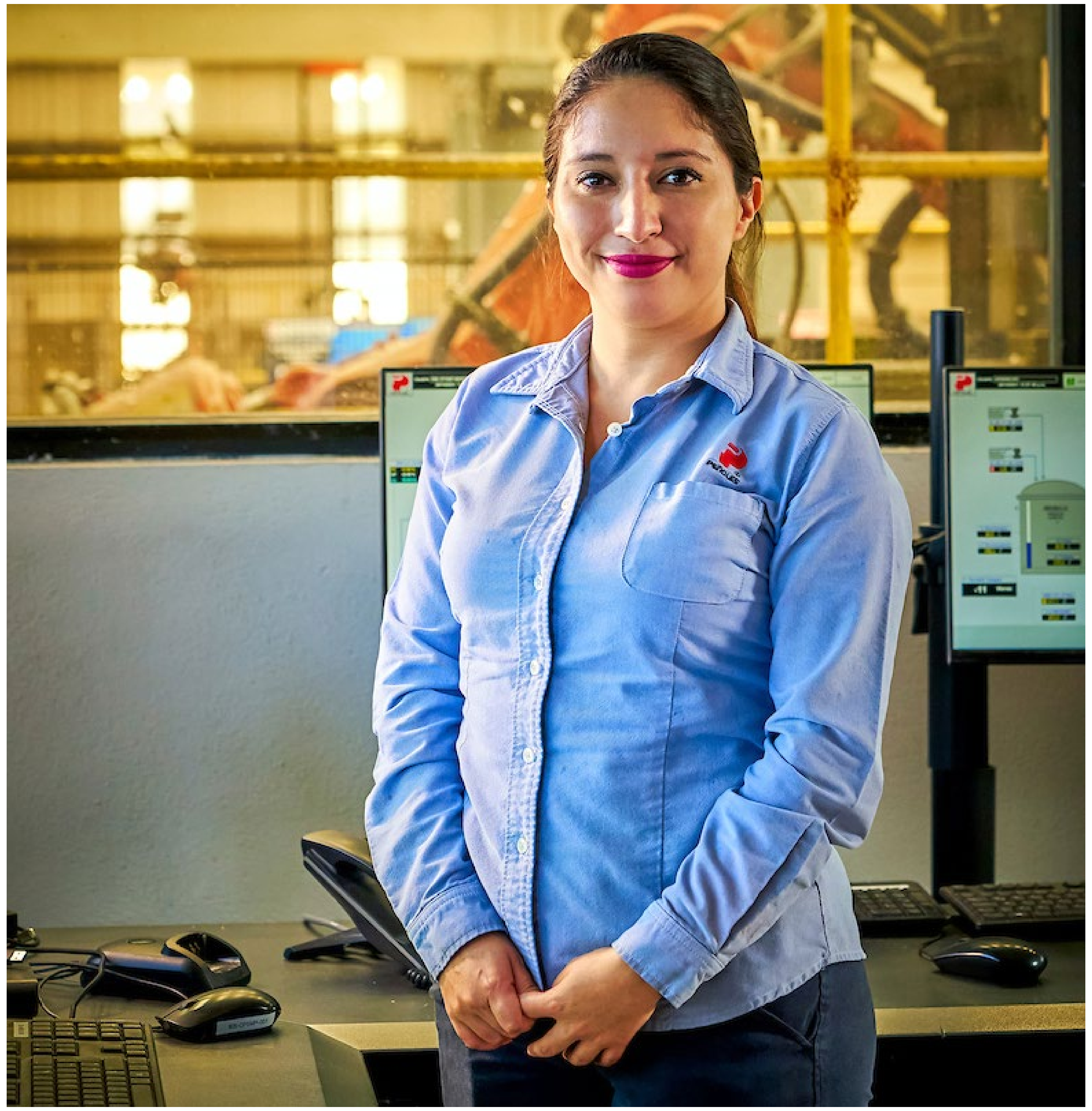
We also provided the facilities to set up a vaccination site at the Peñoles community center in Torreón, Coahuila, open to the entire public. Workshops in the community center and the Metals Museum, and sports and job support programs were all offered online, which also provided a channel for communicating public health measures.

The Metals Division leadership team launched a high-potential safety strategy to improve our safety indicators by identifying and addressing six critical risks. The TRIFR was 39.9, compared to 34.4 in 2020, while the LTIFR went to 11.8 from 9.4.

Production and performance

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

	2021	2020	% Chge.
Gold (koz)	1,118	957	16.8
Silver(koz)	75,230	70,634	6.5
Lead (t)	120,355	111,538	7.9
Zinc (t)	264,366	260,943	1.3



Production of refined metals increased compared to 2020, allowing us to respond to the demand from our clients.

Metallurgical operations worked at a stronger pace in the year. We had sufficient supply of concentrates and materials in quantity and quality, in contrast to the year before when supply disruptions caused by pandemic restrictions led to shortfalls from some shippers. As a result, we increased our annual production of refined metals compared to 2020, allowing us to respond to the upturn in demand from our clients.

As to economic performance, treatment charges —which are pegged to international benchmarks —declined for both lead and zinc concentrates, although this was offset in the lead-silver business by a higher treatment volume, higher production and income from free metals. In the zinc business, conversely, the volume of treated concentrates was lower than in 2020. The pace of operations led to higher production costs, particularly in the zinc business, where operating adjustments continued at the new direct leaching plant and its interaction with the roasting plant. This increased maintenance and repair costs. Furthermore, our consumption of materials increased, as did payments for overtime and the cost and consumption of electrical energy. For all these reasons, as a whole, the operating margin for the Metals Division decreased with respect to the previous year.

Lead-silver circuit	2021	2020	% Chge.
Volume received (t)			
Concentrates (Smelter)	288,067	277,262	3.9
Direct materials (Refinery)	1,268	1,211	4.7
Total raw materials	289,335	278,473	3.9
Peñoles*	164,917	199,855	-17.5
% of total	57.0	71.8	
Third parties	124,418	78,618	58.3
% of total	43.0	28.2	

Share in raw material content (%)	Gold	Silver	Lead
Peñoles*	65.5	62.9	47.2
Third parties	34.5	37.1	52.8

From Peñoles and Fresnillo plc mines

The lead smelter treated 341,237 metric tons of concentrates during the year, 5.2% more than the year before. Concentrates were acquired from third parties with higher lead grades, resulting in good quality of the mixtures that entered the production process and control over impurities, in addition to better performance in the sintering area. The smelting furnaces were kept in continuous operation and measures were taken to reduce programmed shutdowns with satisfactory results. Efficiency indicators in the consumption of fuels like metallurgical coke, electric power and natural gas all improved. The production of lead bullion grew by 7.6% over the previous year, to 144,765 metric tons.

The lead-silver refinery treated a higher amount of dorés and rich materials, both from Herradura and Noche Buena and from third party shippers, which, combined with higher grades of gold and silver bullion, helped boost production of these metals. For lead, higher grades and bullion volume supported annual production. Efficiency projects continued to reduce consumption of zinc and calcium-magnesium alloy, both of which are used in the lead refinery. This resulted in savings of US$ 1.8 million.

The circuit also received lead-silver cements from the silver recovery process in the zinc circuit, totaling 4.6 million ounces in silver content. Not all this material could be treated, however, due to effects in the sintering process and recovery of silver from concentrates. Because of this, a portion of these cements was sold to third parties. Revenues per metric ton treated in the lead-silver business grew 17.2% on average compared to the previous year, as lower base treatment charges were offset by higher revenues from free metals, particularly copper. Unit production costs increased by 4.1% on average due to a higher consumption of operating materials and labor costs, as well as the cost of preventive maintenance; this was offset by lower costs on fuel and contractor work.

Our investments in the lead-silver circuit were focused mainly on replacing critical equipment to maintain operating continuity, implementing technological updates, improving environmental performance, strengthening the electrical network and reducing risks to our employees.

Higher volumes of concentrate and other materials in the lead-silver circuit were processed, favoring annual production of precious metals and lead.

In the zinc circuit, our efforts focused on normalizing the interaction between the old roasting plant and the new direct leaching plant, in order to gradually build up production and achieve the full annual capacity of 350,000 metric tons of refined zinc production in 2023.

This year we began a program to replace anodes and electrodes in poor condition in the electrolysis modules to enhance efficiency of the electrical power and reduce consumption, and to improve the quality of cathodes producing a higher proportion of special high-grade zinc. At the close of the year, this program was 30% complete. Special attention was also given to controlling critical variables in the leaching-purification process to improve metallurgical recoveries of zinc in solution. There were various failures in the roasters that had to be repaired, causing unplanned shutdowns, in addition to a programmed blackout due to the national emergency and a scarcity of oxygen relating to the COVID-19 pandemic. All of this resulted in a 2.0% reduction in the load volume treated, to 569,743 metric tons. Zinc production was unaffected, however. We also worked to stabilize the Silver II recovery process, which was interconnected in 2020 whose objective is increasing treatment of zinc concentrates with high silver values through a process of using pure jarosite in leaching. With the actions taken so far to normalize zinc circuit operations, although we have not yet reached our goal of 90% silver recovery in concentrates, 4.6 million ounces of this metal in lead-silver cements were recovered and sent to the smelter. We adjusted the process parameters to improve cement recovery and quality.

Average revenues per metric ton treated declined 5.4%, due to lower base charges, which was offset by higher free metal of zinc and lead-silver cements sent to the lead smelter to be refined. This benefit was in turn absorbed by a rise in the unit cost of production—17.8% on average—due to a lower volume treated and rise in the cost of electrical energy, exchange-rate depreciation, higher overtime, maintenance, repairs and operating materials.

We invested US$ 25.2 million in fixed assets during the year, primarily for support systems and replacing critical equipment, which will allow us to ensure operating continuity and improve the efficiency of the zinc circuit.

Zinc circuit	2021	2020	% Chge.
Concentrates received (t)	678,228	699,306	-3.0
Peñoles*	484,923	510,312	-5.0
% of total	71.5	73.0	
Third parties	193,305	188,994	2.3
% of total	28.5	27.0	

Share of content in concentrates (%)	Zinc
Peñoles*	71.1
Third parties	28.9

*From Peñoles and Fresnillo plc mines.

A plan was put in place to ensure that the zinc refinery will reach its design capacity by 2022.

We obtained Good Delivery recertification for the gold and silver we produce, issued by the London Bullion Market Association (LBMA), allowing us to continue selling our products on international markets. This certification is an international guarantee of Peñoles' ethical conduct in the process of selling precious metals.

MARKETS AND BUSINESS DEVELOPMENT

With the gradual easing of pandemic restrictions, the international market regained its confidence for acquiring physical gold and silver. We faced a number of logistical and transportation challenges in shipping our products to markets in the United States. In silver exports to Japan, despite delays in shipping and the lack of available "smart containers"—equipped with international tracking systems—we increased sales in the Asian market to supply the photovoltaic cells industry in Japan and China.

In our domestic market, the rollout of vaccination campaigns and elimination of government restrictions allowed jewelers to reopen their factories and stores starting in the second quarter, which drove a recovery in sales of precious metals.

Demand in the lead market was particularly high in the second half of the year, which was reflected in better prices and premiums. We are a strategic supplier of antimonial lead and alloys for the domestic market, where consumption recovered its pace. We also placed product on the South American market, expanding our presence there.

Demand for zinc also came back gradually last year, allowing us to diversify toward strategic markets with very competitive premiums. Additionally, we responded promptly to our clients' growing needs—a situation that posed challenges for both domestic and export markets.

The byproducts we sell to the mining industry also yielded good commercial results. This rebound was due mainly to better metal prices, which have encouraged mining activity. In line with this trend, prices also improved on inputs for mining. Zinc sulfate, deprezinc and copper sulfate all saw record annual sales volume.

For the fourth year in a row, we received Responsible Silver & Gold certification from the LBMA, which recognizes a conflict-free supply chain for our refined products.

Chemicals

Inorganic chemicals performed well, especially magnesium oxide, which recovered pre-pandemic volumes.

Sodium sulfate
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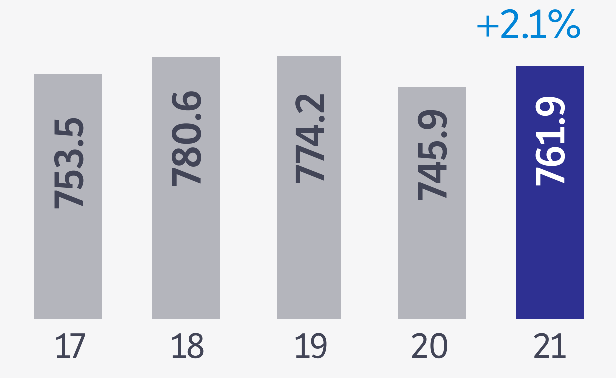

Magnesium oxide
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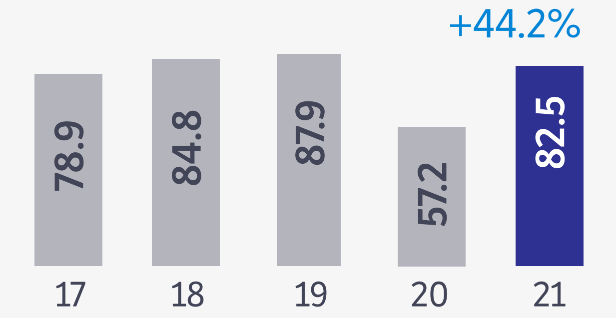

Magnesium sulfate
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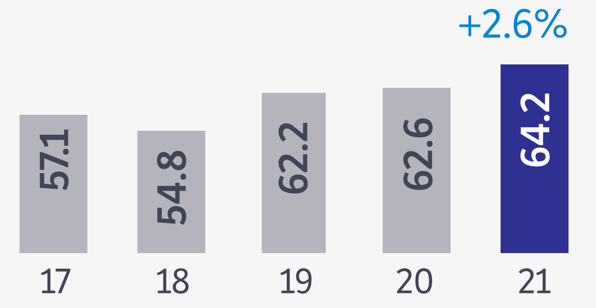

Ammonium sulfate
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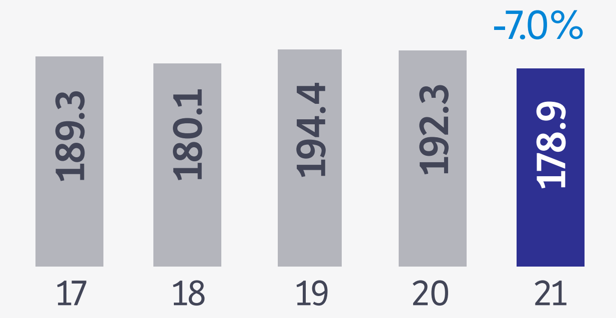


The Chemicals Division manufactures high value-added products from natural brines and salts extracted from the subsoil by hydraulic mining at Química del Rey, located in Laguna del Rey, municipality of Ocampo, Coahuila.

The main product of these operations is sodium sulfate, which represents more than half of its revenues. This input, for which we are the domestic market leader, is used mainly by the detergent, glass, paper and textile industries. Química del Rey is the largest sodium sulfate plant outside China, with the capacity to produce 780,000 tons per year.

The second most important product, magnesium oxide, is made from residual brine resulting from sodium sulfate operations and dolomite ore from La Esmeralda mine in Coahuila. It is produced in various grades: refractory grade, used in making the bricks

We completed the process of recertifying our Management System according to ISO 9001:2015 standard, with a recommended three-year certification term.

that line high-temperature kilns in the steel and cement industry; caustic grade, used to produce animal feed and fertilizers; hydroxide grade, used as a flame retardant; and electrical grade, useful as an insulating material and to make electrical resistors. This product accounts for between a third and a quarter of the Chemical Division's revenues.

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

Additionally, the sulfuric acid that is a byproduct of the lead smelter operations is used to produce ammonium sulfate, a fertilizer. It is made at Fertirey, which adjoins the Met-Mex metallurgical complex at Torreón.

During the year, the epidemiological contagion monitoring system allowed most of the work force to attend. There were some cases of preventive isolation and persons who contracted COVID-19 were sent home to recover. Based on the established protocols, the application of sanitary filters and detection tests continued, among other preventive measures. At the same time, we renewed the Health Safety Distinctive for the period and continued to support the communities and disseminate preventive measures.

We also began application of a High-Potential Management system of safety, and leading teams received training in the strategy. We identified six critical risks for operations, along with tools and controls needed for mitigation. In our safety indicators, the TRIFR went from 6.37 to 10.22 and the LTIFR from 1.82 to 5.77 in 2020 and 2021, respectively.

The Mexican Mining Chamber (Camimex) recognized Química del Rey with its Silver Helmet distinction for having achieved the highest safety indicators in 2020 in the category of Smelting Plants with more than 500 Employees.

Production and performance

The main chemical products had a favorable performance, with higher production and sales volumes, thanks to the rebound in demand due to the economic recovery. Magnesium oxide in its various forms did particularly well, fueled by activity in the construction and automotive industry, primarily, which restored production and sales volume to pre-pandemic levels. We were able not only to maintain our traditional clients but also to diversify our portfolio toward Asia and South America. In magnesium hydroxide we reached a record production level of 26,164 metric tons. Acceptance of this product has positioned us in European and North American markets, because the trend in the polymer industry is to use more temperature-resistant plastic, and our hydroxide is a very efficient retardant free of halogens.

The net price of the mix of magnesium-based products was slightly lower, particularly because of a rise in selling expenses, which was offset by lower costs on average due to the higher volume produced; this improved the margin for this product over the previous year.

In sodium sulfate production, maintenance shutdowns were less frequent, so that the availability of Plant 2 improved and production was higher, to meet rising demand in the domestic market. We faced some operating challenges because of the shortage of natural gas and power outages due to the nationwide emergency in February, which temporarily affected production. Nevertheless, production and sales volume grew 2.1% and 4.0%, respectively, over 2020.

In dollar terms, the average price per metric ton of sodium sulfate was similar to the previous year's. Higher prices and consumption of natural gas, however, along with the increased cost of electricity, pressured margins for this product. To offset this, we introduced efficiency measures for optimizing energy and natural gas consumption indicators in the dryers at Plant 1.

Production of magnesium sulfate, which is sold primarily to the agricultural industry, was not affected by the pandemic, because agriculture is classified as an essential activity. In fact, supply shortages favored prices and enabled us to diversify our portfolio of export clients. We were able to hold down production costs despite the rise in the price of sulfuric acid, used for production via reaction, because of operating efficiency measures taken in the period. We also received our clients' recognition as a trusted supplier. We reached consecutive production and sales volume records of 64,197 and 64,453 metric tons, respectively.

Production and sales volume of ammonium sulfate were lower due to the reduced availability of sulfuric acid, combined with the fact that the cost of ammonia in 2021 rose sharply.

We invested a total of US$ 15.2 million last year, primarily in sustaining and replacement of critical equipment to ensure operating continuity. Some of the largest investments were in furnace efficiency, preparation of La Esmeralda dolomite mine, installation of a filtering system to eliminate gypsum in the magnesium oxide plant and a sacking system for magnesium specialties, as well as construction of a polymer lab to test the performance of magnesium oxide and optimize resources for decision-making.

US$ 15.2 M

investment in replacing critical equipment to maintain operating continuity.

The National Chemical Industry Association renewed the certification of our Comprehensive Responsibility System for another three years, with annual verifications.

Production and sales volume

Production (k)	Unit	2021	2020	% Chge.	2019	2018	2017
Metallic contents (mining operations)							
Gold	oz	812.0	824.1	-1.5	910.9	963.4	951.8
Silver	oz	64,440.8	62,551.0	3.0	62,325.1	69,773.3	66,420.2
Lead	t	78.8	86.4	-8.9	84.3	83.3	78.8
Zinc	t	274.0	288.1	-4.9	292.3	289.6	285.1
Copper	t	11.3	9.0	25.8	8.8	10.1	12.2
Cathodic copper	t	3.1	12.4	-75.4	22.5	21.2	19.9
Refined metals and other materials							
Gold	oz	1,118.2	957.2	16.8	1,112.6	1,128.1	1,220.4
Silver	oz	75,230.4	70,634.4	6.5	72,384.7	64,881.7	72,632.7
Lead	t	120.4	111.5	7.9	118.9	104.1	112.8
Zinc	t	264.4	260.9	1.3	283.6	228.8	222.6
Copper	t	5.2	5.0	5.1	4.6	3.8	4.6
Cadmium	t				0.6	0.7	0.6
Bismuth	t				0.3	0.3	0.5
Lead bullion	t	144.8	134.5	7.6	140.6	123.7	129.7
Chemicals							
Sodium sulfate	t	761.9	745.9	2.1	774.2	780.6	753.5
Magnesium oxide[1]	t	82.5	57.2	44.2	87.9	84.8	78.9
Ammonium sulfate[2]	t	178.9	192.3	-7.0	194.4	180.1	189.3
Magnesium sulfate	t	64.2	62.6	2.6	62.2	54.8	57.1
Sales (k)	**Unit**	**2021**	**2020**	**% Chge.**	**2019**	**2018**	**2017**
Gold	oz	1,126.2	939.1	19.9	1,121.7	1,128.5	1,207.3
Silver	oz	73,249.3	69,869.2	4.8	71,718.1	64,207.8	67,330.6
Lead	t	122.2	122.0	0.2	119.7	106.6	111.3
Zinc	t	279.1	256.3	8.9	258.0	229.7	224.9
Sodium sulfate	t	801.3	763.4	5.0	770.4	816.0	775.5
Magnesium oxide[1]	t	76.0	49.7	52.8	64.7	68.2	68.2
Ammonium sulfate[2]	t	133.5	207.1	-35.5	101.7	142.8	128.6
Magnesium sulfate	t	64.4	63.1	2.1	62.4	53.4	57.6
Lead cocentrates[3]	t	61.2	37.0	65.7	29.1	42.2	26.7
Zinc concentrates[3]	t	82.2	122.0	-32.6	217.0	168.2	290.1
Copper concentrates[3]	t	55.7	42.5	31.1	36.8	40.2	48.6

(1) *Includes refractory, caustic, electrofused and hydroxide grades.*
(2) *Not includes maquila.*
(3) *Volumes sold in 2020 were adjusted.*

Financial highlights for each operating division

	2017	2018	2019	2020	2021
Mining					
Net sales	3,160	3,111	3,026	3,424	4,063
Gross profit	1,360	1,117	628	1,138	1,407
% of sales	43.1	35.9	20.8	33.2	34.6
EBITDA	1,510	1,266	890	1,483	1,706
% of sales	47.8	40.7	29.4	43.3	42.0
Operating profit	1,054	764	289	860	1,077
% of sales	33.3	24.6	9.5	25.1	26.5
Metals					
Net sales	4,023	3,839	3,936	4,179	5,244
Gross profit	292	-4	123	201	89
% of sales	7.3	-0.1	3.1	4.8	1.7
EBITDA	320	17	161	249	139
% of sales	7.9	0.4	4.1	6.0	2.6
Operating profit	267	-36	89	168	49
% of sales	6.6	-0.9	2.3	4.0	0.9
Chemicals					
Net sales	210	231	255	218	232
Gross profit	75	82	105	83	70
% of sales	35.7	35.5	41.4	38.1	30.1
EBITDA	65	69	93	70	64
% of sales	31.1	29.9	36.4	32.3	27.7
Operating profit	51	55	79	56	40
% of sales	24.2	23.8	30.9	25.7	17.3

Unaudited figures expressed in millions of dollars.

Figures represent the sum of the separate financial statements of the operating companies for each division, excluding corporate fees.

Management discussion and analysis

This management discussion and analysis of the results of Industrias Peñoles, S.A.B. de C.V. and Subsidiaries ("Peñoles" or "the Company") in fiscal year 2021 is based on the financial statements prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In accordance with IAS 21, the functional currency must be identified for each one of the consolidated entities based on the currency in the principal economic environment in which the entity operates. For all subsidiaries, with exception of certain non-operating companies and certain companies that provide services, the functional currency is the U.S. dollar.

The Company changed its reporting currency to US dollars (functional currency) starting from January 1st, 2019. The present analysis of the consolidated financial results is made accordingly, and financial results obtained in 2021 are compared with those of 2020 in millions of US dollars, unless otherwise indicated. The term "US$" refers to dollars of the United States of America.

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

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

Peñoles operates principally in the following sectors:

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

PRICES AND MACROECONOMIC VARIABLES:

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

1. **Metals prices:** In dollar terms, average prices increased compared to the previous year as follows: gold (+1.7%), silver (+22.1%), zinc (+32.7%), lead (+20.9%) and copper (+51.0%).
2. **Treatment charges:** base treatment fees decreased, on average, 29.6% for lead concentrates and 31.7% for zinc concentrates.
3. **Exchange rate (peso-dollar):**

	2021	2020	% Chg.
Close	20.5835	19.9487	3.2
Average	20.2813	21.4886	-5.6

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

	2021	2020
Annual	7.36	3.15

CONSOLIDATED RESULTS

In 2021, the world economy resumed its growth path after the recession caused by the covid-19 pandemic the previous year. The disruption in supply chains, the slowness of supply to respond to the upturn in demand for goods and services, coupled with the increase in energy prices, led to inflationary pressures in several regions. Demand from the industrial sector supported base metals, so that average quotations increased by double digits compared to 2020. The price of silver also benefited from the support of its industrial and investment consumption, while as safe haven asset gold maintained its price in comparison with the previous year.

The pace of the Company's operations improved in 2021 after certain restrictions were applied in 2020 as a result of covid-19. Thus, production and sales volumes of refined metals and chemical products were higher, which combined with the recovery in metal prices, increased revenues of the Company compared to the previous year, partially offset by higher opportunity cost in metal price hedges, which are aimed at reducing EBITDA volatility.

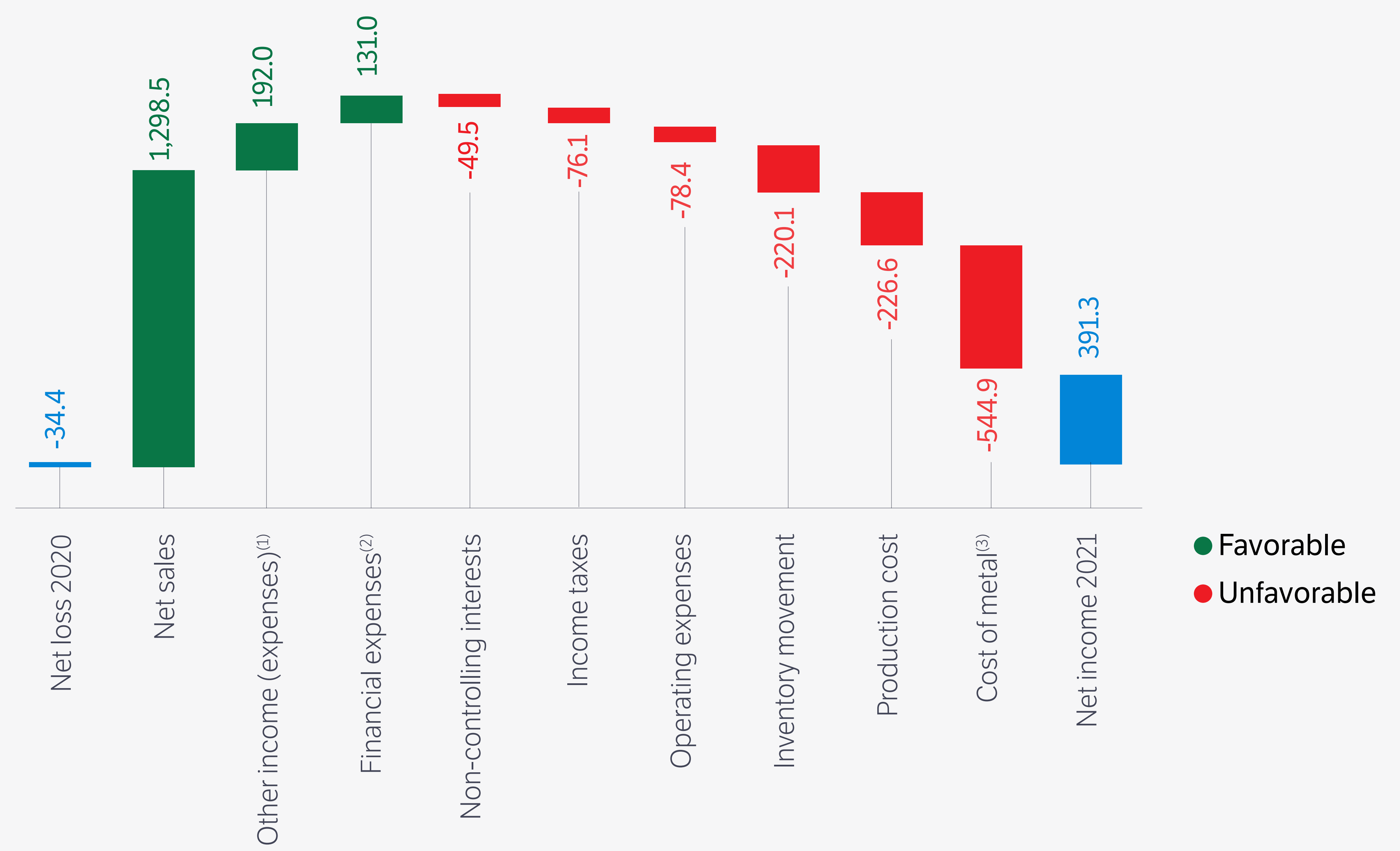
Likewise, cost of sales increased due to higher consumptions on production and the inflation in our basket of inputs, which averaged 9.11% annually in dollar terms, while the lower average exchange rate contributed to an increase in the US dollar value of the portion of costs incurred in pesos (approximately 50% of production costs). In addition, there was a higher charge to cost of sales for inventory turnover and for the cost of metal (in volume and price) acquired from third parties to complement the supply of our metallurgical plants.

Operating expenses were also higher, due to more exploration activities, higher sales and administrative expenses, and the effect of the lower exchange rate mentioned above. On the other hand, there were lower financial expenses, mainly because in 2020 the Company and its subsidiary Fresnillo plc restructured long-term debt and issued bonds, which implied extraordinary costs in that year. Additionally, in 2020 there was an impairment charge in the value of long-lived assets, mainly derived from the suspension of operations of Madero and Milpillas, while in 2021 no impairment was recorded. Finally, the provision for income taxes was higher than in the previous year due to higher income before taxes.

Due to the aforementioned factors, the financial results for fiscal year 2021 and their variation with respect to 2020 were as follows: net sales US$ 5,971.8 (+27.8%), gross profit US$ 1,555.8 (+24.6%), EBITDA US$ 1,695.8 (+16.4%), operating income -excluding other income/ expenses and impairment loss- US$ 971.0 (+30.8%) and net income of the controlling interest US$ 391.3, favorable compared to the loss of -US$ 34.4 obtained in 2020.

INCOME STATEMENT

The following chart shows the variation by item of results and its influence on the change in net income from 2020 to 2021 (in millions of dollars):



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

The variations are analyzed below:

Net sales amounted to US$ 5,971.8, of which 84.0% went to the export market. The variation of +US$ 1,298.5 (27.8%) compared to 2020 sales is explained as follows:

- From higher average metal and realization prices in the sale of concentrates +US$ 896.8.
- Higher volumes sold, especially gold, silver, zinc and magnesium oxide +US$ 419.1.
- Revenues from other products and services +US$ 19.1.
- The above was accompanied by a variation due to metal hedging operations, in -US$ 36.5.

The **cost of sales** of US$ 4,416.0, had a variation of +US$991.7 (29.0%) for the reasons described below:

- Higher **production cost** +US$ 226.6 (9.0%), in the following items:
  - Energy (+US$62.8, 16.8%) due to higher prices and consumption of diesel, fuels and lubricants; higher cost of natural gas and electricity, which were offset by lower consumption.
  - Operating materials (+US$ 39.2, 11.3%) in explosives and detonators, bars and balls for mills, tires, tubes, hoses, packing materials, lead for alloys, safety equipment and reagents.
  - Contractors (+US$ 38.6, 9.3%) due to increased work by external contractors in the development of mining and civil works and ore hauling, especially at the Fresnillo plc mines.
  - Maintenance and repairs (+US$ 32.4, 10.4%) in mechanical and electrical maintenance and repairs, in major repairs and guaranteed maintenance cost, mainly in the Fresnillo plc mining units, in Capela and in Met-Mex due to repair and stabilization work in the new plant that increased the production capacity of refined zinc.
  - Human Capital (+US$21.9, 7.7%), approximately by 80% due to the effect of lower average exchange rate compared to the previous year, and the rest due to an increase in the workforce, mainly as a result of the Subcontracting Reform, increases in salaries, benefits and overtime payments.
  - Other cost items (+US$20.5, 23.1%), mainly in raw materials due to the increase in the price of ammonia.
  - Depreciation and amortization (+US$11.2, +1.6%) derived from investments in fixed assets.
- Higher charge to cost of sales by +US$ 220.1 due to **inventory movement** of US$ 105.8 in the year, mainly due to the consumption of inventories of concentrates from own mines, while in 2020 a credit of -US$ 114.3 was recognized, mainly due to the recognition of gold inventories in Herradura's leaching pads.
- Higher **cost of metal** sold (+US$ 544.9) whose variation is derived from the following items:
  - Higher volumes of concentrates and other materials purchased during the year from remitters in the metallurgical business, as well as higher average metal prices, increasing metal cost in +US$ 527.1.
  - Higher treatment revenues (+US$ 88.0), which are recorded as a credit to metal cost, due to higher volumes purchased from third parties in the period, despite the decrease in zinc and lead concentrate treatment fees experienced worldwide.
  - Other items were unfavorable (+US$ 105.8) due to the charge generated from the lower recovery of high grade lead-silver cements and lower metallurgical recoveries.

As higher revenues offset the higher costs, **gross profit** recorded an increase of +US$306.8, (+24.6%) compared to that recorded in 2020. The **gross profit margin on net sales** was 26.1%, slightly lower than the 26.7% margin obtained in the previous year.

Operating expenses (excluding other income/expense) totaled US$ 584.8, 15.5% (+US$ 78.4) higher than in 2020, from:

- Higher **administrative and general expenses** (+US$ 33.9, 13.2%) due to the effect of lower average exchange rate and increases in salary and benefits, fees, memberships and associations and to a lesser extent travel expenses, offsetting lower communication and IT expenses.
- Higher **exploration and geological expenses** (+US$29.8, 21.2%), derived from higher field work that was reduced last year due to the pandemic, mainly in personnel costs, contractor drilling, duties and taxes.
- Higher **selling expenses** (+US$ 14.7, 12.7%) in freight and transportation, royalties and extraordinary mining rights.

Annual **EBITDA** amounted to US$ 1,695.8, favorable in +US$ 239.0 (+16.4%); the **EBITDA margin over net sales** of 28.4% was down from 31.2% in 2020. Similarly, **operating income** of US$ 971.0 increased by +US$ 228.4 (+30.8%), and the **operating margin on net sales** increased from 15.9% to 16.3%.

In 2021, no **impairment losses on long-lived assets** were recorded, whereas in the previous year losses of -US$ 166.4 were recognized for this concept, derived from the suspension of operations in the Milpillas and Madero mining units (which was reported last year).

Other income (expense) net (excluding impairment losses on long-lived assets) of US$ 10.9 was favorable compared to -US$ 14.7 last year, derived from:

I. **Higher income** by +US$ 16.8 from the sale of fixed assets and concentrates, which offset the reversal of remediation expenses of the previous year.

II. **Lower expenses** by -US$ 8.8, mainly because in 2020 a write-off was recorded on inventories of operating materials in the mining units whose operations were suspended. Also, in 2021 there was a lower loss on the sale of materials and waste, which was partially offset by higher maintenance expenses of the closed mining units, losses from claims and the sale of other products and services.

Financial income (expense), net was -US$ 152.8, US$ 131.0 lower than -US$ 283.8 in 2020, and consisted of:

- **Financial income** of US$ 20.3, slightly lower than US$ 25.2, due to lower tax refund restatement and other financial income, partially offset by higher interest from customers and investments.
- **Financial expenses** of -US$ 171.5, down from -US$ 259.8 recorded in 2020, since in that year extraordinary expenses were incurred for the debt restructuring and bond issuances of Peñoles and Fresnillo plc, such as the financial cost of US$ 25. 1 for the closing of an interest rate hedge on a prepaid loan by Peñoles, and the make-whole premium plus accrued interest from the partial repurchase and bond issuance of Fresnillo plc (US$ 60.8), in addition to the amortization of debt issuance costs (US$ 6.2). There was also an expense of US$ 29.4 derived from the restatement and surcharges for the voluntary adjustment to the tax treatment of mining work. This was offset by a higher provision for interest on financial debt in 2021 (+US$ 28.9) and other financial costs (+US$ 4.4).
- **Exchange loss** of -US$ 1.6, favorable compared to the loss of -US$ 49.2 in 2020. This item arises from the translation at the balance sheet date exchange rate of monetary assets and liabilities in currencies other than the U.S. dollar, including the Mexican peso. In 2021, the peso depreciated to a lesser extent against the U.S.

Equity in the results of associated companies was a loss of -US$ 5.6, above last year's loss of -US$ 3.3.

As a result, **income before taxes** amounted to US$ 823.5, an increase of +US$ 549.1 compared to US$ 274.4 of the previous year.

The **provision for income taxes** of US$260.9, was higher by US$ 76.1 compared to the provision of US$ 184.8 in 2020, which is attributed to the following factors:

- Higher income tax incurred (US$ 360.6 vs US$ 255.0), derived from higher profits for the period, which was partially mitigated by the deferred tax credit from the creation and reversal of temporary differences, mainly generated by exchange rate movements and inflation, of -US$ 128.9, higher compared to -US$ 113.0 of the previous year.
- Lower provision for the special mining right (US$ 31.7 compared to US$ 44.3 in the previous year) mainly due to the recognition of the deferred effect on this right from remediation and closure reserves in mining companies, which decreased this charge in 2021.
- Higher credit for the benefit of Special Tax on Production and Services (IEPS) on diesel consumed by operations, of -US$ 2.4 compared to -US$ 1.5 in 2020.

Due to the aforementioned factors, **consolidated net income** for fiscal year 2021 amounted to US$ 562.6, +US$ 473.0 higher than the income of US$ 89.6 in 2020, of which US$ 391.3 corresponds to **net income of the controlling interest** (favorable compared to the loss of -US$ 34.4) and US$ 171.2 to **income of non-controlling interests** (above the income of US$ 124.0 obtained in fiscal year 2020).

CASHFLOW STATEMENT

As of December 31, 2021, the Company had **cash and cash equivalents** of US$ 1,817.1, which represented an increase in cash of +US$ 224.4 with respect to the balance at the end of 2020 of US$ 1,592.7 (including -US$ 2.0 from translation effects).

The most relevant concepts for the period were as follows:

1. **Net cash flows from operating activities** in +US$ 1,150.9. Consisting of items directly related to operations, excluding items with no impact on cash, such as depreciation and amortization, income tax provisions, impairments on long-lived assets and unrealized interest. Also including changes in working capital investment.
2. **Net cash flows** from investing activities of -US$ 722.3 in the following items:
   a. **Acquisition of property, plant and equipment**, for -US$ 762.1, in support of the operating units and development projects. The main investments are detailed below:

Company/Unit	US$ M	Application
Fresnillo plc	611.7	► Juanicipio Project ► Flotation plant at Fresnillo (Pyrites II) ► Mine works ► Capitalizable mining equipment ► Tailings deposits and leaching patios
Met-Mex	50.5	► Silver Recovery II ► Integral wáter management ► Anodes replacement at the zinc plant ► Replacements and additions of fixed assets
Velardeña	23.3	► Mine works ► Machinery and equipment ► Reinforcement of tailings deposits
Capela	19.0	► Mine works, fixed assets and infrastructure
Química del Rey	15.2	► Replacement of critical equipment ► Bagging system in specialties plant ► Stripping at Dolomite mine
Tizapa	14.7	► Mine works ► Mine equipment ► Tailings thickener tank
Sabinas	14.7	► Mine works ► Purchase and reconstruction of mine equipment ► Reinforcement of tailings deposits

   b. **Capital contribution in associated companies** -US$32.1.
   c. Acquisition of **intangible assets** -US$ 6.1.
   d. Proceeds from the **sale of property, plant and equipment** +US$ 30.8.
   e. Income from the **sale of mining concessions** +US$ 25.0.
   f. Collection of **loans granted, interest received and other items** +US$ 22.2.
3. **Net cash flows from financing activities** in -US$ 202.1, derived from:
   a. **Borrowing and repayment of financial debt (net of transaction costs)** +US$ 28.8.
   b. **Interest paid on financial debt** -US$ 132.2.
   c. **Dividends paid to non-controlling interest** -US$ 99.6.
   d. **Dividends paid to controlling interest** -US$ 49.9.
   e. **Loans from partners in non-controlling interest** +US$ 41.7.
   f. **Increase in non-controlling interest** +US$ 31.9.
   g. **Lease payments and others** -US$ 22.8.

Our people

We launched a process of cultural evolution and holistic wellness to go beyond resilience.

At Peñoles, we support and guarantee:

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

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

In 2021 there were no reports of situations involving extortion, abuse, discrimination, forced or coerced labor, unfair labor practices, violation of indigenous people's rights nor any violation of human rights. We have a Code of Conduct and the Correct Line program to avoid unethical practices and apply sanctions in appropriate cases.

OUR HUMAN RESOURCE STRATEGY

In 2009 we introduced a Talent Development System to select, develop and retain top-performing and highest-potential employees. This will ensure we have the right people, presently and in the future. The following are the components of the system and the highlights of its actions during this period.

Process	Goal	Actions	Results
Recruitment and selection	Ensure that we hire the right people.	► Promote outreach agreements with universities. ► Introduce internship, scholarship, and Engineers-in-Training programs. ► Post vacancies internally before listing them outside the company to prioritize internal candidates.	► 65 people were hired for the Engineers-in-training program; the 90th generation graduated, and 2,121 students have participated since its creation in 2003. ► Of 1,224 personnel movements, 69% were new hires and 31% were internal promotions.
Performance evaluation	Measure completion of established goals and expected behaviors, according to organizational competencies.	► Evaluate employees according to clear, measurable and challenging goals. ► Provide feedback through performance notes. ► Give salary raises and other recognition for their achievements and create training actions that address areas of opportunity detected.	► For the thirteenth year in a row, 9.8.8% of personnel were evaluated at Peñoles and Fresnillo plc.
Compensation	Have an objective, competitive compensation system in place.	► Provide compensation based on salary tabs consistent with the market, the level of professional responsibility and individual performance of each employee. ► Provide a compensation package above what is required by law (savings fund, major medical expenses, pension plan, vacations and seniority bonus).	► Compensation (including salaries and benefits) totaled US$ 425.5 million, 11% more than the previous year.
Training	Train people according to needs detected in the performance evaluation.	► Promote training in line with current and future challenges in technical, administrative and human skills, to achieve better productivity, quality and competitiveness indicators for the company.	► 891,873 hours of training given, equivalent to 57.5 hours per employee ► 53 scholarships awarded to high school, college and postgraduate students.
Development and retention	Develop people with better performance and greater potential.	► Create ways to develop and recognize people and encourage them to stay in the company ("Gold Program" for people who show outstanding performance and high leadership potential; scholarship program and bonuses for academic achievements; loyalty recognitions, etc.) ► Identify key positions for the operating continuity of the business, and prepare succession and career plans to guarantee prompt preparation of people in leadership and technical know-how.	► 1,925 loyalty recognitions awarded for seniority in the company between 5 and 50 years; 67 academic achievement bonuses. ► A total of 549 key positions were identified, and we are working on updating succession plans with 96% progress on expected retirements over the next five years.

OUR LABOR STRATEGY

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

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

During the past year, our labor negotiations with the various unions that have agreements with our business units were conducted in a climate of respect and cooperation. There were no work stoppages or strikes, which meant we were able to operate continuously throughout the year.

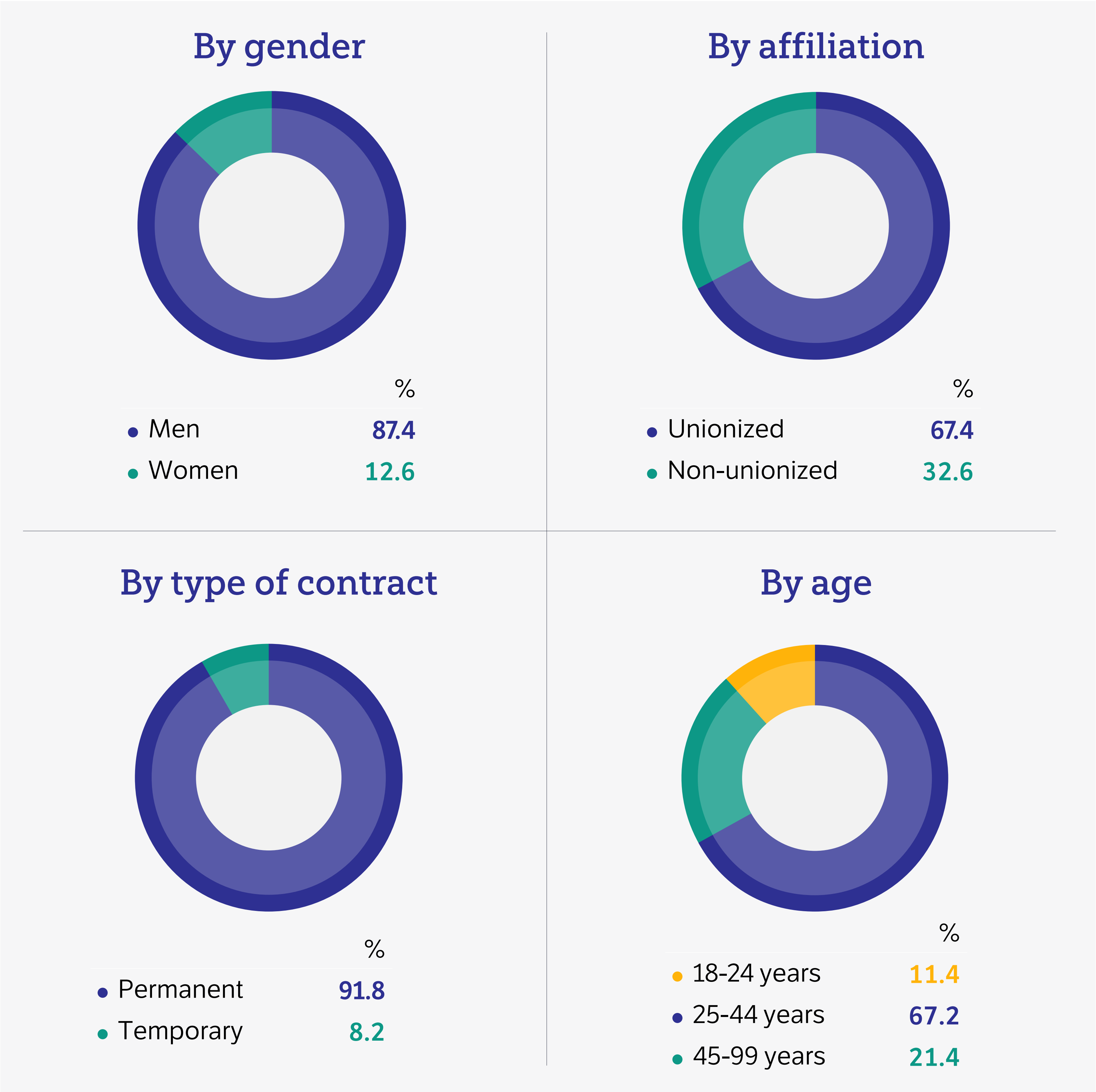
We are focusing efforts on strengthening our relations with unions, with trust as the basis for building a better future for our employees.

We also implemented actions to comply with the labor reform on subcontracting, which came into effect in September. This reform includes new rules for the outsourcing of services through third parties, which led us to create a recruitment program for some of these services.

Regarding the introduction of a Ministry of Labor standard entitled NOM-035-STPS-2018, “Psycho-social risk factors at work - identification, analysis and prevention,” we launched a computer tool for analyzing the results of the previous year’s questionnaire, in order to develop plans to prevent psycho-social risks in the workplace. We created committees and offered training to access and analyze information specific to each workplace. The results of this analysis will allow us to verify the efficacy of our practices to prevent psycho-social risks and make whatever adjustments are necessary to reduce the level of risk in our company.

COMPOSITION AND GENDER DIVERSITY OF OUR PERSONNEL

At the close of 2021, the workforce of Peñoles and its subsidiaries was 15,723 employees—excluding associated companies—was as follows:



The total number of women employees increased 23.0% over 2020. With women representing 12.6% of our workforce, we drew closer to the national average for women in the mining-metallurgy industry which, according to figures from the Mexican Mining Chamber, was 15.7% at the close of 2020. Some units have a higher percentage of women on staff than the company’s global average—for example, Velardeña (17.3%), Capela (16.7%), and Servicios Administrativos Peñoles (39.0%).

Our focus on labor modernity rewards safe, productive and ethical work.

Our High-Potential Management System, created in 2021, incorporates a new methodology to identify, classify and measure safety indicators to strengthen control of critical risks.

HEALTH AND SAFETY

Over the course of the year we continued our efforts to protect our employees' health amid the ongoing pandemic. We extended application of our contingency plan to prevent the spread of COVID-19 among our employees and the communities neighboring our operations.

We applied strict sanitary protocols, entrance checkpoints, random rapid testing and awareness-building talks for our staff, both face-to-face and virtual. We also promoted the vaccination of our personnel and supported government vaccination campaigns by providing vaccination centers at our facilities, in coordination with the authorities. A total of 163,851 doses were applied to our personnel and people in the communities where we operate.

We also continued to support our communities by donations of medical and sanitary supplies, personal protection equipment and medical equipment for hospitals, basic pantry and household staples and water for the most vulnerable communities. We also distributed informational material on health care.

In total, COVID-19 contagions recorded were 3,213, including contractors, and we regretfully report the death of 10 people. We will continue to implement preventive actions and measures to avoid the spread of the pandemic and protect the health of all our people, staying close to our communities to overcome the contingency.

Moreover, we remain focused on promoting efficient, safe and clean operations, preventing and controlling occupational diseases and accidents, and eliminating factors and conditions that endanger occupational health and safety. Our health and safety risk management has set a goal of zero fatalities and zero new occupational illnesses. Our five-year goal is to achieve a TRIFR below the average for companies that are members of the International Council of Mining and Metals (ICMM). This year we began implementing High Potential Management, through which we incorporated a new methodology to measure safety indicators and improve our performance by identifying and controlling critical risks to help us achieve our goal of zero fatalities.

We also assembled teams, commissions and committees at all levels of the organization, which are trained in EC0391 skills standard "Verifying workplace health and safety conditions," to encourage improvements in safety and health management processes in all our business units. Our goal is that all personnel members of a Health and Safety Commission are certified, to improve the level and quality of the commissions' review processes.

We conduct ongoing communication, training, and preparation campaigns as well as safety events among our unionized and non-unionized employees and contractors, as well as their families. This year we continued our program of remote onboarding for contractors. We also introduced safety and operating discipline programs and actions, investigated accidents using root cause analysis and conducted corporate safety audits, both internal and independent, to monitor and correct critical risks. All of our mining units have shelters and first-aid brigades, and emergency brigades are staffed with employees certified as firefighters, pre-hospital medical technicians and paramedics, by institutions like the Mexican Red Cross, the National Council for Standardization and Certification of Job Skills (Conocer) and the Emergency Brigade Training School in Celaya, Guanajuato.

During the year, there were more accidents in our operations, with one fatality which we deeply regret. We remain firmly committed to our goal of achieving zero accidents in all our operations, thus we are intensifying our programs and actions to improve safety rates and safety culture.

Safety indicators[1]	2021	2020
High-potential accidents	708	521
Fatal accidents (F)	1	7
Accidents with lost time (CTP) (C+D+E)	481	454
Accidents with no lost time (STP) (A)	698	818
Total accidents	1,180	1,279
Lost days (severity)	19,536	23,602
Total recordable injury frequency rate (A+C+D+E+F) = TRIFR (ICMM)	14.64	16.65
Lost time injury frequency rate (C+D+E) = LTIFR (ICMM)	5.97	5.91

(1) Includes unionized and non-unionized employees and contractors, both from Peñoles and Fresnillo plc.
*TRIFR = Total Accidents (STP + CTP + F) * 1000000 / HHT*
*LTIFR = Total accidents CTP * 1000000 / HHT*
HHT = Man Hours Worked

We were pioneers in working with the authorities to create the COVID-19 protocol for the mining industry in Mexico, which we continue to apply at our facilities.

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

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

CULTURAL EVOLUTION AND COMPREHENSIVE WELLNESS

Peñoles is sustained by a century of experience based on the commitment, talent and creative capacity of those who came before us and who, with their vision, built leading companies in their sector.

Today we are renewing this vision with a new paradigm: going beyond resilience. To achieve this, we will be working on two principles:

1. The conviction that we create our own opportunities.
2. A commitment to being indispensable for our stakeholders.

On this basis, we have embarked on a path to cultural evolution, by which we intend to:

- develop the right ecosystem for each person to free their talents and collaborate without unnecessary limitations or restrictions on achieving sustainability.
- encourage co-creation so that together we can create our future by adopting design strategies, making the most of our creativity and promoting collective ownership of ideas and processes.
- hold ourselves responsible, not only for completing our tasks, but also for generating the expected results in our work. To this end, we will empower each person to take full responsibility for his or her performance, encouraging strategic thinking to achieve extraordinary results.

This new paradigm is a call to action, to create our own opportunities and our destiny, and not to be mere spectators.

Indicators of professional and chronic-degenerative illnesses(1)

Type	2021	2020
Silicosis	6	19
Hearing loss	18	20
High blood lead levels	0	0
Accident after-effects	0	0
Muscular-skeletal injuries	5	9

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

We undertook the evolution towards a new work culture by developing the leadership capabilities of our people in order to ensure their wellbeing, in a collaborative environment to achieve extraordinary results.

As part of this **cultural evolution**, during the year we worked to define a shared purpose. Considering what the world needs from the mining industry, what we think we do well and what we are passionate about, we concluded that ***our purpose is to create opportunities and wellbeing by providing essential resources in a sustainable manner.***

Behind every statement of our purpose there is a reality that is palpably present in everything we do:

Create opportunities and wellbeing: Through collaborative, inclusive work that opens new opportunities for development; quality of life in our communities; new business opportunities and higher returns for our shareholders; and alliances in our industry to achieve common goals.

Provide in a sustainable manner: This refers to our industrial activity and the care we take in terms of labor, operating safety and stewardship of natural resources.

Essential resources: The metals, minerals and chemicals necessary for the development of modern human life, but also resources like health, education, infrastructure, and environmental innovation, to benefit the communities where we live and operate.

Based on this and the cultural diagnostics we conducted this year, we renewed the concept of our values of Confidence, Responsibility, Integrity and Loyalty and defined the expected behaviors that will embody the desired culture.

In 2022 we will undertake projects to manage this cultural evolution, including:

- A communication program of the desired culture to all our personnel.
- Training and coaching of leaders and champions to drive changes in cultural evolution.
- Review of policies, procedures and systems aligned with the desired culture, to serve as a basis for the expected changes in behavior.
- Improvement with best practices, rituals and routines that will put into practice the desired culture.
- Mentoring, diversity and inclusion programs.

We will also deploy a strategy of **comprehensive wellness**, with the purpose of having *people who are dynamic, proactive, results-oriented, discerning, collaborative, broadly responsible and duly motivated to apply their skills and contributions to the maximum; with a sense of dignity, proud of belonging to the company, and who can enjoy a better quality of life.*

To this end, we will introduce wellness projects that encourage by visible, genuine leadership, the physical and intellectual wellness of our people through behavioral programs that train and enable self-care, develop their technical and thinking skills, and facilitate the means to promote their safety and health. We will also introduce professional and cultural wellness programs to be the best option for employment, personal and professional development, by freeing their full potential, within a solid culture and with a compassionate leadership that encourages diversity, equality and inclusion.

US$437 M

was the cost of energy during the year, which represented 15.9% of our production cost.

Energy

We are committed to environmental sustainability, guaranteed supply at competitive costs, and the efficient use of energy.

Energy

Renewable energy generation increased from 40.6% to 47.8% as a proportion of our annual consumption.

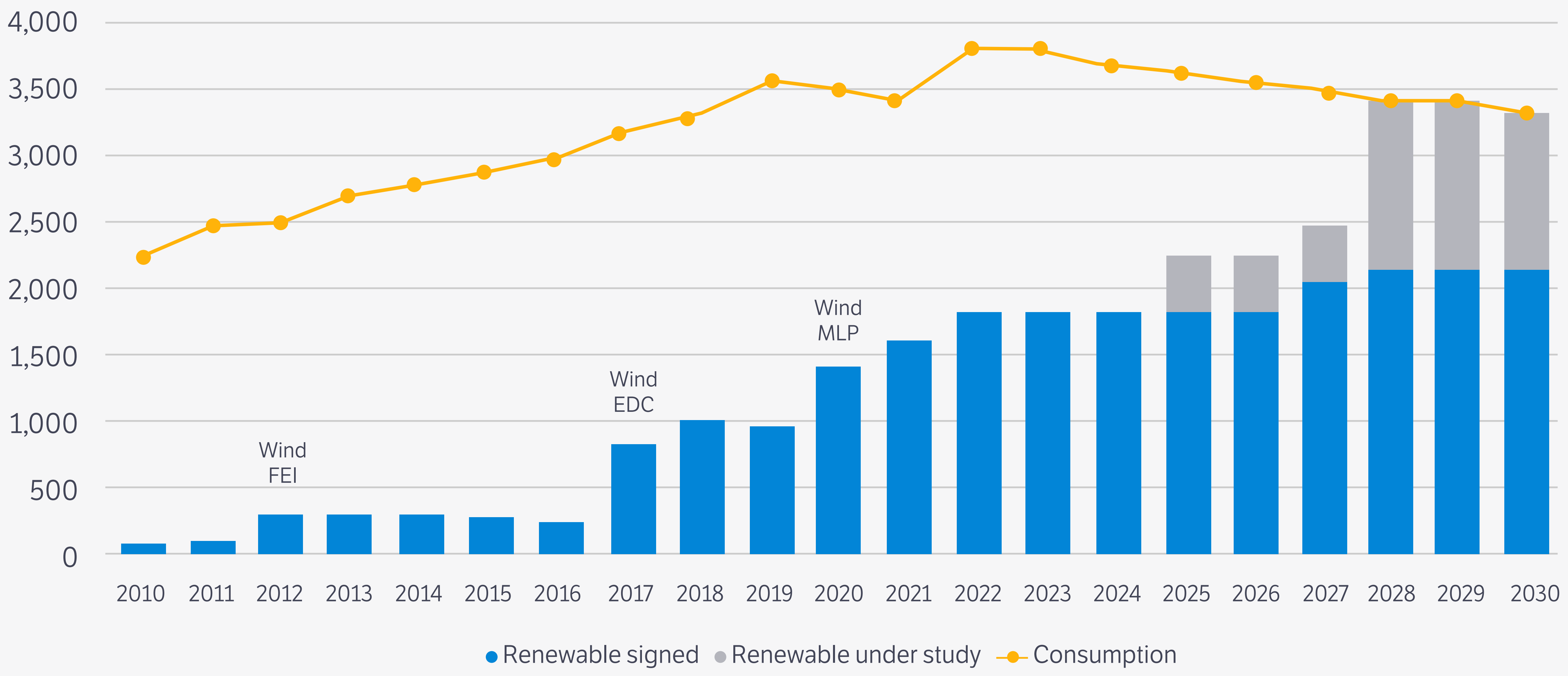
During 2021, the energy strategy was revised due to significant changes in the environment, such as the legal framework for private participation in the electricity sector, stakeholder demand for a plan to decarbonize our operations, and the emergence of new energy technologies that offer cleaner possibilities.

These changes, however, did not alter our core targets regarding energy: environmental sustainability, secure supply to ensure operating continuity, competitive costs, and efficient use.

Compared to the previous year, the share of renewable energy generation increased from 40.6% to 47.8% as a proportion of the company's consumption. Eólica Mesa La Paz (MLP) completed its first full year of operations, and an investment authorized in Fuerza Eólica del Istmo (FEI) will eliminate a technical obstacle to full capacity utilization in 21 out of the 32 wind generators available, an issue that is expected to be fully resolved by March 2022.

Projected supply of renewable energy and total energy needs

(GWh/year)



The group's power plants together generated 3,567.8 GWh, which breaks down as follows:

Electricity generation by source (%)

Source	Description	2021	2020
Termoeléctrica Peñoles (TEP)	Located in Tamuín, San Luis Potosí, with capacity to generate 230 MW. The plant is operated by an independent company, and electricity is supplied under a power purchase agreement expiring in 2027.	54.8	57.8
Eólica de Coahuila (EDC)	Located in General Cepeda, Coahuila, with installed capacity of 199.5 MW. The electricity is supplied under a power purchase agreement expiring in 2042.	20.0	20.5
Eólica Mesa La Paz (MLP)	Located in Llera de Canales, Tamaulipas, with a capacity of 306 MW; operated by an independent company. Supply is committed under an energy coverage contract expiring in 2045.	19.4	14.9
Fuerza Eólica del Istmo (FEI)	Located in El Espinal, Oaxaca, operated by Peñoles. Installed capacity of 80 MW.	5.1	6.1
Met-Mex Cogeneration	A turbogenerator with 7 MW unit capacity that utilizes excess steam from the roasting area of the electrolytic zinc plant.	0.7	0.7
Generation from proprietary sources (3,567.8 GWh/yr.)		**100.0**	**100.0**
Percentage of generation vs. consumption (3,221.4 GWh/yr.)		**110.8**	**104.7**

With the energy obtained from clean sources, we avoided the emission of more **797,000 tCO_2e** to the environment.

In 2021, the amount of electricity generated in our plants was equivalent to 110.8% of our annual consumption. Unfortunately, not all this energy could be assigned to our operations, because the Mexican Energy Regulatory Commission (CRE) has still not cleared the paperwork procedure on migrating consumers to the wholesale power market (WPM). Of all the power generated by this plant, only 6.5% was delivered to Minera Capela and the rest was sold to the WPM. Because we could not use all the energy generated by MLP, we had to purchase 428.7 GWh from the Federal Electricity Commission (CFE), which accounted for 15.0% of our consumption last year.

We will focus our efforts in 2022 on obtaining the permits necessary for our operations to receive energy from MLP.

Our generation of clean energy totaled 1,614.1 GWh, avoiding the emission of 797,409 tCO_2e, 17.4% more than in 2020.

The unit cost of the electricity consumed was 14.8% higher, due primarily to transmission fee increases.

CONSUMPTION

In 2021, the group consumed 3,221.4 GWh of electrical energy—average demand of 367.7 MW—2.7% below the year before, due to the technical stoppage at three mining units.

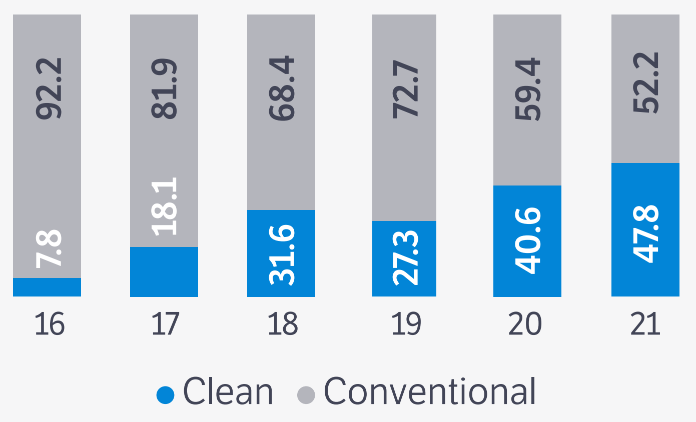
The contribution of each energy source to the group's total consumption is shown in the table below.

Contribution of each energy source to consumption
(%)

Source	2021	2020
Termoeléctrica Peñoles (TEP)	57.3	58.4
Eólica de Coahuila (EDC)	22.5	21.6
Fuerza Eólica del Istmo (FEI)	3.1	2.7
Cogeneration	0.7	0.7
Eólica Mesa La Paz (MLP)	1.4	0.0
Total supplied by proprietary sources	85.0	83.4
Energy purchased from CFE	15.0	16.6
Total consumption Peñoles	100.0	100.0
Energy from MLP delivered to the WPM	20.1	16.6
Availability of proprietary sources for Peñoles	105.1	99.1
Consumption generated from clean sources	**47.8%**	**40.6%**

Aware of our stakeholders' demand for a decarbonization plan for our operations, we are exploring clean technologies to become increasingly sustainable.

Electricity consumption by type of technology*
(%)



*In 2020 and 2021, the percentage of clean energy in total consumption—15.6% and 20.1%, respectively—corresponded to the energy from MLP, which was sold to the WPM.

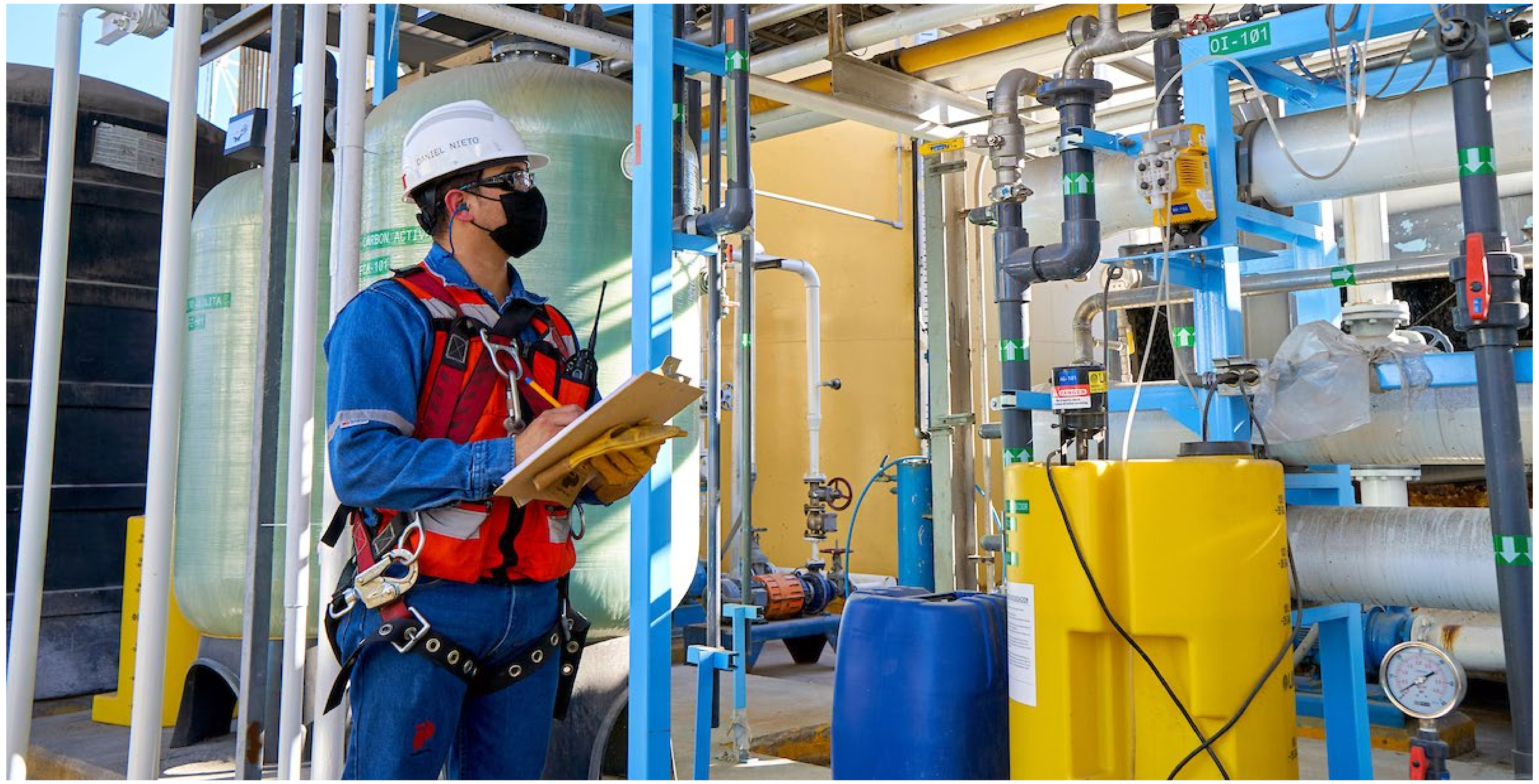
Additionally, Peñoles' energy area supplied 106.5 GWh to companies of Grupo BAL, for a total consumption of 3,327.9 GWh.

COST OF ENERGY

The average unit cost of the electricity consumed was US¢ 7.87 /kWh, 14.8% higher than the previous year. This increase was due primarily to the full-year impact of transmission fee increases by the CFE in mid-2020.

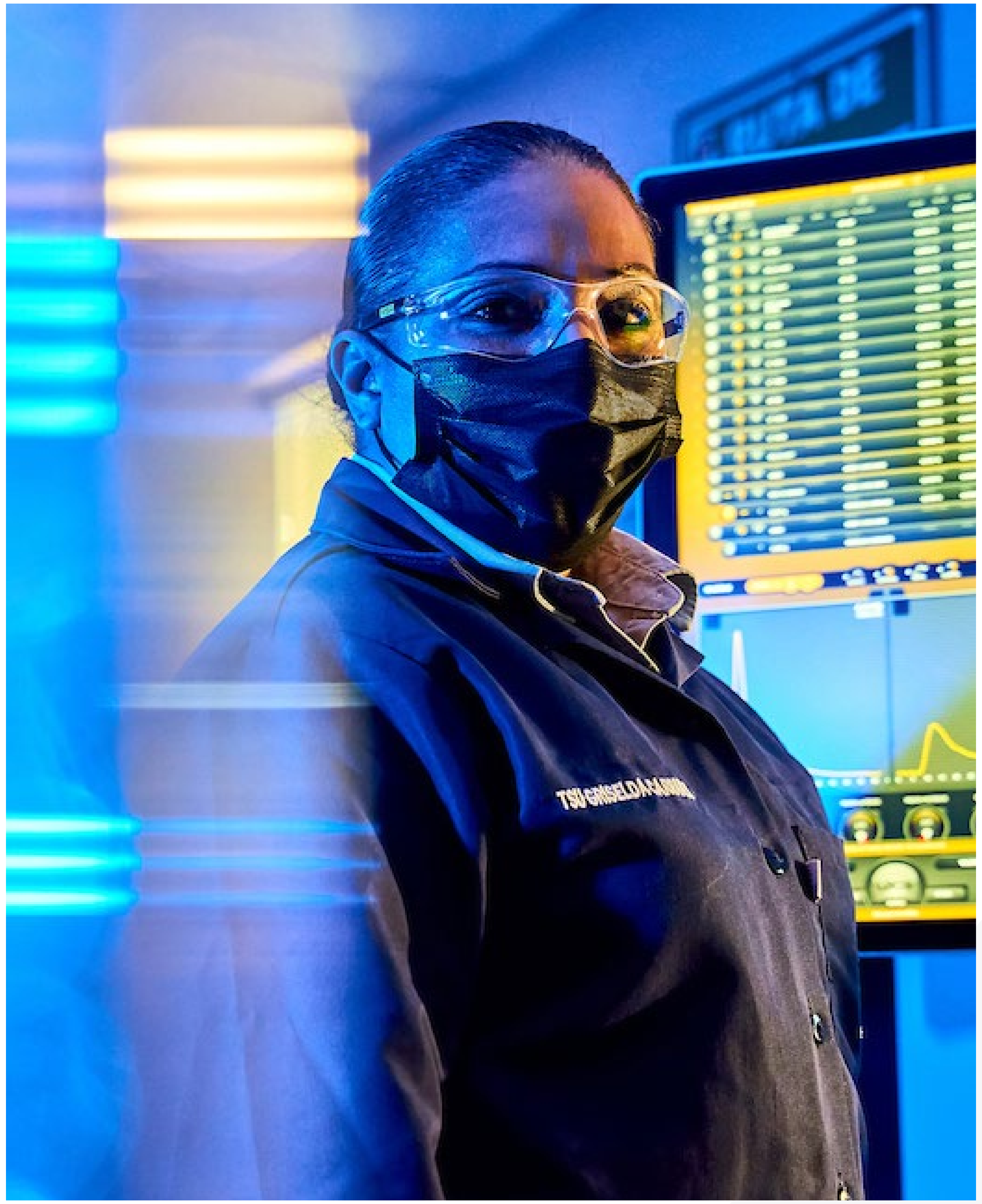
OTHER MATERIAL ISSUES

Since 2018, energy industry regulations require major users and suppliers of electricity to acquire Clean Energy Certificates (CEL). In keeping with the requirement of a 7.4% CEL for 2020, in May 2021 consumers of Termoeléctrica Peñoles acquired 124,464 CEL, which were supplied by the CEL generated by the MLP wind farm.



Fuel	Unit	2021	2020	% Chge.
Liquefied natural gas	Ml	10.4	5.4	92.5
Natural gas	Mm^3	206.0	183.0	12.6
Diesel	Ml	193.3	181.0	6.8

We analyze emerging technologies such as battery storage and production of green hydrogen which could be applied in the medium term.



The qualified user supplier, Fuentes de Energía Peñoles, completed its first full year of operations in the WPM, having traded 691.7 GWh of energy, 49.3 MW of power and 414,565 CEL.

The main challenge we faced in 2021, and which will continue in 2022, is participating in industrial chambers and working together with the federal government to create a new regulatory framework for the electrical industry, and on that basis adjust our strategy for growth and decarbonization.

With regard to other key energy sources, the recovery in industrial activity last year brought a 6.8% rise in our diesel consumption, while our consumption of natural gas increased by 12.6%.

We continued to advance in our effort to replace diesel fuel with liquefied natural gas (LNG) in heavy equipment for hauling ore. We used 92.5% more LNG in 2021, which meant a reduction in GHG emissions and more competitive costs.

In the medium term, besides incorporating an increasing percentage of renewable sources in our energy mix, we foresee the use of certain emerging technologies, such as electrification of mining equipment, battery storage and production of green hydrogen, which could be applied toward our goal of achieving CO_2 emission neutrality by 2050.

We strengthen our regulatory system, compliance controls and third-party due diligence procedures.

Corporate governance

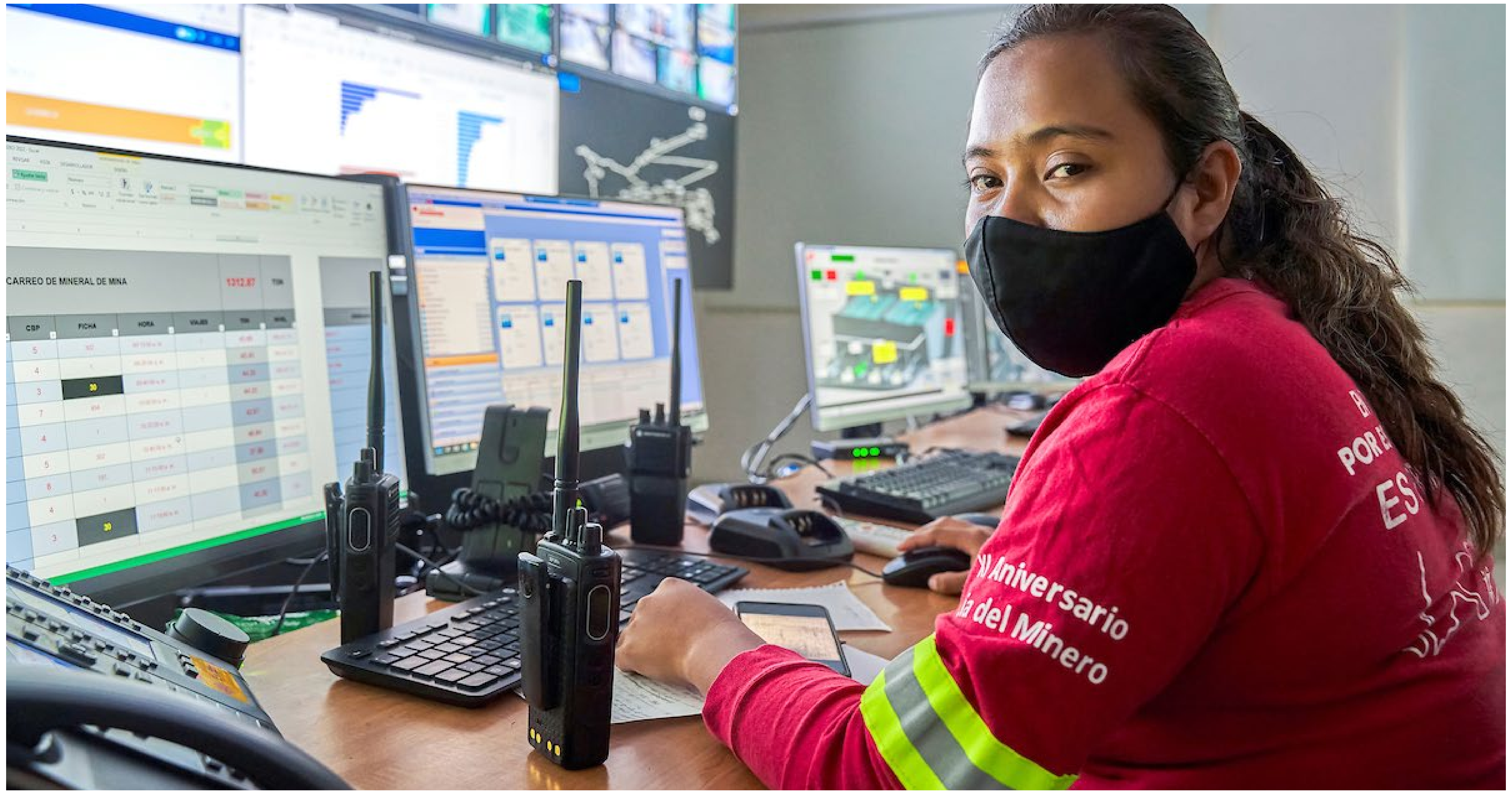
We abide by sound corporate governance practices and conduct our business with integrity.

Integrity and compliance

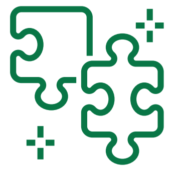
We are committed to exceeding national and international regulatory requirements and doing business with integrity. We are guided by our solid values, and we intend to ensure these principles permeate our entire value chain and extend to all our stakeholders.

We have a zero-tolerance stance on crime, fraud and corruption. Accordingly, in 2021 we worked to strengthen our regulatory system, compliance controls and third-party due diligence procedures. We also reinforced our cybersecurity governance to protect our assets and promote responsible technology use.

From a co-creation and collaboration approach, we undertook several initiatives focused on protecting and increasing the value of the organization, in order to strengthen the alignment of our corporate culture to its integrity and compliance components.



The following are the highlights of our progress this year.

Area	Goal	Key strategies
 Corporate integrity	Strengthen a solid culture of integrity based on our vision, expected behavior and institutional values throughout the company, which underpins our decision-making tools.	► Standardize integrity practices in the group, by: i) underscoring our commitment to integrity through digital signature certification and a system for declaring conflicts of interest; and ii) training in regulatory compliance. In 2021, 3,388 of our employees participated in this effort. ► A Third-Party Code of Conduct aimed at the company's critical commercial partners. In 2021 we trained a total 715 employees in areas of contact with third parties. In 2022 we will begin training critical partners. ► Obtain recognition for our ethical business practices and our law-abiding culture. In 2022 we will apply for The Most Ethical Companies recognition, sponsored by the Ethisphere Institute. ► Speak Up Culture: Encourage open communication on matters of integrity and use of the company's whistleblower line, Línea Correcta. In 2021, 138 reports were received through this channel (79% more than in 2020). More details on the reports received can be viewed in the 2021 Sustainable Development Report.
 Control framework	Prevent, detect and mitigate compliance risks (corruption, fraud, money-laundering and conflicts of interest) that affect the entire organization.	► Introduction of the GAN Risk Control tool to automate due diligence from a core risk-based approach, maintaining integrity in the company's relations with third parties on key issues like bribery, corruption, money-laundering, lawsuits and reputation. We expect this system to be fully in place by the first half of 2022 and it will apply to 15,000 third parties. ► Create the methodological framework for compliance risks and controls, to protect the value of the company based on best international practices using a preventive approach. We drafted a preliminary design for the methodological framework and conducted an initial anti-bribery and anti-fraud diagnosis based on ISO-37001 standards and the UK Bribery Act for companies of the group. We also followed up on and analyzed employee statements of conflicts of interest.
 Regulations	Promote and distribute the internal and external regulatory governance framework in conjunction with all areas of the company.	► Strengthen the Regulatory Compliance System from three lines of defense, through regulatory mapping, analysis of regulatory gaps and risks associated with default on obligations, in coordination with different operating and administrative areas, Legal and Audit, according to their specialty. Together with Legal and Human Resources, we will be applying for NYCE™ certification, sponsored by the National Institute for Transparency, Access to Information and Protection of Personal Data (INAI). ► Adopt ESG, working environment, human rights, equality, non-discrimination and diversity practices, together with strategic areas of the company. Begin the processes of diagnosis, training and regulatory development to lay the groundwork for company strategies that will make us international trend-setters in our industry starting in 2022.
 Cybersecurity	Safeguard technology processes, coordinate efforts to protect the privacy of personnel and company information.	► Continuously and permanently monitor cybersecurity to improve detection and react promptly to threats in our technological devices. Train all our employees and let them know that cybersecurity is a responsibility we all share, and that protecting our technology ensures that its benefits are accessible to the entire organization. In 2022 we will reinforce cybersecurity culture within our strategy of cultural evolution, to build awareness on this issue. ► Secure access. We incorporated a secure access initiative for all our technological assets, raising visibility and tightening controls over user identities, permissions and devices. In 2022 we will focus on managing vulnerabilities, investigating and promptly correcting failures in our technological assets. ► Validate architecture and issue recommendations for secure deployment of new technologies and platforms. We completed the process of making operating technologies more visible for the various disciplines of cybersecurity, for monitoring and analysis purposes.
 Operating intelligence	Prevent, detect and mitigate unethical behavior that violates the Code of Conduct, and follow up on the sanctions defined by the Ethics and Corporate Value Committee or Honor Commission.	► Investigate reports and findings on information received through our whistleblower channels. We will continue optimizing the investigation process in keeping with the number of reports received, the level of complexity and geographic location of the events reported. The results of these investigations are discussed quarterly on the Ethics and Corporate Values Committee and the Honor Commission. Some of our efforts in 2022 will go to following up on areas of opportunity detected during the investigations, identifying red flags for compliance and recommending remedial plans in areas with greater exposure.

THREE LINES OF DEFENSE

First line

Made up of responsible areas, processes and technology; focused on daily operations, to avoid incidents and guarantee compliance with existing laws and regulations.

Second line

The supervisory and reporting duties and indicators of the Comptrollers, Risk Management, Compliance Office, Legal Department and others; focused on identifying and regularly assessing events and incidents and assisting in mitigation activities.

Third line

The Internal Audit area, which provides independent assurance to the Audit Committee and senior management regarding risk mitigation, effectiveness and efficiency of controls and corporate governance.

We transform our integrity practices into opportunities for growth and competitiveness, adapted to the new environment.

RECOGNITIONS

For the second year in a row, Industrias Peñoles was ranked among **The Most Ethical Companies 2021** (10th place), achieving a particularly high score for Ethical Business Philosophy (4th place).

Peñoles came in at the top of the **IC500 Corporate Integrity Index** of Mexico's 500 most important companies, based on a diagnosis by *Mexicanos contra la Corrupción y la Impunidad*, in coordination with *Transparencia Mexicana* and *Grupo Expansión*.

Corporate governance structure

Executive Committee

7 Directors elected by the Board from among its members

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

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

Board of Directors

15 proprietary Board members and 13 alternates

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

Secretary

Chief Executive Officer and Management Team

Business management, leadership and execution

Audit and Corporate Governance Committee

3 independent Board members

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

Finance and Planning Committee

7 Board members, experts in financial matters

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

Nomination, Evaluation and Compensations Committee

3 Board members

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

The Board met six times in fiscal year 2021. In all the sessions there was a remarkably high quorum: 100% of the members attended two of these sesions, and more than 92% the remaining four.

In 2021, the total compensation to the relevant executives amounted to Ps. 192.3 million.

The Annual Shareholders Meeting held on April 29, 2021 authorized a remuneration of Ps. 130,000 to each director for every session attended, as well as the amount of Ps. 90,500 to each member of the Audit and Corporate Governance Committee per session, and Ps. 110,000 to the President of said Committee.

Board of directors

Chairman
Alejandro Baillères G.

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

Secretary
Gerardo Carreto Chávez

Alternate directors
Juan Pablo Baillères G. (7)
Leopoldo Alarcón R. (7)
Gabriel Kuri L. (7)
Dolores Martin C. (5)
Alejandro Hernández D. (7)
Luis M. Murillo P. (7)
Francisco Javier Fernández C. (5)
Rafael Rebollar G. (7)
Juan Carlos Escribano G. (7)
Raúl Obregón Del C. (4) (5)
María Ocampo (7)
Luis Aguilar y Bell (5)
Roberto Palacios P. (1) (3) (7)

(†) R.I.P.
Note: Board composition in accordance with the resolutions of the Annual General Shareholders' Meeting held on April 29, 2021.

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

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

(1) Executive Committee
Secretary: Miguel Linares
Guest: Diego Hernández
(2) Nomination, Evaluation and Compensations Committee
(3) Finance and Planning Committee
(4) Audit and Corporate Governance Committee
*(5) Independent Director**
A Director who performs his duties free from conflicts of interest and without being subject to personal, patrimonial or economic interests, and furthermore, a person who is excluded from restrictions provided by Article 26 of the Securities Market Law.
*(6) Shareholder Director**
A Director who has a 1% (one percent) direct interest or more in the equity capital of the Company.
*(7) Related Director**
A Director not being deemed as "Independent" or "Shareholder Director".
Among others, Related Directors are those whom:
Serve as officers at some level of the Company and its subsidiaries, as well as officers at any level of the companies comprising the Grupo BAL consortium.
Have kinship to the fourth degree with other Directors, as well as the spouses and non-spouses a concubinage relationship
*(8) Shareholder and Related Director**
A Director who besides being "Related", also has a 1% direct interest or more in the equity capital of the Company.

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

Peñoles Senior Executives

CHIEF OFFICERS

Rafael Rebollar González
Chief Executive Officer
Vice President
Metals and Chemicals

Luis Humberto Vázquez San Miguel
Vice President
Mining

Jeremy Donald Gillis
Vice President
Metals Operations

Javier García Fons
Vice President
Exploration

Manuel Medina Pegram
Vice President
Commercial
Metals and Chemicals

Mauricio I. García Torres
Vice President
Finance

María Nancy Acosta Jáuregui
Vice President*
Internal Control

ASSISTANT VICE PRESIDENTS

Roberto González Rodríguez
Northern Operations

Francisco Javier Berumen Muro
Southern Operations

Miguel Eduardo Muñoz Pérez
Planning

Luis Ernesto Ibarra Ortiz
Chemicals Marketing

Juan Manuel Martínez González
Metals Marketing

Luis Lauro Rodríguez González
Technical

Óscar Luévano Ovalle
Raw Materials

Juan Francisco Corona Martínez
Financial Planning

Gerardo R. Rojas Favela
Operations Comptroller

Reports directly to the Audit and Corporate Governance Committee.

Baluarte Minero Senior Executives

CHIEF OFFICERS






Fernando Alanís Ortega
Chief Executive Officer

Leopoldo Alarcón Ruiz
Deputy CEO
Vice President
Administrative Services

Álvaro Soto González
Vice President
Law

Martín Arreola Coronel
Vice President
Administrative Services

Arturo Vaca Durán
Vice President
Energy

Rodolfo Gómez Maturano
Vice President
Procurement and IT

Roberto Velasco Cuevas
Labor Development

José Von Bertrab Saracho
Strategic Planning

Daniel Torres Guerrero
Special Projects

María Luisa Aguilera López
Human and Organizational Development

Christopher Ávila Mier
Government Relations

Exequiel Rolón Michel
Community Development and Environment

Gustavo Alarcón Caballero
Corporate Law

Javier Romero Castañeda
Labor Litigation and Agrarian Law

Armando Saucedo Hernández
Fiscal Planning

Gerardo Saucedo Ortega
Comptroller

Jorge Calderón Buendía
Treasury and Financing

Pablo Alvarado Vargas
Information Technologies

Demetrio Juárez Martínez
Procurement

ASSISTANT VICE PRESIDENTS

Baluarte Minero Senior Executives

CHIEF OFFICERS

Cristóbal Mariscal Herrerías
Vice President
Compliance

Herman Dittmar Charles
Deputy CEO
Vice President
Technical Services

Ricardo Alanís Ramírez
Vice President
Projects and Construction

David Giles Campbell
Vice President
Explorationr

Marcelo Ramos
Vice President
Business Development

Leopoldo Villalobos Romo
Project Control

Alejandro Contreras González
Mining and Services

Sebastián Trejos Saldaña
Health and Safety

Humberto Aldana Martínez
Infrastructure

Benito Noguez Alcántara
Exploration

Leopoldo González Villalvaso
Exploration

ASSISTANT VICE PRESIDENTS

Information for shareholders

The process of evolution that we have undertaken has involved deep reflection, as it entails a change of culture and new ways of doing things.

Corporate headquarters

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

Stock exchange

Mexican Stock Exchange (BMV):
Ticker PE&OLES

Auditor

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

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Celia Ortega C.
Investor Relations
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Celia_Ortega@penoles.com.mx

Share information

Share price (pesos):

Close	$ 235.56
High	$ 390.11
Low	$ 235.56

Market capitalization at the end of the year:
US$ 4.5 B

Shares outstanding as of December 31, 2021:
397,475,747

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

Financial calendar*

1Q 2022 results: May 02, 2022
2Q 2022 results: July 28, 2022
3Q 2022 results: October 28, 2022
4Q 2022 results: February 28, 2023

Versión en español

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

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

** Estimated dates.*

Financial statements

Consolidated financial statements, 31 December 2021 and 2020 with Independent Auditor's Report

PEÑOLES

Independent Auditor's report to the Shareholders of Industrias Peñoles, S.A.B. de C.V.

Opinion

We have audited the accompanying consolidated financial statements of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2021 and 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries as at 31 December 2021 and 2020 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.

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

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

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

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

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

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

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

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

We assessed the disclosure related to the recognition of the current and deferred income tax assets and liabilities in the consolidated financial statements as at 31 December 2021 and 2020.

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when we have access to it and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Mancera, S.C.

A Member Practice of

Ernst & Young Global Limited

C.P.C. Sergio Mora González
Monterrey, Nuevo León,
1 March 2022.

Consolidated Statements of Financial Position

Amounts in thousands of U.S. dollars

	Note	As at 31 December 2021	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	8	**$ 1,817,094**	$ 1,592,650
Trade and other accounts receivable, net	9	**582,142**	541,065
Recoverable income tax		**101,423**	75,916
Other financial assets	10	**73,621**	18,111
Inventories	11	**1,718,065**	1,560,608
Prepaid expenses		**36,024**	27,085
Total current assets		**4,328,369**	3,815,435
Non-current assets classified as held for sale	40	**-**	8,346
NON-CURRENT ASSETS:			
Trade and other accounts receivable, net	9	**24,394**	496
Other financial assets	10	**15,806**	4,612
Inventories	11	**91,620**	91,620
Equity instrument financial assets	12	**176,560**	232,549
Property, plant and equipment, net	13	**4,707,344**	4,671,553
Equity investments in associates	14	**55,120**	32,160
Right-of-use assets	15	**99,244**	102,829
Deferred income tax	21	**280,961**	271,308
Other assets		**13,841**	19,523
Total non-current assets		**5,464,890**	5,426,650
Total assets		**$ 9,793,259**	$ 9,250,431

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

Consolidated Statements of Financial Position

Amounts in thousands of U.S. dollars

	Note	As at 31 December 2021	2020
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Suppliers and other accounts payable	16	**$ 776,097**	$ 487,548
Other financial liabilities	17	**107,030**	208,014
Financial debt	18	**81,034**	38,768
Employee benefits	19	**51,933**	56,410
Lease liabilities	15	**15,428**	15,640
Income tax payable		**168,481**	176,868
Total current liabilities		**1,200,003**	983,248
Liabilities directly associated with non-current assets classified as held for sale	40	**-**	10,937
NON-CURRENT LIABILITIES:			
Financial debt	18	**2,855,788**	2,862,843
Employee benefits	19	**52,599**	66,338
Other financial liabilities	17	**15,685**	20,697
Income tax	21	**4,723**	9,771
Lease liabilities	15	**92,578**	92,711
Provisions	20	**463,005**	449,737
Deferred income tax	21	**84,998**	223,611
Total liabilities		**4,769,379**	4,719,893
EQUITY:			
Share capital	22	**401,399**	401,399
Legal reserve	39	**52,304**	52,304
Retained earnings		**3,455,520**	3,116,561
Components of other comprehensive loss	22	**(41,919)**	(97,911)
Equity attributable to equity holders of the parent		**3,867,304**	3,472,353
Non-controlling interests	3	**1,156,576**	1,058,185
Total equity		**5,023,880**	4,530,538

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

Consolidated Statements of Profit or Loss

Amounts in thousands of U.S. dollars

	Note	For the year ended 31 December 2021	2020
Sales	26	**$ 5,971,814**	$ 4,673,309
Cost of sales	27	**4,416,007**	3,424,343
GROSS PROFIT		**1,555,807**	1,248,966
Administrative expenses	28	**283,543**	249,669
Exploration expenses	29	**170,869**	141,038
Selling expenses	30	**130,416**	115,707
Impairment in the value of long-lived assets	13	**-**	166,353
Other expenses	32	**34,931**	43,745
Other income	32	**(45,880)**	(29,093)
		573,879	687,419
OPERATING PROFIT		**981,928**	561,547
Finance income	33	**(20,262)**	(25,191)
Finance costs	34	**171,472**	259,796
Foreign exchange loss, net		**1,622**	49,208
Share of loss of associates	14	**5,607**	3,321
PROFIT BEFORE INCOME TAX		**823,489**	274,413
Income tax	21	**260,914**	184,812
CONSOLIDATED NET PROFIT		**$ 562,575**	$ 89,601
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$ 391,348**	$(34,384)
NON-CONTROLLING INTERESTS	3	**171,227**	123,985
		$ 562,575	$ 89,601
EARNINGS/(LOSS) PER SHARE (basic and diluted in U.S. dollars)	23	**$ 0.98**	$(0.09)

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

Consolidated Statements of Comprehensive Income

Amounts in thousands of U.S. dollars

	Note	For the year ended 31 December 2021	2020
CONSOLIDATED NET PROFIT		**$ 562,575**	$ 89,601
COMPONENTS OF OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized loss on valuation of hedges:			
Loss reclassified to earnings	38	**(123,894)**	(34,643)
Deferred income tax	21	**37,168**	10,393
Reclassification of hedging instruments due to payment of underlying asset	38	**-**	(25,143)
Deferred income tax	21	**-**	7,543
Changes in the fair value of hedges	38	**237,609**	(74,266)
Deferred income tax	21	**(71,283)**	22,280
Realized gain on hedges due to early closing of positions	38	**-**	32,138
Deferred income tax	21	**-**	(9,641)
Net effect of unrealized gain/(loss) on valuation of hedges		**79,600**	(71,339)
Share of loss of associates	14	**(1,153)**	(484)
Foreign currency translation reserve		**1,427**	(10,484)
Other comprehensive income/(loss) items to be reclassified to profit or loss		**79,874**	(82,307)
COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain on valuation of employee benefits			
Actuarial gain	19	**13,562**	5,498
Deferred income tax	21	**(2,156)**	(874)
		11,406	4,624
Unrealized (loss)/gain on valuation of equity instrument financial assets			
Unrealized (loss)/gain	12	**(55,989)**	98,583
Deferred income tax	21	**16,794**	(29,575)
		(39,195)	69,008
Other comprehensive (loss)/income items that will not be reclassified to profit or loss		**(27,789)**	73,632
TOTAL COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)		**52,085**	(8,675)
COMPREHENSIVE INCOME		**$ 614,660**	$ 80,926
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$ 447,340**	$(54,598)
NON-CONTROLLING INTERESTS		**167,320**	135,524
		$ 614,660	$ 80,926

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

Consolidated Statements of Changes in Equity

For the Years Ended 31 December 2021 and 2020

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 31 December 2019		$ 401,399	$ 52,304	$ 3,115,473	$ 35,472	$ 3,150,945	$ (77,697)	$ 3,526,951	$ 960,941	$ 4,487,892
Net (loss) profit for the year		-	-	-	(34,384)	(34,384)	-	(34,384)	123,985	89,601
Components of other comprehensive (loss) income		-	-	-	-	-	(20,214)	(20,214)	11,539	(8,675)
Comprehensive (loss) income		-	-	-	(34,384)	(34,384)	(20,214)	(54,598)	135,524	80,926
Shareholders' resolutions:										
Appropriation of net profit from prior year		-	-	35,472	(35,472)	-	-	-	-	-
Increase in non-controlling interests	3	-	-	-	-	-	-	-	53	53
Dividends declared		-	-	-	-	-	-	-	(38,333)	(38,333)
Balance as at 31 December 2020		401,399	52,304	3,150,945	(34,384)	3,116,561	(97,911)	3,472,353	1,058,185	4,530,538
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 31 December 2021		**$ 401,399**	**$ 52,304**	**$ 3,064,172**	**$ 391,348**	**$ 3,455,520**	**$ (41,919)**	**$ 3,867,304**	**$ 1,156,576**	**$ 5,023,880**

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

Consolidated Statements of Cash Flows

Amounts in thousands of U.S. dollars

	Note	For the year ended 31 December 2021	2020
OPERATING ACTIVITIES			
Net cash flows from operating activities	35	**$ 1,150,890**	$ 1,113,062
INVESTING ACTIVITIES			
Purchase of property, plant, and equipment		**(749,667)**	(540,637)
Interest capitalized in property, plant, and equipment		**(12,392)**	(20,657)
Purchase of intangible assets		**(6,127)**	(2,490)
Proceeds from sale of property, plant, and equipment		**30,836**	3,425
Collection of loans granted to contractors		**4,370**	1,834
Cash dividends received		**99**	-
Interest received		**17,701**	10,073
Increase in equity investments in associates	14	**(32,107)**	(4,690)
Cash flows received from the assignment of mining concessions	4	**25,000**	-
Net cash flows used in investing activities		**(722,287)**	(553,142)
FINANCING ACTIVITIES			
Interest paid		**(132,232)**	(104,047)
Interest rate hedges		**1,690**	4,889
Loans obtained	18	**1,005,217**	1,620,032
Repayment of loans	18	**(976,358)**	(937,607)
Transaction costs paid on loan	18	**(40)**	(19,276)
Premiums paid on debt repurchase	18	**-**	(60,835)
Principal and interest paid for leases	15	**(24,595)**	(26,029)
Cash dividends paid to equity holders of the parent		**(49,902)**	(3)
Cash dividends paid to non-controlling interests		**(99,566)**	(33,839)
Increase in non-controlling interests	3	**31,886**	53
Loans from holders of non-controlling interests	25	**41,756**	63,712
Net cash flows (used in)/from financing activities		**(202,144)**	507,050
Increase in cash and cash equivalents		**226,459**	1,066,970
Net foreign exchange difference		**(2,015)**	(667)
Cash and cash equivalents at beginning of year		**1,592,650**	526,347
Cash and cash equivalents at end of year		**$ 1,817,094**	$ 1,592,650

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

Notes to Consolidated Financial Statements

31 December 2021 and 2020

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). The Company 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 the Company (or corresponding penalty is not paid to the appropriate authorities), 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 2020, the COVID-19 outbreak rapidly spread causing a significant number of infections all over the world. In 2021, 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 2021 and 2020, Grupo Peñoles has taken a number of measures to safeguard the health of its employees and their local communities, while continuing to operate safely and responsibly. The costs incurred by the Company in implementing COVID-19 safety measures totaled $ 9,640 and $ 7,773, respectively, and were recognized as expenses for the years ended 31 December 2021 and 2020. In relation to the COVID-19 outbreak, from 30 March to 31 May 2020, the Mexican government has established quarantine requirements and restrictions on certain economic activities that are considered non-essential. However, as of June 2020, mining activities were declared as essential activities; accordingly, all mines are currently operating at its normal production capacity. During the lockdown period in 2020 that had also an impact on the Company's open pit mines in Sonora, the Company incurred in certain fixed costs that Management decided not to consider as production costs and instead, they were recognized as unabsorbed production costs in the amount of $ 19,403. Attempts at containment of COVID-19 have resulted in decreased economic activity, which has adversely affected the global economy in general. In the current environment, assumptions about future commodity prices, exchange rates and interest rates are subject to greater variability than normal, which could in the future affect the value of the Company's financial and non-financial assets and liabilities. As at 31 December 2021 and 2020, there were no material changes in the value of the Company's assets and liabilities due to COVID-19.

1. Description of the Business (concludes)

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

2. Basis of Preparation

On 1 March 2022, the consolidated financial statements and these notes were authorized by the Company's Chief Executive Officer, Chief Financial Officer, Administrative Services Director, and the General Counsel, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the consolidated financial statements.

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

The consolidated financial statements are presented in U.S. dollars (see Note 6), which is the 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 are expressed in thousands of Mexican pesos, unless otherwise indicated.

The accompanying consolidated financial statements cover the following periods:

- Statements of financial position as at 31 December 2021 and 2020
- Statements of profit or loss for the years ended 31 December 2021 and 2020
- Statements of comprehensive income for the years ended 31 December 2021 and 2020
- Statements of changes in equity and statements of cash flows for the years ended 31 December 2021 and 2020

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

- Derivative financial instruments
- Equity instrument financial assets
- Certain inventories valued at fair value

3. Consolidation

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

Subsidiaries

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

3. Consolidation (continued)

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

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

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

Associates

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

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

Significant subsidiaries

The significant subsidiaries are as follows:

100%-owned subsidiaries of the Company:

			% equity interest	
Subsidiary	Country	Functional currency (1)	**2021**	31 December 2020
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

3. Consolidation (continued)

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

Subsidiaries with non-controlling interests

Subsidiary	Country	Primary activity
Fresnillo plc	England	Holding company whose subsidiaries are primarily engaged in the extraction and processing of mineral concentrates containing mostly silver and gold in Mexico. The subsidiary was incorporated under the laws of the United Kingdom and is publicly traded on the London Stock Exchange. This company is a 75%-owned subsidiary of Grupo Peñoles, 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.

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

Subsidiary	**2021 %**	2020 %	Non-controlling interests in net profit for the year **2021**	2020	Non-controlling interests in equity **2021**	2020
Fresnillo plc	**25**	25	**$ 126,198**	$ 92,179	**$ 1,083,764**	$ 996,366
Minera Tizapa	**49**	49	**44,194**	32,817	**75,489**	65,376
Other			**835**	(1,011)	**(2,677)**	(3,557)
			$ 171,227	$ 123,985	**$ 1,156,576**	$ 1,058,185

For the years ended 31 December 2021 and 2020, Exploraciones y Desarrollos Mineros Coneto, SAPI de C.V. and Minera Juanicipio, S.A. de C.V., both subsidiaries of Fresnillo PLC, increased their share capital and their contributions from non-controlling interests. These transactions were recognized as an increase of $ 31,886 and $ 53, respectively, in the caption Non-controlling interests in the consolidated statements of changes in equity.

An analysis of the condensed financial information before eliminations as at 31 December 2021 and 2020 of the significant subsidiaries with non-controlling interests is as follows:

Statement of financial position:

	2021 Fresnillo plc	**2021** Minera Tizapa	2020 Fresnillo plc	2020 Minera Tizapa
Assets:				
Current assets	**$ 2,123,054**	**$ 147,529**	$ 2,000,869	$ 117,246

3. Consolidation (concludes)

	2021		2020	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Current liabilities	**$ 465,546**	**$ 38,779**	$ 339,831	$ 44,768
Non-current liabilities	**$ 1,499,249**	**$ 30,096**	$ 1,717,627	$ 30,371
Total liabilities	**$ 1,964,795**	**$ 68,875**	$ 2,057,458	$ 75,139
Equity	**$ 3,802,672**	**$ 164,495**	$ 3,614,604	$ 137,898
Total liabilities and equity	**$ 5,767,467**	**$ 233,370**	$ 5,672,062	$ 213,037
Dividends paid	**$ 245,561**	**$ 79,999**	$ 104,686	$ 24,820

Statement of comprehensive income:

	2021		2020	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Sales	**$ 2,703,095**	**$ 284,882**	$ 2,430,055	$ 227,506
Operating profit	**$ 666,733**	**$ 145,127**	$ 649,683	$ 102,042
Net profit	**$ 438,496**	**$ 98,149**	$ 375,579	$ 67,097
Components of other comprehensive (loss)/income	**$(35,693)**	**$ 8,531**	$ 64,995	$(8,302)
Comprehensive income	**$ 402,803**	**$ 106,680**	$ 440,574	$ 58,795

Statement of cash flows:

	2021		2020	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Net cash flows from operating activities	**$ 895,140**	**$ 123,662**	$ 917,685	$ 86,548
Net cash flows used in investing activities	**(501,565)**	**(90,977)**	(366,101)	(35,378)
Net cash flows (used in)/from financing activities	**(227,316)**	**(9,888)**	182,255	432
Net increase in cash and cash equivalents	**166,259**	**22,797**	733,839	51,602
Cash and cash equivalents at beginning of year	**1,070,415**	**78,743**	336,576	27,141
Cash and cash equivalents at end of year	**$ 1,235,282**	**$ 101,540**	$ 1,070,415	$ 78,743

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 communal land owners (*ejidatarios*) associated with the communal land (ejido) called "El Bajío" in the State of Sonora, who claimed rights over certain surface land in the proximity of the operations of a Company's subsidiary mine, Minera Penmont, S. de R.L. de C.V. (Penmont), 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 and 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 and 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 the leaching pads near the mine site, land access to the mine site is required to further exploit the concession at Soledad and Dipolos.

Penmont is the legal and registered owner of the land where the leaching pads are located, but has not yet been able to gain physical access to these pads due to the opposition by certain local individuals. Fresnillo plc has a reasonable expectation that Penmont will eventually regain access to the Soledad and Dipolos assets and process the ore content in the Soledad and Dipolos leaching pads. This expectation considers multiple scenarios, including but not limited to the different legal proceeding that Minera Penmont has presented in order to regain access to the lands, , which proceedings are pending final resolution.. Therefore, Fresnillo plc continues to recognize property, plant, and equipment of $ 35,900 and inventories of Ps. 91,620. Due to the fact that it is not yet certain when access may be granted to Penmont so that the inventory can be processed, this inventory is classified as a non-current asset.

As previously reported, communal landowners of El Bajío also presented claims against occupations agreements they entered into with Penmont, covering land parcels other than the surface land where the Soledad & Dipolos mine 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 Fresnillo plc. There are no material assets recognized in respect of these land parcels at 31 December 2021 or 31 December 2020.

ii) Layback agreement

In December 2020, the Company, 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, the Fresnillo plc will transfer the legal rights to access and mine the mineral concession to Orla.

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

Due to the fact that the contracts were negotiated together, Fresnillo plc has considered the layback contracts as a single agreement (Layback Agreement). Fresnillo plc determined that this transaction should be accounted for as the sale of a single intangible asset. As such, it is relevant to consider the point at which control transfers in accordance with the requirements of IFRS 15 regarding when a performance obligation is satisfied and in light of the continuing performance obligations on the part of Fresnillo plc.

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 2022 and $ 22,800 in 2023. The future amounts bear interest at an annual rate of 5%. The Company recognized the contractual consideration ($ 67,200) at fair value, discounted at a risk-free rate.

As set out in the Layback Agreement, as at 31 December 2021, Fresnillo plc continues to provide support to Orla in respect of other negotiations relevant to their acquisition of the rights to access from the communal land thus. the Company has recognized the total value of the agreement as a deferred income. Based on the expected time of complete the transfer of control of the asset, the Company deferred income is classified as current.

The ongoing support does not affect Fresnillo's plc contractual right to the future payments set out above. As at 31 December 2021, the balance receivable under this agreement is $ 40,598, of which $ 16,684 are current and $ 23,914 are non-current.

iii) Subsidiaries with non-controlling interests

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

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 the Company's past experience in similar matters. The reports supporting these estimates are prepared periodically. Grupo Peñoles reviews these estimates periodically with the support of recognized independent experts to obtain certification of its mineral reserves.

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

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

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

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

c) Property, plant, and equipment

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

d) Provision for asset decommissioning and rehabilitation

The Company records the present value of estimated costs of legal and constructive obligations required to rehabilitate operating locations in the period in which the obligation is incurred. Estimated rehabilitation costs include the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the 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 the Company's corporate social responsibility policies.

Environmental costs are also estimated by the Company's own internal specialists with the support of studies performed by independent experts. Generally speaking, management applies its judgment and experience to estimate decommissioning and rehabilitation costs over the life of each mine.

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

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

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

e) Retirement benefits

Assumptions are used to calculate the Company's employee long term retirement benefits. Assumptions, as well as the estimates they give rise to, are determined together with independent actuaries. The assumptions cover demographical hypothesis, discount rates, expected salary increases, 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. The Company evaluates the probability of losing its on-going litigations based on the estimates of its legal advisors and these evaluations are reassessed periodically.

h) Leases

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

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

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

Grupo Peñoles cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company 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 the Company 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) . The Company 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 lease payments to be made over the lease term. Lease payments are discounted at the incremental borrowing rate of the lessee. Subsequently, lease liabilities are measured using the effective interest rate (EIR) method and are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, carrying amount of lease liabilities are remeasured if there is a lease modification or reassessment. As at 31 December 2021 and 2020, the weighted average incremental borrowing rate applied to lease liabilities was 5.40% and 6.34%, 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 1 January 2021 (unless otherwise indicated). Grupo Peñoles has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the Company's consolidated financial statements. As part of the measures implemented in relation to the adoption of these amendments and the Company's strategy to face the replacement of the applicable benchmark interest rate, management has taken the actions described in Note 18. Additionally, Grupo Peñoles has included practical expedients as part of its accounting policy for financial instruments and expects to use them in the future if applicable.

5. Changes in Accounting Policies (concludes)

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

Grupo Peñoles has received no Covid-19-related rent concessions.

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.

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.

6. Summary of Significant Accounting Policies (continued)

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

	2021	2020
Exchange rate as at 31 December (Mexican pesos per U.S. dollar)	**20.58**	19.95
Average exchange rate (Mexican pesos per U.S. dollar)	**20.28**	21.50

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.

c) Financial assets

Grupo Peñoles classifies its financial assets into the following categories:

- Financial assets at amortized cost

- Financial assets at fair value through Other Comprehensive Income (OCI), and

- Financial assets at fair value through profit or loss.

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

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

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

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

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

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

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

6. Summary of Significant Accounting Policies (continued)

Financial assets at amortized cost

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

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

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

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

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

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

Unrealized gains and losses resulting from equity instruments 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 the Company benefits from such proceeds as a recovery of part of the cost of the financial asset. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

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

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

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

Derecognition of financial assets

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

6. Summary of Significant Accounting Policies (continued)

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.

As at 31 December 2021 and 2020, Grupo Peñoles has transferred substantially all of the risks and rewards of ownership of its financial assets in the amount of $ 39,161 and $ 17,251, 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, the Company uses the historical default rates over the expected life of its trade receivables, which are then adjusted based on forward-looking estimates taking into consideration the most relevant macroeconomic factors affecting their collectability.

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

e) Derivative financial instruments

Hedging derivatives

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

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

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

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

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

6. Summary of Significant Accounting Policies (continued)

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

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

Embedded derivatives

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

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

f) Fair value measurement

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

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

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

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

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

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

6. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

For 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.

g) Inventories

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

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

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

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

Costs are determined using the weighted average cost method.

6. Summary of Significant Accounting Policies (continued)

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.

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

i) Property, plant, and equipment

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

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

- Metallurgical, chemical, and industrial plants are depreciated on a straight-line basis at annual rates determined 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 the Company 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	9
Metallurgic and chemical plants	8
Buildings and land	7 and 8
Other assets	4

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.

6. Summary of Significant Accounting Policies (continued)

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 a deduction from the mine property costs and development costs.

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

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

When the stripping activity includes the removal of materials to improve access to the ore body 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 include property, plant, and equipment items. Once construction is complete, these assets are reclassified to property, plant and equipment and depreciation begins as of the date they are capitalized, which is when their period of use begins.

6. Summary of Significant Accounting Policies (continued)

Sale and retirement of assets

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

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

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

Right-of-use asset measurement

Right-of-use assets are depreciated from the commencement date to the end of their useful life or to the end of the lease term. If 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, depreciation 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 depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

6. Summary of Significant Accounting Policies (continued)

Lease liability measurement

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

Lease liability measurement includes the following lease payments:

- Fixed payments, including variable payments that are fixed in substance as they are unavoidable.
- Variable lease payments that depend on an index or a rate and that are initially measured using the index or rate ruling at the commencement date.
- Amounts expected to be paid by the lessee under residual value guarantees.
- The exercise price of a purchase option reasonably certain to be exercised by the lessee, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate.

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

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

k) Intangible assets

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

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

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

l) Impairment of non-financial long-lived assets

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

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

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

6. Summary of Significant Accounting Policies (continued)

The recoverable amount of an asset is the higher of either its value in use or fair value less its sales 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to each asset. For an asset that does not generate cash flows independently from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. Cash generating units are the smallest identifiable groups of assets that generate cash flow that is independent from the cash flow attributable to other assets or groups of assets.

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 the Company's CGUs to which the individual assets are allocated. The recoverable amount of property, plant and equipment is based on the value in use of cash generating units calculated by discounting the present value of future cash flows based on projections, forecasts and expectations that are approved by management for periods of more than four years. The estimated future cash flows are discounted to their present value using a 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. 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 not designated as hedges at fair value through profit or loss.

Financial liabilities are recognized at fair value, and any change in the fair value is directly recognized in profit or loss.

6. Summary of Significant Accounting Policies (continued)

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

n) Provisions

Provision for decommissioning and rehabilitation

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

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

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

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

Other provisions

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

6. Summary of Significant Accounting Policies (continued)

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.

p) Employee benefits

Short-term employee benefits

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

Defined benefit plan

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

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

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

Seniority premiums

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

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

Defined contribution plan

The defined contribution plan is an employee retirement benefit plan to which Grupo Peñoles pays a fixed contribution but has no obligation to pay in any subsequent amounts. The Company's obligations in respect of contributions payable under the defined contribution pension plan are recognized in the consolidated statement of profit or loss as employee benefit expenses at the time the contributions become payable. Contribution amounts are determined based on the employee's salary.

6. Summary of Significant Accounting Policies (continued)

Termination benefits

Employee termination benefits for involuntary retirement or dismissal are recognized in the consolidated statement of profit or loss of the year in which such payments are made or whenever the Company's obligation to pay such amounts can be reliably demonstrated and when the Company recognizes restructuring costs according to IAS 37 *Provisions*, and the restructuring involves the payment of termination benefits.

Employee profit sharing

In accordance with Mexican legislation, Grupo Peñoles must distribute the equivalent of 10% of its annual taxable profit as employee profit sharing. This amount is recognized in the consolidated statement of profit or loss.

q) Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority.

Deferred income tax

Deferred income tax is computed using the balance method, based on temporary differences between carrying amounts for financial reporting and tax basis values of assets and liabilities at the reporting date.

The tax rates and tax laws used to calculate deferred income tax are those that are enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the controlling company, the investor or venturer can control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and for the amortization of unused tax credits and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset related to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, the deferred tax asset does not affect either the book income or taxable profit or tax loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is probable that sufficient taxable profit will be available to allow the deferred income tax assets to be realized either partially or in full.

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

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, considering (i) any uncertain tax treatment taken, (ii) the assumptions it made about the examination of tax treatments by taxation authorities, (iii) how it determined the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) how it considered changes in facts and circumstances.

Special tax for mining companies

Grupo Peñoles recognized deferred assets resulting from the temporary differences between the carrying amount and tax basis of its assets and liabilities related to the calculation of the special tax for mining companies, since this special tax is calculated on the basis of the Company’s earnings, in accordance with applicable tax laws. See Note 21.

r) Revenue recognition

Revenue is recognized at an amount that reflects the consideration to which Grupo Peñoles expects to be entitled in exchange for transferring goods to a customer and once Grupo Peñoles has satisfied the performance obligations of its sales agreements.

Revenue from the sale of goods is recognized when the control of the related goods has been 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.

6. Summary of Significant Accounting Policies (continued)

As discussed above, the nature of the pricing terms is such that depending on the future market price and the length of the quotation period at contract inception, all consideration is considered variable, and will be recognized using the variable consideration allocation exception. This variable consideration is subject to constrain.

Grupo Peñoles acts as a principal in its revenue contracts because it typically controls the goods before transferring them to the customer.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Interest income is recognized as it accrues using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

s) Mine exploration and development costs and expenses

Exploration includes the search for mineral resources, the determination of the mine's technical feasibility, and the assessment of the commercial viability of identified resources. These costs and expenses are recognized in the following captions:

- Exploration expenses. The expenses incurred exploring for new deposits, including, among others, drilling, sample testing and pre-viability studies, are recognized in the consolidated statement of profit or loss at the time it is sufficiently probable that the mineral reserves of the specific project will be economically recoverable and a feasibility study is performed. Also, expenses incurred to increase mineral reserves in areas near existing mines are recognized in the consolidated statement of profit or loss.

- Assets under construction. Exploration costs incurred in the development of a mine through its start-up of operations are capitalized. These costs include the construction of mine infrastructure and work carried out prior to the start-up of operations of the mine.

- Mining properties. The costs incurred in developing new areas of exploitation in mining units in operation are recognized as part of mining properties and are amortized over the period in which the benefits will be obtained.
- 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.

6. Summary of Significant Accounting Policies (continued)

Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements whenever the possibility of receiving economic benefits from the contingent asset is probable.

u) Changes in accounting standards

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 the Company's consolidated financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations when they become effective. Grupo Peñoles does not expect that the adoption of these new and amended standards and interpretations will have a significant effect on its consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual periods beginning on or after 1 January 2022 and apply prospectively.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

In May 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

6. Summary of Significant Accounting Policies (continued)

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 the Company.

Amendments to IAS 37 Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment is applied prospectively and is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

6. Summary of Significant Accounting Policies (concludes)

Grupo Peñoles will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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 on or after 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 .

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.

7. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker (CODM) who is also the Company’s Chief Executive Officer. Grupo Peñoles is organized into business units based on its products.

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, the Company’s 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.

7. Segment Information (continued)

The Company's operations in the mining-metallurgical industry consist of the extraction and processing of minerals, and the smelting and refining of non-ferrous metals. The extraction and processing of minerals primarily produces lead, zinc and doré concentrates, which are treated and refined in a metallurgical complex to obtain refined metals. The Company's metallurgical business is conducted through its subsidiary Metalúrgica Met-Mex Peñoles (Met-Mex). The metallurgical complex, known as "Met-Mex", receives mineral concentrates and doré from related and independent mining companies to treat, process, and refine them to obtain finished products, primarily silver, gold, zinc, and lead, for their subsequent sale. Based on the business activities described above, Grupo Peñoles has divided its operations into the following operating segments:

Precious metal mines

This segment includes the mining units where silver and gold minerals are extracted and processed. Other activities related to this segment include prospecting and exploring new deposits and developing mining units for future mining operations. The equity interest in the business units of this segment is held by the subsidiary Fresnillo plc, which is a company located in the United Kingdom whose shares are traded on the London Stock Exchange in England. Practically all 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 37% 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 31 December 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

7. Segment Information (concludes)

An analysis of segment information as at and for the year ended 31 December 2020 is as follows:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Third-party sales	$ -	$ 343,148	$ 4,197,296	$ 167,364	$(34,499)	$ 4,673,309
Intra-group sales	2,430,055	650,593	26,941	358,750	(3,466,339)	-
Total sales	2,430,055	993,741	4,224,237	526,114	(3,500,838)	4,673,309
Cost of sales	1,550,689	735,469	4,049,099	133,633	(3,044,547)	3,424,343
Gross profit	879,366	258,272	175,138	392,481	(456,291)	1,248,966
Administrative expenses	93,407	110,703	111,366	252,135	(317,942)	249,669
Exploration expenses	107,328	34,900	195	6,242	(7,627)	141,038
Selling expenses	24,106	39,639	26,811	26,449	(1,298)	115,707
Impairment loss on long-lived assets	-	160,069	-	6,284	-	166,353
Other expenses/(income), net	4,842	7,383	(12,870)	(72,425)	87,722	14,652
	229,683	352,694	125,502	218,685	(239,145)	687,419
Operating profit/(loss)	$ 649,683	$(94,422)	$ 49,636	$ 173,796	$(217,146)	561,547
Finance income	-	-	-	-	-	(25,191)
Finance costs	-	-	-	-	-	259,796
Foreign exchange gain, net	-	-	-	-	-	49,208
Share of profit of associates	-	-	-	-	-	3,321
Profit before income tax	-	-	-	-	-	274,413
Income tax	-	-	-	-	-	184,812
Consolidated net profit	-	-	-	-	-	$ 89,601

Statement of financial position:

	Precious metal mines	Base metal mines	Metallurgical	Other	Eliminations and reclassifications	Total
Segment assets	$ 5,689,984	$ 1,911,883	$ 2,676,178	$ 7,044,348	$(8,071,962)	$ 9,250,431
Segment liabilities	$ 2,075,381	$ 1,030,302	$ 1,906,777	$ 3,196,151	$(3,488,718)	$ 4,719,893
Depreciation	$ 514,502	$ 107,764	$ 55,609	$ 23,621	$(7,664)	$ 693,832
Fixed asset investments	$ 401,399	$ 90,157	$ 50,825	$ 18,913	$ -	$ 561,294
Investments in associates	$ -	$ -	$ -	$ 34,811	$(2,651)	$ 32,160

In 2021, two customers (three customers in 2020) from the Metallurgical segment each individually exceeded 10% of the value of the Company’s net sales and they jointly represented 35.2% of net sales for the year (42.7% in 2020).

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

As at 31 December 2021 and 2020, the Company’s non-current assets outside Mexico totaled $ 49,279 and $ 50,667, respectively.

8. Cash and Cash Equivalents

An analysis of cash and cash equivalents is as follows:

	2021	2020
Cash in hand and in banks	**$ 65,849**	$ 31,861
Liquid investments (1)	**1,751,245**	1,560,789
	$ 1,817,094	$ 1,592,650

(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:

		2021	2020
Trade receivables	(1)	**$ 203,154**	$ 209,063
Other accounts receivable		**29,919**	36,343
Less:			
Expected credit losses for trade receivables (Note 39)		**(2,034)**	(2,231)
Expected credit losses for other accounts receivable (Note 39)		**(1,918)**	(2,266)
Total trade and other accounts receivable		**229,121**	240,909
Related parties (Note 25)		**29,739**	11,179
Recoverable value added tax		**291,418**	280,057
Advances to suppliers		**15,180**	8,920
Account receivable related to layback agreement (Note 4 ii)		**40,598**	-
Loans to contractors		**480**	496
		606,536	541,561
Less: Non-current maturity			
Loans to contractors		**480**	496
Long-term account receivable related to layback agreement (Note 4 ii)		**23,914**	-
Long-term accounts receivable and other receivables		**24,394**	496
Total trade and other current accounts receivable, net		**$ 582,142**	$ 541,065

(1) As at 31 December 2021 and 2020, approximately 41% and 40%, respectively, of the Company's accounts receivable are related to provisional pricing arrangements.

Accounts receivable are non-interest bearing. Gold and silver sales are almost exclusively made in cash, while lead, zinc and cooper sales are made both in cash and through a credit line (provided that each sale is previously authorized by the Company's credit committee), with an average credit term of 30 days.

9. Trade and Other Accounts Receivable (concludes)

An analysis of the changes in the allowance for expected credit losses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Beginning balance	**$ 4,497**	$ 4,895
Increase for the year	**43**	2,671
Charges	**(588)**	(3,069)
Ending balance	**$ 3,952**	$ 4,497

10. Other Financial Assets

An analysis of this caption is as follows:

	2021	2020
Fair value of hedging derivatives (Note 38)	**$ 22,580**	$ 11,408
Fair value of derivative financial instruments (Note 38)	**12,207**	3,368
Derivative financial instruments at fair value through profit or loss	**1,988**	-
Accounts receivable from settled derivatives contracts	**48,699**	3,831
Total other financial assets	**85,474**	18,607
Less: Non-current maturity	**(11,853)**	(496)
Other current financial assets	**$ 73,621**	$ 18,111
Other non-current financial assets	**11,853**	496
Security deposits and other financial assets	**3,953**	4,116
Total other non-current financial assets	**$ 15,806**	$ 4,612

11. Inventories

An analysis of this caption is as follows:

	2021	2020
Inventories stated at cost:		
Refined metals and ore concentrates (1)	**$ 1,489,193**	$ 1,355,456
Raw materials and chemical products in process	**33,560**	6,674
Operating materials (2)	**208,079**	177,598
	1,730,832	1,539,728
Inventories measured at fair value:		
Refined metals	**78,853**	112,500
Inventories, net	**1,809,685**	1,652,228
Less: Non-current portion	**91,620**	91,620
Inventories, current potion	**$ 1,718,065**	$ 1,560,608

(1) As at 31 December 2021 and 2020, Grupo Peñoles recognized impairment in the net realizable value of its inventories of $ 10,367 and $ 2,260, respectively.

(2) As at 31 December 2021 and 2020, Grupo Peñoles recognized an estimated net realizable value of $- and $ 22,309, respectively, as a result of the Company’s decision to indefinitely suspend the operations of the Madero and Bismark mines and the mineral extraction at the Milpillas mine.

12. Equity Instrument Financial Assets

An analysis of this caption is as follows:

	2021	2020
Equity investments in entities listed on the Canadian Stock Exchange (1):		
Cost	**$ 62,732**	$ 62,732
Increase in fair value	**112,285**	167,905
Subtotal	**175,017**	230,637
Equity investments in entities listed on the U.S. Stock Exchange:		
Cost	**180**	180
Increase in fair value	**1,363**	1,732
Subtotal	**1,543**	1,912
Total	**$ 176,560**	$ 232,549

An analysis of changes in these equity investments for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Opening balance	**$ 232,549**	$ 133,966
Profit reclassified to components of other comprehensive income	**(55,989)**	98,583
Ending balance	**$ 176,560**	$ 232,549

(1) As at 31 December 2021 and 2020, approximately 87% of the Company's equity investments corresponds to its 9,746,193 shares of Mag Silver, Corp., equal to $ 152,908, and its 7% holding in Endeavor, Inc., represented by 2,800,000 shares, equal to $ 11,852. These investments are in publicly traded mining companies listed on the Canadian Stock Exchange. As at 31 December 2021 and 2020, the price of the Company's shares is $ 19.83, $ 5.35, $ 26.06 and $ 6.43, respectively, per share.

13. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended 31 December 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**
Purchases	**236,213**	**35,068**	**60,550**	**1,237**	**418,040**	**751,108**
Decrease in provision for asset decommissioning	**(8,608)**	**-**	**-**	**-**	**-**	**(8,608)**
Capitalized interest	-	**-**	**-**	**-**	**12,392**	**12,392**
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**

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:						
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

Changes in property, plant and equipment for the year ended 31 December 2020 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
2020 opening balance	$ 5,962,925	$ 1,429,047	$ 1,196,449	$ 27,171	$ 1,268,361	$ 9,883,953
Purchases	400,943	29,651	65,622	1,466	45,417	543,099
Increase in provision for asset decommissioning	1,477	-	-	-	-	1,477
Capitalized interest	-	-	-	-	20,657	20,657
Retirements and disposals	(161,890)	(1,375)	(258)	(1,162)	-	(164,685)
Transfers and other	381,254	133,750			(515,004)	-
Non-current assets held for sale	(36,162)	-	(1,351)	-	-	(37,513)
Translation adjustment	(3,533)	(84)	(442)	(1,402)	-	(5,461)
2020 ending balance	6,545,014	1,590,989	1,260,020	26,073	819,431	10,241,527
Depreciation, amortization, depletion and impairment:						
2020 opening balance	(3,639,900)	(676,048)	(571,598)	(18,042)	-	(4,905,588)
Depreciation for the period	(565,302)	(88,006)	(38,162)	(2,467)	-	(693,937)
Impairment	(153,265)	(6,284)	(3,605)	-	(3,199)	(166,353)
Retirements and disposals	159,061	1,354	-	150	-	160,565
Non-current assets held for sale	28,571	-	596	-	-	29,167
Translation adjustment	1,245	54	443	4,430	-	6,172
2020 ending balance	(4,169,590)	(768,930)	(612,326)	(15,929)	(3,199)	(5,569,974)
Net investment	$ 2,375,424	$ 822,059	$ 647,694	$ 10,144	$ 816,232	$ 4,671,553

Depreciation expense for the years ended 31 December 2021 and 2020 was $ 709,646 and $ 693,937, respectively, of which $ 705,260 and $ 693,832, 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 (continued)

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:

	2020
Discount rate	7.1% - 10.0%
Commodity prices (average):	
Gold (US$/oz)	1,580
Silver (US$/oz)	20
Zinc (cUS$/lb)	116
Copper (cUS$/lb)	301
Lead (cU$/lb)	95

In 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. In 2020, Grupo Peñoles recognized an impairment loss in the value of its property, plant and equipment of $ 166,353, mainly in its “Base metal mines” segment, due to a decrease in the prices of metals in the first quarter of 2020 at the Madero and Milpillas mining units and due to the fact that in the second quarter of 2020, this impairment was exacerbated as a result of the Company’s decision to indefinitely suspend the operations of the Madero mine, as well as the mineral extraction from the Milpillas mine, maintaining only the electrolytic plant for the production of copper cathodes until the mineral contained in the leach pads is depleted, which is expected to occur in the first quarter of 2022.This impairment is recognized as a loss of $ 6,284 in the value of the aerogenerators of the subsidiary Fuerza Eólica del Istmo, due to an increase in the energy costs paid.

An analysis of the impairments loss of each cash generating unit is as follows:

Cash generating unit	**2021**	2020
Madero mining unit	**$ -**	$ 48,164
Milpillas mining unit	**-**	110,849
Fuerza Eólica del Istmo, S.A. de C.V.	**-**	6,284
Other	**-**	1,056
	$ -	$ 166,353

Assets under construction

Construction in process includes investments in fixed assets and capitalized pre-operating expenses of $ 433,495 in 2021 ($ 340,741 in 2020) for the construction and operation of the mining projects Juanicipio (State of Zacatecas), Minera Capela (State of Guerrero), where mineral concentrates containing mostly silver, lead, and zinc are mined, as well as the investment of $ 21,381 in 2021 ($ 28,470 in 2020) in the expansion of the Electrolytic Zinc Refinery (State of Coahuila). The estimated remaining investment needed to conclude the mining and other projects is approximately $ 238,464 in 2021.The rate used in 2021 and 2020 to determine the amount of the loan costs eligible for capitalization was 4.84% and 4.84%, respectively.

13. Property, Plant and Equipment (concludes)

Commitments

As at 31 December 2021 and 2020, the Company 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 2021 and 2020 is $ 291,921 and $ 323,059, respectively.

14. Equity Investments in Associates

An analysis of equity investments in associates as at 31 December 2021 and 2020 is as follows:

	2021	2020	**2021**	2020
Aerovics, S.A. de C.V. (1)	**61.29%**	51.88%	**$ 54,475**	$ 27,677
Línea Coahuila Durango, S.A. de C.V.	**50.00%**	50.00%	**-**	3,728
Other			**645**	755
			$ 55,120	$ 32,160

(1) For the years ended 31 December 2021 and 2020, 36.19% and 81.91%, 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 31 December 2021 and 2020 is as follows:

	2021	2020
Beginning balance in associates	**$ 32,160**	$ 31,275
Share of loss of associates	**(5,607)**	(3,321)
Changes in equity interest in associate (1)	**(2,387)**	-
Share capital increase (1)	**32,107**	4,690
Translation adjustment	**(1,153)**	(484)
Ending balance in associates	**$ 55,120**	$ 32,160

The associates in which the Company has invested are as follows:

- Aerovics, S.A. de C.V., which provides private air transportation services.

- Línea Coahuila-Durango, S.A. de C.V., which provides rail transportation services through a concession granted to it by the Mexican Federal Government.

- Other includes a 40% equity interest in 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 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 in accordance with the shareholder agreement. 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 the Company's losing significant influence over the investee and a decrease in its percentage of equity interest from 40% to 0.01%.

14. Equity Investment in Associates (continued)

(1) 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. In 2020, the Company made capital contributions of $ 4,690. This share capital increase represented a change in the Company's equity interest in the associate. As a result, the Company recognized a deficit of $ 2,387 as part of retained earnings.

The condensed financial information of the associates is as follows:

As at and for the years ended 31 December 2021 and 2020

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**

	Aerovics	Línea Coahuila Durango
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**

Statement of financial position:

	2020	
	Aerovics	Línea Coahuila Durango
Assets:		
Current assets	$ 8,373	$ 8,519
Non-current assets	47,625	9,346
Total assets	$ 55,998	$ 17,865

	Aerovics	Línea Coahuila Durango
Current liabilities	$ 1,855	$ 2,722
Non-current liabilities	$ 795	$ 7,686
Total liabilities	$ 2,650	$ 10,408
Total equity	$ 53,348	$ 7,457
Total liabilities and equity	$ 55,998	$ 17,865

14. Equity Investment in Associates (concludes)

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)**

Statement of comprehensive income for 2020:

	Aerovics	Línea Coahuila Durango
Sales	$ 7,281	$ 25,390
Operating loss	$(4,287)	$(3,305)
Net loss	$(4,060)	$(2,545)
Components of other comprehensive (loss)/income	$(2,813)	$ 595
Comprehensive loss	$(6,873)	$(1,950)

15. Leases

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

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at 1 January 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 31 December 2021	**23,651**	**72,216**	**45,302**	**141,169**
Amortization:				
Beginning balance as at 1 January 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 31 December 2021	**(7,860)**	**(9,371)**	**(24,694)**	**(41,925)**
Net investment	**$ 15,791**	**$ 62,845**	**$ 20,608**	**$ 99,244**

15. Leases (continued)

An analysis of changes in right-of-use assets as at 31 December 2020 is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Beginning balance as at 1 January 2020	$ 18,623	$ 68,649	$ 42,709	$ 129,981
Additions	2,814	-	8,432	11,246
Lease modification	194	693	27	914
Retirements	(545)	-	(3,164)	(3,709)
Ending balance as at 31 December 2020	21,086	69,342	48,004	138,432
Amortization:				
Beginning balance as at 1 January 2020	(2,558)	(3,074)	(12,991)	(18,623)
Amortization for the year	(2,970)	(3,127)	(14,336)	(20,433)
Retirements	497	-	2,956	3,453
Ending balance as at 31 December 2020	(5,031)	(6,201)	(24,371)	(35,603)
Net investment	$ 16,055	$ 63,141	$ 23,633	$ 102,829

An analysis of changes in lease liabilities as at 31 December 2021 and 2020 is as follows:

	2021	2020
Beginning balance as at 1 January	**$ 108,351**	$ 114,907
Additions	**10,745**	11,246
Lease modifications	**5,205**	815
Accretion of interest	**8,311**	7,730
Payments	**(24,595)**	(26,029)
Retirements	**(10)**	(266)
Foreign exchange loss	**(1)**	(52)
Ending balance as at 31 December	**$ 108,006**	$ 108,351

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

	2021		
	Lease liability	**Unaccrued interest**	**Total**
2020	**$ 22,282**	**$(6,854)**	**$ 15,428**
2021	**16,752**	**(6,118)**	**10,634**
2022	**13,113**	**(5,666)**	**7,447**
2023	**10,591**	**(5,263)**	**5,328**
2025 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**

15. Leases (concludes)

Amortization expense on right-of-use assets as at 31 December 2021 and 2020 was $ 19,524 and $ 20,433, respectively.

Expenses relating to short-term leases and leases of low-value assets as at 31 December 2021 and 2020 were $ 25,511 and $ 22,768, respectively, of which $ 24,273 and $ 22,768, respectively, were recognized in profit or loss, while the remaining balance corresponds to expenses related to leases of units under construction that was recognized as part of Construction in process.

During 2020 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:

	2021	2020
Commercial suppliers	**$ 222,219**	$ 175,534
Concentrate and mineral shippers	**149,115**	89,151
Related parties (Note 25)	**119,906**	78,879
Other accrued liabilities	**99,016**	63,406
Interest payable	**39,295**	39,137
Deferred revenue from concession assignment (Note 4ii)	**67,182**	-
Energy	**61,818**	23,016
Market expenses	**15,586**	17,126
Dividends payable	**1,960**	1,299
	$ 776,097	$ 487,548

17. Other Financial Liabilities

An analysis of this caption is as follows:

	2021	2020
Hedging derivatives (Note 38)	**$ 35,050**	$ 168,713
Fair value of derivative financial instruments (Note 38)	**14,021**	15,786
Derivative financial instruments at fair value through profit or loss (Note 38)	**16,039**	23,273
Accounts payable on settled derivative contracts	**57,605**	20,939
Total other financial liabilities	**122,715**	228,711
Less: Non-current maturity	**(15,685)**	(20,697)
Total other current financial liabilities	**$ 107,030**	$ 208,014

18. Financial Debt

An analysis of the Company's short-term debt denominated in U.S. dollars as at 31 December 2021 and 2020 is as follows:

		2021		2020
Bank loan (1)	$	71,752	$	29,601
Short-term maturities of long-term liabilities		9,282		9,167
Total current debt denominated in U.S. dollars	$	81,034	$	38,768

(1) As at 31 December 2021, Grupo Peñoles has direct loans of $ 15,460 (equal to Ps. 318,225), $ 31,292 (equal to Ps. 644,100) and $ 25,000, bearing interest at an average rate of 6.03% and 0.25% and maturing on 6 January 2022 and 31 January 2022, respectively. These loans were repaid in full and correspond to a drawdown against uncommitted lines of credit extended to the Company by Mexican and foreign banks. As at 31 December 2010, the short-term outstanding balance of these lines of credit is $ 694,500. During 2021 and 2020, the Company obtained short-term loans of $ 1,005,217 and $ 170,032, of which it has paid $ 966,642 and $ 145,769, respectively.

An analysis of the Company's long-term debt denominated in U.S. dollars as at 31 December 2021 and 2020 is as follows:

		2021		2020
Unsecured bonds issued by IPSAB (1)	$	1,170,496	$	1,168,755
Unsecured bonds issued by IPSAB (2)		501,524		501,941
Unsecured bonds issued by Fresnillo plc (3)		316,942		316,430
Unsecured bonds issued by Fresnillo plc (4)		828,759		828,410
Bilateral export credit agency guarantee (5)		47,349		56,474
Total		2,865,070		2,872,010
Less:				
Current portion due		9,282		9,167
Total non-current debt	$	2,855,788	$	2,862,843

An analysis of the Company's short- and long-term debt as at 31 December 2021 and 2020 is as follows:

		2021		2020
Beginning balance as at 1 January	$	2,901,611	$	2,226,326
Debt acquired		1,005,217		1,620,032
Debt paid	(	976,358)	(	937,607)
Transaction costs paid	(	40)	(	7,471)
Interest paid in advance		-	(	11,805)
Amortization of transaction costs		2,816		6,775
Foreign exchange gain		3,576		5,361
Ending balance as at 31 December	$	2,936,822	$	2,901,611

18. Financial Debt (continued)

Long-term financial debt maturities starting in 2023 are as follows:

	Amount
2023	$ 326,253
2024	9,501
2025	9,584
2026	9,671
2027-2050	2,500,779
	$ 2,855,788

(1) Unsecured bonds of $ 1,100,000 issued on 5 September 2019 by the Company in the international bond market as a 144A/Reg-S offering. The bonds were issued in two 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 the Company in the international bond market as a 144A/Reg. S offering. The bonds are for a thirty-year term and bear net interest payable semiannually of 4.75%, plus withholding tax, with principal payable upon maturity and no guarantees. The proceeds from this placement were used to early repay the syndicated loan with Bank of America, N.A. (administrative agent) and Scotiabank Inverlat S.A., to repay short-term debt and for corporate purposes in general. Transaction costs totaled $3,627.

(3) Unsecured bonds of $ 800,000 issued on 7 November 2013 by Fresnillo plc in the international bond market as a 144A/Reg-S offering. The bonds are for a ten-year term and bear net interest payable semiannually of 5.50%, plus withholding tax, with principal payable upon maturity. The proceeds from this placement were used to meet the needs of the Company's current investment and development plans, as well as to fund future growth opportunities and for corporate purposes in general. From 22 to 29 September 2020, Fresnillo plc launched a cash tender offer to partially repurchase these notes for an amount of $ 482,121, which was settled on 2 October. Arising from this transaction, the premium of $ 60,835 and a portion of the transactions costs of $ 2,385 for the early repayment of the notes were recognized as part of the finance cost caption. Standard & Poor's and Moody's Investor's Services assigned "BBB" and "Baa2" ratings, respectively, to those bonds.

(4) 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.

18. Financial Debt (concludes)

(5) On 22 June 2017, Industrias Peñoles S.A.B. de C.V. entered into a loan agreement with Crédito 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.

Considering that, the 6-month London Interbank Offered Rate (LIBOR), which is the benchmark interest rate of this loan, will no longer be published as of 30 June 2023, the Grupo Peñoles is negotiating with the Lending Bank to define the new benchmark interest rate that will replace LIBOR. Regarding the interest rate coverage associated with this credit, Grupo Peñoles is in the process of joining the corresponding protocol. Since this loan is subject to amortization, the balance of principal as at 30 June 2023 would be $ 34 million. With respect to the interest coverage ratio associated with this loan, the Company is in the process of taking any and all necessary measures to abide by the relevant protocol.

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, the Company is abiding by the applicable protocol. As at 31 December 2021 and 2020, the S&P global rating of the Company's unsecured senior debt is BBB with a stable outlook and Fitch Ratings global rating is BBB with a stable outlook.

Others: Credit ratings by rating agencies.

As at 31 December 2021, the S&P global rating of the Company's 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 31 December 2020, the S&P global rating of the Company's 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:

		2021		2020
Salaries and other employee benefits payable	**$**	**28,883**	$	34,114
Paid annual leave and vacation premium payable		**10,553**		9,889
Social security dues and other provisions		**12,497**		12,407
	$	**51,933**	$	56,410

Retirement benefits

Grupo Peñoles has a defined pension and benefit contribution plan for its non-unionized workers, which includes pension plans based on each worker's earnings and years of service provided by personnel hired through 30 June 2007, and a defined contribution component as of such date, based on periodic contributions made by both Grupo Peñoles and the employees.

The plan is managed exclusively by a Technical Committee, which is comprised of three people that are appointed by Grupo Peñoles.

Defined benefit component

The defined benefit component of the plan referred to the worker salaries and the number of years of service provided through 30 June 2007, in accordance with the benefits generated through this date in respect of the pension granted. This defined retirement benefit plan was for its non-unionized employees and included pension plans based on each worker's salaries and the number of years of service, seniority premiums payable upon death and due to permanent disability or voluntary separation. Benefits accrued through this date are restated for inflation based on the National Consumer Price Index through the date of the employee's retirement.

Defined contribution component

The defined contribution component of the plan consists of periodic contributions made by employees, as well as matched contributions made by 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 the Company's unionized workers.

Death and disability benefits are covered through insurance policies.

Recognition of employee benefits

An analysis of the actuarial value of these obligations recognized in the consolidated statement of financial position as at 31 December 2021 and 2020 is as follows:

		2021		2020
Defined benefit obligation of active workers	**$**	**60,953**	$	69,504
Defined benefit obligation of retired workers (1)		**70,893**		87,038
Defined benefit obligation		**131,846**		156,542
Unfunded defined benefit obligation (2)		**32,383**		32,775
		164,229		189,317

19. Employee Benefits (continued)

(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 31 December 2021 and 2020 is as follows:

	2021	2020
Current-year service cost	**$ 4,246**	$ 4,007
Interest cost (Note 34)	**11,807**	10,672
Return on plan assets (Note 34)	**(7,458)**	(6,469)
Defined contribution	**11,829**	10,317
Total	**$ 20,424**	$ 18,527

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

	2021	2020
Actuarial gains	**$ 13,562**	$ 5,498

A reconciliation of the actuarial value of the defined benefit obligation as at 31 December 2021 and 2020 is as follows:

	2021	2020
Beginning balance of the defined benefit obligation	**$ 189,317**	$ 191,320
Current-year service cost	**4,246**	4,007
Interest cost	**11,807**	10,672
Actuarial gain from experience adjustments	**(6,517)**	(456)
Actuarial loss from adjustments in demographic assumptions	**-**	333
Actuarial (gain)/loss from adjustments in financial assumptions	**(13,825)**	3,387
Benefits paid	**(14,006)**	(10,692)
Foreign exchange gain	**(6,793)**	(9,254)
Ending balance of the defined benefit obligation	**$ 164,229**	$ 189,317

A reconciliation of the actuarial value of plan assets as at 31 December 2021 and 2020 is as follows:

	2021	2020
Beginning balance of plan assets	**$ 122,979**	$ 121,133
Current return on plan assets	**7,458**	6,469
Actuarial (loss)/gain from experience adjustments	**(6,781)**	8,761
Plan contributions	**2,485**	1,483
Benefits paid	**(10,412)**	(8,834)
Foreign exchange loss	**(4,099)**	(6,033)
Ending balance of plan assets	**$ 111,630**	$ 122,979

19. Employee Benefits (continued)

An analysis of plan assets is as follows:

	2021	2020
Debt instruments issued by Federal and state-owned entities	**$ 69,211**	$ 68,616
Investment funds	**6,128**	19,223
Equity instruments	**36,291**	35,140
Total plan assets	**$ 111,630**	$ 122,979

The financial instruments that comprise the plan assets consist of shares that are publicly traded in Mexico with local credit ratings of "AAA" and "AA".

As at 31 December 2021, 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

	2021	2020
Average discount rate to reflect present value	**8.0%**	7.1%
Average salary increase rate	**5.0%**	5.0%
Expected inflation rate	**3.5%**	3.5%

The most significant demographical assumptions for 2021 and 2020 were the "EMMSSA09 dinámica" and the mortality rates published by the Mexican Social Security Institute (IMSS).

The weighted average lifetime of the defined benefit obligation as at 31 December 2021 is 11.1 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 31 December 2021, with all other variables held constant, is as follows:

	Increase in assumption		Discount in assumption	
	Effect	%	Effect	%
Discount rate -0.5%	**$(7,419)**	**(4.5%)**	**$ 8,226**	**5.0%**

19. Employee Benefits (concludes)

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%.

A sensitivity analysis showing the potential impact on the defined benefit obligation resulting from an increase/decrease in the assumptions as at 31 December 2020, with all other variables held constant, is as follows:

	Increase in assumption		Decrease in assumption	
	Effect	%	Effect	%
Discount rate -0.5%	$(7,856)	(4.1%)	$ 11,026	5.8%

The change in the liability resulting from a 1-year increase in the projected working lives of the employees totals $ 27.

20. Provisions

An analysis of provisions is as follows:

	2021	2020
Ecological rehabilitation	**$ 463,005**	$ 449,737

Changes in provisions for ecological rehabilitation for the years ended 31 December 2021 and 2020 are as follows:

	2021	2020
Balance as at 1 January	**$ 449,737**	$ 453,481
(Utilized)/arising during the year (Note 13)	**(8,608)**	1,477
Payments for the year	**(3,835)**	(2,674)
Increase/(decrease) in provision for rehabilitation of closed mines	**7,518**	(13,302)
Financial discount (Note 34)	**21,291**	21,682
Provision related to non-current assets classified as held for sale (Note 40)	**-**	(10,937)
Foreign exchange (loss)/gain	**(3,098)**	10
Ending balance as at 31 December	**$ 463,005**	$ 449,737

This provision represents the present value of the future costs of decommissioning and rehabilitating mining units as of their dates of depletion. These provisions have been created in accordance with the obligation established in the Mining Act and other applicable legal ordinances, as well as in accordance with the environmental and social responsibility policies of the Company.

The assumptions used in determining the provisions for the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the cost incurred for rehabilitation, reclamation, and re-vegetation of affected areas. These assumptions are included as part of the Company's sustainable development policies 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.

20. Provisions (concludes)

The calculation of the provision includes a number of certain uncertainties related to cost estimates, including possible changes in the applicable legal environment and the Company's technical options for decommissioning and removing structures and reclaiming the affected areas of each mining unit, the estimated mineral levels and related also to actual inflation and discount rates at the time the costs are incurred.

The 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 the Company's mining units, which as of 31 December 2021, range from 2 to 46 years.

The present value of the provision was calculated using discount rates from 6.39% to 8.36% in 2021 and from 4.35% to 8.12% in 2020.

21. Income Tax and Special Tax for Mining Companies

Tax environment

As previously explained in the consolidated financial statements, the Company is a Mexican corporation with subsidiaries abroad which, as at 31 December 2021 and 2020, were subject to a minor tax effect of \$ 4,563 and \$ 4,015, respectively, which represented 0.002% and 2.17%, respectively, of the income tax for those years. An analysis of income tax matters related to the Company's operations in Mexico are as follows:

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.

2021 Income Tax amendments

As of 1 January 2021, the most relevant changes are as follows: (i) the tax incentives for the northern border region of Mexico were extended for four additional years and therefore, will be effective through 2024.

The most relevant changes in mining taxes are as follows: (i) the holders and the assignees of the mining concessions are obliged to pay a special and extraordinary mining fee; (ii) for determining the special mining tax, no payments of the surface mining tax can be credited. In 2021, only 50% of these payments can be credited; (iii) the option of deducting all exploration expenses from the special mining tax in one year is eliminated, and accordingly such expenses must be paid in accordance with the Mexican Income Tax Law.

Income tax

The Mexican Income Tax Law (MITL) stipulates a 30% corporate income tax rate.

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

Tax consolidation

Industrias Peñoles, S.A.B. de C.V. and its subsidiaries determined their income tax through 2013 on a consolidated basis in accordance with the tax laws in effect in Mexico through that year. However, as a result of the 2014 Mexican Tax Reform, beginning 1 January 2014 both Industrias Peñoles, S.A.B. de C.V. and all its subsidiaries shall calculate their taxes on an individual basis.

In accordance with the new MITL that is effective for annual periods beginning on or after 1 January 2014, groups that were previously tax-consolidated as at 31 December 2013 must deconsolidate and remit all the deferred income tax and asset tax that had been deferred by each entity on an individual basis. As a result, Industrias Peñoles, S.A.B. de C.V., as the controlling company, must remit any income tax that had been deferred on a consolidated basis following a procedure for remitting deferred income tax similar to the one included in the changes in tax consolidation rules introduced in 2010.

The 2014 Mexican Tax Reform establishes the following two periods in which taxpayers must remit previously deferred taxes as a result of deconsolidation: i) a period of five years, over which the first 25% must be remitted by no later than 31 May 2014 and the remaining 75% to be remitted in four annual installments (25%, 20%, 15% and 15%) over the subsequent four years, and ii) a period of ten years in accordance with the tax law in effect through 2013.

The items that gave rise to deferred income tax from tax consolidation are as follows:

a) Tax losses of the controlled companies carried forward in the calculation of the consolidated tax result and that have not been carried forward individually by the controlled companies.

b) Dividends distributed by controlled companies and that were not paid from the balances of their Net taxed profits account (CUFIN by its acronym in Spanish) or Net reinvested taxed profits account (CUFINRE by its acronym in Spanish).

c) Special consolidation benefits related to transactions carried out between consolidating entities.

Industrias Peñoles, S.A.B. de C.V. has determined a tax deconsolidation effect as at 31 December 2021 of income tax payable of $ 10,018, which is primarily the result of the recapture of the tax losses of its consolidated subsidiaries from between 2011 and 2013 that expire in 2022 and 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.

Income tax and special tax for mining companies

In September 2020, Grupo Peñoles made a voluntary tax amendment relating to the tax treatment of its mining investments for mining works at underground mines for the years 2013 to 2019, for which it had to pay $ 80,368. The net effect of this decision on the statement of profit or loss was $ 30,646, which corresponds to restatements and surcharges, and $ 49,722, which corresponds to income tax and mining taxes. This resulted in the reclassification of the deferred tax liability to recoverable income tax. In 2021, the Company made no amendments to its tax treatments for which it had to make payments to the tax authorities.

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

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:

	2021	2020
2021	$ -	$ 7,382
2022	5,468	5,236
2023	4,550	4,356
Total income tax from tax consolidation	10,018	16,974
Deferred tax on the reinvestment of CUFINRE earnings	173	179
Total income tax	10,191	17,153
Less: Current portion due (1)	(5,468)	(7,382)
Total non-current portion of income tax recapture	$ 4,723	$ 9,771

(1) Shown under Current income tax

Changes in the deferred tax liability

An analysis of the temporary differences giving rise to deferred income tax liabilities is as follows:

	2021	2020
Deferred income tax liabilities:		
Trade and other accounts receivable	$ 82,362	$ 74,882
Inventories	1,758	(14,751)
Property, plant, and equipment	155,292	177,259
Other financial assets	47,010	71,352
Deferred income tax assets:		
Other financial liabilities	(18,580)	(44,268)
Suppliers and other accounts payable	(166,973)	(137,347)
Net leases payments	(8,808)	3,246
Provisions	(120,573)	(93,033)
Employee benefits	(8,163)	(10,365)
Available tax loss carryforwards	(179,991)	(133,752)
Deferred income tax	(216,666)	(106,777)
Deferred special tax for mining companies	20,703	59,080
Deferred income tax liability, net	$(195,963)	$(47,697)

Shown in the consolidated statement of financial position:

	2021	2020
Deferred income tax asset	$ 280,961	$ 271,308
Deferred income tax liability	84,998	223,611
	$(195,963)	$(47,697)

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

An analysis of tax loss carryforwards recognized as part of deferred income tax, as well as tax loss carryforwards for which no deferred tax asset was recognized, and their expiration dates is as follows:

Year	Total	Recognized amount	Unrecognized amount
2022	**$ 69**	**$ -**	**$ 69**
2023	**1,133**	**930**	**203**
2024	**7,171**	**340**	**6,831**
2025	**10,648**	**677**	**9,971**
2026	**15,999**	**9,616**	**6,383**
2027	**9,220**	**4,608**	**4,612**
2028	**16,885**	**11,506**	**5,379**
2029	**39,686**	**3,340**	**36,346**
2030	**88,925**	**62,416**	**26,509**
2031	**97,512**	**86,558**	**10,954**
	$ 287,248	**$ 179,991**	**$ 107,257**

In Mexico, the tax loss carryforwards expire in ten years on a stand-alone basis.

Deferred income tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilized.

Deferred income tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in Grupo Peñoles, they have arisen in subsidiaries that have been loss-making for some time, and there is no other evidence of recoverability in the near future to support (either partially or in full) the recognition of the losses as deferred income tax assets.

Income tax recognized in profit or loss

An analysis of income tax recognized in the consolidated statement of profit or loss for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Current income tax	**$ 360,554**	$ 255,018
Deferred income tax related to the creation and reversal of temporary differences	**(128,858)**	(113,024)
Special tax on production and services credit	**(2,437)**	(1,517)
Current Income tax	**229,259**	140,477
Current special tax for mining companies	**70,032**	29,752
Deferred special tax for mining companies	**(38,377)**	14,583
Special tax for mining companies	**31,655**	44,335
Total income tax expense recognized in profit or loss	**$ 260,914**	$ 184,812

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

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

	2021	2020
Income tax at statutory rate determined in Mexico (30%)	**$ 247,050**	$ 82,324
Effects of inflation for tax purposes	**(88,135)**	(43,399)
Non-deductible costs and expenses	**12,307**	11,842
Effect of foreign currency translation on the tax value of assets and liabilities	**39,280**	59,308
Special tax on production and services credit	**(2,437)**	(1,517)
Unrecognized deferred tax assets	**17,626**	94,352
Deferred special tax for mining companies	**(10,600)**	(13,134)
Other items	**8,245**	940
Reversal of tax incentive due to merger and tax expense/(benefit) in border region	**5,923**	(50,239)
Income tax	**$ 229,259**	$ 140,477
Effective income tax rate	**27.8%**	51.2%

Income tax recognized in other comprehensive income

An analysis of deferred income tax recognized directly in equity for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Unrealized gain/(loss) on valuation of equity instrument financial assets	**$ 16,794**	$(29,575)
Unrealized loss on valuation of employee benefits	**(2,156)**	(874)
Unrealized (loss)/gain on valuation of hedges	**(34,115)**	30,575
	$(19,477)	$ 126

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 31 December 2021 and 2020, the temporary differences for which a deferred tax liability has not been recognized amounted to $ 879,339 and $ 782,128, 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 31 December 2021 and 2020 is represented by common registered shares with no par value. Fixed minimum share capital is represented by Class I shares and variable share capital by Class II shares. An analysis is as follows:

	Shares		Amount	
	2021	2020	**2021**	2020
Share capital authorized and subscribed	**413,264,747**	413,264,747	**$ 403,736**	$ 403,736
Share buybacks	**15,789,000**	15,789,000	**2,337**	2,337
Outstanding nominal share capital	**397,475,747**	397,475,747	**$ 401,399**	$ 401,399

As at 31 December 2021 and 2020, the Company's nominal share capital consists of minimum fixed share capital of $ 401,399 (equal to Ps. 2,191,210) and variable share capital, which may not exceed ten times the amount of fixed share capital.

Undistributed earnings

Dividends paid to individuals and foreign corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax.

At an ordinary and extraordinary shareholders' meeting held on 29 April 2021, the shareholders resolved that an amount of up to $ 191,515 (equal to Ps. 3,500 million) could be used to acquire treasury shares in accordance with the Mexican Securities Market Act. The Company has created a reserve for this amount under undistributed earnings.

Legal reserve

The Company is required to appropriate at least 5% of the net profit of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. At date, the Company has fully covered this percentage. This reserve may not be distributed, except in the form of share dividends.

Components of other comprehensive loss

Effect of unrealized gain or loss on valuation of hedges

This includes the effective portion of the gain or loss on valuation of financial instruments classified as cash flow hedges, net of deferred income tax. The unrealized gain or loss is recycled to profit or loss at the time the hedged transaction occurs.

Effect of unrealized gain or loss on valuation of equity instrument financial assets

This corresponds to the fair value changes in equity instrument financial assets, net of deferred income tax. Gains and losses arising from these financial assets will never be reclassified to profit or loss. Dividends are recognized as Other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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

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 the Company's components of other comprehensive (loss)/income as at 31 December 2021 and 2020 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 1 January 2021	**$(32,418)**	**$(84,657)**	**$ 99,592**	**$(80,428)**	**$(97,911)**
Other components of comprehensive income	**10,686**	**77,162**	**(30,855)**	**(1,001)**	**55,992**
Balance as at 31 December 2021	**$(21,732)**	**$(7,495)**	**$ 68,737**	**$(81,429)**	**$(41,919)**

	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 1 January 2020	$(37,050)	$(16,548)	$ 46,262	$(70,361)	$(77,697)
/Other components of comprehensive loss	4,632	(68,109)	53,330	(10,067)	(20,214)
Balance as at 31 December 2020	$(32,418)	$(84,657)	$ 99,592	$(80,428)	$(97,911)

23. Earnings/(Loss) Per Share

Earnings/(loss) 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/(loss) per share are the same as there are no instruments that have a dilutive effect on earnings.

23. Earnings/(Loss) Per Share (concludes)

An analysis of the Company's earnings/(loss) per share as at 31 December 2021 and 2020 is as follows:

	2021	2020
Net profit/(loss) (in thousands of U.S. dollars):		
Attributable to the shareholders of Grupo Peñoles	**$ 391,348**	$(34,384)
Shares (number of shares in thousands):		
Weighted average number of ordinary outstanding shares	**397,476**	397,476
Earnings/(Loss) Per Share		
Basic and diluted earnings/(loss) per share (in U.S. dollars)	**$ 0.98**	$(0.09)

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 29 April 2021	**$ 0.1258**	**397,475,747**	**$ 50,002**

In 2020, the Company declared no dividends.

25. Related Parties

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

	2021	2020
Receivables:		
Sales:		
Dowa Mining Co. Ltd. (3)	**$ 3,843**	$ 2,361
Sumitomo Corporation (3)	**15,616**	-
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**934**	808
Eólica de Coahuila, S. de R.L. de C.V. (4)	**341**	51
Other	**80**	70
	20,814	3,290
Short-term loans:		
Inmobiliaria Industrial La Barra, S.A. (4)	**8,925**	7,889
Total	**$ 29,739**	$ 11,179

	2021	2020
Payables:		
Current accounts:		
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$ 11,202**	$ 13,610
Línea Coahuila-Durango, S.A. de C.V. (2)	**584**	677
Other	**202**	167
	11,988	14,454
Loans:		
Minera los Lagartos, S.A. de C.V. (3)	**107,918**	64,425
Total	**$ 119,906**	$ 78,879

25. Related Parties (continued)

Transactions with related entities during the periods ended 31 December 2021 and 2020 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.

Revenue:	**2021**	2020
Sales of concentrates and refined metal:		
Dowa Mining Co. Ltd. (3)	**$ 71,662**	$ 46,979
Sumitomo Corporation (3)	**262,344**	105,776
	334,006	152,755
Interest:		
Inmobiliaria Industrial La Barra, S.A. (4)	**1,191**	1,600
Electricity (b):		
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**9,312**	6,663
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**456**	486
Instituto Tecnológico Autónomo de México (1)	**129**	108
	9,897	7,257
Other:		
Línea Coahuila Durango, S.A. de C.V. (2)	**356**	618
Petrobal, S.A.P.I. de C.V. (1)	**406**	270
Petrobal Upstream Delta 1, S.A. de C.V. (1)	**342**	473
Corporación Innovadora de Personal, S.A. de C.V. (1)	**31**	33
Técnica Administrativa Ener, S.A. de C.V. (1)	**67**	68
	1,202	1,462
	$ 346,296	$ 163,074

Expenses:	**2021**	2020
Electricity (c):		
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$ 122,262**	$ 119,391
Eólica de Coahuila, S.A de C.V. (4)	**63,561**	61,003
Eólica Mesa la Paz, S. de R.L. de C.V. (4)	**33,882**	21,285
	219,705	201,679

25. Related Parties (concludes)

	2021	2020
Administrative fees:		
Servicios Corporativos Bal, S.A. de C.V. (1)	**33,094**	30,114
Técnica Administrativa Bal, S.A. de C.V. (1)	**-**	8
	33,094	30,122
Insurance and bonds (d):		
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**42,375**	31,244
Other	**348**	210
	42,723	31,454
Air transportation:		
Aerovics, S.A. de C.V. (2)	**37,551**	7,178
Royalties:		
Dowa Mining Co. Ltd (3)	**11,454**	9,614
Sumitomo Corporation (3)	**2,952**	1,957
	14,406	11,571
Rent:		
MGI Fusión, S.A. de C.V. (2)	**3,058**	3,053
Other	**9,395**	9,236
	$ 359,932	$ 294,293

(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:

	2021	2020
Short-term benefits:		
Compensation and other short-term benefits	**$ 11,970**	$ 8,391
Long-term benefits:		
Retirement benefits	**$ 9,376**	$ 9,583

26. Sales

An analysis of sales by product type is as follows:

	2021	2020
Silver	$ **1,787,603**	$ 1,427,394
Gold	**2,040,104**	1,622,299
Zinc	**849,239**	621,567
Lead	**304,088**	253,152
Ore concentrates	**545,751**	347,346
Copper	**31,988**	85,371
Copper matte	**132,357**	72,883
Sodium sulfate	**109,232**	105,137
Other products	**171,452**	138,160
	$ **5,971,814**	$ 4,673,309

An analysis of sales by geographical area is as follows:

	2021	2020
Domestic sales	$ **952,589**	$ 629,201
Asia	**713,360**	429,632
United States of America	**2,552,157**	2,347,724
Europe	**674,250**	629,123
Canada	**1,001,783**	583,362
South America	**58,053**	40,493
Other	**19,622**	13,774
	$ **5,971,814**	$ 4,673,309

27. Cost of Sales

An analysis of cost of sales for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Personnel expenses (Note 31)	$ **307,417**	$ 285,560
Energy	**437,114**	374,359
Operating materials	**384,709**	345,539
Maintenance and repairs	**343,504**	311,061
Depreciation and amortization (Note 13)	**705,260**	693,832
Amortization of right-of-use assets (Note 15)	**3,788**	3,986
Transfer of by-products	**(119,481)**	(92,676)
Contractors	**454,273**	415,635
Leases of low-value assets (Note 15)	**7,453**	6,603
Other	**221,313**	174,866
Inventory adjustments	**105,783**	(114,348)
Cost of sale of extraction and treatment	**2,851,133**	2,404,417
Cost of metals sold	**1,564,874**	1,019,926
Total cost of sales	$ **4,416,007**	$ 3,424,343

28. Administrative Expenses

An analysis of administrative expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Personnel expenses (Note 31)	**$ 110,631**	$ 96,123
Fees	**90,796**	79,433
Travel expenses	**7,273**	5,447
Information technology expenses	**14,017**	15,546
Amortization of right-of-use assets (Note 15)	**13,034**	13,299
Leases of low-value assets (Note 15)	**14,967**	14,076
Fees, associations and other	**32,825**	25,745
Total administrative expenses	**$ 283,543**	$ 249,669

29. Exploration Expenses

An analysis of exploration expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Personnel expenses (Note 31)	**$ 12,407**	$ 6,240
Contractors	**102,500**	80,839
Taxes and duties	**30,748**	28,908
Operating materials	**760**	434
Amortization of right-of-use assets (Note 15)	**1,205**	1,095
Leases of low-value assets (Note 15)	**1,853**	2,033
Fees, assays and other	**21,396**	21,489
Total exploration expenses	**$ 170,869**	$ 141,038

An analysis of liabilities associated with the exploration and evaluation of mineral resources as at 31 December 2021 and 2020 is as follows:

	2021	2020
Total exploration liabilities	**$ 30,351**	$ 5,888

An analysis of cash flows used in operating activities related to the exploration and evaluation of mineral resources for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Cash flows used in operating activities	**$(42,120)**	$(62,084)

30. Selling Expenses

An analysis of selling expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Freight and transfers	**$ 79,100**	$ 75,803
Royalties	**11,110**	8,878
Handling	**3,953**	3,115
Extraordinary mining tax	**11,406**	9,078
Amortization of right-of-use assets (Note 15)	**1,498**	1,957
Other expenses	**23,349**	16,876
Total selling expenses	**$ 130,416**	$ 115,707

31. Personnel Expenses

An analysis of personnel expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Salaries and other employee benefits	**$ 264,496**	$ 234,160
Employee benefits at retirement	**10,614**	20,166
Social security dues	**72,663**	61,624
Social welfare and other benefits	**82,682**	71,973
Total personnel expenses	**$ 430,455**	$ 387,923

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

	2021	2020
Cost of sales	**$ 307,417**	$ 285,560
Administrative expenses	**110,631**	96,123
Exploration expenses	**12,407**	6,240
Total personnel expenses	**$ 430,455**	$ 387,923

In 2021 and 2020, the Company's average number of employees (unaudited information) is as follows:

	2021	2020
Number of non-union workers	**5,126**	4,707
Number of unionized workers	**10,597**	8,825
Total	**15,723**	13,532

Labor outsourcing reform in Mexico

In August 2021, as a result of the labor outsourcing reform, some of the Company's subsidiaries transferred their employees 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, the Company hired 427 employees. The Company did not recognize any accounting effects from this transaction in the consolidated financial statements as at 31 December 2021.

Changes in the method used to calculate current employee profit sharing

For the Company's subsidiaries in Mexico, employee profit sharing was determined based on each subsidiary's taxable profit. As a result of the labor outsourcing reform, in 2021, the method used for calculating employee profit sharing changed. Article 127(VII) of the Mexican Labor Law establishes a limit on employee profit sharing to which employees are entitled. The difference between both methods is not deemed to result in present or future payment obligations for the Company.

32. Other (Income)/Expenses

An analysis of other (income)/expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Rental income	$(1,709)	$(4,133)
Income from royalties	(469)	(1,067)
Gain on sale of property, plant, and equipment	(20,418)	(592)
Gain on sale of concentrates	(12,332)	(9,999)
Increase in provision for rehabilitation of closed mines (Note 20)	-	(13,302)
Other	(10,952)	-
Other income	$(45,880)	$(29,093)

An analysis of other expenses for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Donations	$ 2,920	$ 3,173
Maintenance expenses and ecological reserve provision in closed mines	15,881	5,314
Losses from accidents	6,697	382
Loss on sale of other products and services	3,030	573
Inventory write-off (Note 11)	-	22,309
Loss on sale of materials and scrap	2,541	11,697
Fixed asset disposals	3,862	-
Restatements and surcharges and others	-	297
Other expenses	$ 34,931	$ 43,745

33. Finance Income

An analysis of finance income is as follows:

	2021	2020
Interest income on cash equivalents and other investments	$ 7,571	$ 6,741
Interest income from trade receivables	3,581	2,212
Finance income on tax refund	7,529	11,119
Other	1,581	5,119
	$ 20,262	$ 25,191

34. Finance costs

An analysis of finance costs is as follows:

	2021	2020
Interest arising on financial debt	$ 132,480	$ 103,616
Debt restructuring cost (Note 18)	-	60,835
Reclassification of hedging instruments due to payment of underlying assets (Note 18)	-	25,143
Amortization of transaction costs (Note 18)	-	6,203
Financial discount of liability provisions (Note 20)	21,291	21,682
Net interest on defined benefit obligation (Note 19)	4,349	4,203
Finance cost on lease liabilities (Note 15)	8,311	7,730
Finance cost on taxes paid (Note 21)	-	29,387
Other	5,041	997
	$ 171,472	$ 259,796

35. Statements of Cash Flows

A reconciliation of consolidated net profit and cash flows provided by operating activities for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Consolidated net profit	$ 562,575	$ 89,601
Items not affecting cash flows:		
Depreciation, amortization, and depletion (Note 13)	705,260	693,832
Amortization of right-of-use assets (Note 15)	19,525	20,337
Net periodic benefit expense (Note 19)	20,424	18,527
Share of profit of associates (Note 14)	5,607	3,321
Income tax (Note 21)	260,914	184,812
Inventory write-off (Notes 11 and 32)	(839)	22,309
Provisions and allowances	16,137	11,756
Hedges applied due to early closing of positions	(32,138)	(55,526)
Other labor obligations (Note 19)	25,941	29,605
Foreign exchange (gain)/loss	(15,816)	22,013
Gain on sale and retirement of fixed assets (Note 32)	(20,418)	(592)
Impairment in the value of property, plant, and equipment (Note 13)	-	166,353
Fixed asset disposals	3,862	-
Interest income	(10,172)	(6,885)
Interest expense	157,606	182,782
Derivative financial instruments	9,671	12,206
Other	1,909	(4,238)
Subtotal	1,710,048	1,390,213
Trade and other accounts receivable	(99,765)	44,507
Inventories	(164,725)	(225,534)
Suppliers and other accounts payable	201,701	29,160
Early closing of positions	-	87,664
Income tax paid	(430,335)	(238,172)
Labor obligations (Note 19)	(6,079)	(3,341)
Ecological rehabilitation (Note 20)	(3,835)	(2,674)
Income tax refunds obtained	17,812	68,689
Special tax for mining companies paid	(41,821)	(21,851)
Employee profit sharing paid	(32,111)	(15,599)
Net cash flows from operating activities	$ 1,150,890	$ 1,113,062

36. Contingencies

As at 31 December 2021 and 2020, the Company had the following contingencies:

a) Grupo Peñoles is subject to various laws and regulations which, if not observed, could give rise to penalties. The Company's income tax is open to review by the tax authorities (Tax Administration Service) for a period of five years following the filing of the annual corporate income tax return, and during this period the tax authorities have the right determine additional taxes owed by the Company, including penalties and surcharges. Under certain circumstances, these reviews may cover longer periods. As such, there is the risk that transactions, especially those with related parties, that have not been questioned in the past by the tax authorities, could be challenged by the authorities in the future.

   Grupo Peñoles is currently subject to various tax audits by the tax authorities (Tax Administration Service) in relation to income tax, special mining tax and employee profit sharing and has submitted the information and documentation requested by the authorities.

   -On 13 February 2020, the Tax Administration Service initiated a tax review in relation to the calculation of income tax and mining taxes of Desarrollos Mineros Fresne, S. de R.L de C.V. for 2014. On 3 February 2021, the Tax Administration Service issued its observations as a result of this tax audit, to which the Company responded. These observations relate to the tax treatments of capitalized costs attributable to Company's stripping and exploration expenses. The Company has requested to the Federal Taxpayer Rights Defense Office (PRODECON, Spanish acronym) to enter into a conclusive agreement.

   -On 11 February 2021, the Tax Administration Service initiated a tax review in relation to the calculation of income tax and mining taxes of Desarrollos Mineros Fresne, S. de R.L de C.V. for 2015. In addition to the SAT's observations for 2014, a tax deduction was recognized as an expense for certain mineral extraction services. On 8 February 2022, the Tax Administration Service submitted its observations to the Company, which is currently in the process of preparing a response. It is expected that the Company will request to PRODECON to enter into a conclusive agreement.

   Due to the current stage of the conclusive agreement in relation to 2014 and 2015 tax audits, it is not currently possible to anticipate the likelihood of unfavorable outcomes from these tax audits or any future tax audits that Desarrollos Mineros Fresne S de R.L. de C.V. may be subject to.

   - Metalúrgica Met Mex Peñoles (a Company's subsidiary) is currently subject to a tax audit by the Tax Administration Service in relation to its 2014 income tax obligations. The Tax Administration Service has issued several observations regarding the subsidiary's tax treatment of its trademark use right and its payment of electricity. 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 the Company.

b) On 6 February 2020, the Supreme Court of Justice ruled on the motions for relief (amparos) filed by certain subsidiaries of Grupo Peñoles that operate in Zacatecas against the Revenue Act of Zacatecas that introduces new green taxes. As a result of these motions, Grupo Peñoles was exempted from compliance with the articles related to extraction activities and waste disposal and storage as part of the mining process. However, Grupo Peñoles was not exempted from compliance with the articles imposing taxes on gas emissions to the atmosphere and taxes on emissions of pollutants to the soil, subsoil and water, the estimated annual cost of which beginning in 2017, the year in which the Law came into effect, is not significant for the consolidated financial statements taken as a whole.

37. Commitments

Commitments for the purchase of mineral products

As at 31 December 2021 and 2020, 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 $ 1,428,942 and $ 1,286,550, 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, the Company entered into a business trust agreement for the operation and maintenance of a power plant under the self-supply permit granted to Termoeléctrica Peñoles, S. de R.L. de C.V. (TEP). This agreement expires in 2027. To guarantee these purchase commitments, the developers/operators of the plant were extended a sale option (“put option”) so that, in the event 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 2022 based on the estimated proportion generation for the year of 2,014.8 Kwh is $ 132,982.

b) Eólica de Coahuila

On 25 April 2014, the Company entered into a 25-year agreement with Eólica de Coahuila, S. de R.L. de C.V. (EDC) to supply electricity to this entity under a self-supply arrangement. In order to meet its commitments under this agreement, Peñoles’ subsidiaries that entered into this agreement shall buy all of the net power production that EDC generates over the agreed term, which is estimated to be 700 million kWh per year, payable on a monthly basis at a fixed determinable price per Kwh delivered by EDC to the Federal Electricity Commission at the interconnection point established in the agreement. Electricity production commenced in April 2017. In addition to this agreement, the Company also entered into a put option agreement to transfer the partnership interests of EDC upon occurrence of certain default events. The estimated cost for electricity consumption for 2022 based on the estimated proportion generation for the year of 728.4 Kwh is $ 64,072.

c) Eólica Mesa La Paz

On 25 January 2018, Grupo Peñoles entered into a 25-year power supply agreement with Eólica Mesa La Paz, S. de R.L. de C.V., (MLP) in accordance with the Electric Industry Law. Under this agreement, the Company’s subsidiaries will be supplied, through a Qualified Service Provider, with 67.8% of the net energy produced by MLP during the first seven years, which is estimated to be 782.3 million kWh per year. From the eighth year to the expiration of the agreement, the subsidiaries will be supplied with 100% of the net energy produced by MLP, which is estimated to be 1,170.0 million Kwh per year. The Company agreed to pay a determinable fixed price per Kwh delivered by MLP to the National Electric System at the interconnection point established in the agreement. Electricity production commenced in April 2020. In addition to this agreement, the Company also entered into a put option agreement to transfer the partnership interests of MLP upon occurrence of certain default events. The estimated cost for electricity consumption for 2022 based on the estimated proportion generation for the year of 805.0 Kwh is $ 34,693.

38. Financial Instruments

Analysis by category

An analysis of financial instruments by category as at 31 December 2021 and 2020 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 (*)	$ 1,817,094	$ -	$ -	$ -
Trade and other accounts receivable	311,855	2,038	-	-
Other financial assets (Note 10)	3,953	-	-	85,474
Equity instrument financial assets	-	-	174,862	-
	$ 2,132,902	$ 2,038	$ 174,862	$ 85,474

		At fair value	
	At amortized cost	Through profit or loss	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

An analysis of financial instruments by category as at 31 December 2020 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 (*)	$ 1,592,650	$ -	$ -	$ -
Trade and other accounts receivable	258,996	1,700	-	-
Other financial assets (Note 10)	4,116	-	-	18,607
Equity instrument financial assets	-	-	232,549	-
	$ 1,855,762	$ 1,700	$ 232,549	$ 18,607

38. Financial Instruments (continued)

	At amortized cost	At fair value: Through profit or loss	At fair value: Hedging instruments
Financial liabilities:			
Financial debt	$ 2,901,611	$ -	$ -
Suppliers and other accounts payable	342,737	827	-
Other financial liabilities (Note 17)	-	23,273	205,438
	$ 3,244,348	$ 24,100	$ 205,438

Fair value of financial instruments and fair value hierarchy

An analysis of the Company's fair value financial instruments as at 31 December 2021 and 2020 is as follows:

	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	**$ 1,817,094**	**$ 1,817,094**	$ 1,592,650	$ 1,592,650
Trade and other accounts receivable	**313,893**	**313,893**	260,696	260,696
Other financial assets	**89,426**	**89,426**	22,723	22,723
Equity instrument financial assets	**174,862**	**174,862**	232,549	232,549
	$ 2,395,275	**$ 2,395,275**	$ 2,108,618	$ 2,108,618

	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Financial debt	**$ 2,936,822**	**$ 3,215,522**	$ 2,901,611	$ 3,390,452
Suppliers and other accounts payable	**491,240**	**491,240**	343,564	343,564
Other financial liabilities	**122,715**	**122,715**	228,711	228,711
	$ 3,550,777	**$ 3,829,477**	$ 3,473,886	$ 3,962,727

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).

38. Financial Instruments (continued)

Level 3: unobservable inputs for the asset or liability.

	31 December 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**
Equity instrument financial assets	**176,560**	**-**	**-**	**176,560**
	$ 176,681	**$ 87,391**	**$ -**	**$ 264,072**

	31 December 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**

As at 31 December 2020:

	31 December 2020 Level 1	Level 2	Level 3	Total
Trade and other accounts receivable:				
Embedded derivatives	$ -	$ 1,700	$ -	$ 1,700
Other financial assets:				
Forwards and options	-	18,408	-	18,408
Futures	199	-	-	199
Equity instrument financial assets	232,549	-	-	232,549
	$ 232,748	$ 20,108	$ -	$ 252,856

38. Financial Instruments (continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded derivatives	$ -	$ 827	$ -	$ 827
Other financial liabilities:				
Forwards and options	-	228,645	-	228,645
Futures	66	-	-	66
	$ 66	$ 229,472	$ -	$ 229,538

Hedging instruments

Grupo Peñoles contracts derivatives with various financial institutions to reduce its exposure to changes in the variables and pricing of its transactions. This risk consists of the risk associated with fluctuations in the prices of produced or processed metals and energy, as well as the exchange rates associated with the Company's financial and business transactions.

To minimize its counterparty credit risk, Grupo Peñoles has entered into agreements only with well-known and financially strong financial institutions. Grupo Peñoles does not expect any of its counterparties to default on their obligations and thus does not consider it necessary to create any reserves for counterparty risk.

Cash-flow hedges

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized gain as at 31 December 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)	Future	**151,642**	**$ 23**	**58**
Gold (ounces)	Option	**158,690**	**$ 1,671 - $ 2,124**	**1,523**
Gold (ounces)	Future	**128,055**	**$ 1,809**	**1,212**
Lead (tons)	Option	**1,056**	**$ 2,095 - $ 2,602**	**23**
Lead (tons)	Future	**151**	**$ 2,325**	**-**
Zinc (tons)	Future	**1,894**	**$ 3,163**	**384**
Energy cost hedging program (d):				
Natural gas (MMbtu)	Future	**590,000**	**$ 4**	**205**
Foreign currency (b):				
Euro	Future	**13,532,922**	**$ 2.27**	**45**
Financial interest rate (d):				
Interest rate	IRS	**962,325,000**	**6.01**	**251**
Total (Note 10)				**$ 22,580**

38. Financial Instruments (continued)

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

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

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized gain as at 31 December 2020 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	4,248,000	$ 20 - $ 50	$ 1,611
Silver (ounces)	Future	1,518,552	$ 27	671
Gold (ounces)	Option	17,905	$ 1,630 - $ 2,317	63
Gold (ounces)	Future	51,671	$ 1,889	639
Lead (tons)	Future	2,522	$ 603	136
Zinc (tons)	Option	7,544	$ 2,645 - $ 2,966	144
Zinc (tons)	Future	43,758	$ 2,254	2,739
Energy cost hedging program (c):				
Natural gas (MMbtu)	Future	700,000	$ 3	53
Foreign currency (b):				
U.S. dollar	Option	37,530,000	$ 22.50 - $ 31.97	4,499
Euro	Future	8,308,516	$ 2.38	212
Swedish krona	Future	10,213,084	$ 8.74	80
Financial interest rate (d):				
Interest rate	IRS	300,000,000	1.42	561
Total (Note 10)				$ 11,408

38. Financial Instruments (continued)

An analysis of the fair value of derivatives that qualify as cash flow hedges recognized directly in equity as an unrealized loss as at 31 December 2020 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	21,559,200	$ 17- $ 21	$(140,426)
Silver (ounces)	Future	906,444	$ 27	(640)
Gold (ounces)	Option	317,135	$ 1,576 - $ 2,024	(21,228)
Gold (ounces)	Future	3,258	$ 1,576	(74)
Copper (ounces)	Option	600	$ 6,670 - $ 7,947	(167)
Lead (tons)	Future	2,522	$ 1,356	(110)
Zinc (tons)	Option	16,120	$ 2,384 - $ 2,905	(1,205)
Zinc (tons)	Future	46,561	$ 1,018	(944)
Energy cost hedging program (c):				
Natural gas	Future	1,500,000	$ 2.58	(229)
Financial interest rate (d):				
Interest rate	IRS	58,298,835	2.03	(3,690)
Total (Note 17)				$(168,713)

Note:

(1) The prices in the above table reflect the weighted average sale or purchase price of forwards and the weighted average strike price of put and call options.

(2) Contracts that commit a portion of the Company's production from 2022 to 2023.

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, the Company establishes hedge programs based on its budgeted production using derivative financial instruments, such as "forwards" and "put" and "call" options.

Hedging positions

Due to current metal price conditions, the Company decided to close a portion of the market value of its gold, silver and zinc hedging positions in advance and thus monetize $ 87,664. According to the cash flow hedge accounting, realized gains are recognized in other comprehensive income and the profit generated by the closing of the hedged items will be recognized on the dates on which the forecasted transactions take place for the period from 30 April 2020 to 31 December 2021. As at 31 December 2021 and 2020, the Company recognized a hedge amortization expense of $ 32,138 and $ 55,526, respectively.

38. Financial Instruments (continued)

	31 December	
	2021	2020
Hedge protection program		
Metals		
Silver	**$ -**	$ 32,138

b) Foreign currency hedging program

As at 31 December 2021, the Company 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 the Company's costs in U.S. dollars associated with changes in natural gas prices for its subsidiaries that buy natural gas and assuring the continuity of the Company's operations.

d) Interest rate hedging program

The aim of this program is to use swaps to stabilize the borrowing costs of the Company's loans in U.S. dollars and/or Mexican pesos. Grupo Peñoles contracts hedge instruments covering its financing costs related to loans with floating interest rates.

As at 31 December 2021, the Company has debt under the Export Credit Agency (ECA) structure that bears floating interest at a rate equal to the LIBOR. The Company's strategy has been to fully hedge the interest rate of its current debt. See Note 18.

Likewise, the Company contracted foreign currency hedges to mitigate any potential adverse effect of a significant revaluation in the Mexican peso/U.S. dollar exchange rate on its production costs denominated in Mexican pesos.

The fair value of financial instruments classified as cash flow hedges, net of deferred income tax recognized in equity, is as follows:

	2021	2020
Fair value of financial instruments	**$(12,187)**	$(157,305)
Hedges balance due to early closing of positions	**-**	32,138
Ineffectiveness and effect of time value of options excluded from hedges	**739**	1
Deferred income tax	**3,434**	37,551
Net fair value of deferred income tax recognized directly in equity	**$(8,014)**	$(87,615)

38. Financial Instruments (continued)

Changes in the unrealized profit (loss) on valuation of hedges for the years ended 31 December 2021 and 2020 are as follows:

	2021	2020
Beginning balance as at 1 January	**$(87,615)**	$(16,276)
Loss reclassified to earnings	**(123,894)**	(34,643)
Deferred income tax	**37,169**	10,393
Reclassification of hedging instruments due to payment of underlying asset	**-**	(25,143)
Deferred income tax	**-**	7,543
Realized gain on hedges due to early closing of positions	**32,138**	87,664
Reclassification to profit or loss of realized loss on hedges due to early closing of positions	**(32,138)**	(55,526)
Deferred income tax	**-**	(9,641)
Changes in the fair value of hedges	**237,609**	(74,266)
Deferred income tax	**(71,283)**	22,280
Unrealized loss net of deferred income tax as at 31 December	**$(8,014)**	$(87,615)

As at 31 December 2021, derivative contracts consist of forecast transactions that the Company 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:

	1	2 or more	Total
Unrealized loss	$(16,678)	$ 8,664	$(8,014)

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

	2021	2020
Sales	**$(70,959)**	$(34,499)
Cost of Sales	**21,749**	58,688
Interest expense	**(284)**	(3,234)
Total	**$(49,494)**	$ 20,955

Fair value hedges

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at 31 December 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 31 December 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)**

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized gain as at 31 December 2020 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)		Fair value	
Metal price:						
Lead (tons)	Futures	880	$	2,199	$	169
Lead (tons)	Futures	7,500	$	1,906		36
Zinc (tons)	Futures	12,217	$	2,734		3,163
Total (Note 10)					$	3,368

An analysis of the fair value of derivatives that qualify as fair value hedges recognized as an unrealized loss as at 31 December 2020 is as follows:

Commodity	Derivative	Notional amount	Strike price (1)		Fair value	
Metal price:						
Gold (ounces)	Futures	13,000	$	1,833	$(	59)
Gold (ounces)	Futures	3,000	$	1,891	(	19)
Silver (ounces)	Futures	1,201,000	$	24	(	16)
Zinc (tons)	Futures	303,375	$	2,500	(	15,692)
Total (Note 17)					$(	15,786)

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, the Company establishes hedge programs based on its budgeted sales using derivative financial instruments, such as “forwards” and “put” and “call” options.

38. Financial Instruments (concludes)

The following analysis shows the gains on the Company's hedging instruments and the loss attributable to the risk being hedged:

	2021		2020	
	Effect of derivative	Hedged item	Effect of derivative	Hedged item
Gain	**$(1,810)**	**$ 10,390**	$(12,418)	$ 15,135

Derivatives at fair value through profit or loss

An analysis of derivatives at fair value though profit or loss as at 31 December 2021 is as follows:

Commodity	Derivative	Notional amount (2)	Strike price (1)	Fair value
Interest rate	IRS	300,000,000	1.42	$ 16,017

Corresponds to certain swaps contracted as cash flow hedges covering the variable interest rates of debt that was prepaid in 2020 and that ceased to comply with the conditions for hedge accounting. As a result, the unrealized gains, and losses on valuation of hedges that had been previously recognized in equity were reclassified to profit or loss.

39. Financial Risk Management

The principal financial instruments of Grupo Peñoles comprise financial assets and financial liabilities. The Company's principal financial liabilities, other than derivatives, comprise accounts payable, financial debt and debentures. The main purpose of these financial instruments is to manage short-term cash flows and secure financing for the Company's capital expenditure program. Grupo Peñoles has various financial assets, such as accounts receivable and cash and short-term cash deposits, which arise directly from its operations.

Grupo Peñoles is exposed to the following risks associated with its use of financial instruments:

a) Market risk, which includes foreign currency risks, commodity price risk (precious metals and base metals), equity instrument pricing and interest rate risks
b) Credit risks
c) Liquidity risks

Grupo Peñoles manages its exposure to key financial risks in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security. The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risks. Management reviews and agrees policies for managing each of these risks which are summarized below.

The Company's senior management oversees the management of financial risks. The Company's management is supported by a financial risk committee that advises on financial risks and the appropriate governance framework for proper financial risk identification, measurement, and management. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience, and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

39. Financial Risk Management (continued)

The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: metal price risk, interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payable, accrued liabilities, and derivative financial instruments.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

The analyses exclude the impact of movements in market variables on the carrying amount of pension and other post-retirement obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to derivatives and Mexican peso denominated accounts receivables.

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as at 31 December 2021 and 2020.

- The impact on equity is the same as the impact on profit before tax.

Commodity price risk

Due to the nature of its business and economic environment, the Company uses hedging derivatives to reduce the variability in its cash flows and operating margins arising from various factors, such as:

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 the Company’s equity and profit before taxes.

	10%-25% increase 31 December 2021		15%-45% increase 31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$ 26,304**	**$ -**	$ 86,732	$ -
Financial liabilities:				
Suppliers and Other Accounts Payable	**(14,638)**	**-**	(17,111)	-
Derivative financial instruments	**16,816**	**(94,300)**	15,031	(364,470)
	$ 28,482	**$(94,300)**	$ 84,652	$(364,470)

39. Financial Risk Management (continued)

	10%-15% decrease 31 December 2021		15%-45% decrease 31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$(20,855)**	**$ -**	$(82,170)	$ -
Financial liabilities:				
Suppliers and other accounts payable	**12,341**	**-**	15,736	-
Derivative financial instruments	**(14,556)**	**73,009**	(14,955)	304,258
	$(23,070)	**$ 73,009**	$(81,389)	$ 304,258

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

	2021		2020	
	Increase	Decrease	Increase	Decrease
Silver	**15%**	**15%**	45%	45%
Gold	**10%**	**10%**	20%	20%
Zinc	**25%**	**15%**	25%	20%
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 equity instrument financial assets.

The following table demonstrates the sensitivity of equity instrument financial assets to a reasonably possible change in the market price of equity instruments. The impact on equity corresponds to the recognition of the unrealized gain/(loss) on valuation and on the consolidated statement of profit or loss, as a possible recognition of impairment of the financial instrument.

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

	31 December 2021		31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
25% increase (70% in 2020)	**$ -**	**$ 44,138**	$ -	$ 162,087
45% increase (40% in 2020)	**$ -**	**$(79,449)**	$ -	$(93,266)

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's financial assets and liabilities with floating interest rates.

As at 31 December 2020, Grupo Peñoles has a combination of debt bearing interest at variable rates and floating rates tied to the London Interbank Offered (LIBOR) rate. The Company fixes its floating interest rates using interest rate swaps.

39. Financial Risk Management (continued)

Grupo Peñoles' s risk management policy is focused on providing certainty regarding its future cash flows. As at 31 December 2021 and 2020, the Company has hedge instruments that it has contracted in order to obtain fixed interest rate for its loans that bear variable interest rates. The derivative that the Company has contracted, through which it swaps its floating interest equal to the LIBOR, is designed to fully hedge the interest rate of its current debt under the ECA structure. In this interest rate swap, Grupo Peñoles pays a fixed interest rate and receives the underlying floating rate applied to the current nominal balance of the loan.

The following table shows the sensitivity of the Company's financial assets and liabilities to a reasonably possible change in the interest rates applied on a complete year basis as of the consolidated statement of financial position date, with all other variables held constant.

	31 December 2021		31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
25 basis point increase (25 in 2020)	**$ 5,777**	**$(1,940)**	$ 6,810	$ 385
Basis point decrease(20 in 2020)	**$ -**	**$ -**	$(5,037)	$(474)

Foreign currency risk

Grupo Peñoles manages its foreign currency risk by contracting derivatives.

The main foreign currency to which the Company is exposed (other than the U.S. dollar, which is its functional currency) is the Mexican peso, which is the currency of a significant portion of the Company's operating costs and investments, as well as certain equity investments denominated in other currencies such as the euro, Swedish krona, and pound sterling.

The Company's Board of Directors has appointed a Hedging Committee to establish the strategies and limits for matching receipts in U.S. dollars and costs incurred in Mexican pesos as well as certain equity investments denominated in other currencies such as the euro and Swedish krona, through hedge agreements (derivatives).

As at 31 December 2021, the sensitivity of the Company's financial assets, financial liabilities and cash and cash equivalents denominated in foreign currencies, expressed in the presentation currency, is as follows:

	In Mexican pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	**$ 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)**

39. Financial Risk Management (continued)

As at 31 December 2020, the sensitivity of the Company's financial assets, financial liabilities and cash and cash equivalents denominated in foreign currencies, expressed in the presentation currency, is as follows:

	In Mexican pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	$ 26,550	$ 316	$ 26,866
Trade and other accounts receivable	43,002	2,129	45,131
Financial liabilities:			
Suppliers and other accounts payable	(39,605)	(14,020)	(53,625)
	$ 29,947	$(11,575)	$ 18,372

The following table demonstrates the sensitivity of the Company's financial assets and liabilities to a reasonably possible change in the Mexican peso / U.S. dollar exchange rate and the effect on the Company's profit before taxes, based on the foreign currency risk exposure maintained as at 31 December 2021 and 2020 and the Company's derivatives whose underlying are the peso-to-dollar exchange rate (assuming that all other variables are held constant):

	31 December 2021		31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
10% increase – Mexican peso (20% in 2020)	**$ 339**	**$ -**	$ 7,487	$ -
5% decrease - Mexican peso (15% in 2020)	**$ (145)**	**$ -**	$ (3,906)	$ -

Grupo Peñoles is exposed to the risk of fluctuations in the exchange rates of the euro and Swedish krona to the U.S. dollar, since a portion of its fixed asset acquisitions are made in these currencies. The following table shows the sensitivity of the financial assets and liabilities to potential fluctuations in the exchange rates of euro and Swedish krona and the U.S. dollar, expressed in the presentation currency:

	31 December 2021		31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
5% increase – euro (10% in 2020)	**$(1,140)**	**$ 1,707**	$(1,260)	$ 994
5% decrease - euro (10% in 2020)	**$ 1,140**	**$(2,058)**	$ 1,260	$(1,040)

	31 December 2021		31 December 2020	
	Profit or loss	Equity	Profit or loss	Equity
10% increase - Swedish Krona (15% in 2020)	**$(4)**	**$(46)**	$(7)	$(160)
5% decrease - Swedish Krona (15% in 2020)	**$ 2**	**$ 31**	$ 7	$ 289

b) Liquidity risk

Liquidity risk is the risk of not being able to meet its financial liabilities and obligations when they come due.

39. Financial Risk Management (continued)

Grupo Peñoles has established a treasury policy to manage its liquidity risk, which primarily includes maintaining a balance between short-, medium- and long-term funds, borrowing facilities available and access to other financing. The Company conducts on-going debt maturity profile analyses of its financial assets and liabilities and constantly monitors its projected cash flows.

An analysis of the borrowing facilities available as at 31 December 2021 and 2020 is as follows:

	2021			2020		
	Credit limit	Credit used	Unused credit	Credit limit	Credit used	Unused credit
A-2	**$ -**	**-**	**$ -**	$ 80,000	-	$ 80,000
Aa3	**80,000**	**-**	**80,000**	-	-	-
Aaa	**75,000**	**25,000**	**50,000**	-	-	-
A-1	**-**	**-**	**-**	89,500	-	89,500
A-1	**609,500**	**45,000**	**564,500**	595,000	25,000	570,000
Total	**$ 764,500**	**70,000**	**$ 694,500**	$ 764,500	25,000	$ 739,500

Grupo Peñoles has available lines of credit that are rolled over annually and bear no fees to maintain them.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at 31 December 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 payable	**489,533**	**489,533**	**-**	**-**	**-**
Lease liabilities	**108,006**	**15,428**	**10,634**	**7,447**	**74,497**
Other financial liabilities:					
Hedging instruments	**122,715**	**107,030**	**15,685**	**-**	**-**
	$ 6,067,689	**$ 764,606**	**$ 496,704**	**$ 141,463**	**$ 4,664,916**

As at 31 December 2020:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	$ 6,050,372	$ 152,787	$ 152,667	$ 470,426	$ 5,274,492
Suppliers and other accounts payable		342,737	342,737	-	-
-					
Lease liabilities	108,351	15,640	11,582	7,359	73,770
Other financial liabilities:					
Hedging instruments	228,711	208,014	20,697	-	-
	$ 6,730,171	$ 719,178	$ 184,946	$ 477,785	$ 5,348,262

39. Financial Risk Management (continued)

c) Credit risk

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

The Company only carries out transactions with well-known and solvent financial counterparties. It is the Company's policy that all customers who wish to trade on credit terms will be subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity, and financial position.

The Company obtains collateral as security from its customers to mitigate the risk of financial losses due to default. In addition, receivables balances are monitored on an ongoing basis with the result that the Company's exposure to expected losses is not significant.

Regarding the credit risk related to other financial assets, primarily cash and investments and derivative assets, the Company's exposure relates to potential counterparty default. The Company's maximum exposure is equal to the book value of these instruments, securities, or transactions. The Company limits its counterparty credit risk on these assets by dealing only with financial institutions with strong credit ratings.

The expected credit loss for trade receivables balances is determined considering the probability of default of payment for each client where a risk rating is assigned derived from the financial and commercial analysis of the entity. A bad debt factor by business unit is applied to the result, calculated with the behavior of the portfolio during the last 18 months. Additionally, factors such as the existence of collateral and bad debt (clients who have had a default in payment) are incorporated, which factors into expected credit loss.

Cash and cash equivalents and short-term investments

An analysis of the credit ratings of financial institutions with which the Company maintains cash and cash equivalents is as follows:

Cash and cash equivalents

	2021	2020
A-2	**$ 520,876**	$ 660,132
A-1	**625,685**	903,258
A-1	**609,830**	-
BBB	**60,703**	27,756
mxA+	**-**	1,504
	$ 1,817,094	$ 1,592,650

39. Financial Risk Management (concludes)

Trade and other accounts receivable

An analysis of trade receivables aging is as follows:

As at 31 December 2021:

	Not yet payable	Not impaired: From 1 to 30 days	Not impaired: From 31 a 60 days	Not impaired: 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**

As at 31 December 2020:

	Not yet payable	Not impaired: From 1 to 30 days	Not impaired: From 31 a 60 days	Not impaired: More than 60 days	Impairment
Trade receivables	$ 152,040	$ 42,402	$ 6,578	$ 4,846	$ 2,232
Related parties	11,179	-	-	-	-
Other accounts receivable	43,963	-	-	-	2,265
	$ 207,182	$ 42,402	$ 6,578	$ 4,846	
Impairment	$ 1,050	$ 768	$ 11	$ 2,668	$ 4,497

Other Financial Assets

The credit risk of other financial assets consists primarily of loans extended to contractors to finance acquisitions of machinery to allow the contractors to maintain the level of service they provide at the mining units. Company policy is to keep the acquired machinery as collateral, which is stored in the facilities of Grupo Peñoles. Also, the Company's policy is to partially credit its payments due for services received against the financing balance.

Capital management

The Company manages its capital structure in a way that ensures its survival as a going concern, maintains investor confidence and the confidence of the financial markets, and sustains the future development of its medium- and long-term projects in order to maximize shareholder return.

To ensure that it maintains a strong credit rating and healthy capital ratios, the Company aims to maintain a capital structure with an adequate debt to capital ratio. Management believes that such optimum capital structure is reflected in the equity shown in the consolidated statement of financial position, excluding non-controlling interests.

Grupo Peñoles has no capital requirements or restrictions that might affect its capital management capacity. The Company has met its legal obligation to create a legal reserve equal to 20% of the value of its share capital. The legal reserve as at 31 December 2021 and 2020 is $ 52,304 (equal to Ps. 683,026), respectively.

40. Assets Held for Sale

In July 2020, Grupo Peñoles entered into an agreement with a company for the sale of real and personal property related to the Zimapán unit for an amount of $ 20,000. The related assets and liabilities are recognized separately as part of the assets and liabilities held for sale caption. The carrying amount of these assets and liabilities is $ 8,346 and $ 10,937. On 28 July 2020, Company management approved the sale plan.

In May 2021, the sale of Zimapán unit was completed for a total price of $ 20,000. As at 31 December 2020, the Zimapán unit assets were classified as a disposal group held for sale within the base metal mines segment and represented 0.43% of the total assets recognized in the segment and 0.13% of the total revenue recognized in the segment.

An analysis of the principal class of assets and liabilities of the Zimapan unit classified as held for sale as at 31 December 2021 is as follows:

	2020
ASSETS	
Property, plant, and equipment	$ 8,346
LIABILITIES	
Provisions	$ 10,937

Disclaimer

This Annual Report contains certain forward-looking information relating to Industrias Peñoles, S.A.B. de C.V. and its subsidiaries (Peñoles or the Company) that is based on assumptions made by its management. Such information, as well as the statements with respect to future events and expectations are subject to certain risks, uncertainties and factors that could cause the actual results, performance or achievements of the Company to be materially different at any time. Such factors include changes in general economic, governmental policy and/or business conditions nationally and globally, as well as changes in interest rates, inflation rates, exchange rates, mining performance in general, metal demand and quotations, and raw material and fuel prices, among others. Due to these risks and factors, actual results may vary materially from the estimates described herein, for which reason Peñoles does not assume any obligation with respect to such variations or to information provided by official sources.