Deepening our transformational process **to strengthen performance**

2023 Annual Report

We have overcome major challenges throughout the economic cycles. We have capitalized on the lessons learned, and will continue to take the necessary steps to substantially improve our performance.

We continue our cultural evolution. We align our goals and actions with the company's strategic pillars to achieve our vision.

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

Contents

In our 2023 Annual Report, we address our actions to overcome the major challenges we faced.

ESR

cotiza en Bolsa Mexicana
PE&OLES

The following symbols will be used throughout this report:

CO_2 = carbon dioxide
g/t = grams per metric ton
GWh = gigawatts per hour
k = thousands
koz = thousand ounces
kt = thousand metric tons
kWh = kilowatts per hour
lb = pounds
Ml = million liters
Mlb = million pounds
Mm^3 = million cubic meters
Moz = million ounces
Mt = million metric tons
MW = megawatt
MXN = Mexican peso
oz = ounce
t = metric ton
tCO_2e = tons of carbon dioxide equivalent
US$ = US dollars
US¢ = US cents
US¢/lb = US cents per pound
US¢/lbe = US cents per pound equivalent
US$ M = million US dollarss
US$/oz = US dollars per ounce
US$/t = US dollars per metric ton

Business and **market climate**

We deepened our transformation to respond effectively to global challenges and strengthen our economic and socioenvironmental performance.

Corporate profile and stakeholders

Founded in 1887, Peñoles is a mining group with integrated operations for smelting and refining non-ferrous metals and manufacturing chemical products. Peñoles is the leading global producer of refined silver, Latin America's leading producer of gold and refined lead, and one of 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, Respect, Integrity, and Loyalty.

Employees

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

Communities

Enable communities committed to their development and the organization, who prosper and own their own destiny, appreciate the company and feel proud of their collaboration and vicinity.

Government

Establish collaborative, mutually beneficial institutional relationships that promote open dialogue for the common good with representatives of local, state, and federal governments.

Customers

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

Shareholders

Offer the best medium-and long-term investment option, delivering competitive costs, growth, and profitability, while ensuring the company's continuity.

Suppliers

Serve as 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.

STAKEHOLDERS

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

Corporate **structure**[*]

Industrias Peñoles, S.A.B. de C.V.

75% Fresnillo plc[1]

- 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).

100% Peñoles mines

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

100% Química Magna

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

100% Peñoles infrastructure

- 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 supply contracts.

Others

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

[*] Includes the most important subsidiaries.

Operations

Peñoles is a proud Mexican company, with an international presence, that creates development and opportunities in the regions where it has operated for more than 13 decades.

Mining operations

Base metals

1 Velardeña
2 Sabinas
3 Tizapa
4 Capela
5 Milpillas
6 Naica*

Precious metals

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

Metallurgical operations

15 Metalúrgica Met-Mex
16 Bermejillo
17 Aleazin

Infrastructure

18 Línea Coahuila-Durango
19 Termoeléctrica Peñoles
20 Termimar
21 Fuerza Eólica del Istmo
22 Eólica de Coahuila
23 Eólica Mesa La Paz

Chemical operations

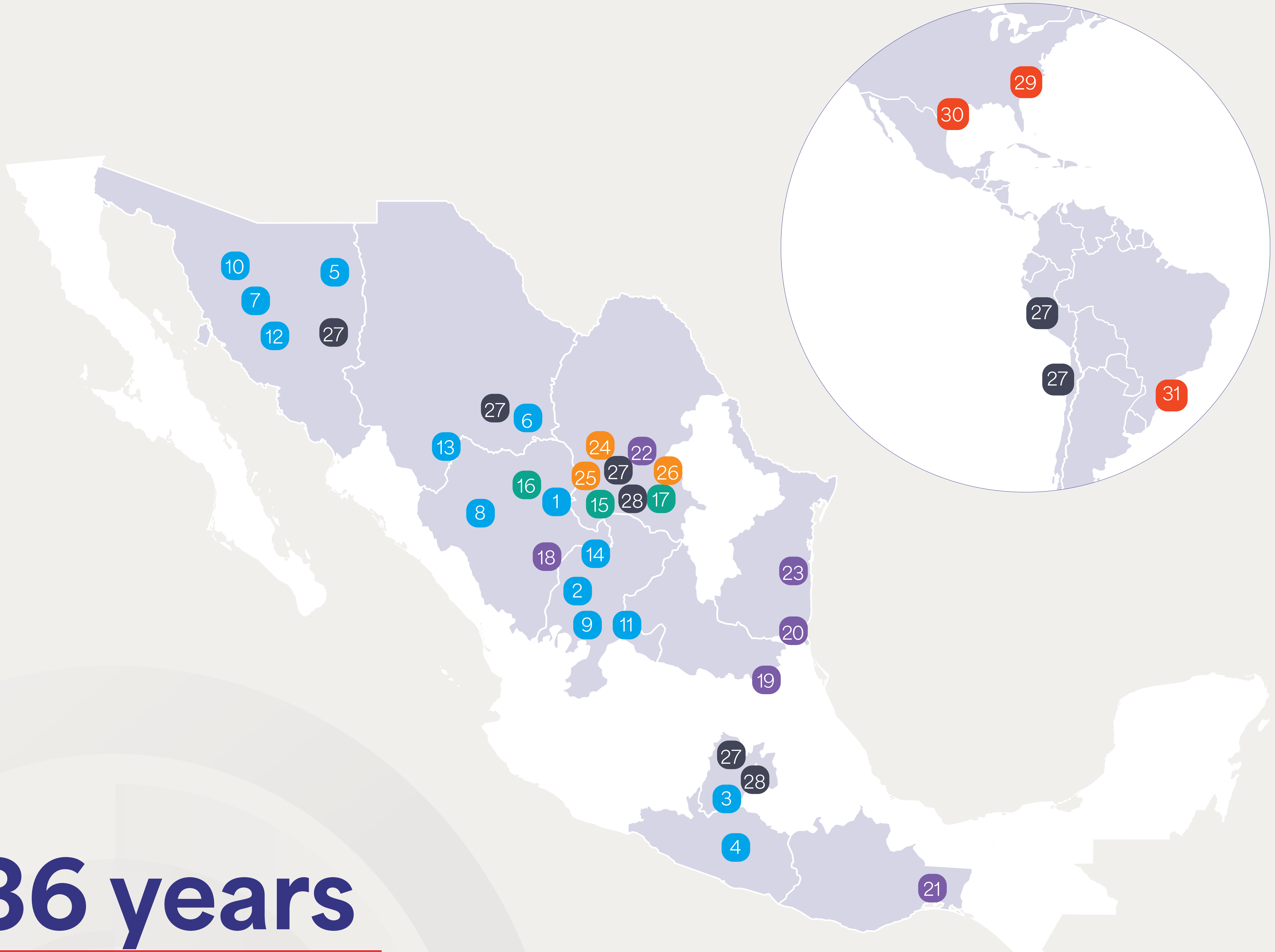
24 Química del Rey
25 Fertirey
26 Industrias Magnelec

Offices

27 Exploration
28 Headquarters

Commercial offices

29 Bal Holdings
30 Wideco
31 Quirey do Brasil



136 years

creating opportunities and development

* Operations in these units have been suspended.

Our **strategy**

Efficiency and operational focus

To ensure that our operations achieve their design capacity and reach their maximum efficiency and profitability through:

1. Strict process and cost control;
2. Flawless investment rationalization and execution;
3. Working capital optimization; and
4. Maximizing the group's synergies in a safe, healthy, socially and environmentally compatible work environment.

1

Growth

Ensure our business' continuity and sustainable growth by dynamically identifying and capitalizing on strategic business opportunities with an efficiently managed portfolio of attractive projects.

2

Environment, safety, and health

All of our operations must excel in environmental, safety, and health performance by remaining at the forefront of compliance with internal and industry guidelines adopted by our organization, according to the most demanding industry guidelines.

3

Risk management and compliance

Strengthen our risk management and compliance system, supported by i) a management system that ensures effective mitigation actions; ii) an action framework that strengthens responsibility and accountability; and iii) governance for the analysis and monitoring of critical risk mitigation and compliance.

4

Relations with communities & governments

Ensure that our actions and relationships with communities and governments are carried out within a framework of respect, ethics, and empathy, creating an environment that promotes the development of our business and generates value for all of our stakeholders.

5

Focus on people and leadership

To foster competent, safe, and healthy leaders, employees–unionized and non-unionized–and contractors, who are aware of their maximum potential and fulfill their responsibilities in an agile, disciplined manner and with the knowledge and mastery required to achieve extraordinary results in an environment of integral wellbeing for all.

6

Market climate

In the early months of 2023, a climate of optimism prevailed in the markets. The World Health Organization (WHO) declared that the COVID-19 pandemic was over, and the reopening of China was expected to propel a global economic recovery. Base metal prices were high at the outset of the year: US ₵/lb 105.7, US ₵/lb 159.7, and US ₵/lb 428.0 for lead, zinc, and copper, respectively. However, central banks were obligated to keep interest rates high to counter inflation, which dragged on growth, especially in Europe and Asia, weakening demand for industrial metals.

Specifically, zinc demand for construction dropped in Europe, a region where this industry accounts for about half of total zinc demand. This put significant pressure on its price, which dropped to US ₵/lb 100.9. This plunge in zinc prices to their lowest level since 2020 prompted supply cuts, which had already experienced disruptions due to price-induced shutdowns and technical problems.

These factors were compounded by war in the Middle East and the protracted Russian-Ukrainian conflict. China, the world's largest consumer of metals, faced other challenges, such as the weakness of the real estate sector and a contraction in its exports.

In contrast, copper was supported by demand from industries involved in the energy transition, but faced multiple challenges in projects with complicated jurisdictions, along with environmental, social and governance issues, financing and logistical constraints. The balance between copper supply and demand was favorable in the short term, resulting in a narrower price range than in previous years, from a low of US ₵/lb 354.4 to a high of US ₵/lb 428.0. Meanwhile, the average price of lead remained relatively stable compared to 2022.

As for gold, the weakness of the U.S. dollar was a key factor driving its price, along with geopolitical conflicts and expectations of monetary easing. Although holdings in gold-backed funds declined at the end of the period due to profit-taking, central bank interest mitigated this effect. In December 2023, gold reached a new all-time high in nominal terms, with the LBMA gold benchmark hitting US$2,078.4 per ounce.

The spike in gold prices stimulated an increase in supply, while the global silver market faced a shortage due to stagnant mine production. However, strong growth in silver consumption in the solar cell industry offset weak demand for other industrial uses. The price of silver remained in a range of US$ 20.0 to US$ 26.0 per ounce, although it did not break below the floor of US$ 20.0 per ounce, and like copper, its prospects for future demand in the renewable energy sector remain encouraging.

On the foreign exchange front, the Mexican peso performed particularly well against the US dollar, with its sharpest appreciation in eight years. As the dollar also weakened against other currencies, the peso was buoyed by inflows resulting from three main factors: nearshoring and its impact on foreign direct investment, the financial appeal of the interest rate spread between Mexico and the United States, and a steady flow of remittances from Mexican nationals abroad.

The peso's brisk appreciation against the dollar had a negative impact on the company's operating income, subtracting about US$179 million, while the mixed performance of metal prices favored sales, albeit to a lesser extent (+US$23 million). These and other effects on the company's financial results are described in greater detail in the Management Discussion & Analysis section of this Annual Report.

To mitigate these negative impacts from the market climate and safeguard our financial condition, we deployed a strict program to preserve our financial health by controlling and reducing costs and expenses, rationalizing investments, and optimizing the use of working capital. We also focused our efforts on improving our operating efficiency.

Highlights

The combination of adverse macroeconomic factors–including lower industrial metal prices, inflationary pressures, and appreciation of the peso-dollar exchange rate–with internal operational issues, affected our financial results for the year.

Financial **highlights**

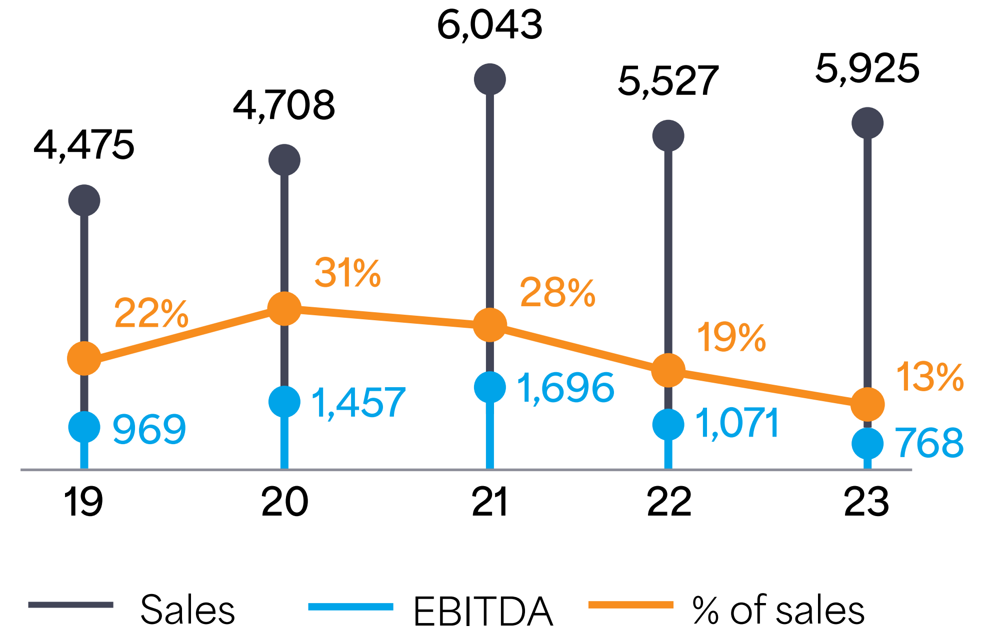
US$ M	2023	2022	% Change	2021	2020	2019
Net sales [1]	**5,929.0**	5,523.4	7.3	5,971.8	4,673.3	4,471.9
Gross profit	**808.2**	1,032.5	-21.7	1,555.8	1,249.0	870.8
Exploration expenses	**232.7**	217.1	7.2	170.9	141.0	208.1
EBITDA [2,3]	**768.2**	1,070.9	-28.3	1,695.8	1,456.7	968.7
Operating income [3]	**77.6**	380.3	-79.6	971.0	742.6	275.0
Financial and exchange result, net	**149.8**	158.4	-5.4	152.8	283.8	108.3
Controlling interest in net income (loss)	**147.1**	183.4	-19.8	391.3	-34.4	35.5
Capital expenditures	**596.0**	747.5	-20.3	762.1	563.1	913.3
Dividends paid to majority shareholders	**-**	-	N.A.	49.9	-	155.2
Cash and investments [4]	**1,040.2**	1,468.9	-29.2	1,817.1	1,592.7	526.3
Property, plant and equipment, net	**4,660.2**	4,710.7	-1.1	4,707.3	4,671.6	4,978.4
Total assets	**9,979.3**	10,042.5	-0.6	9,793.3	9,250.4	8,186.7
Financial debt	**2,758.8**	2,908.0	-5.1	2,936.8	2,901.6	2,226.3
Deferred taxes, net	**-1,106.3**	-570.2	94.0	-196.0	-47.7	74.2
Total liabilities	**4,473.5**	4,754.2	-5.9	4,769.4	4,719.9	3,698.8
Total shareholders' equity	**5,505.8**	5,288.3	4.1	5,023.9	4,530.5	4,487.9

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

1 Includes hedging results
2 Earnings before interests, taxes, depreciation, and amortization
3 Excludes other income (expense) or impairment loss
4 Includes cash, cash equivalents, and short-term investments

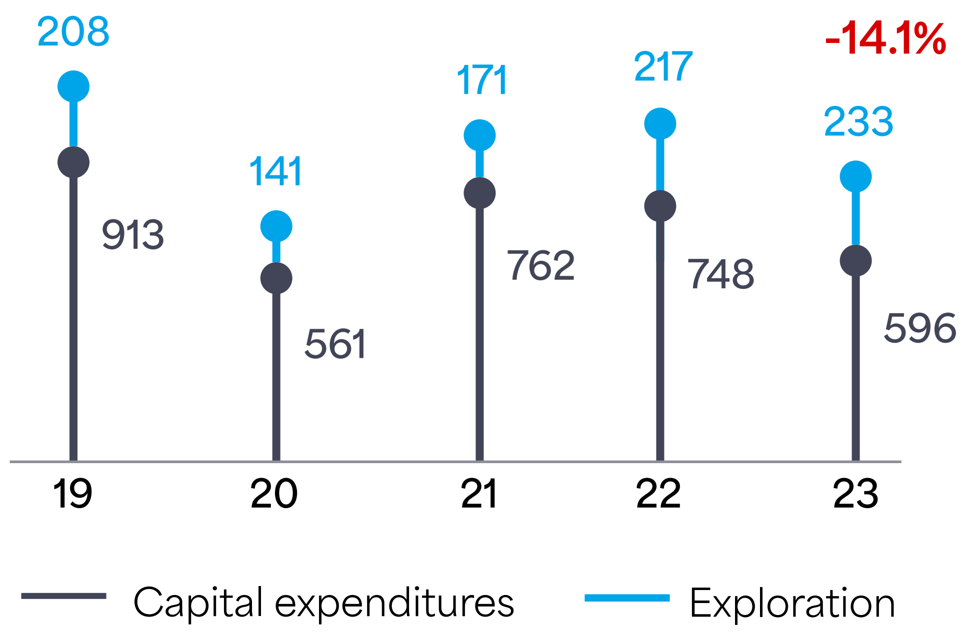
Financial **indicators**

Sales* / EBITDA
(US$ M)

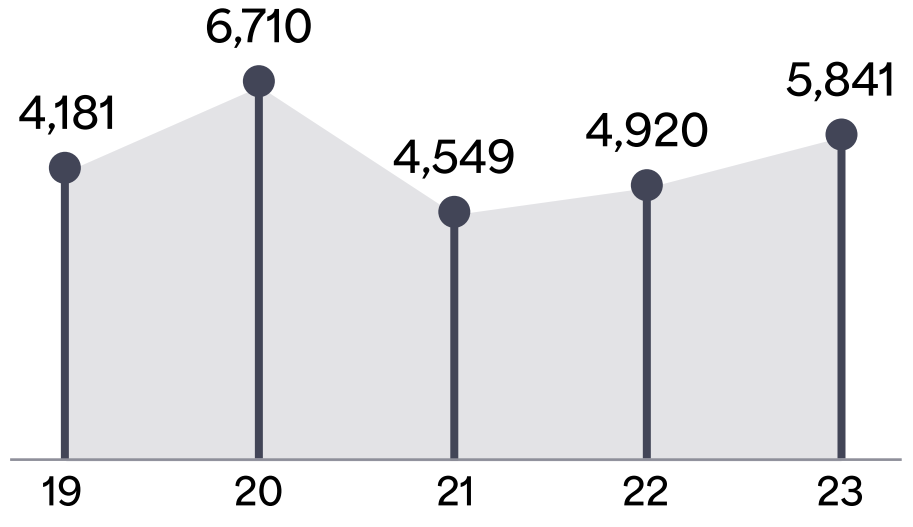


* Does not include hedging results

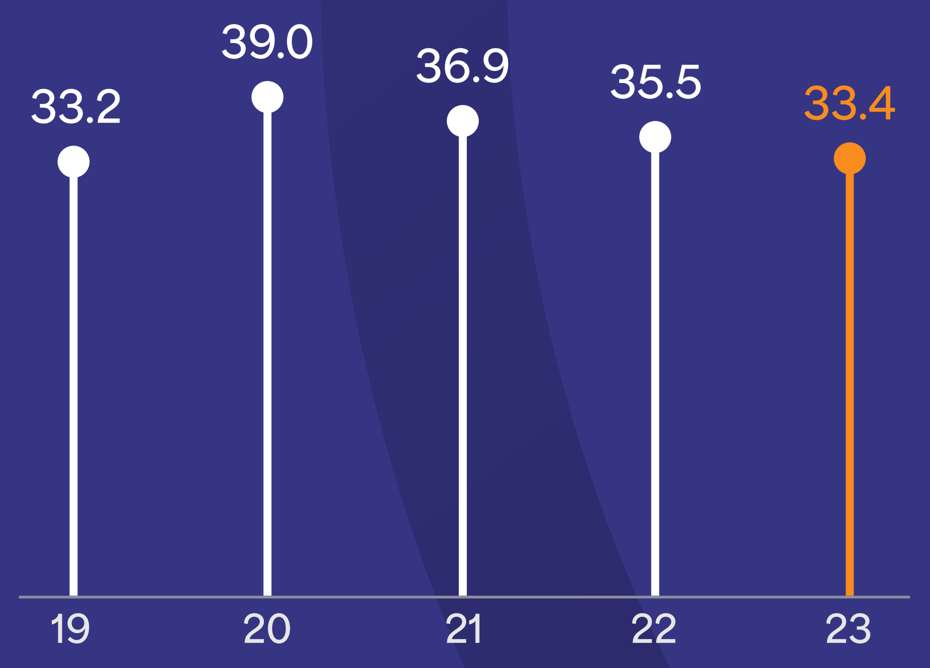
Investments
(US$ M)



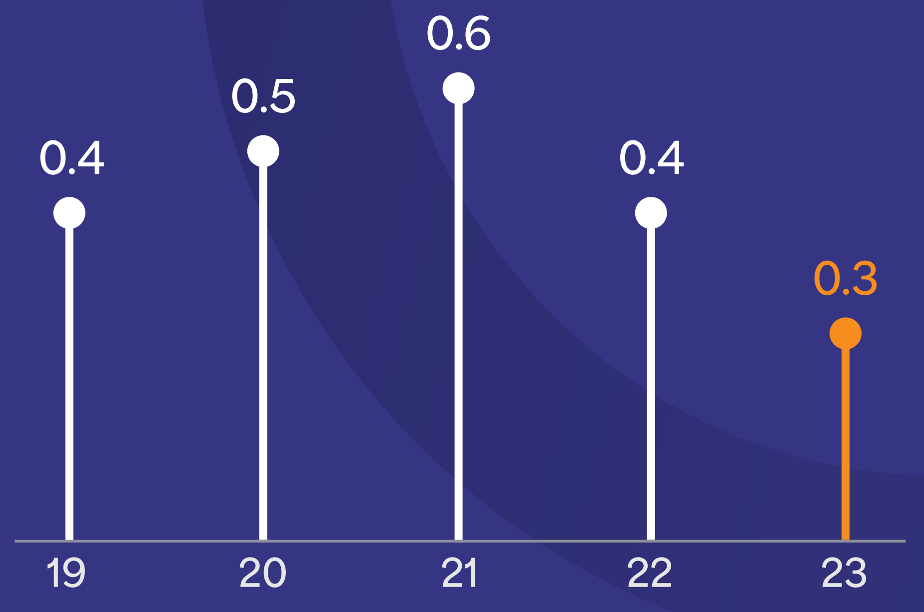
Market Capitalization
(US$ M)



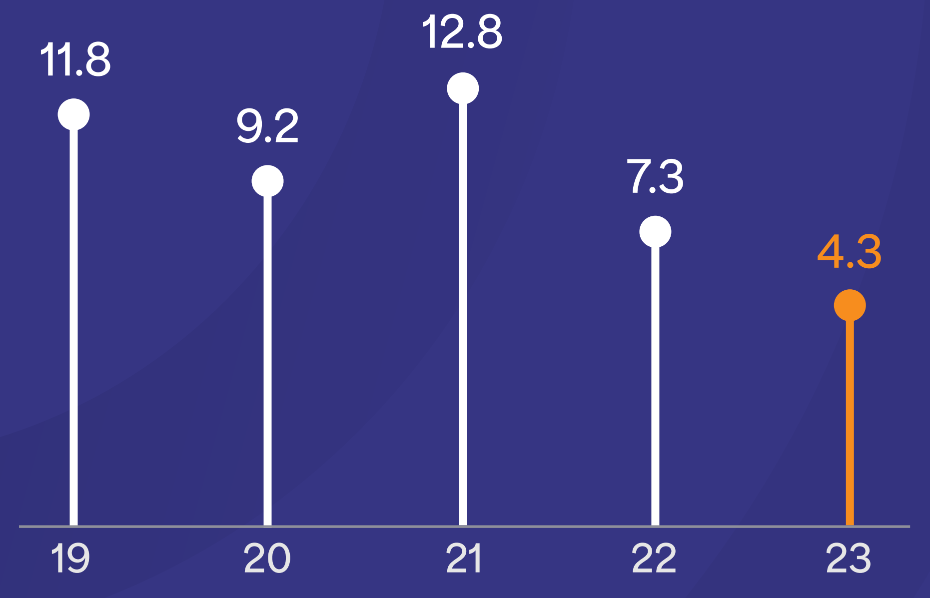
Total debt / Capitalization
(%)



EBITDA / Total debt
(Times)

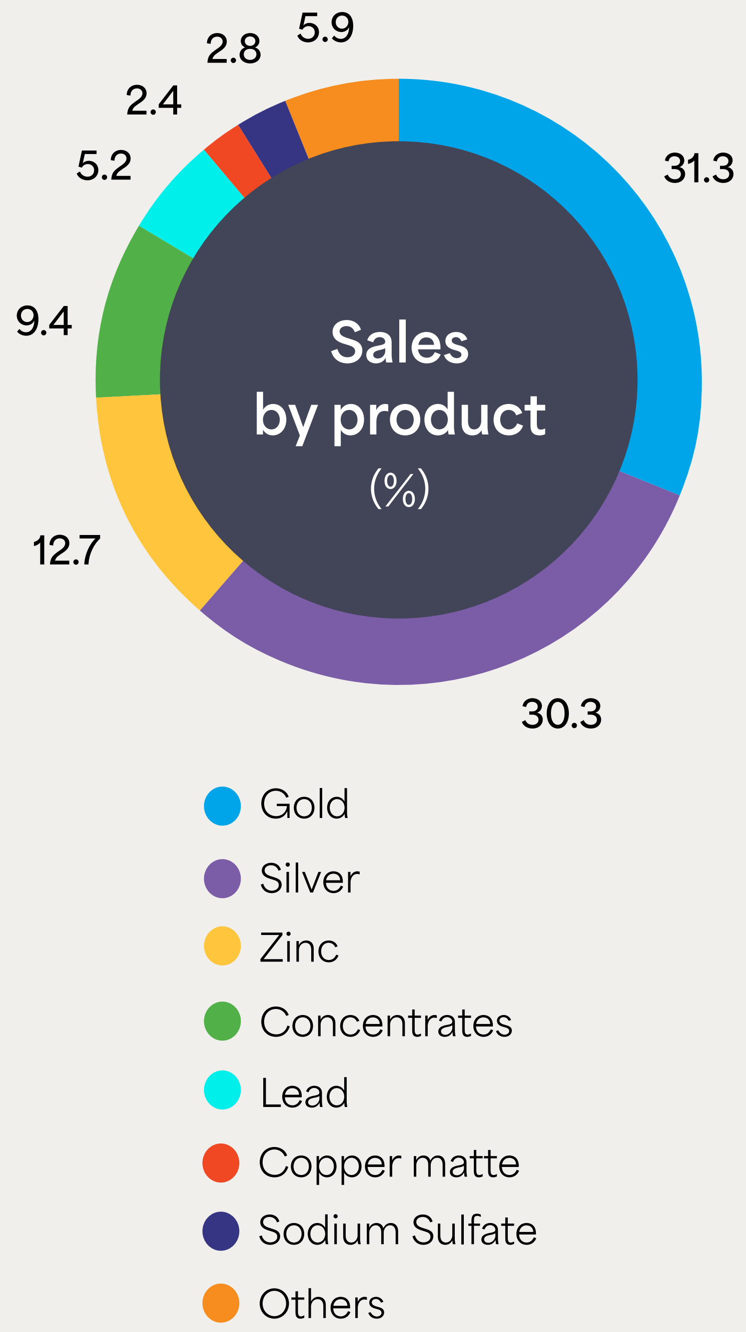


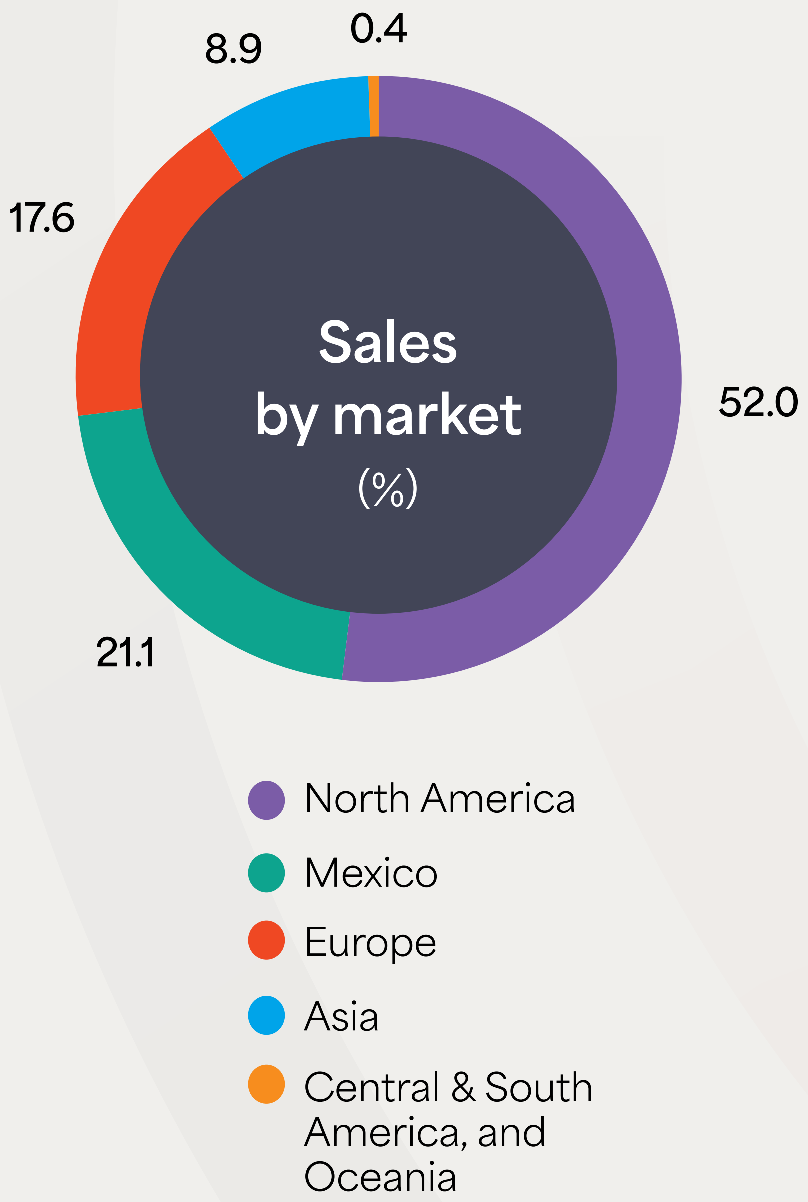
EBITDA / Interests
(Times)

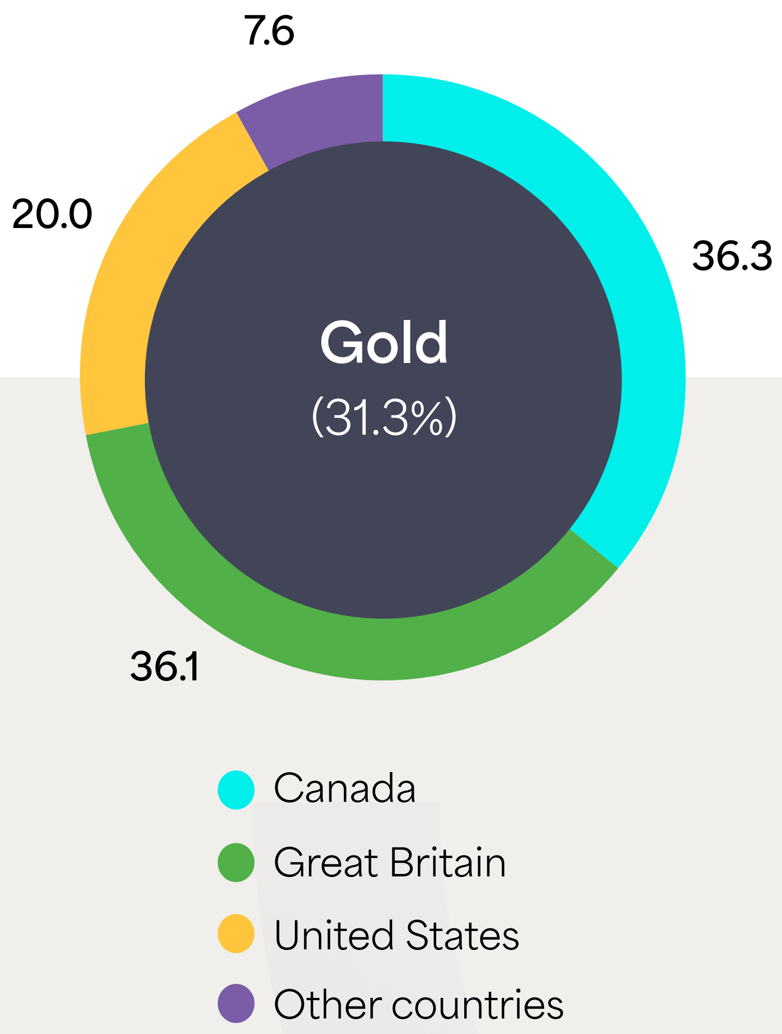


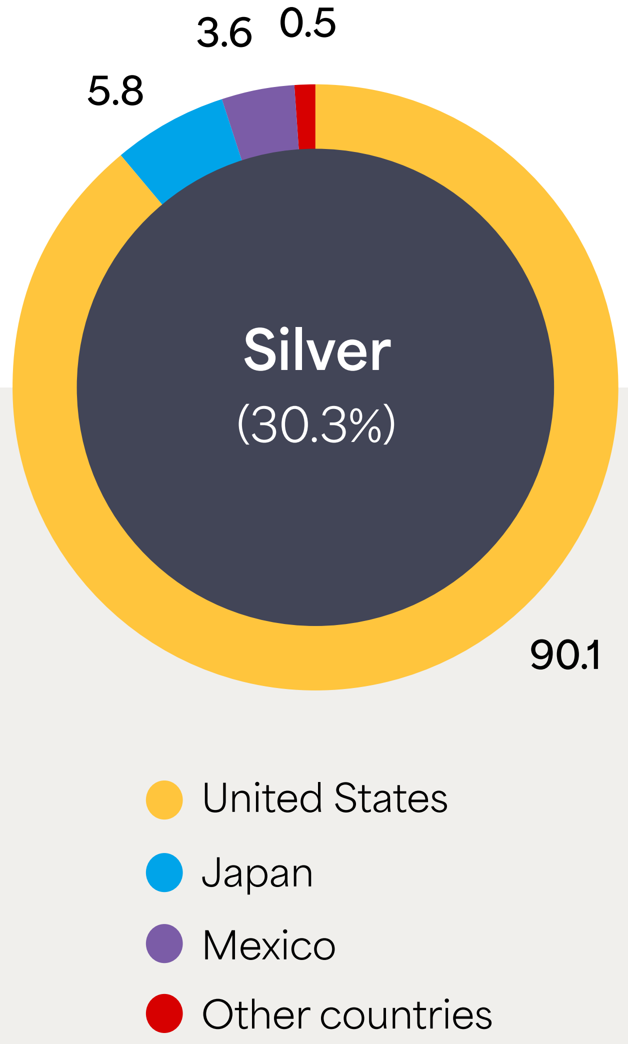
Sales by **product and market**

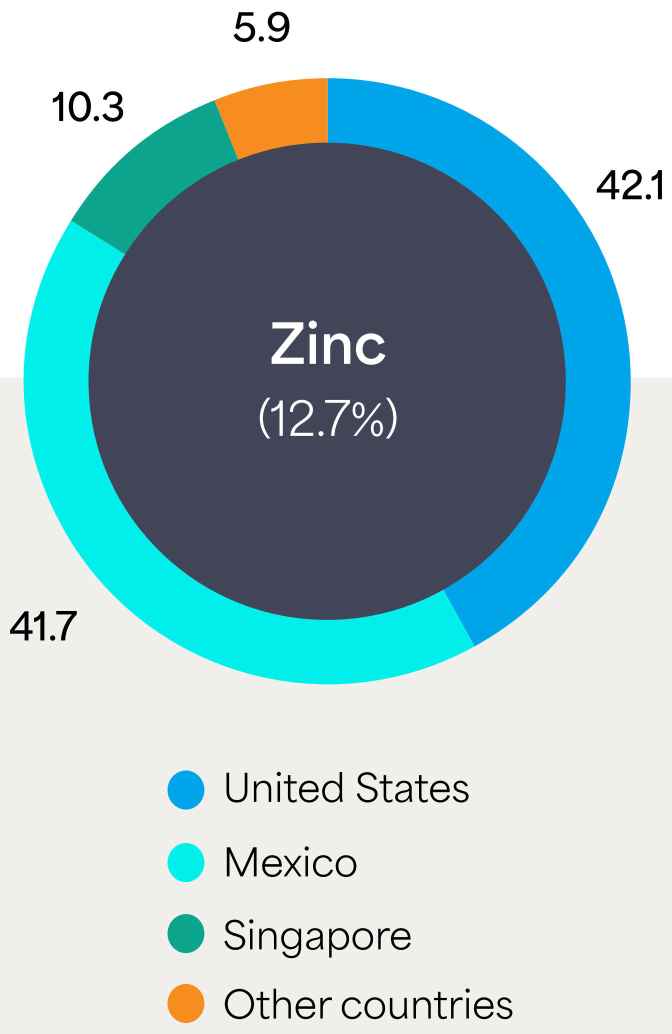
Net sales US$ **5,929.0** M,
of which 78.9% were exports

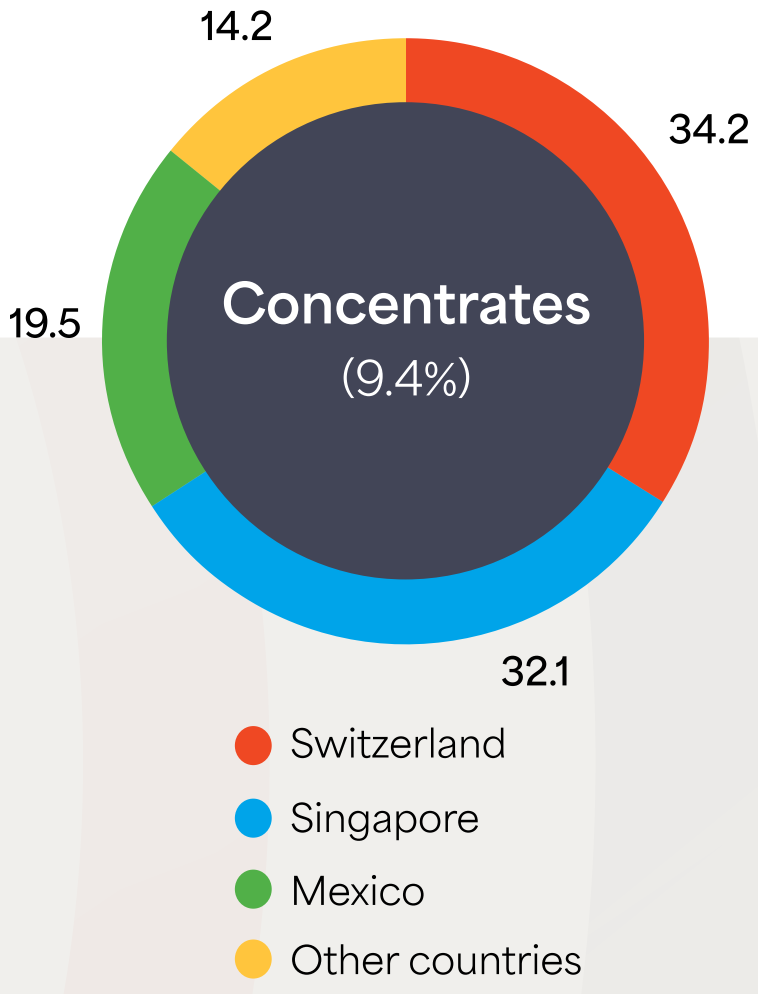


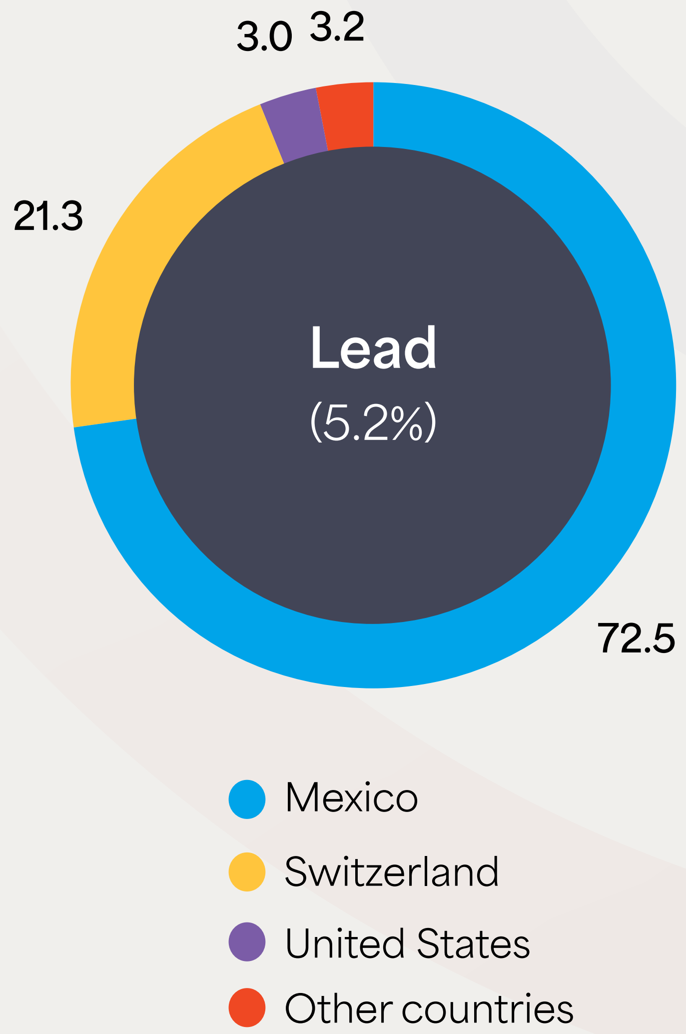


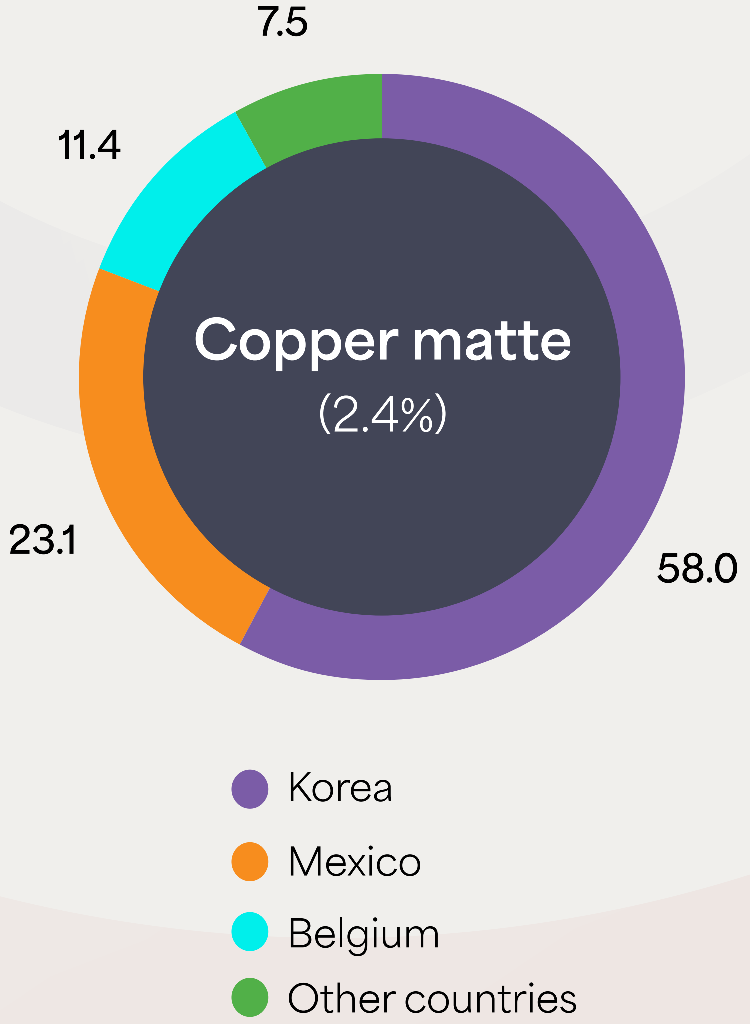


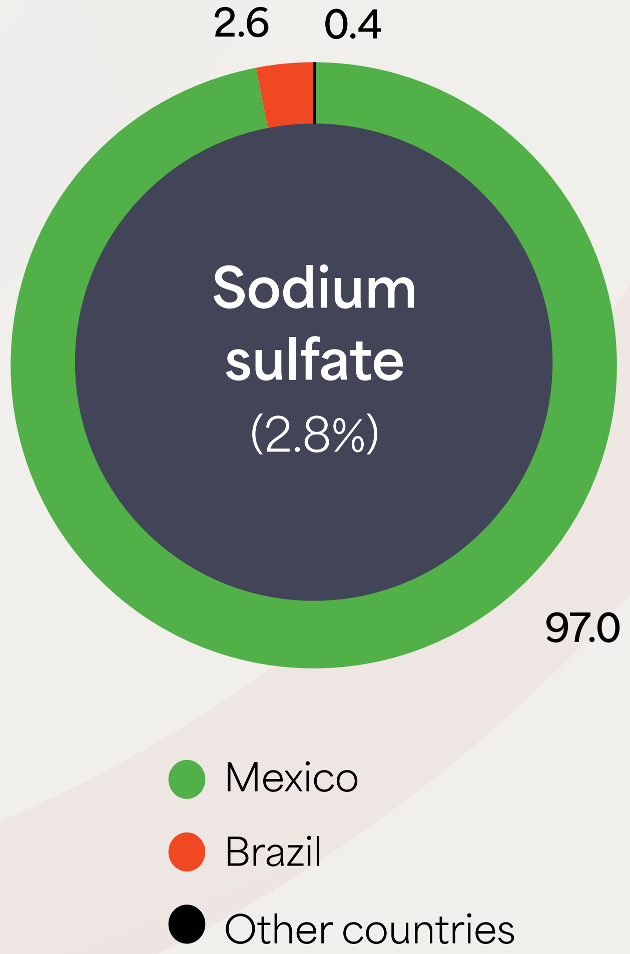


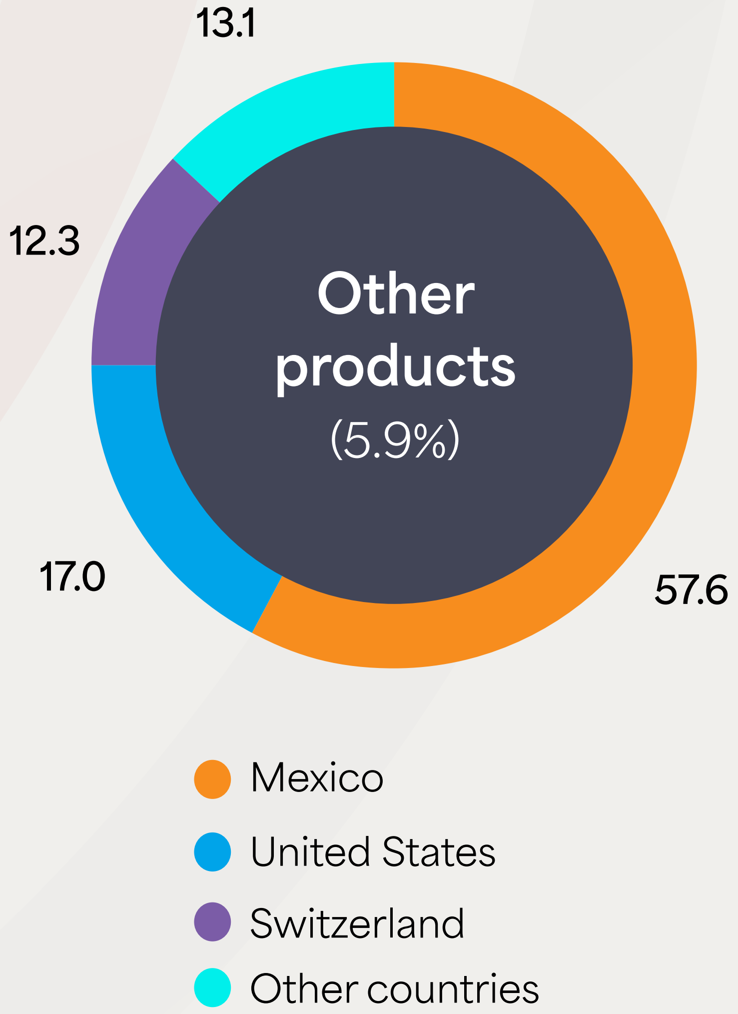




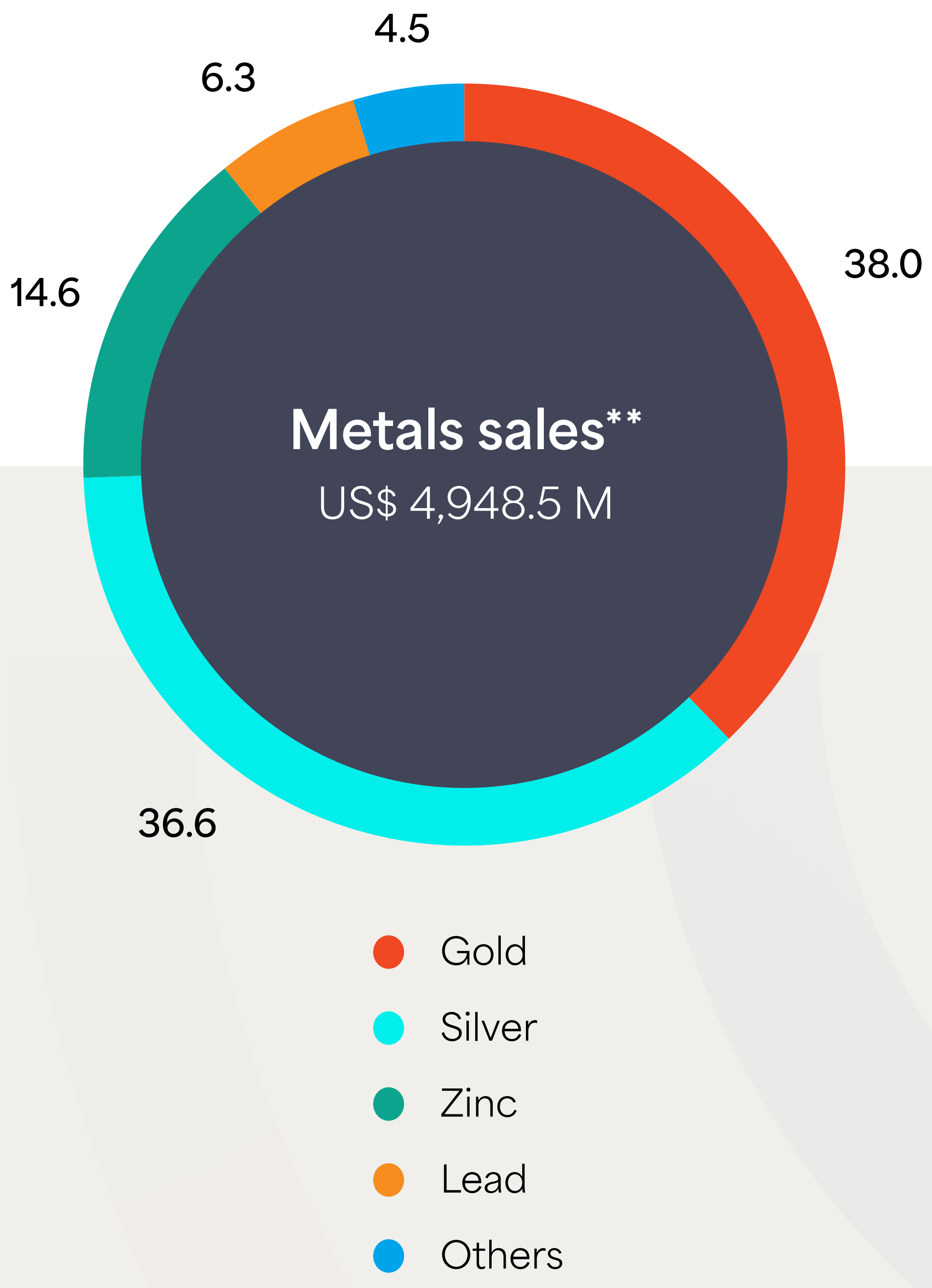


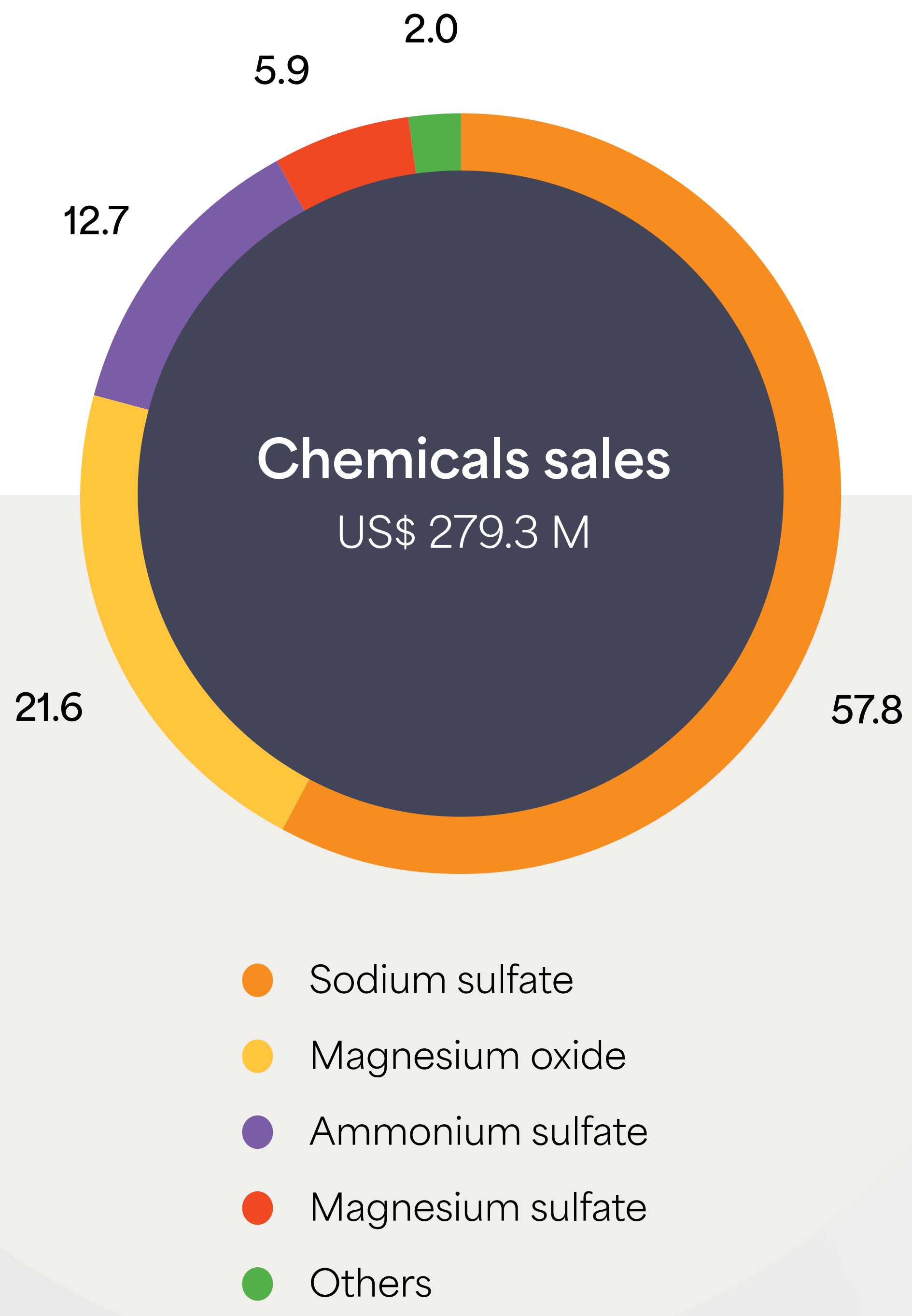


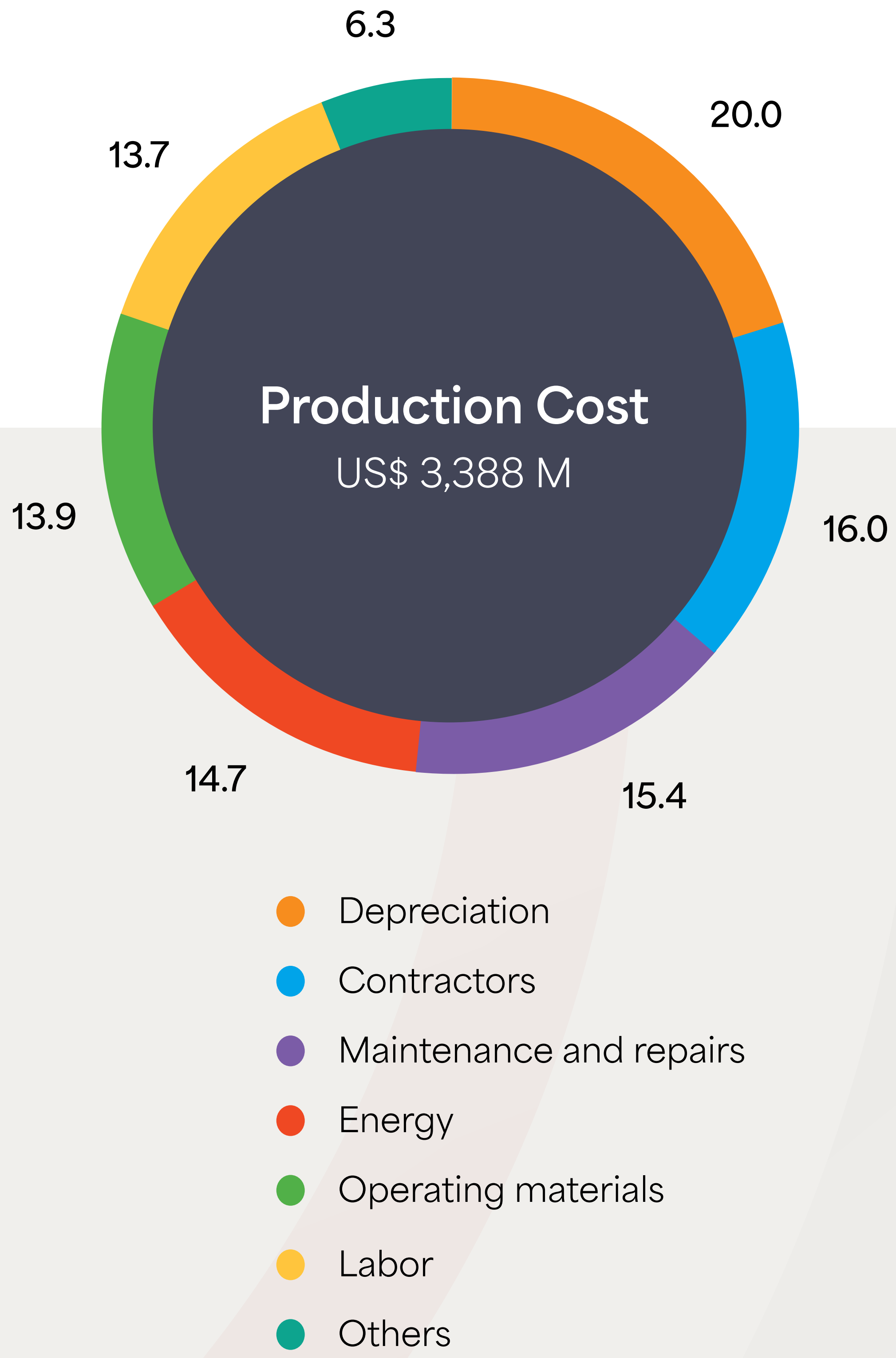




Sales by **division and production costs** (%)







*Excludes hedging results, treatment charges, penalties or service income. Copper includes cathodes.

**Excludes Bal Holdings

Production and sales volume

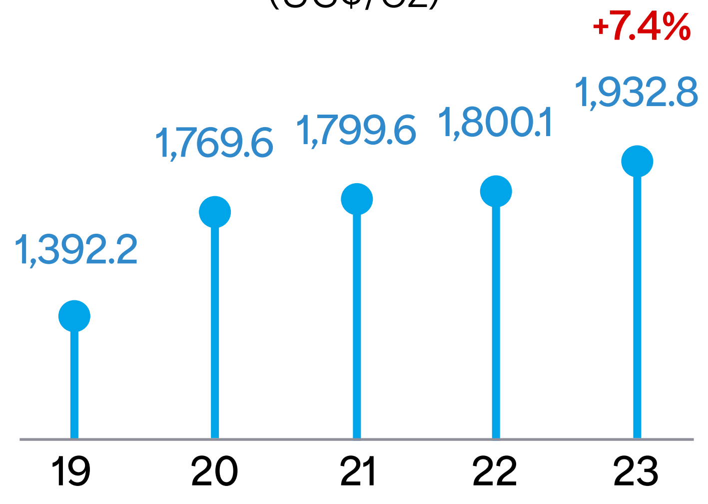
PRODUCTION (k):							
PRODUCT	Unit	2023	2022	% Change	2021	2020	2019
Metallic contents (Mining operations)							
Gold	oz	675.8	704.0	-4.0	812.0	824.1	910.9
Silver	oz	72,397.6	66,969.8	8.1	64,440.8	62,551.0	62,325.1
Lead	t	85.4	78.2	9.2	78.8	86.4	84.3
Zinc	t	282.1	269.3	4.8	274.0	288.1	292.3
Copper	t	9.3	9.9	-6.7	11.3	9.0	8.8
Copper cathodes	t	13.7	5.5	147.3	3.1	12.4	22.5
Refined metals and other materials							
Gold	oz	973.7	1,013.2	-3.9	1,118.2	957.2	1,112.6
Silver	oz	77,834.7	73,818.2	5.4	75,230.4	70,634.4	72,384.7
Lead	t	119.8	109.1	9.8	120.4	111.5	118.9
Zinc	t	251.8	237.1	6.2	264.4	260.9	283.6
Copper	t	5.2	5.0	4.4	5.2	5.0	4.6
Cadmium	t	0.1	0.0	n.a.	0.0	0.0	0.6
Bismuth	t	0.0	0.0	n.a.	0.0	0.0	0.3
Lead bullion	t	138.7	129.2	7.3	144.8	134.5	140.6
Chemical products							
Sodium sulfate	t	699.3	764.1	-8.5	761.9	745.9	774.2
Magnesium oxide [1]	t	64.1	94.4	-32.1	82.5	57.2	87.9
Ammonium sulfate [2]	t	159.0	167.8	-5.2	178.9	192.3	194.4
Magnesium sulfate	t	63.8	66.5	-4.0	64.2	62.6	62.2

SALES (k):							
PRODUCT	Unit	2023	2022	% Change	2021	2020	2019
Gold	oz	962.9	1,015.9	-5.2	1,126.2	939.1	1,121.7
Silver	oz	76,466.2	71,876.0	6.4	73,249.3	69,869.2	71,718.1
Lead	t	115.7	119.9	-3.5	122.2	122.0	119.7
Zinc	t	229.2	230.9	-0.7	279.1	256.3	258.0
Sodium sulfate	t	718.0	762.4	-5.8	801.3	763.4	770.4
Magnesium oxide [1]	t	58.3	72.0	-19.1	76.0	49.7	64.7
Ammonium sulfate [2]	t	132.9	90.4	47.1	133.5	207.1	101.7
Magnesium sulfate	t	61.0	66.1	-7.7	64.4	63.1	62.4
Lead concentrates	t	57.8	60.5	-4.4	61.2	37.0	29.1
Zinc concentrates	t	190.0	57.5	230.2	82.2	122.0	217.0
Copper concentrates	t	50.4	49.5	1.8	55.7	42.5	36.8

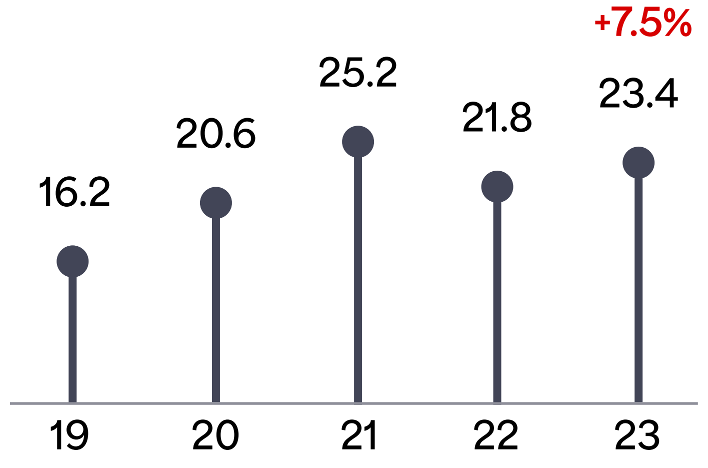
1 Includes refractory, caustic, electrical, electrofused and hydroxide grades
2 Excludes subcontracted granular sulfate

Prices and uses of **metals**

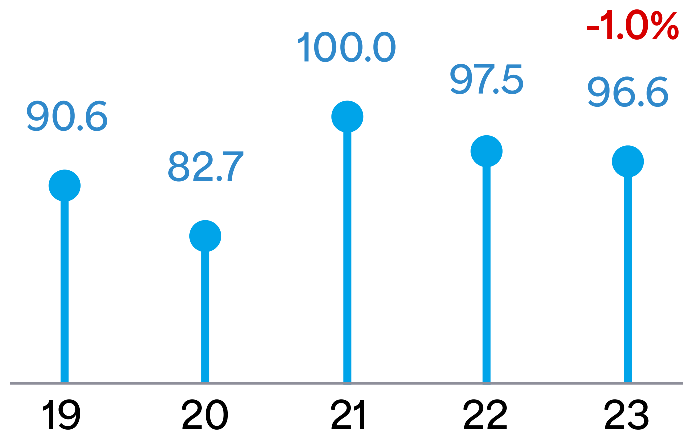
Gold (London)
(US$/oz)



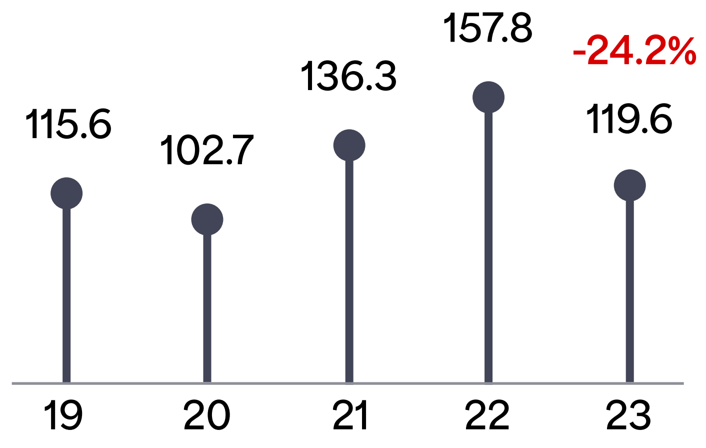
Silver (Comex)
(US$/oz)



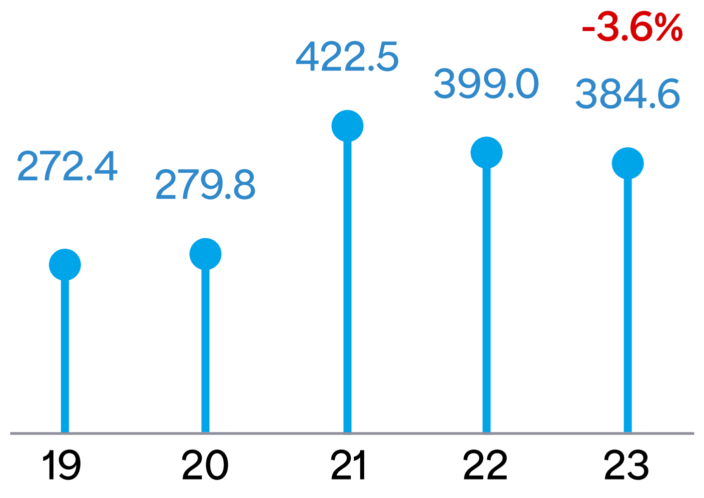
Lead (LME)
(US¢/lb)



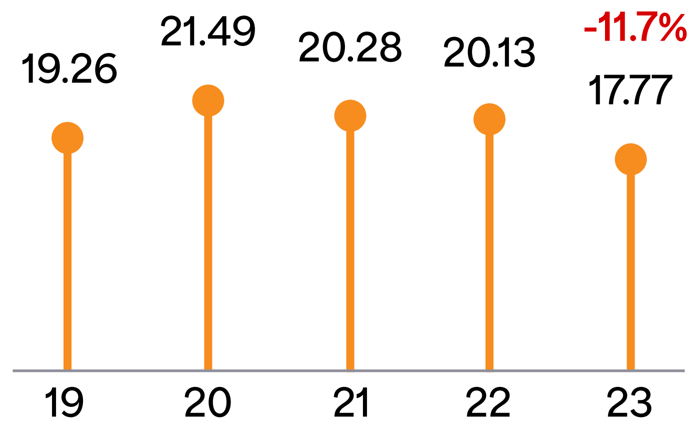
Zinc (LME SHG)
(US¢/lb)

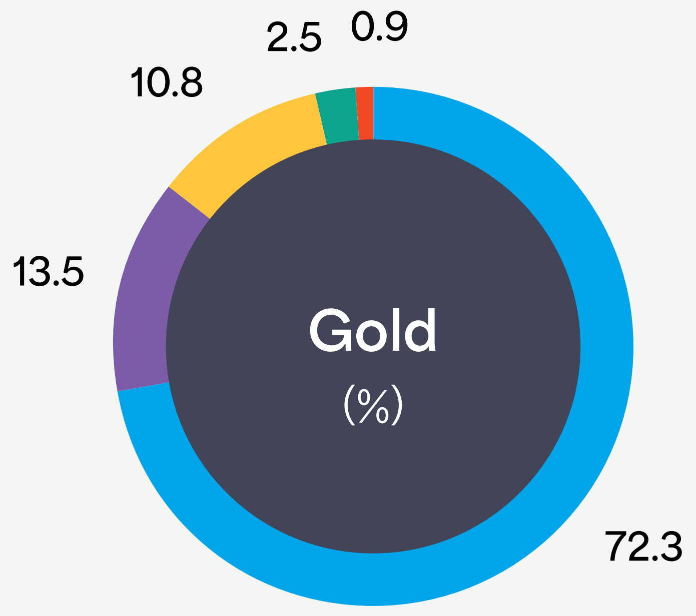


Copper (LME)
(US¢/lb)



Average exchange rate
(MXN/US$)

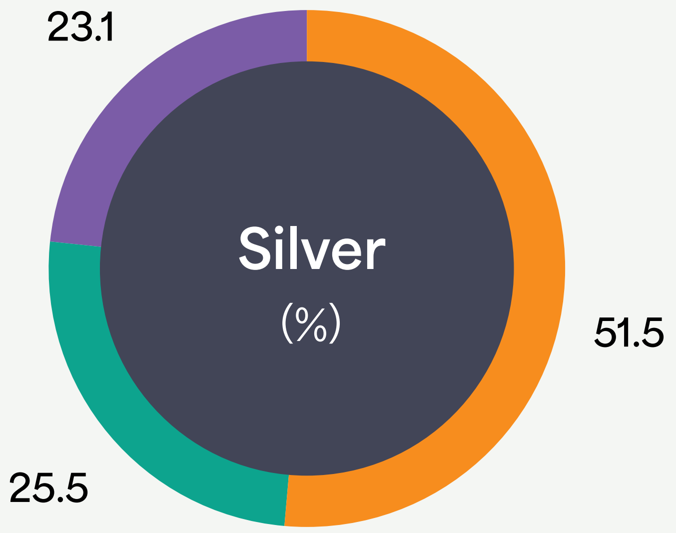




- Jewelry
- Coins
- Electronics
- Industrial
- Dental and medical work

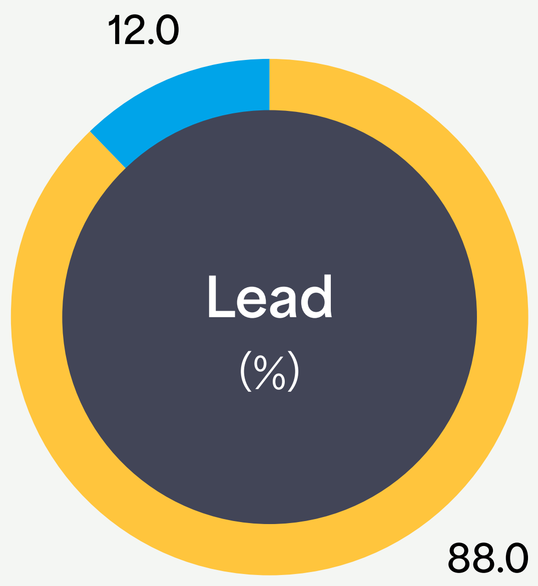
Source: GFMS by Refinitiv Gold 2022

Note:
Uses of gold and silver excludes demand for financial investments.



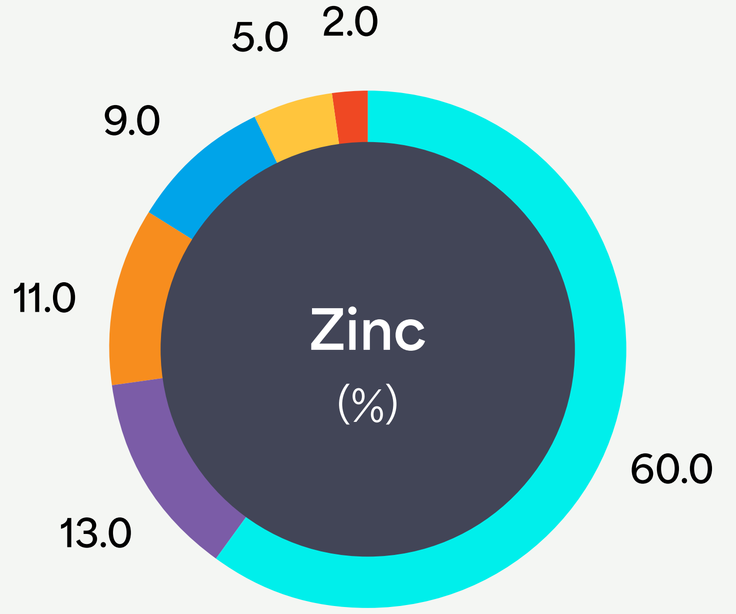
- Industrial
- Medals and coins
- Jewelry and metalwork

Source: GFMS by Refinitiv Silver 2022



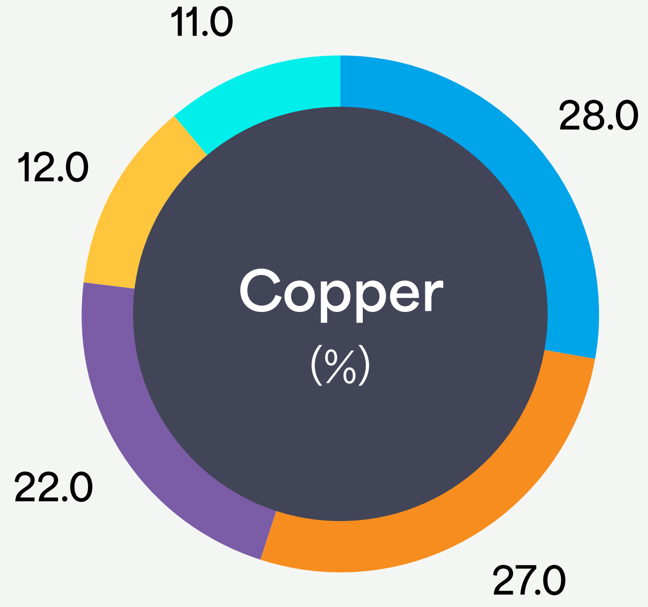
- Batteries
- Others

Source: Wood Mackenzie, Global Lead Investment Horizon Outlook, 4Q 2023



- Galvanising
- Oxides and chemical products
- Pressure smelting
- Rolled and extruded products
- Brass
- Others

Source: Wood Mackenzie, Global Zinc Investment Horizon Outlook, 4Q 2023



- Electrical network
- Construction
- Consumer products
- Transportation
- Industrial machinery

Source: Wood Mackenzie, Global Copper Investment Horizon Outlook, 4Q 2023

Management **reports**

We strengthened our financial and operating discipline in the face of a complex macroeconomic environment. We are confident that these measures will strengthen our performance and financial metrics.

Annual report of the **Board of Directors to the Shareholders' Meeting**

Regarding fiscal year 2023

To our shareholders:

In my capacity as Chairman of the Board of Directors of Industrias Peñoles, S.A.B. de C.V., and on their behalf, I present to you this report based on an analysis of the information supplied by the Chief Executive Officer in his Annual Report on the company's activities, detailing the financial and operating results for fiscal year 2023, the key aspects of environment, health and safety, community relations, and our corporate governance, and a report on the Board's main activities.

Global geopolitical tensions and interest rates remained high in 2023, dampening the pace of global growth. The impact of inflation that had accumulated during the pandemic years was significantly exacerbated by the Mexican peso's brisk appreciation against the US dollar, which raised our peso-denominated costs and operating expenses. Mexico's gross domestic product (GDP) grew by 3.2%, primarily due to increased investment, consumption, and exports.

Propelled by the prevailing uncertainty and expectations of coming monetary policy relaxation, precious metal prices rose over their 2022 averages. Conversely, the slowdown in industrial activity inhibited the prices of base metals; most notably, there was a significant decline in zinc quotations.

In this complex macroeconomic environment, we tightened our financial and operational discipline. Because low prices on industrial metals and high costs–expressed in dollars–have impacted the profitability of our mining and metallurgical business, we embarked on a transformation plan to regain profitability through efficiency programs, cost and expense reductions, investment rationalization, and working capital optimization.

We implemented a transformation plan aimed at recovering profitability through efficiency programs, cost reduction, investment rationalization, and working capital optimization.

Over the course of the past year and in pursuit of our long-term strategy, we invested US$ 233 million in exploration activities, 7.2% more than in 2022. The results of drilling programs in mines and their areas of influence were encouraging, with progress in the project and prospect portfolio, domestically and internationally, improving the outlook for growth going forward.

Investment in fixed assets totaled US$ 596 million, down 20.3% from 2022, and was used mostly to sustain current operations. The new Juanicipio gold-silver mine in Zacatecas, whose beneficiation plant started up operations at the end of 2022, is operating at nameplate capacity, boosting metallic content production. Likewise, the tailings flotation plant at Fresnillo is now operating, and should help increase gold and silver content recovery.

Gold mining production reached 676,000 ounces, 4.0% lower than the previous year. Silver production increased by 8.1% to 72 million ounces. Lead and zinc productions also grew, rising 9.2% and 4.8%, respectively.

In metallurgical operations, annual refined gold production fell by 3.9% to 974,000 ounces; silver production increased by 5.4% to 78 million ounces; and lead production grew by 9.8% to 120,000 metric tons. Refined zinc production was 252,000 metric tons, 6.2% higher than the previous year.

The performance of inorganic chemicals was affected by a downturn in demand resulting from the economic slowdown.

The combination of adverse macroeconomic factors–such as reduced prices on industrial metals, inflationary pressures, and most notably, the peso's appreciation against the US dollar–with internal operational issues, affected our financial results for the 2023 fiscal year. In millions of dollars, net sales reached US$ 5,929–an increase of 7.3%–helped by higher gold and silver production, as well as higher prices for these metals; EBITDA was US$ 768, down 28.3% due to increased costs and expenses; and net earnings were US$ 147, 19.8% lower than in 2022. Peñoles maintained its financial strength, with a net debt/EBITDA ratio of 2.2 times. We are confident that the measures taken to increase operational efficiency and improve profitability and cash flow generation will lead to stronger performance and financial metrics.

Industrias Peñoles remains committed to operating sustainably and caring for the environment. In this spirit, we bolstered governance of our tailings storage facilities, as part of our responsible waste management, applying international standards and best practices. At the same time, to support the UN Sustainable Development Goals, we are working on initiatives to decarbonize our operations and take on the challenges posed by climate change.

We also continue to improve our relationship with communities by actively supporting their development, well-being, and prosperity. Social investment totaled US$ 15 million over the past year.

The Board of Directors adheres to solid corporate governance practices. To carry out its functions, 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 four times in 2023. Among the topics covered and approved during those sessions, the most important were the following:

1. Reinforcement of workplace and environmental safety programs
2. Measures to enhance efficiency and financial discipline
3. Status of the strategic plan
4. Evaluation and follow-up on the risk matrix
5. Metal and exchange rate hedging program
6. Analysis of the investment and financing programs
7. Review of the budget for fiscal years 2023 and 2024
8. Approval of the company's tailings policy
9. Regulatory changes affecting Mexico's mining industry

The members of the various Committees that support the Board are listed in the Corporate Governance section of this report. The following briefly summarizes their most important activities during the year:

- The Executive Committee reviewed budgets and operating and financial performance for each business, including safety and environmental data. It examined the status and adjustments to the strategic plan and implementation of the environmental, social and corporate governance strategy.
- The Audit and Corporate Governance Committee reviewed the company's internal control performance, its operating and financial results, the performance and plans for the internal and external audit, and the audit by the Compliance Department. It evaluated the external audit services and saw that they fulfilled regulatory requirements. It also reviewed the risk matrix, accounting policies, transactions with related parties, and legal matters brought to its attention by management.
- The Finance and Planning Committee reviewed financial projections and the deployment of cost reduction measures, along with the company's financial position.
- The Nomination, Evaluation and Compensation Committee conducted its annual evaluation of senior management performance, in accordance with company policy, and authorized increases in salaries and benefits. 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.

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

Submitted herein for the consideration of the Shareholders' Meeting is the Board's report on the main accounting policies and criteria that serve as the basis of preparation for the Financial Statements, and which include, among others: the basis of presentation and consolidation, significant accounting policies, and new accounting pronouncements, which were audited by the external auditors and are an integral part of this Report. 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 the 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 2023.

Amid the complexities of the macroeconomic environment, global conflicts, and other emerging challenges for our industry, we have redoubled the transformation efforts that we began a couple of years ago, and we are confident that, through collaborative work, innovation, and commitment, we can substantially improve our operations' efficiency and financial performance to sustainably provide essential metals that benefit society. Additionally, we will continue to build productive and harmonious relationships with our stakeholders.

I would like to thank our Board members for their dedication, commitment, and valuable contributions. I am also indebted to our employees for their efforts and perseverance. I would also like to thank you, our shareholders, for your continued trust and confidence.

Alejandro Baillères
Chairman of the Board of Directors

By working together–with innovation and commitment–we are confident that we will substantially improve our performance to sustainably supply essential metals that benefit society.

Report on Company's Performance by the **Chief Executive Officer to the Board of Directors**

For fiscal year 2023

**Mr. Chairman,
members of the Board of Directors:**

In my capacity as Chief Executive Officer of Industrias Peñoles, S.A.B. de C.V., ("the Company") and pursuant to the Securities Market Act, I submit for your consideration the Annual Report on the performance and results of the company for fiscal year 2023, as well as the consolidated financial statements and the accompanying explanatory notes, which include the main accounting and reporting policies and criteria followed in preparing the financial information presented herein.

In 2023, the pace of economic activity slowed worldwide, especially in advanced economies, as central banks kept interest rates high to rein in inflation. In addition to the prolonged war in Ukraine, a new conflict erupted in the Middle East. Moreover, China, the world's largest consumer of raw materials, experienced a loss of confidence due to its real estate crisis and weakness in its exports.

The Mexican economy has proven resilient to these external factors. In 2023, annual inflation sank to 4.66% (from 7.82% the previous year), and gross domestic product (GDP) grew 3.2%, supported by investment in infrastructure, domestic consumption, and exports. The

We deployed a strict program to safeguard our financial health and improve operating efficiency. We closely monitored key indicators that affect our profitability and cash generation.

benchmark interest rate remained high, which, combined with the inflow of dollars from remittances and exports, strengthened the Mexican peso against the US dollar. Thus, the exchange rate appreciated by 11.7% on average compared to the previous year, reaching $17.76 pesos per dollar, and appreciated by 12.7% annually to close the year at $16.89 pesos per dollar, a level not seen in eight years.

The average price of gold was US$ 1,932.78 per ounce, while silver reached US$ 23.39 per ounce, increases of 7.4% and 7.5%, respectively, compared to 2022. These results were based on expectations of interest rate cuts, lower inflation, and geopolitical uncertainty. In contrast, the prices of industrial metals were affected by the fragility of the manufacturing industry and contraction in demand, especially from Europe and Asia. The average price of zinc plummeted to US$ 1.20 per pound (-24.2%), as the rebound in supply dispelled fears of scarcity; while copper moved down less dramatically, to US$ 3.85 (-3.6%), and lead slipped slightly US$0.97 (-1%).

To deal with the impact of the decline in base metal prices, combined with high inflation in our basket of inputs (which was 6.7% in dollar terms in 2023 alone and has accumulated an advance of more than 30% in the past three years, in part because of exchange-rate headwinds), we began a strict program to safeguard our financial health by controlling and reducing costs and expenses, rationalizing investments, and optimizing our investment in working capital.
We also focused on improving operational efficiency, particularly in areas that influence our overall performance, closely monitoring key indicators affecting profitability and cash flow generation.

The following are the highlights of our operating and financial results for 2023, the actions taken, and the main changes in percentages against 2022. Financial figures are stated in millions of dollars unless otherwise indicated.

In 2023, investments in fixed assets amounted to US$ 596 (20.3% lower than the previous year), and were aimed mainly at sustaining and continuing operations. The period stands out for infrastructure development and mining works, including building and expanding tailings dams, and reinforcing them to meet international standards.

In exploration, investment reached US$ 233, 7.2% higher than in 2022, primarily due to an intensification of activities by Fresnillo plc in areas near the operating gold and silver mines, as well as in the portfolio of advanced projects–Tajitos (Sonora), Rodeo (Durango), Orysivo (Chihuahua), and Guanajuato–with progress in metallurgical research and updating economic models. In international precious metals projects, drilling resumed at the Pilarica project and the Santo Domingo program began (both in Peru), while exploration of veins at the Capricornio project in Chile continued, yielding favorable results.

In exploring for base metals, we focused efforts on advanced projects with the greatest potential and in the area of influence of the Tizapa mine, where a drilling campaign was begun to replenish reserves. Mineralization findings there are under analysis to assess their economic feasibility. Additionally, work continued at Reina del Cobre, near the Velardeña unit, a polymetallic project with inferred resources of 19 million tons of ore containing 1.9% copper equivalent; underground work was enabled, and infill drilling was begun to enhance resource reliability, while additional zones are being studied to define new drilling targets.

Elsewhere, in the portfolio of international targets, at the copper-gold-molybdenum project Racaycocha in Peru, a medium-interest area of potential resources was quantified in the continuation of the deposit, and new drilling was carried out at the end of the year, with assay results pending. Two additional prospects were prepared to commence drilling in 2024. Also, a second parametric drilling campaign was conducted at the Yastai copper-gold project in Chile, which significantly extended the mineralization defined in the first campaign, and we acquired additional concessions, greatly increasing the project's potential, so subsequent drilling will be carried out in adjacent targets in 2024.

At the Capela mining unit, ore extraction was limited by high staff turnover and water scarcity due to decreased rainfall, leading to various technical stoppages during the first half of the year, affecting milling volume and annual production of metal contents. To counteract this situation, a special program for recruiting, hiring, and training personnel was begun; and to deal with water scarcity, construction of a storage pond was completed, and positive displacement pumps were installed in the high-density thickener to maximize water recovery in the process. In parallel, medium-term strategies are being developed to ensure sustainable water supply.

Faced with reduced mineral availability and variability in ore grades, we controlled loads to prevent impacts on the beneficiation plant. Furthermore, to optimize flotation circuits and boost metallurgical recoveries, we installed air injectors and intermediate rings inside the cells to recover values in fine particles, and added a tailings refloat stage. This helped improve zinc and lead recovery and zinc concentrate grades compared to the previous year. We also worked on targeted recoveries of the remaining elements (silver, copper, and gold), using methods such as foam harvesting with values in operating cells and installing a second gravity concentrator to increase gold recovery.

In the mining division, the volume of ore deposited in the leaching pads decreased by 19.5%, to 19.8 million metric tons, mainly because mining operations at the Noche Buena pit concluded in May and the closure process was begun, as its ore reserves were depleted. Also contributing to the decline was the reduction in ore deposits at Herradura, although a quarter of this decline was offset by an increase in ore deposits at the Milpillas copper mine leaching pads, following the resumption of extraction activities in mid-2022. The volume of ore milled at the mines' plants changed very little (down -0.6%), reaching 21.6 million metric tons due to the lower volume of ore processed at Herradura's direct leaching plants. This resulted from a technical failure, an illegal stoppage, and to a lesser extent, a decrease in milling volumes at Capela, San Julián, and Ciénega. These reductions were offset by production from the new beneficiation plant at Juanicipio, which began operating at full capacity as of the third quarter of 2023, boosting metal content production.

The beneficiation plant at Juanicipio, whose commissioning started by the end of 2022 reached full capacity in 2023, boosting production of metal contents.

Annual gold production reached 675,844 ounces, 4.0% lower than in 2022. This was chiefly the result of lower production at Noche Buena, partially mitigated by a higher volume processed by Juanicipio and higher ore grades in sulfides with higher recovery rates at Herradura.

Total silver production was 72.4 million ounces, 8.1% higher than in 2022, thanks to the start of operations at the beneficiation plant at Juanicipio and higher ore grades in the veins of San Julián, as well as a higher volume of ore processed at Sabinas and Tizapa. All of these factors made up for lower ore grades in the San Julián disseminated body, lower grades at Fresnillo, Velardeña, and Ciénega, and the reduction in volume, grade, and recovery at Capela.

The tailings flotation plant at the Fresnillo mine, which was designed to recover silver and gold content (Pyrites phase II), complementing phase I at Saucito, was able to connect with the grid and began operations in 2023. The recovery rates of this plant have not yet come

Our strong governance supports responsible and sustainable tailings management. We released the tailings management guidelines and policy, essential pillars for handling this waste.

up to the expected levels, so the necessary technical adjustments are being made to improve performance, increase recovery rates, and bring the plant to its full operational capacity in 2024.

In mining production of industrial metals, lead content rose 9.2% to 85,428 metric tons, due to an increase in the volume of ore processed at Juanicipio and Saucito with better head grades, and higher grades and recoveries at Sabinas and Tizapa. This made up for lower lead production at the Velardeña mine, due to a reduction in ore grade resulting from the depletion of the Santa María body, as well as at the Fresnillo and Ciénega mines. Zinc volume rose by 4.8%, to 282,093 metric tons, also helped by production from Juanicipio; additionally, milling and recovery rates improved at Fresnillo, Sabinas, Tizapa, and Saucito, the latter two also with higher ore grades. Units with lower zinc production included Velardeña –due to the decrease in grade at the Santa María body–, La Ciénega, the San Julián disseminated ore body, and Capela –where ore grades and processing volume were lower–.

Copper production in concentrates decreased 6.7%, as the result of lower processing of lower-grade ore and lower recovery at Capela, and lower grade and recovery at Sabinas and Tizapa. This was offset by Velardeña, which reported an improvement in head grade and metallurgical recovery. In contrast, copper production in cathodes rose 147.3% thanks to the resumption of extraction and ore deposit activities at Milpillas in mid-2022.

In our ongoing work of responsibly and sustainably managing tailings storage facilities, Industrias Peñoles has a consolidated governance framework across all mining units. In 2023, we published tailings guidelines and a tailings management policy, essential pillars in our strategy for the safe handling of these waste materials, reflecting our commitment to industry best practices to prevent harm to neighboring communities and the environment. We have a robust governance and management structure, including an independent panel of experts, an Executive Tailings Committee (comprising members of the Board of Directors, advisors, and management team), and operational tailings committees at each business unit.

Additionally, we updated the geotechnical models for each facility, and all mining units have operation, maintenance, and surveillance manuals, with the tools needed for real-time monitoring of critical variables, as well as emergency preparedness and response plans to effectively deal with any contingency. Strategic investments focused on the growth of existing tailings deposits and the development of new facilities to ensure operational continuity. A total of 15 projects were executed, the most important of which were carried out at Capela, Sabinas, and Velardeña.

We continued to deploy cutting-edge technology to automate processes, increase productivity, and enhance safety in our mining operations, aligned with our Smart Mine vision. We expanded installation of remote blasting systems and drowsiness and fatigue sensors on transport equipment; strengthened the mine information system; and consolidated advanced milling control at the Capela beneficiation plant, among other initiatives.

In the metallurgical business, the operating performance of the silver smelter and refinery was better than in 2022. Although there were some corrective shutdowns in the sintering and smelting processes, processing of concentrates and other materials increased; we also put in place a program to reduce work-in-process inventories and recover secondary materials throughout this circuit. This, combined with higher lead and silver grades in the received concentrates, resulted in increased production and treatment of bullion in the silver refinery, with production of silver (at 77.8 million ounces) and refined lead (at 119,793 metric tons) increasing by 5.4% and 9.8%, respectively, over 2022. Moreover, silver reached its highest production level in the last 11 years.

On the contrary, refined gold volume decreased 3.9% to 973,651 ounces, due to lower production at Noche Buena and lower grades in treated concentrates.

In the zinc circuit, we completed the replacement of anodes that were damaged due to unscheduled shutdowns in 2021 and 2022. Having comprehensively analyzed the recurring failures that occurred, and to address design issues in the zinc plant expansion, in the third quarter of 2023 we decided to temporarily reduce the nameplate capacity of the leaching process to 270,000 metric tons per year in order to optimize energy consumption in the electrolysis process by operating only two of the three modules, and to significantly reduce operating costs. Simultaneously, we are making the necessary modifications to various components of the expansion project. Once completed, this will increase annual production capacity to 350,000 metric tons. With all of this, the volume of treated ore was similar to the previous year, and zinc recovery remained at 93%, with refined zinc production reaching 251,754 metric tons during 2023, a 6.2% increase over 2022.

In the silver recovery process, the company produced 4.7 million ounces of silver contained in cements; this was an 84% improvement in effective recovery thanks to actions taken to stabilize the zinc plant. Some of these cements were sent to the Saucito Pyrites Plant for treatment and return as precipitates to the silver refinery; this allowed us to control the level of insolubles in the sintering process and maximize synergies in our value chain. To optimize working capital in the zinc circuit, we began a program to reduce concentrate inventories, by which we succeeded in trimming the inventory ratio from five weeks at the beginning of the year to two weeks of production at the end of the period.

Demand for inorganic chemicals weakened, particularly in the second half of 2023, due to economic slowdown. Production volume of sodium sulfate was 699,316 metric tons, 8.5% lower than the previous year. A number of logistics issues in railway distribution also affected the result. Annual production of magnesium oxide, at 59,024 metric tons, decreased by 32.8%, primarily due to reduced consumption in Europe, as well as delays in maritime distribution due to lower vessel availability and disruptions in railway cargo to the United States. Production of magnesium sulfate decreased as well, to a production volume of 63,845 metric tons, down 4.0%, due to increased competition from imports from China in the fertilizer market and reduced consumption due to drought, which has hampered the performance of Mexico's agricultural sector.

On the energy front, although Mexico's energy policy has remained largely unchanged, we hold firm to our goals of ensuring and maintaining the quality of our electrical supply to guarantee operational continuity, working in a sustainable manner with competitive costs and efficient energy use. We remain deeply committed to sustainability and environmental protection, and continue working on the roadmap for decarbonization of our operations, which we expect to complete in 2024. We are also exploring opportunities presented by emerging technologies such as hydrogen and green ammonia to reduce emissions from vehicles, processes, and equipment, as well as other clean energy generation solutions.

In 2023, our portfolio of power plants generated more energy than our operations required, during a year in which electrical demand was 0.7% lower than in 2022. Thanks to our work with authorites, in the last quarter we were able to migrate some charges to the wholesale power market (WPM); particularly important were Metalúrgica Met-Mex Peñoles and Química del Rey, as well as Minera Fresnillo's iron flotation plant (Pyrites II) and Minera Penmont. To meet the specifications of the WPM we carried out adaptation works on the electrical substations. This way, we can better utilize our

We temporarily reduced the nameplate capacity to address design issues in the zinc plant expansion. Once the necessary modifications are completed, we will increase annual production capacity to 350,000 metric tons of refined zinc.

We successfully migrated some operations to the wholesale power market, enabling us to better utilize our own generation sources and achieve more competitive electricity costs.

own generation sources and achieve more competitive electricity costs. For example, in the second half of 2023, more of the energy produced by the Mesa la Paz wind farm was allocated to our own operations (40.3% compared to 11.5% in 2022), and the rest was sold to the market operator. We acquired 6.4% directly from the WPM. Additionally, Minera San Julián joined as a consumer partner of Eólica de Coahuila wind farm. The generation of electricity from renewable sources decreased slightly to 48% of our total consumption, compared to 49% in 2022. The conditions are now in place to better utilize renewable energy sources in 2024.

The unit cost of the electricity consumed in 2023 was 12.3% higher than the year before (US¢9.78 per kWh), because of: (i) an increase in CFE rates; (ii) temporarily higher consumption of energy from the CFE, as paperwork required to migrate charges to the WPM was completed; (iii) a substantial increase in the cost of coke at Termoeléctrica Peñoles (TEP) starting in October 2022, the effect of which was felt into 2023; (iv) inflation in costs originating in pesos, like coke shipping and TEP operating and maintenance expenses; and (v) the reduction in the average peso-dollar exchange rate, which drove up the cost of all peso-denominated costs when expressed in dollars.

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

Billed sales–excluding hedging results–rose 7.2% to US$ 5,925. This growth was mainly due to: (i) an increase in sales volume of silver, concentrates, and copper; and (ii) higher prices of gold and silver, which offset lower volumes sold of gold, lead, zinc, chemicals, and lower zinc prices. Hedging results on metal prices and exchange rates, which reduce volatility in our EBITDA, generated a gain of US$ 4, which compares well against the opportunity cost of US$ 3 in 2022. Thus, net revenues for the year 2023 amounted to a total of US$ 5,929, up from US$ 5,523 in 2022.

The cost of goods sold rose 14.0%, from US$ 4,491 to US$ 5,121, driven by production cost increases that were in turn influenced by various factors: (i) the adverse effect of the peso's appreciation against the dollar on peso-denominated costs (which represents about 50% of our production costs); (ii) inflation in the basic basket of operating inputs; (iii) work on tailings storage facilities reinforcement and mine preparation and development; (iv) maintenance; (v) a full year of operation since the start of mining extraction activities at Milpillas; (vi) costs associated with the start of operations of the Juanicipio beneficiation plant; and (vii) the higher stripping cost at the Herradura mine (previously capitalized) and costs related to the end of mine life at Noche Buena. These effects were compounded by the impact of higher gold and silver prices on materials acquired from third-party shippers, as well as a charge for inventory movement, contrasting with the benefit reported in 2022, as a result of the reduction program and consumption of inventories accumulated in preparation for the startup of the Juanicipio beneficiation plant.

With all of this, gross profit totaled US$ 808, 21.7% less than in 2022, due to the increase in costs caused by inflation, exchange rate fluctuations, and the startup of Juanicipio. General expenses rose 12.0%, to US$ 731, mainly due to the effect of the peso's appreciation against the dollar, increased exploration activities, and higher marketing expenses. As a result, EBITDA (US$ 768) and operating income (US$ 78) were down by 28.3% and 79.6%, respectively, compared to the previous year's figures. Net financial expenses decreased by 5.4%, to US$ 150, as gains from interest rate hedging and interest earned on investments offset the increase in interest on our financial debt. Other net revenues of the period came to US$ 18, contrasting with net expenses of US$ 1 on this line in 2022, due mainly to the cancellation of transmission energy reserves, recovery of retirement fund expenses, lower remediation expenses, and losses from concentrate sales and extraordinary expenses related to the engineering write-off of a new smelter in 2022, among other items.

To shield ourselves from headwinds in costs and expenses, and to bolster cash flow generation, we began a number of priority actions, which are beginning to yield positive results. These included:

- Optimization of working capital through an inventory reduction program in the metallurgical business, which in 2023 allowed for the recovery of US$ 122 million from refined metal volume, in process and in concentrates.
- Efficiency measures in all mining operations: improvement in metallurgical recoveries, reduction in ore dilution, increase in grades, and control over the cost of inputs and specialized service contracts.
- Monitoring and strict control of variables at the zinc plant process to ensure profitable production of refined zinc of special grade quality, as well as the elimination of operating and maintenance costs related to capacity adjustments.
- Improved terms and conditions in contracts with suppliers of goods and services to counteract inflationary and exchange rate effects.
- Optimization of spending on fixed assets, particularly the tailings facilities at the Capela and Velardeña mines, while strictly adhering to the planned safety standards.
- Streamlining administrative and operational personnel, in general, to improve efficiency in business processes.
- Maintenance of exploration programs for priority projects such as Reina del Cobre and Racaycocha, with a reduction in associated expenses.
- Changes in the production mix of inorganic chemicals to be more profitable in the current low-demand environment.

The annual income tax provision was -US$ 379, an improvement from the -US$ 125 reported in 2022, due to lower taxable result for the year and adjustment to deferred taxes to reflect the impact of higher inflation on the company's net monetary assets. At the same time, the provision for special mining rights was US$ 36, up from US$ 22 in 2022. For all of these reasons, net income in fiscal year 2023 was US$ 147, lower than the US$ 183 income we posted for 2022.

At Industrias Peñoles, we maintain harmonious relationships and open, transparent, and participatory dialogue with authorities, community members, and other stakeholders, with a focus on shared responsibility, to build trust and contribute to the well-being of society. We are committed to communities' development and want them to thrive and feel proud of their neighborhood with the company. To this end, we promote education and sports to strengthen social fabric and advocate for health care, within a framework of respect for human rights and cultural diversity.

Furthermore, to address the global challenge of climate change, we are advancing in the development of decarbonization roadmaps with five pilot projects in key areas of our business. Likewise, we have identified physical (acute and chronic) and

> Among the priority actions, the inventory reduction program enabled us to offset market impacts and recover US$122 million in volume of refined metals, in process and concentrates.

We continue advancing on our transformation strategy and redoubled our efforts to protect the health and safety of our people.

transition risks through scenario analysis, a process that enables us to prioritize attention, recognize vulnerabilities, and implement mitigation and adaptation controls to protect people and infrastructure. Through these exercises, we will be better positioned in 2024 to quantify the potential impacts of climate change and define long-term goals and objectives.

In matters of industrial safety, we maintained our preventive approach, based on the well-being and integrity of our people—our highest priority. To this end, we continue to perfect our high-potential strategy with a focus on three dimensions: (i) managing critical risks and controls; (ii) managing leadership behaviors and practices; and (iii) managing incidents. During the year, we focused on managing critical risks to identify gaps and strengthen our controls. We communicated leadership practices to promote this preventive culture while continuing to reinforce training for our staff. Additionally, we issued communiqués, alerts, and shared lessons from accidents and incidents. Despite all of these efforts, we were deeply grieved by the loss of four employees during operations of our Fresnillo plc subsidiary in 2023. We have conducted corresponding root cause analyses to take the necessary actions and prevent the recurrence of these regrettable and unacceptable events. We reaffirm our commitment and goal of preventing any harm to individuals.

In 2023, Industrias Peñoles continued its support for labor modernization to drive productivity improvements and ensure a better quality of life and income for our workers. Collective bargaining agreements with our unions were negotiated in a climate of cordiality, respect, cooperation, and mutual benefit.

Through our comprehensive well-being strategy, we promote a safe working environment and encourage healthy practices and lifestyles. In 2023, we established a Labor Equality and Non-Discrimination Committee to monitor compliance with our policies and practices, ensuring respect for human dignity and fostering renewed leadership in an equitable and inclusive workplace. We work on two main fronts: people with disabilities and women's talent.

At Peñoles, we uphold the highest ethical standards, so that our actions and behaviors reflect our corporate values: Confidence, Responsibility, Respect, Integrity and Loyalty (CRIL). We require our staff and our external business partners to adhere to these standards and to our Code of Ethics and Conduct, which we revised in 2023 to incorporate all aspects related to regulatory compliance.

We continue to advance in our transformation strategy, and have redoubled our efforts to protect the health and safety of our people. We trust that, with their talent and dedication, we will be able to address external and internal challenges, improve the efficiency and productivity of our operations, and strengthen our future performance for the benefit of our stakeholders and the country.

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

Rafael Rebollar González
Chief Executive Officer

Audit and Corporate Governance Committee

Industrias Peñoles, S.A.B. de C.V.
ANNUAL REPORT
Mexico City, March 4, 2024

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

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"), I hereby submit the Annual Report of activities of such Committee corresponding to the 2023 fiscal year.

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

- It was reviewed that the external auditors firm, as well as the external auditor and his team, fulfilled and maintained, during the term of their external audit services, the independence, personal and professional requirements, and that they had a quality control system as required by 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 work 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. In addition, during the year, the internal control findings reported in the suggestions letter were followed.
- We evaluated the performance of the audit firm, concluding that it fulfilled the necessary requirements for the execution of the assigned job, in accordance with the Regulations and that the additional services received met the assigned objectives. Additionally, we reviewed the audit firm's annual professional fees and those for additional services.
- The Annual Plan of the Internal Auditor was approved, and we reviewed its reports, the important aspects observed during the execution of the Plan, as well as the corrections made during 2023 and, we were informed on certain internal control issues.
- 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.
- 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, 2023, were analyzed, as well as the unqualified opinion expressed by the external auditors on their opinion about them.
- We followed up on the legal, accounting and tax matters presented by the management as well as by the external and internal auditors. We acknowledged the strategy, plans and actions of the management to strengthen information security, the improvement of access controls to computer systems, as well as the recovery plan and continuity of the operation in case of failures, among others.
- We reviewed the information provided by the management on the most significant transactions carried out with related parties, subsidiaries and other affiliate companies of the consortium of which it is part, during the year 2023, which 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 were made at market prices and have transfer pricing studies prepared by specialists.

- The main risks to which the Company is exposed were analyzed, with special emphasis in the tails policy and cybersecurity risks, the way in which the Company is managing them as well as the review of compliance with the most relevant legal provisions applicable to the Company.
- We reviewed the compliance of the Company's Code of Ethics and Conduct as well as the Compliance Direction, and the complaints received through the mechanism of disclosure of undue acts and protection to informants.
- We supported the preparation of the Board of Directors' Report to the Shareholders' Meeting.

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; and, (ii) 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 2023, as well as the accounting policies and criteria applied by the Company in the preparation of the financial information.

In several minutes of sessions of the Board of Directors, resolutions were included regarding the operations and activities in which the Committee intervened in accordance with 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 2023 fiscal year, which were followed up by the Committee. Likewise, through this certification it was informed that, during 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.

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 2023 regarding irregularities in the administration.

The Nomination, Evaluation and Compensation Committee of the Company submitted a report to the Committee, in which it reported that, during 2023, 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, Evaluation and Compensation Committee, are in accordance with the policy approved by the Board of Directors.

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.

Operating **performance**

Mining and metallurgical production increased, with the exception of gold, as the Noche Buena pit reached the end of its useful life, while inorganic chemical products faced logistical challenges and weakened demand.

Exploration

Investment in exploration totaled US$233 million. The drilling programs in mines and their areas of influence achieved favorable results; the projects and prospects portfolio made progress nationally and internationally, improving our growth prospects.

Peñoles' Exploration Division is dedicated to detecting new polymetallic and copper deposits to justify the development of mining projects in Mexico and South America in concessions of 1.1 million hectares. It also generates mineral resources for our mining units through exploration work in their areas of influence. We have a portfolio of projects and prospects in various phases of maturation, and assess early opportunities for acquisition, partnership or joint ventures with other mining companies in high-potential projects.

Consolidated investment in exploration totaled US$ 232.7 million in 2023, 7.1% more than in the previous year. Of this amount, US$ 33.1 million was allocated to new Peñoles projects, US$ 20.0 million for exploration of mines to replenish and increase reserves, and the rest to mines and projects at Fresnillo plc.

During this period, exploration activities were concentrated on the highest-potential advanced projects and on the area of influence of the Tizapa unit to optimize resources in line with our company's financial health plan, without affecting the progress of priority explorations. We completed 21,241 meters of drilling in five locations and carried out geological, geochemical, and geophysical work to follow up on 20 prospects for further exploration with drilling and subsequent assessment. We also assessed 12 important external projects to weigh opportunities for acquisition or investment.

The most important results were obtained in the following projects:

Reina del Cobre

(Polymetallic)

Location: Cuencamé, Durango

The polymetallic skarn project is located 20 kilometers from the Velardeña unit. As of the close of 2022, the detected (inferred) resources totaled 19 million metric tons with 1.9% of equivalent copper. Here we began rehabilitation of underground work for drilling in these backfill areas to confirm continuity and raise the quality of the resources from inferred to indicated. To determine the continuity of ore in deeper-lying zones, we will use directional drilling, which should increase existing resources. For 2024, we expect to carry out backfill drilling in the upper portion of the deposit, along with a preliminary economic study.

Flobar

(Copper)

Location: Nacozari, Sonora

This is a porphyry type copper project with deep-lying, low-grade resources, and over 2.5 million metric tons of fine copper equivalent (copper, molybdenum, and zinc). Several potential targets were identified in adjacent areas, and three were drilled, including disseminated and replacement zones. Weak copper mineralization was found, along with other metals of interest. Through geological, geophysical, and geochemical work, four new drilling targets were defined for 2024.

Tizapa

(Polymetallic)

Location: Zacazonapan, State of Mexico

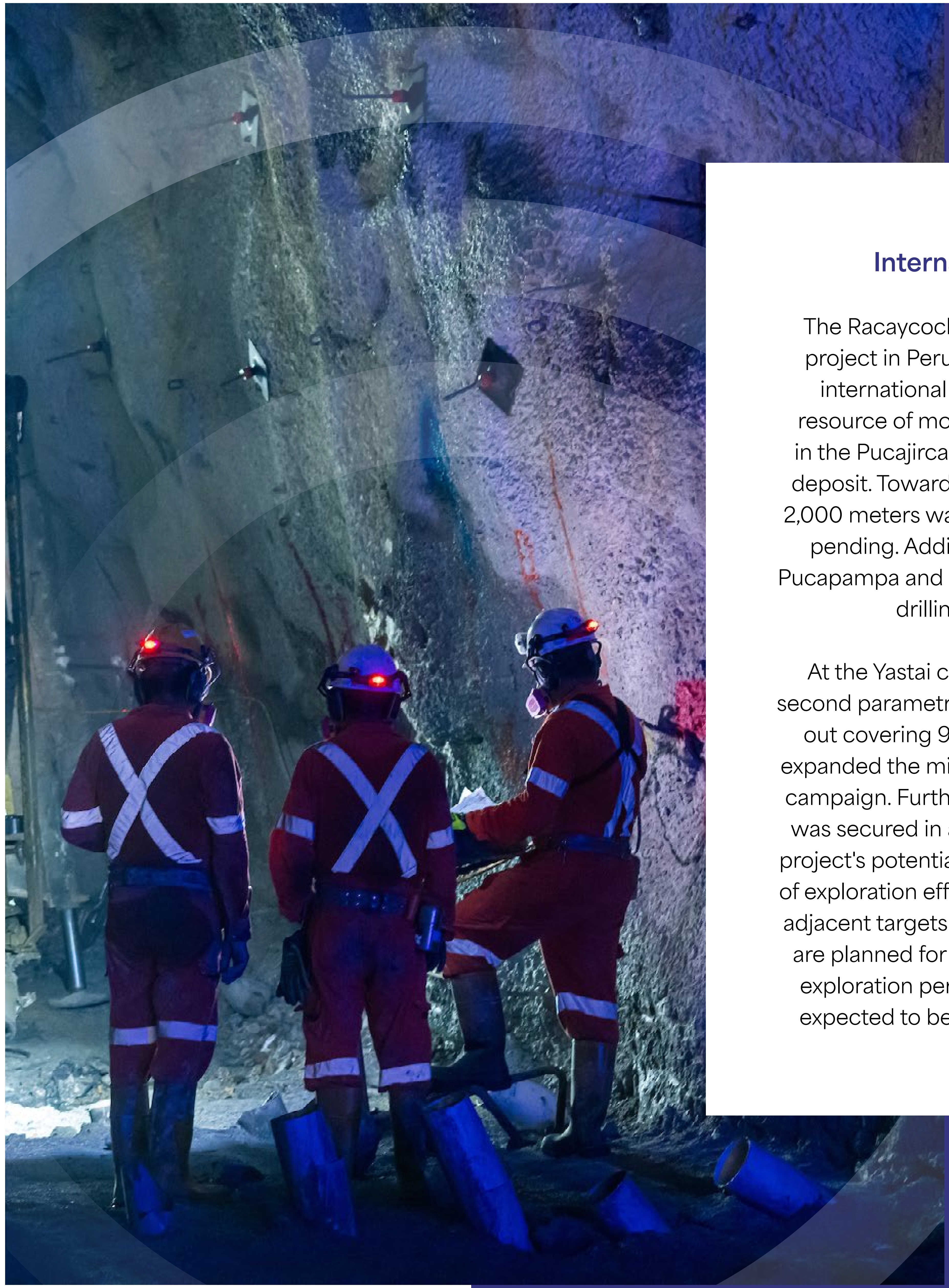
A drilling campaign was conducted over 6,700 meters throughout the current mineralized mantles to define areas with additional mineralization, which was achieved in two directions. Drilling will continue in 2024, aiming to replenish the mineral reserves of this mining unit and extend its operational life.

Fortuna del Cobre

(Copper)

Location: Pitiquito, Sonora

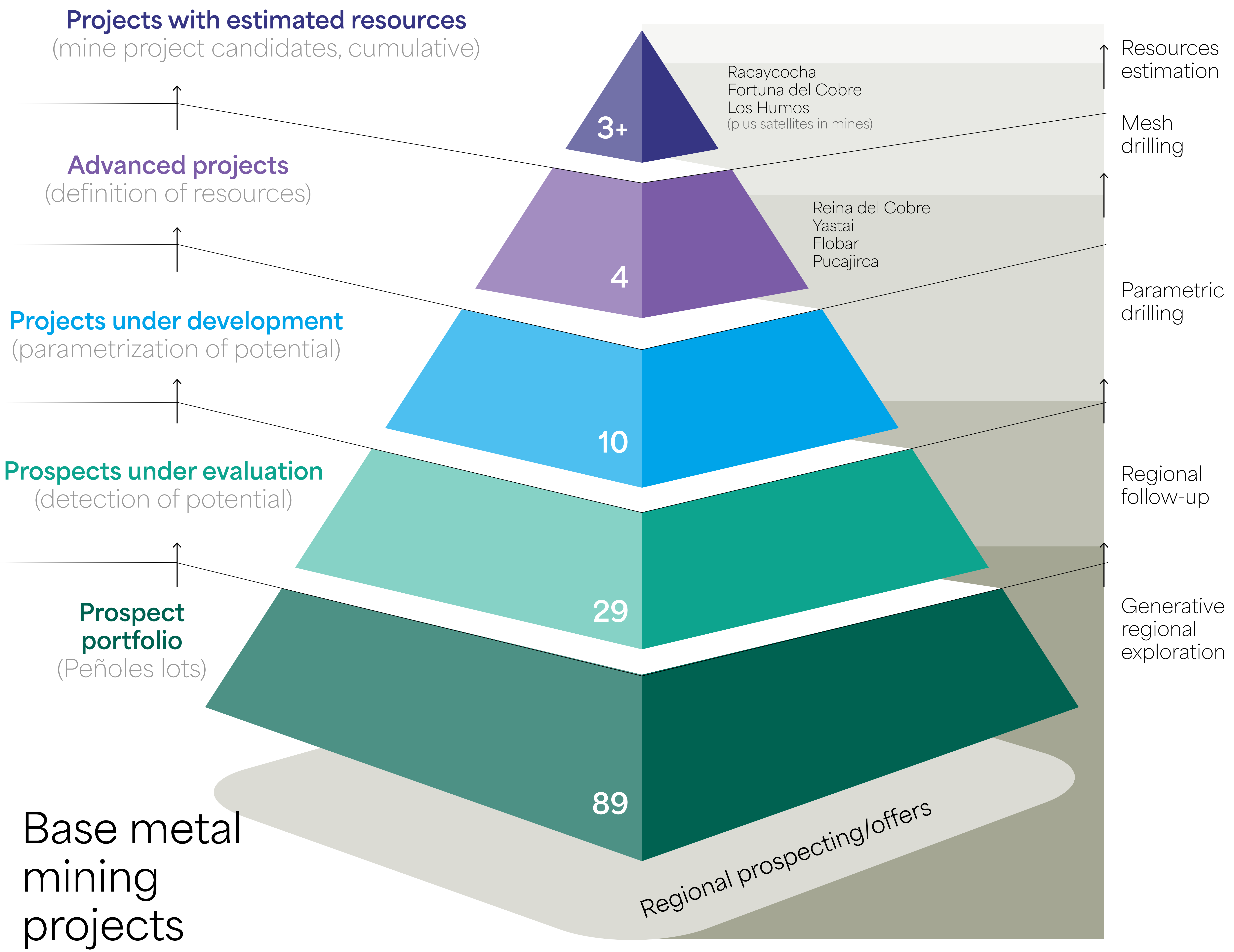
In this disseminated copper deposit, we completed the parametric drilling phase in 2022, determining inferred resources of 62.5 million metric tons, with values of 0.48% copper equivalent. The upper portion of the deposit is leachable ore. We are currently reviewing the metallurgical studies, and have begun economic studies to determine its viability.



International exploration

The Racaycocha copper-gold-molybdenum project in Peru is one of our most important international targets. In 2023, a potential resource of moderate interest was quantified in the Pucajirca area in the continuation of the deposit. Towards the end of the year, drilling of 2,000 meters was conducted, with assay results pending. Additionally, two more prospects, Pucapampa and Santa Cruz, were prepared, with drilling plans set for 2024.

At the Yastai copper-gold project in Chile, a second parametric drilling campaign was carried out covering 9,850 meters. This significantly expanded the mineralization defined in the initial campaign. Furthermore, a new mining property was secured in adjacent areas, broadening the project's potential and justifying the continuation of exploration efforts. Preparations to drill several adjacent targets in the extensions of the deposit are planned for the early months of 2024, with exploration permits for potential new targets expected to be obtained in the latter months of the year.



Base metal mining projects

In exploration at Fresnillo plc, focused on gold and silver mines and projects, drilling eased off slightly by 2% compared to 2022, for a total of 933,185 meters drilled during 2023. Of these, 92% involved brownfield targets within operating mines and peripheral targets. The largest share of the drilling, 45%, was conducted in the Fresnillo district, followed by 19% in the San Julián district and 17% in the Herradura district. The drilling focused both on converting inferred to indicated resources and backfill drilling to add certainty to the volume and grade of reserves in support of short- and medium-term planning. The rest of the drilling was carried out at advanced and early-stage greenfield projects in Mexico, Peru and Chile.

Project exploration prioritized drilling in areas near mines and in advanced projects such as Tajitos in Sonora and various areas in the Guanajuato district, yielding positive results. Additional targets were also drilled at the San Juan and Candameña projects, as well as other early projects. Metallurgical research and preliminary economic studies were conducted on advanced projects.

In Peru, drilling campaigns were resumed at the Santo Domingo and Pilarica projects, where additional targets were defined. Community engagement programs were strengthened in projects of interest in that country, notably at Supaypacha and adjacent targets, where drilling is scheduled to resume in 2024.

In Chile, exploration of veins in the Capricornio project continued with interesting results, including blind veins identified through geochemistry, geophysics, and preliminary drilling. Progress was made in defining drilling targets in vein systems in the Pencahue region, both on concessions owned by the company and others.

In the three countries where we operate, regional prospecting focused on evaluating company-owned concessions to optimize the portfolio and set targets for monitoring in 2024, as well as obtaining social and governmental licenses to continue our exploration programs.

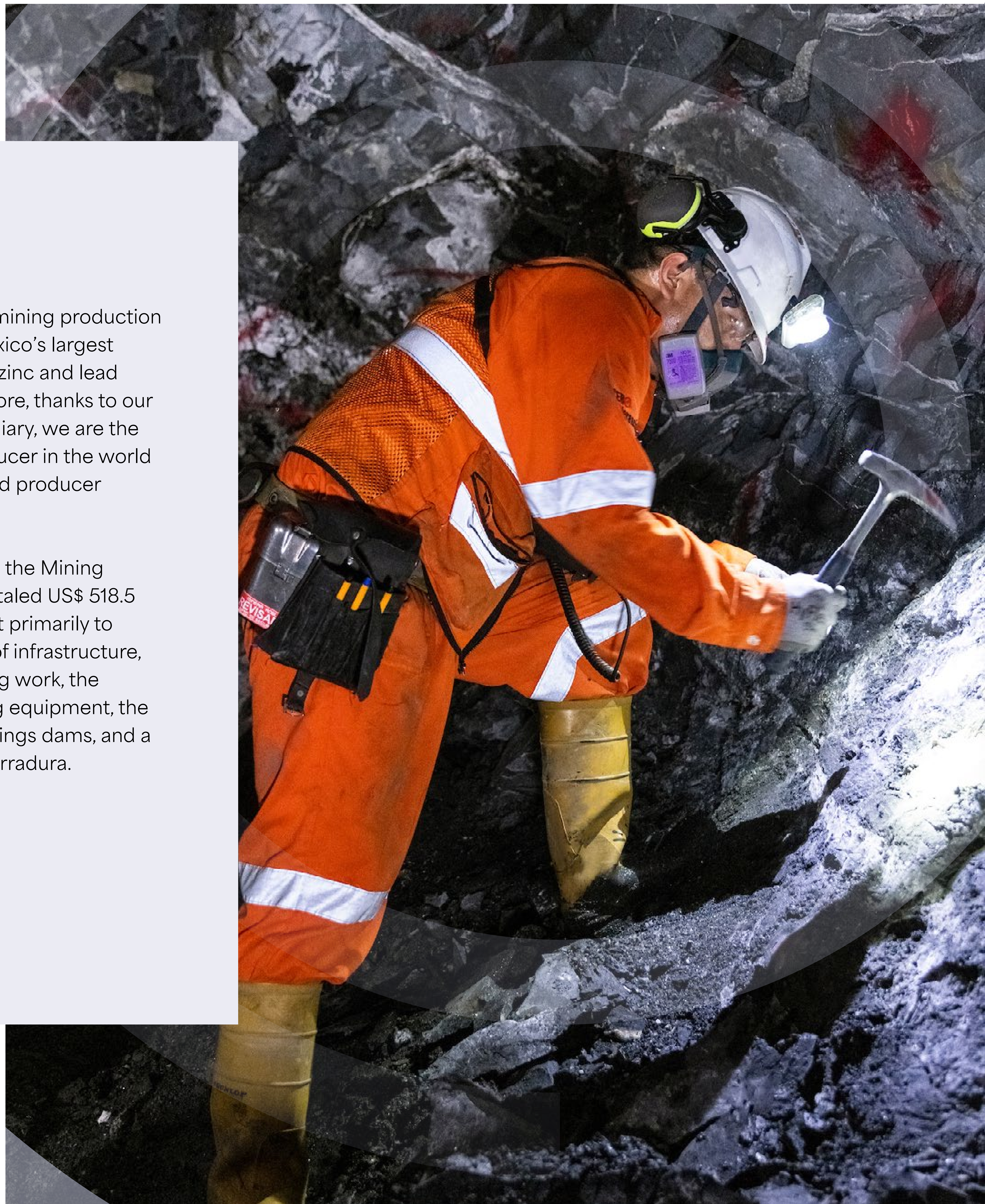
Mining

Peñoles operates five underground mining units in Mexico, four of which produce zinc, lead, and copper concentrates: Velardeña in Durango; Sabinas in Zacatecas; Capela in Guerrero–all of these wholly-owned by the company–Tizapa in the State of Mexico, in which we own a 51% stake, and finally Milpillas, in Sonora, also 100% owned, which produces copper cathodes. We also consolidate the production of Fresnillo plc–in which we own a 74.99% stake–which produces gold and silver in lead and zinc concentrates, dorés, precipitates, and other materials in its operating mines: Fresnillo, Saucito, and Juanicipio in Zacatecas; San Julián in Chihuahua; and Ciénega in Durango, all of them underground mines; and Herradura and Noche Buena, two open pit mines in Sonora.

We achieved three milestones in our mining operations in 2023: i) the beneficiation plant at Juanicipio reached its planned nameplate capacity and contributed substantially to mining production; ii) Milpillas reached the pace of extraction and ore deposit provided for in the plan to reactivate its operations, which began in June 2022, increasing production volume of copper cathodes; and iii) the iron concentrates flotation plant at Fresnillo (Pyrites phase II) started up operation after interconnecting with the electrical grid. This will contribute to our production of silver and gold content.

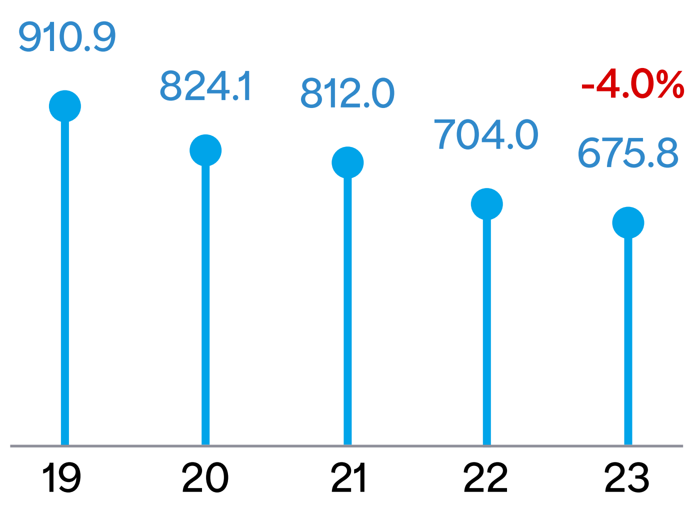
Our consolidated mining production positions us as Mexico's largest producer of metal zinc and lead content. Furthermore, thanks to our Fresnillo plc subsidiary, we are the leading silver producer in the world and the largest gold producer in Mexico.

Our investments in the Mining Division in 2023 totaled US$ 518.5 million, which went primarily to the development of infrastructure, capitalizable mining work, the purchase of mining equipment, the construction of tailings dams, and a leaching pad at Herradura.

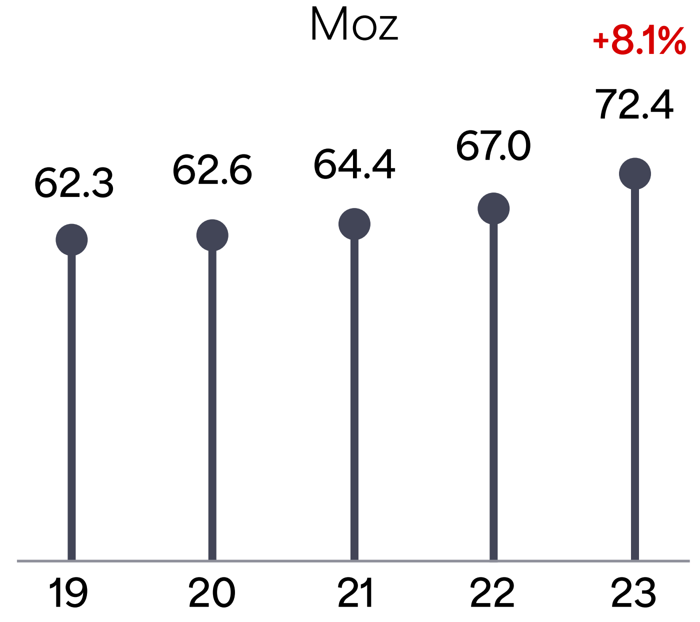


Mine **production**

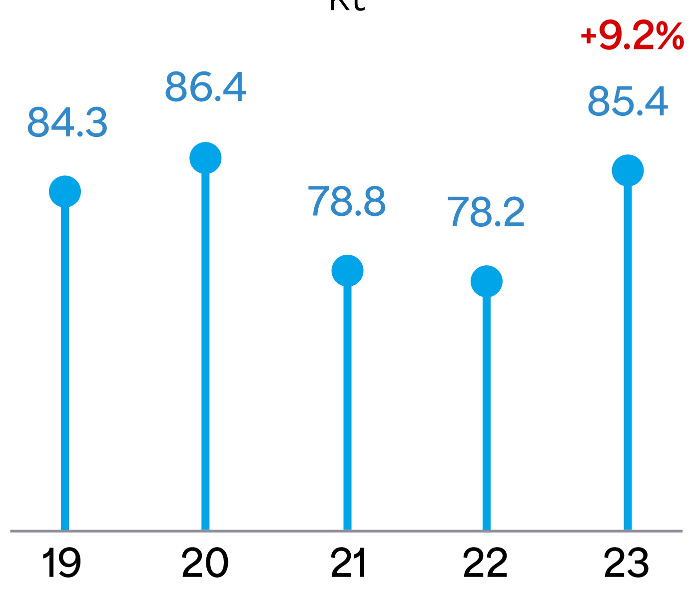
Gold
koz



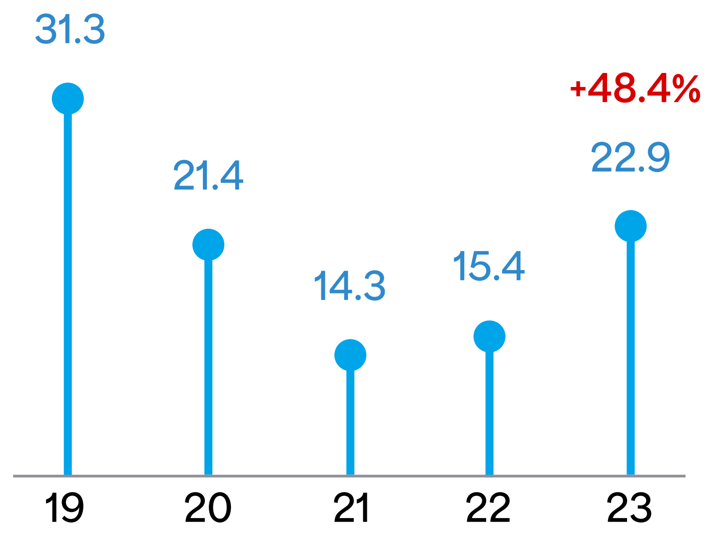
Silver
Moz



Lead
kt

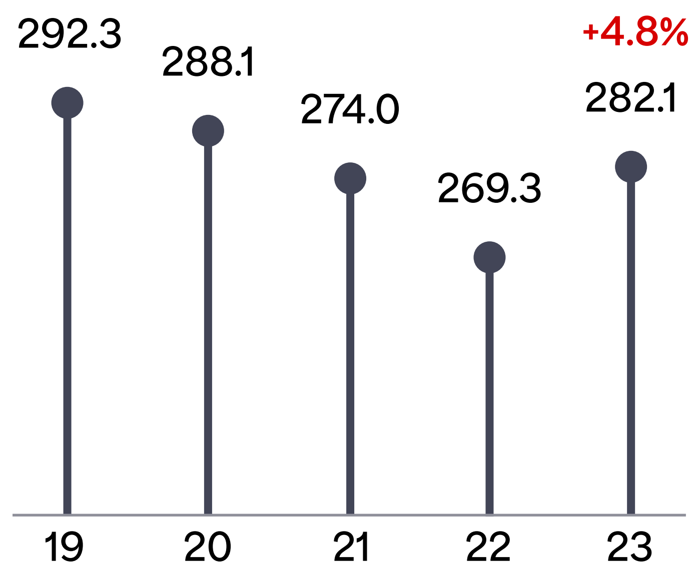


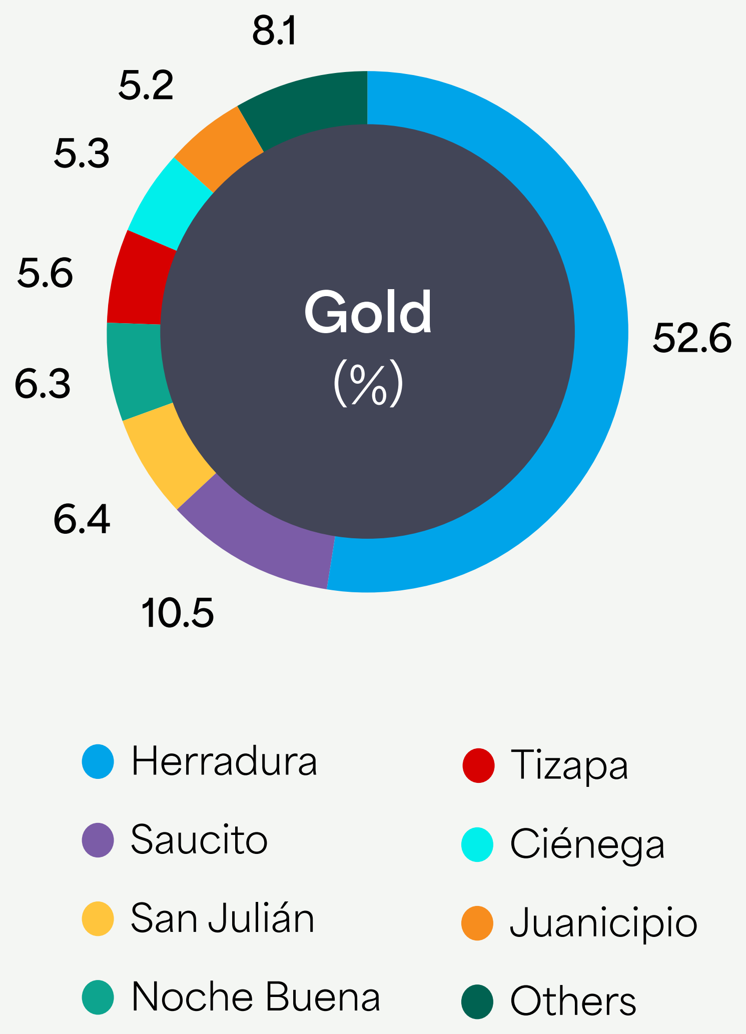
Copper*
kt

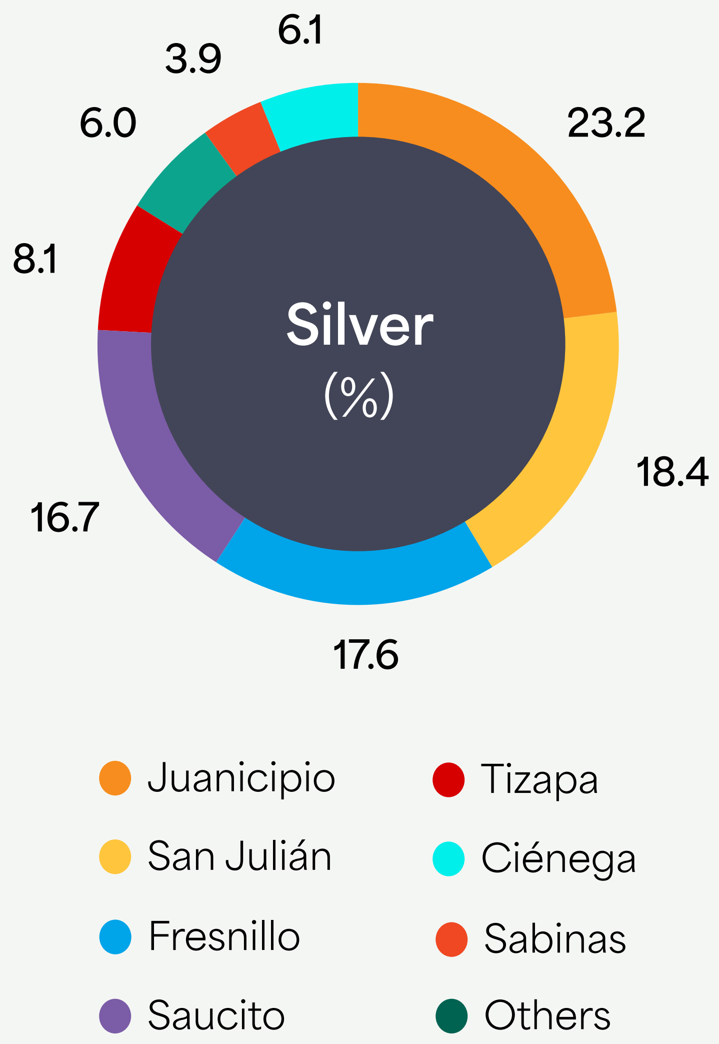


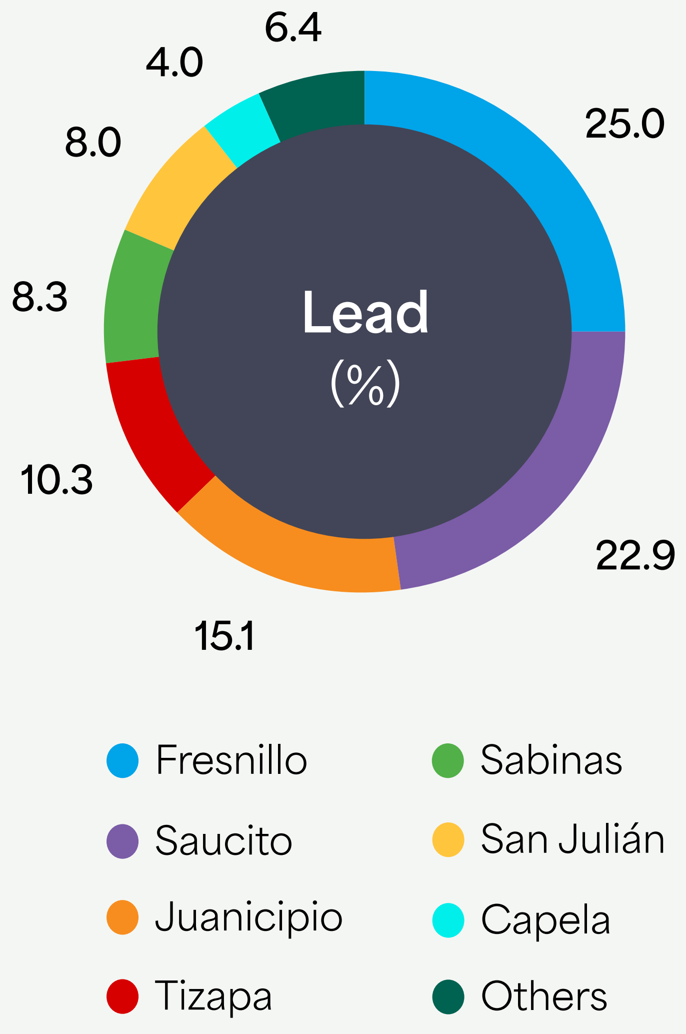
*Includes copper cathodes

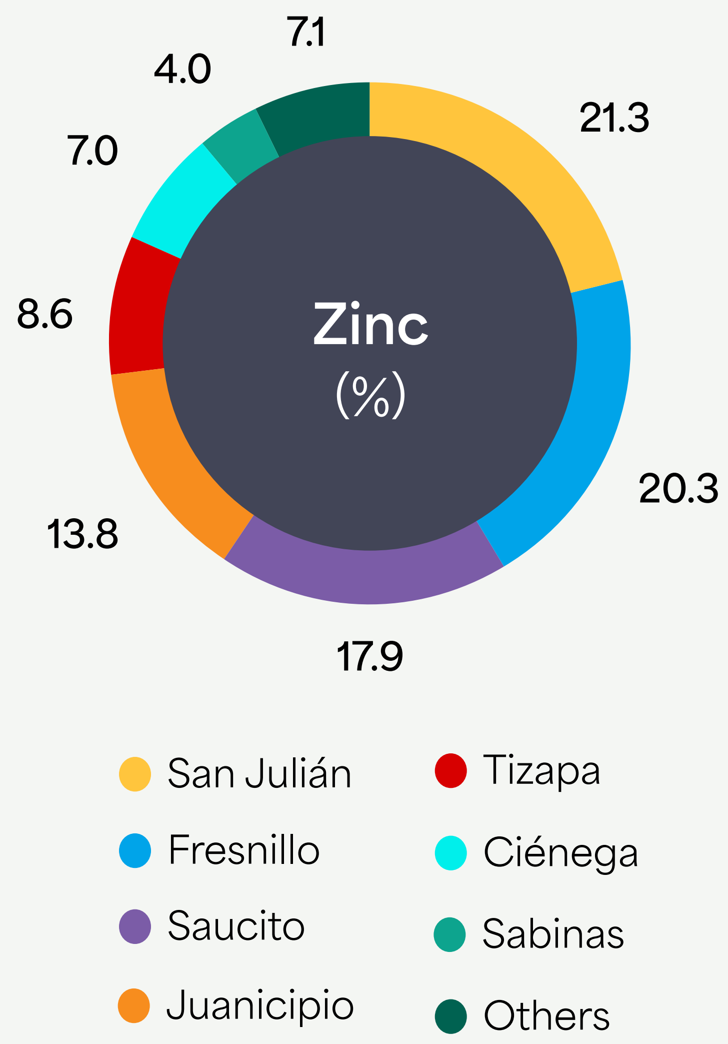
Zinc
kt

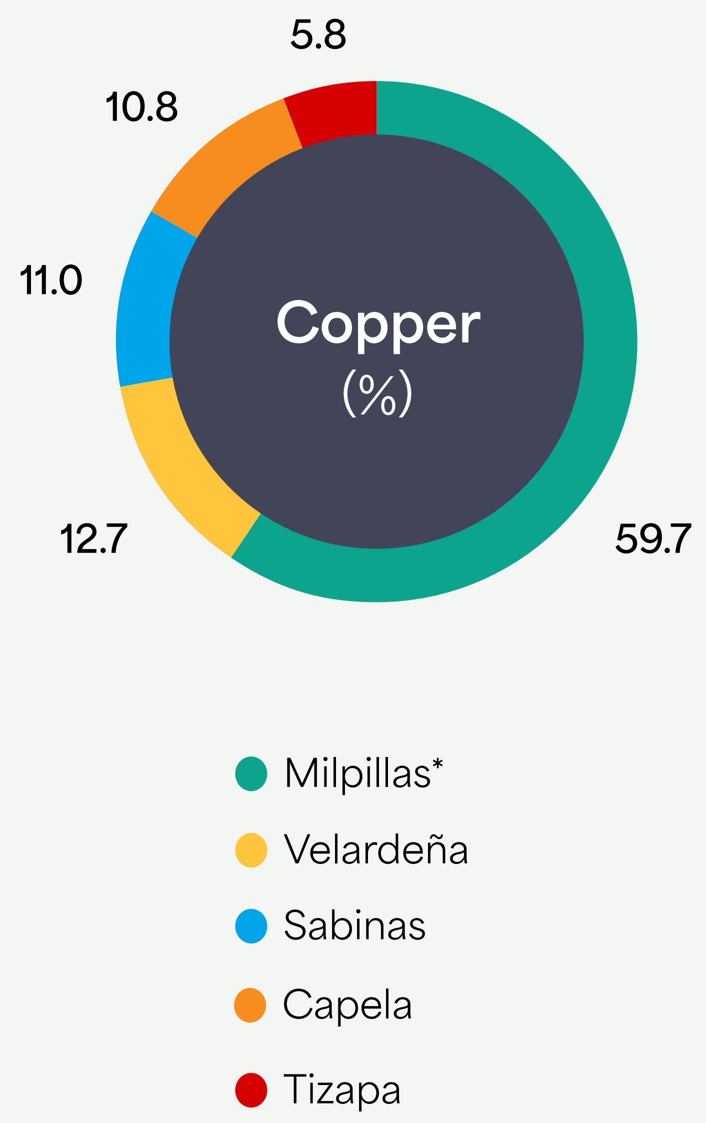






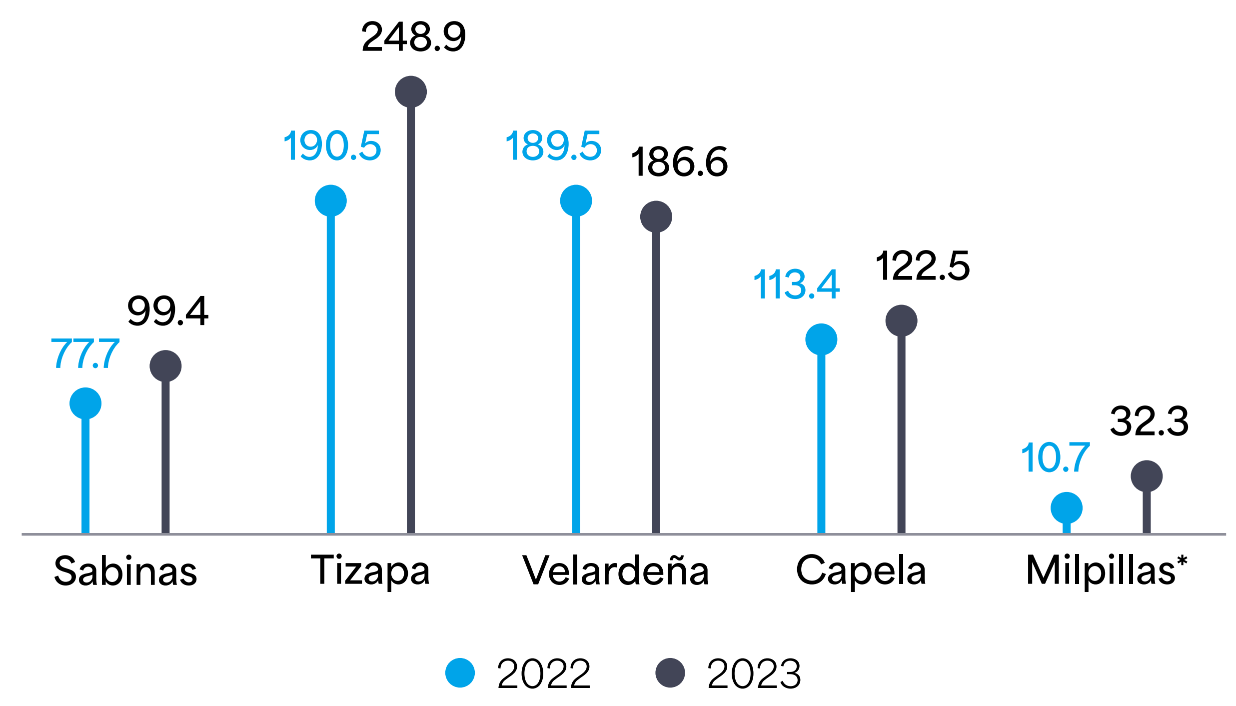






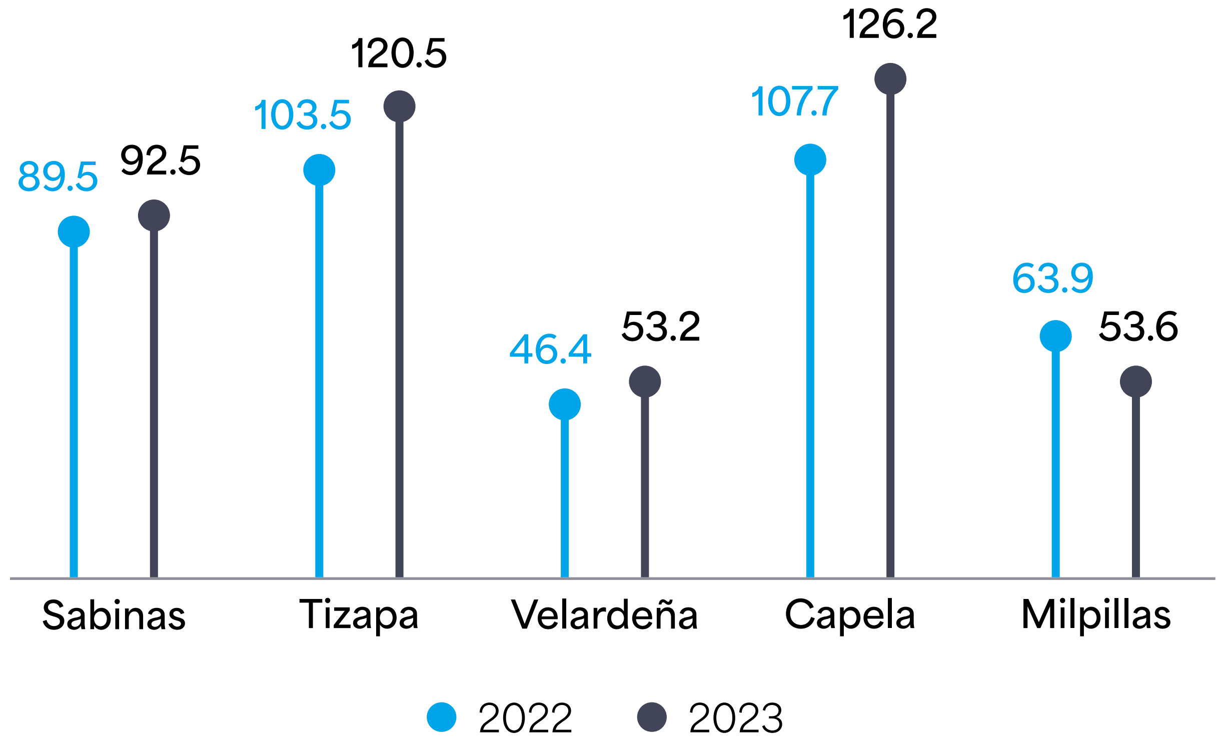
*Includes copper cathodes

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

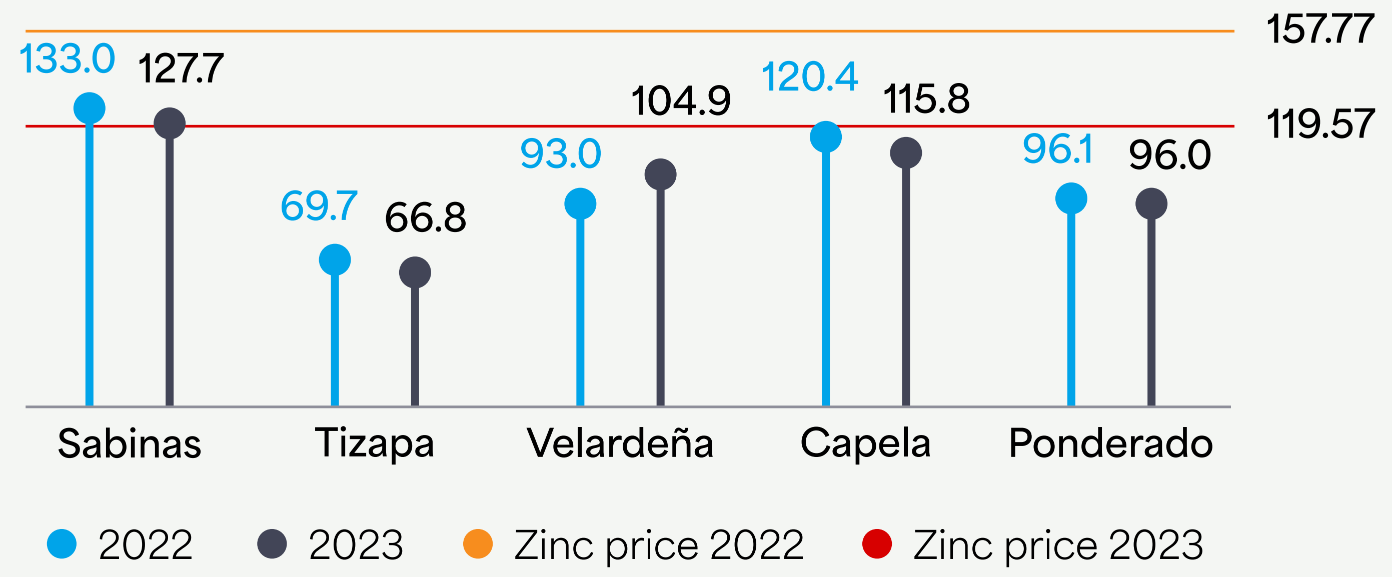


[1] Pounds equivalent of zinc: total gross sales / average zinc price
[2] Pounds equivalent of copper: total gross sales / average copper price

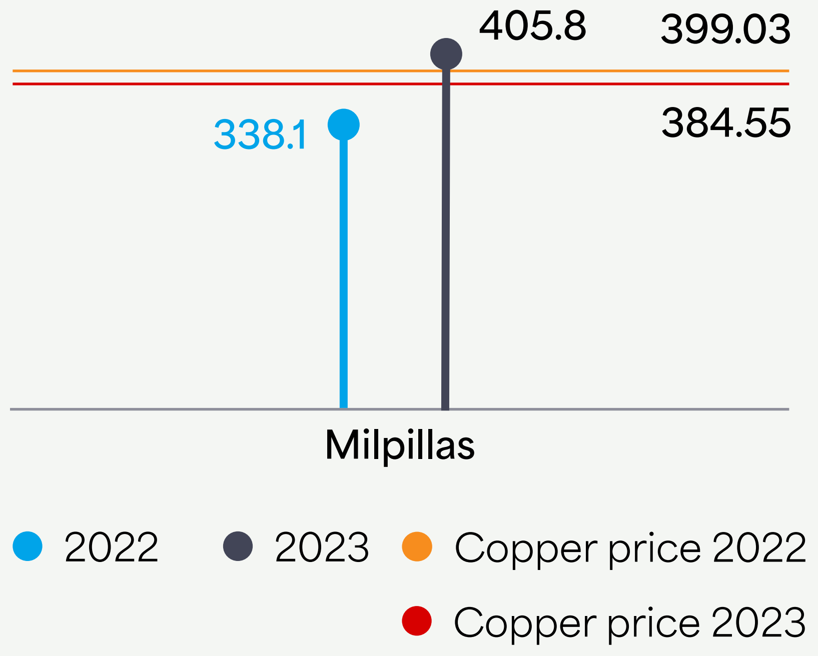
Unit cost
US$/t



Cash cost C1 (zinc)[3]
US¢/lbe



Cash cost C1 (copper)[3]
US¢/lbe



[3] *Cash cost* = [Cost of goods sold (production cost – depreciation + - change in inventories) + sales expense (treatment charges, freights and deductions, extraordinary mining rights)] / pounds equivalent of zinc or copper

PRODUCTION AND PERFORMANCE

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

	2023	2022	% Change
Ore milled and deposited (Mt)	**41.4**	46.3	-10.6
Gold (oz)	**675,844**	704,008	-4.0
Silver (koz)	**72,398**	66,970	8.1
Lead (t)	**85,428**	78,241	9.2
Zinc (t)	**282,093**	269,262	4.8
Copper (t)	**9,250**	9,920	-6.7
Copper cathodes (t)	**13,676**	5,530	147.3

Our mining units processed a volume of 41.4 million metric tons of ore in 2023, 10.6% less than in 2022. Of the processed volume, 19.8 million metric tons were deposited at the leaching pads, 19.5% less than the year before. The reduction is attributed primarily to the conclusion of exploitation at the Noche Buena cut, where the closure process was begun as planned because of the exhaustion of ore reserves. Herradura also deposited a lower volume of ore due to an illegal stoppage, although the decline was not as marked. These declines were offset by a higher volume deposited by Milpillas, which operated for a whole year after resuming activities in 2022. At the same time, a total of 21.6 million metric tons of ore was milled and processed at the mining plants, a moderate -0.6% change: at Herradura, where less ore was processed at the dynamic leaching plants due to technical failures, and to a lesser extent, at Capela, San Julián, and Ciénega. These reductions were offset by production from the Juanicipio beneficiation plant, which started up operations in late 2022 and reached nameplate capacity in the third quarter of 2023.

Annual gold production was 675,844 ounces, down by 4.0% from 2022, mainly due to the halt to mining at the Noche Buena pit, and to a lesser extent, the reduction in metallurgical recovery at Capela, which was mitigated by the better ore grade in sulfides at Herradura and higher metallurgical recovery, as well as the additional volume processed at Juanicipio.

Silver production totaled 72.4 million ounces, up 8.1% compared to 2022, due to the higher volume of ore processed and better recovery at Juanicipio, higher ore grade in the San Julián veins, as well as additional volumes of ore processed by Sabinas and Tizapa. The iron concentrates flotation plant at Fresnillo (Pyrites phase II), which was interconnected to the power grid in the first quarter, also contributed silver content. However, this plant did not achieve the expected recovery levels, so the necessary technical adjustments are being made to improve its performance. These operations offset the reduction in ore grades at Fresnillo and the San Julián disseminated body, and the lower volume of beneficiated ore, with lower grade and recovery at Capela.

Lead in concentrates increased 9.2% to 85,428 metric tons in 2023, as a result of an increase in volumes processed with higher grades at Juanicipio and Saucito, as well as more milling at Sabinas and Tizapa, which offset the lower ore grades obtained by Velardeña, Fresnillo, and Ciénega.

Zinc production volume rose 4.8% to 269,262 metric tons in 2023, fueled by the ramp-up at Juanicipio, as well as higher milling and better recovery rates at Fresnillo, Sabinas, Tizapa, and Saucito, the latter two also with better ore grades. The units reporting lower zinc production were Velardeña–due to lower grade in the Santa Maria ore body–La Ciénega, the disseminated body at the San Julian mine, and Capela–due to lower ore grades and a reduction in the volume of ore processed.

Copper production in concentrates decreased 6.7% from the year before, to 9,250 metric tons, as a result of lower milling and beneficiation of ore with lower ore grades and recoveries at Capela, as well as lower grades and recoveries at Sabinas and Tizapa. In contrast, the cathodes copper volume of 13,676 metric tons produced in 2023 was substantially higher than the volume produced in 2022, due to the resumption of operations at Milpillas in mid-2022.

Regarding the Mining Division's financial performance, production costs increased compared to the previous year, mainly due to the adverse exchange-rate effect–since the peso's appreciation against the dollar pushes up costs originated in the Mexican currency–and inflation in operating inputs. The most significant increases–in addition to foreign-exchange and inflation effects–were in human capital, contractors, maintenance and repairs, as a result of the ramp-up of the Juanicipio mine, the development of mining works, infrastructure, support systems, works at tailings deposits, and plant improvements. Additionally, there was a higher charge under cost of goods sold due to the consumption of inventory that had been accumulated for the start-up of the Juanicipio beneficiation plant, and at Noche Buena, as the end of its useful life approached and gold inventory was consumed in leaching pads, which was offset by a benefit from the recognition of gold inventories in leaching pads at Herradura. Mining division sales grew due to the higher production volume of silver, lead, zinc, and copper, the benefit of which was partially offset by a decline in gold production and lower prices on industrial metals, mainly zinc, which had more of an impact on the base metal mines operated directly by the company, and by higher refinery charges for zinc concentrates in the metallurgical business. As a result, profit margins were lower than in the previous year.

Importantly, we continued to reinforce the High-Potential Accident Management system at all of our mines, whose aim is to identify and prioritize high-potential accidents to reinforce controls. Of particular note was the adoption of a new standard method for field audits of critical controls in each of the high-potential risks identified in each mining unit. Based on the first assessment–carried out during the first half of the year–an action plan was defined for the next three years; in addition, a Visible Leadership Standard was established to ensure that all personnel who have employees reporting to them–including contractors–work toward a behavioral change with respect to safety culture. More information on this topic can be found in the Health and Safety section of this report.

Mining units **highlights**

Velardeña

zinc

Ownership:	100% Peñoles
Operational:	Since 2013
Location:	Cuencamé, Durango
Operation type:	Underground mine and beneficiation plant
Production capacity:	Milling 2.8 Mt/yr
Reserves (proven and probable):	11 years
Investment in 2023:	**US$ 17.7 M**

Production	2023	2022	% Change
Ore milled (kt)	**2,801**	2,805	-0.2
Content			
Gold (oz)	**4,494**	3,920	14.7
Silver (koz)	**591**	837	-29.4
Lead (t)	**2,595**	4,665	-44.4
Zinc (t)	**81,066**	86,525	-6.3
Copper (t)	**2,923**	2,400	21.8
Ore grade			
Gold (g/t)	**0.14**	0.14	-3.4
Silver (g/t)	**10.63**	14.74	-27.9
Lead (%)	**0.14**	0.24	-41.2
Zinc (%)	**3.23**	3.45	-6.5
Copper (%)	**0.17**	0.14	16.1
Costs			
Cost per metric ton milled (US$/t)	**53.2**	46.4	14.8
Pounds equivalent sold (M)	**186.6**	189.5	-1.5
Cash cost (US¢/lbe zinc)	**104.9**	93.0	12.9

In 2023, the greatest operating challenge at the Velardeña unit was the drop in zinc, silver, and lead ore grades due to the depletion of the Santa María body. To address this situation, we carried out work on two fronts. First, inside the mine, we continued preparation of La Industria body (with proven reserves of 676 kt of ore and average grades of 137g/t of silver and 1.84% of lead), which allowed the extraction of 35 kt of ore. In addition, we prioritized development of infrastructure at the Antares Sur body, with estimated reserves of 5.1 million metric tons and a zinc grade of 3.75%. Second, in the beneficiation plant, we took actions to help maintain stability in the flotation circuits by reconditioning and optimizing the crushing area in order to ensure sufficient ore inventory for its operation, and a milling strategy put in place to cut down on unscheduled interruptions. All of this allowed us to keep processed ore volume steady against the previous year. The zinc recovery rate increased slightly to 89.7%, from 89.4%, and the gold recovery rate rose to 36.1%, from 30.4%, which contributed to increased production, while better copper grade and a higher recovery rate (which rose to 62.3%, from 59.3%) supported its production.

Gross sales for the year totaled US$ 224.1 million (25.2% lower than the previous year), mainly due to lower zinc and silver production, coupled with lower base metal prices, especially zinc. The breakdown of revenues was as follows: 79% zinc, 10% copper, 5% silver, and the rest from lead and gold. Production costs increased 12.5%, mainly due to scheduled maintenance and contractors for development work inside the mine and work on the tailings deposits to increase their capacity, ensure compliance with established standards, and guarantee operating continuity. This, together with inflation in inputs and appreciation in average exchange rate, resulted in higher cost per metric ton milled (14.8% higher than in 2022). Treatment fees for zinc concentrates sold also rose, which, combined with higher production costs and lower equivalent pounds of zinc sold, raised the cash cost by 12.9%.

In 2023, we made investments totaling US$ 17.7 million, allocated to preparation of infrastructure and start-up of diamond-bit drilling stations at the Reina del Cobre project, the preparation of reserves at the Antares bodies (Sur Profundo and Norte Profundo), the development of mining work to generate ore reserves at La Industria, as well as the engineering of a new tailings deposit to guarantee operating continuity. During the year, we made other important investments in acquisition and reconstruction to maintain the productivity of the diesel equipment fleet inside the mine and in optimizing the crushing area.

On the safety front, six critical risks identified at this unit remained a priority focus, and two more risks are expected to be added in 2024, in accordance with High-Potential Accident Management system, beginning with the risk described as “loss of control of hazardous substances.” In terms of performance indicators, both the total recordable incident frequency rate (TRIFR) and lost time injury frequency rate (LTIFR) increased from 4.40 to 4.65 and from 1.47 to 2.33, respectively.

Sabinas

polymetallic: zinc-lead-silver-copper

Ownership:	100% Peñoles
Operational:	Under Peñoles management since 1995
Location:	Sombrerete, Zacatecas
Operation type:	Underground mine and two beneficiation plants
Production capacity:	Milling 1.3 Mt/yr
Reserves (proven and probable):	14 years
Investment in 2023:	**US$ 26.6 M**

Production	2023	2022	% Change
Ore milled (kt)	**1,251**	1,155	8.3
Content			
Silver (koz)	**2,828**	2,688	5.2
Lead (t)	**7,110**	6,611	7.5
Zinc (t)	**16,236**	15,219	6.7
Copper (t)	**2,529**	2,771	-8.7
Ore grade			
Silver (g/t)	**79.24**	80.38	-1.4
Lead (%)	**0.87**	0.87	-0.4
Zinc (%)	**1.67**	1.75	-4.3
Copper (%)	**0.34**	0.39	-13.7
Costs			
Cost per metric ton milled (US$/t)	**92.5**	89.5	3.3
Pounds equivalent sold (M)	**99.4**	77.7	27.9
Cash cost (US¢/lbe zinc)	**127.7**	133.0	-3.9

Sabinas' operating performance improved compared to 2022, a period in which milling and production were affected by Covid-19 absenteeism and a technical shutdown. The volume of ore beneficiated in 2023 increased 8.3%, allowing the unit to compensate for lower ore grades and increase content production, with the exception of copper. The major challenges of the year were maintaining the pace of mining amid a lack of equipment availability, delays in backfill cycles, and problems of high operational dilution of the skarn stopes, which presented thinner bodies and a reduction in economic mineral. Simultaneously, the method of stripping by long-hole drilling became less efficient. To address these challenges, we prepared a selective mining plan, and strengthened the cycle planning of the production stopes. We also reinforced preventive maintenance of equipment to ensure its availability.

We continued the beneficiation plant optimization process within the framework of our efficiency strategy and operational approach. To increase metallurgical recoveries at plant 1, a state-of-the-art fine particle flotation cell was commissioned during the last quarter, the first of its kind to be installed at Peñoles. This allowed for an improvement in zinc recovery in a short period of time (from 75.4% to 77.6%). We are evaluating the results for replication in other units. In plant 2, efforts focused on optimizing the sequential flotation process, resulting in an improvement in lead recovery, with an increase in concentrate grade from 39.7% in 2022 to 40.3% in 2023. With this experience and lessons learned, we are now considering introducing this process to the plant 1 flotation system.

Gross sales for Sabinas totaled US$ 119.4 million, down 3.0%, largely attributable to the drop in zinc price, and to a lesser extent, lower copper production and prices, which were mitigated by higher silver, zinc, and lead content sold. Revenues by element break down as follows: silver 44%, zinc 29%, copper 16%, and lead 11%. In contrast, in terms of equivalent pounds, sales increased 27.9%, from 77.7 to 99.4 million, due to lower zinc prices. The cost of production rose 11.9% over the previous year, and the unit cost per metric ton milled and processed increased 3.3%. The sharpest increases were seen in items such as: human capital, due to the increase in unionized personnel required to meet production budgets; maintenance and repairs, mainly due to more preventive and corrective work on equipment inside the mine to guarantee safety and operating continuity; and equipment rental to reinforce tailings deposits. Adding to the adverse effect of higher costs, exacerbated by the peso's appreciation and inflation in our basket of inputs, were higher refinery costs for zinc concentrate. However, a higher number of pounds equivalent of zinc improved cash cost in 2023, which declined by 3.9% from the previous year.

For the year, total investment was US$26.6 million, and went mainly to building reinforcements for the tailings deposit 4–which began operation in the last quarter of the year–development of mining infrastructure, and purchasing and rebuilding mine and plant equipment.

On the safety front, the mine continued to manage five identified Critical Risks and incorporated two additional risks into the system. New technologies were deployed for critical controls in the detection of people, anti-collision, and fatigue detection, among others. Thanks to these efforts, High-Potential Accident Management metrics improved: the LTIFR decreased 31.3%, from 4.76 to 3.27, and the TRIFR decreased 39.0%, from 15.07 to 9.10.

At Tizapa, the mining and milling rate normalized, after slowing down in the second half of 2022 due to personnel absenteeism. The volume of ore beneficiated increased 4.3%, boosting zinc, lead, and silver production. This, together with better metallurgical recoveries, compensated for lower silver and lead grades, resulting in an increase in the production of these metallic contents, and to a greater extent, of zinc, due to a higher ore grade. In the case of copper, the increase in ore processing was not enough to offset the impact of lower ore grade in the production stopes.

We achieved a milestone at Tizapa; we purchased and began operation of Peñoles' first electric low-profile truck for the sustainable haulage of ore from the mine interior to the surface. We enabled the necessary infrastructure for the loading centers, and made adjustments for their optimal operation. Going forward, we will monitor the benefits of this new vehicle in terms of productivity, costs, and greenhouse gas emissions reduction.

By continuing development and infrastructure work at Tizapa, the mine was able to maintain its indicator of two years of prepared ore to ensure production at its nameplate capacity rate.

The mine also continued to optimize its zinc circuit, replacing two primary cells with new technology, which drove an increase in zinc recovery from 81.3% to 82.3%. The zinc concentrate grade also improved (from 49.6% to 50.3%).

Gross sales for the year were US$ 299.0 million, marginally lower (-0.7%) than in 2022, mainly due to the drop in zinc prices, which was offset by higher production volume. The breakdown of sales was: 42% silver, 27% zinc, 22% gold, 5% lead, and 4% copper. Sales volume of zinc equivalent increased 30.6%, from 190.5 to 248.9 million pounds, due to the combined effect of higher sales volume and lower zinc prices.

Annual production costs increased 20.8%, while the unit cost per metric ton milled increased 16.4%. The most significant cost increases were in contractors, due to support works, hauling of materials and work on the tailings deposits; operating materials, due to higher consumption of materials for support and anchoring and other necessary materials for expanding the edge of the tailings deposit; and energy, due to higher electricity prices and diesel consumption. Toward the end of the year, Tizapa received authorization to migrate to the Wholesale Power Market, giving it access to more competitive electricity costs. More information on this subject can be found in the Energy chapter of this report.

The increase in pounds of zinc equivalent sold, together with its lower price, offset the unfavorable effect of rising costs, also affected by the appreciation in the exchange rate and inflation in inputs, resulting in a 4.2% reduction in cash cost.

Capital expenditures totaled US$13.8 million, consistent with the goals of the company's efficiency strategy and operational focus. Some of the largest capital projects were: acquisition of the electric low-profile truck (US$1.8 million); replacement and rebuilding of diesel equipment to maintain the availability of the fleet inside the mine; development of mining infrastructure; implementation of intelligent mine projects focused on maintaining productivity and safe processes; and start-up of the tailings thickener tank to increase the recovery of process water and reduce fresh water consumption.

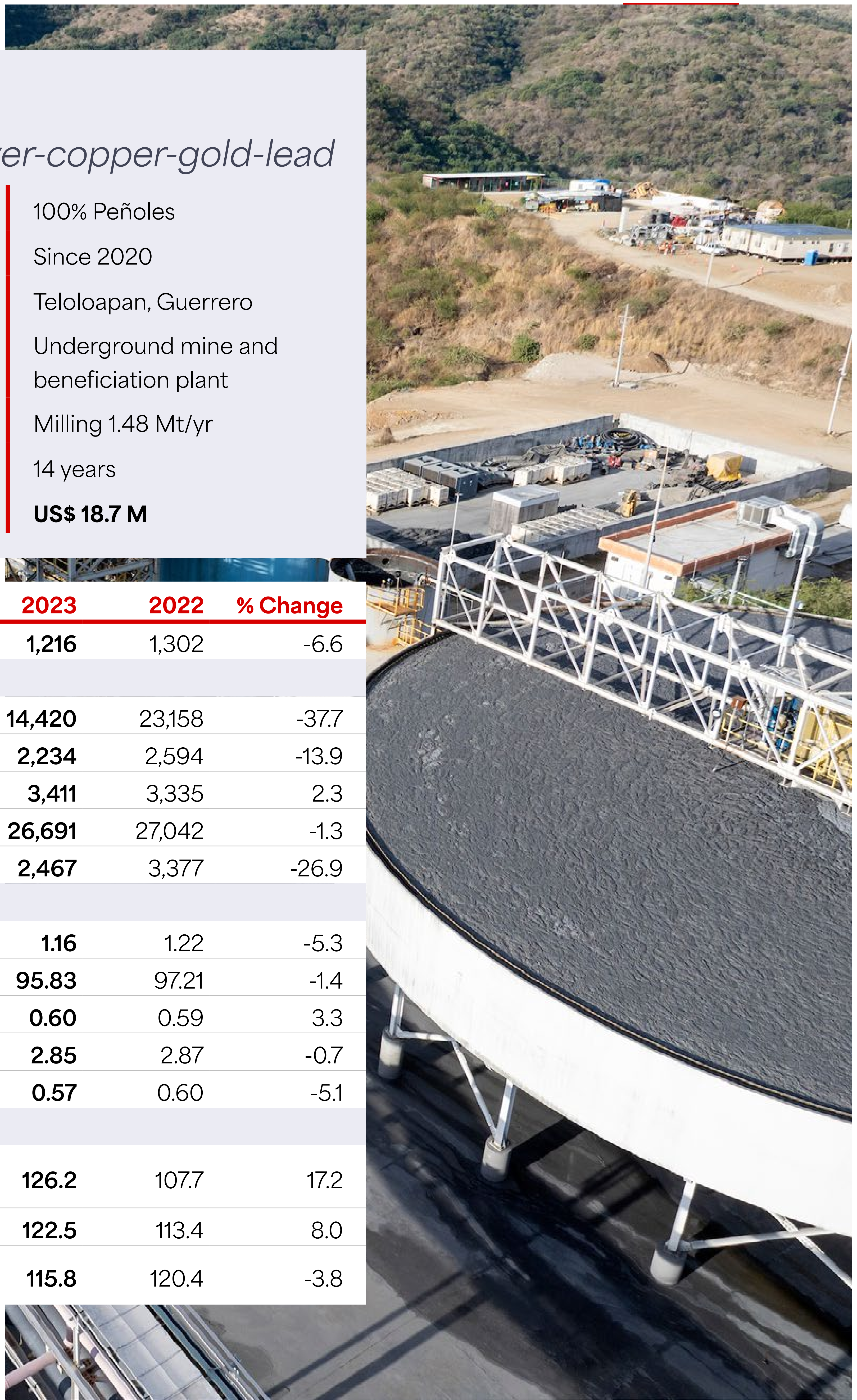
Looking at safety metrics, the number of high-potential accidents at Tizapa trended downward as a result of the new priority on risk management, focusing on five critical risks, which resulted in improvements in the LTIFR from 8.12 to 4.93, and the TRIFR from 18.6 to 14.8. In 2024, the mine will incorporate two new critical risks to this system: loss of control in hoisting maneuvers and loss of control of hazardous substances.

Tizapa

polymetallic: zinc-silver-gold-lead-copper

Ownership:	51% Peñoles, 39% Dowa Mining, and 10% Sumitomo Corporation
Operational:	Since 1994
Location:	Zacazonapan, Mexico State
Type of operation:	Underground mine and beneficiation plant
Production capacity:	Milling 980 kt /yr
Years of reserves (proven and probable):	7 years
Investment in 2023:	**US$ 13.8 M**

Production	2023	2022	% Change
Ore milled (kt)	**960**	921	4.3
Content			
Gold (oz)	**37,824**	37,592	0.6
Silver (koz)	**5,894**	5,728	2.9
Lead (t)	**8,821**	8,514	3.6
Zinc (t)	**41,463**	37,770	9.8
Copper (t)	**1,332**	1,372	-3.0
Ore grade			
Gold (g/t)	**1.45**	1.48	-2.0
Silver (g/t)	**206.13**	209.35	-1.5
Lead (%)	**1.24**	1.25	-0.8
Zinc (%)	**5.25**	5.04	4.1
Copper (%)	**0.30**	0.33	-6.7
Costs			
Cost per metric ton milled (US$/t)	**120.5**	103.5	16.4
Pounds equivalent sold (M)	**248.9**	190.5	30.6
Cash cost (US¢/lbe zinc)	**66.8**	69.7	-4.2



Capela

polymetallic: zinc-silver-copper-gold-lead

Ownership:	100% Peñoles
Operational :	Since 2020
Location:	Teloloapan, Guerrero
Operation type:	Underground mine and beneficiation plant
Production capacity:	Milling 1.48 Mt/yr
Reserves (proven and probable):	14 years
Investment in 2023:	**US$ 18.7 M**

Production	2023	2022	% Change
Ore milled (kt)	**1,216**	1,302	-6.6
Content			
Gold (oz)	**14,420**	23,158	-37.7
Silver (koz)	**2,234**	2,594	-13.9
Lead (t)	**3,411**	3,335	2.3
Zinc (t)	**26,691**	27,042	-1.3
Copper (t)	**2,467**	3,377	-26.9
Ore grade			
Gold (g/t)	**1.16**	1.22	-5.3
Silver (g/t)	**95.83**	97.21	-1.4
Lead (%)	**0.60**	0.59	3.3
Zinc (%)	**2.85**	2.87	-0.7
Copper (%)	**0.57**	0.60	-5.1
Costs			
Cost per metric ton milled (US$/t)	**126.2**	107.7	17.2
Pounds equivalent sold (M)	**122.5**	113.4	8.0
Cash cost (US¢/lbe zinc)	**115.8**	120.4	-3.8

At the Capela unit, the volume of ore milled and processed fell 6.6% from 2022, because, as anticipated, several technical shutdowns were made in the first half of the year to cope with the limited availability of water for processes amid unseasonably dry conditions. In addition, high personnel turnover limited ore extraction. To counteract this, we began special personnel recruitment, hiring, and training program, and by the end of the year, more than 80% of the positions on the workforce were filled. We will continue this program in 2024, to be fully staffed to achieve the expected extraction rate.

To address the water shortage, we completed construction of a storage pond, and installed positive displacement pumps in the high-density thickener to maximize water recovery in the process. In parallel, we are developing medium-term strategies to ensure sustainable water supply.

Furthermore, to address the issue of reduced mineral availability and variability in ore grades, we controlled loads to prevent impacts on the beneficiation plant. To optimize flotation circuits and boost metallurgical recoveries, we undertook several actions, such as implementing advanced controls in the milling and flotation stages, modifying the chemical scheme, installing air injectors and intermediate rings inside the cells to recover values in fine particles, and adding a tailings refloat stage. With these efforts, the annual zinc and lead recovery rate improved from 72.3% to 77.0% and from 43.8% to 46.4%, respectively, while silver and lead recovery improved in the fourth quarter.

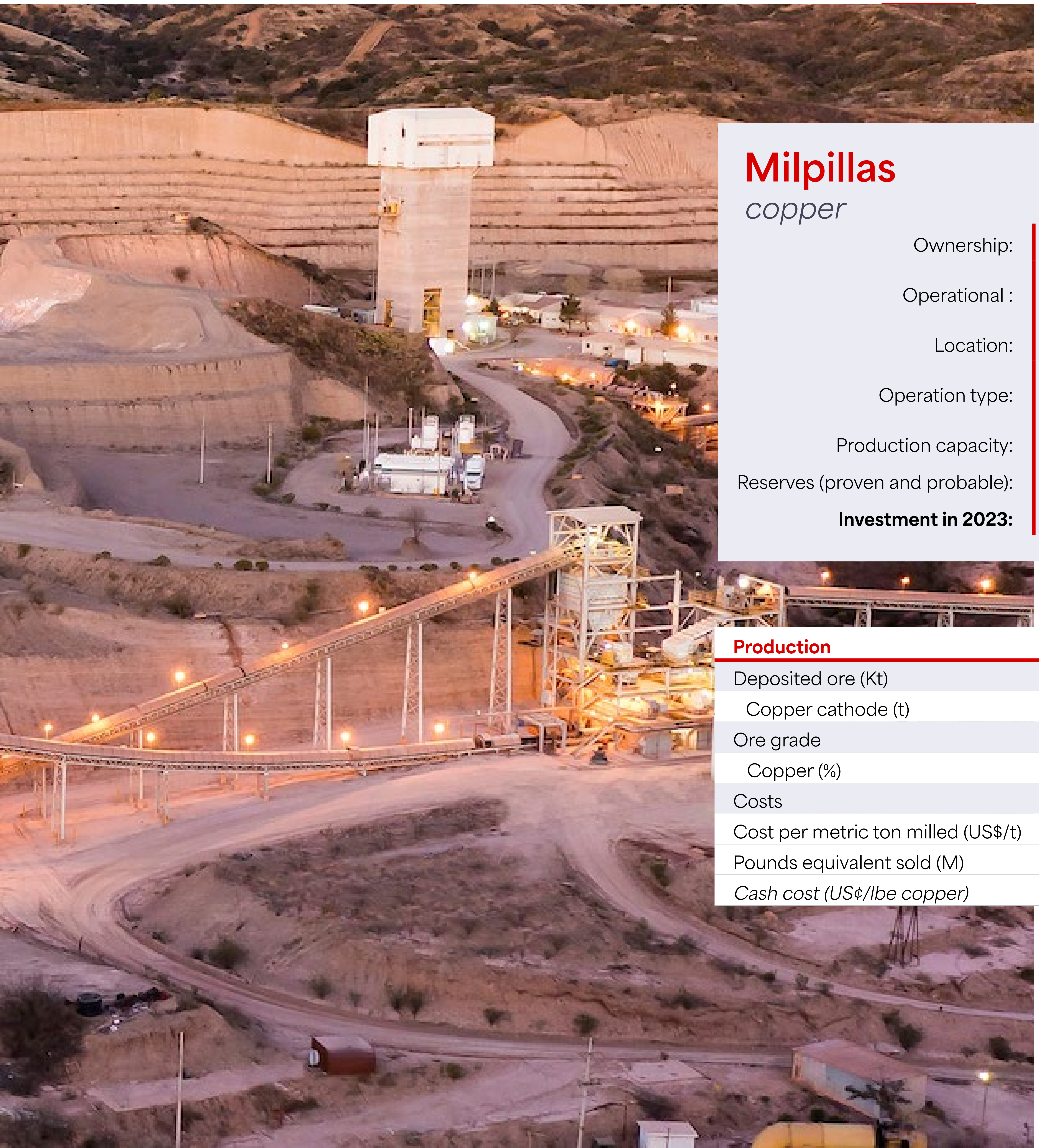
In mine preparation, the number of metric tons prepared for extraction at the installed capacity rate remained at the one-year mark. Notably, infrastructure was developed in a new mining area by longhole drilling, and the lower mantle body was prepared to secure silver content for the 2024 production plans.

Lower metal content production and lower base metal prices, especially for zinc, inhibited gross sales, which declined 17.9% to US$ 147.2 million, 39% of which came from zinc sales, followed by silver with 25%, gold with 17%, copper with 14%, and lead with 5%. The drop in price offset the decline in volumes sold at the pounds of zinc equivalent level, which rose from 115.8 to 120.4 million.

The cost of production rose by 9.4%, and the cost per metric ton milled grew 17.2%, affected by the lower volume of ore processed and by the appreciation in the exchange rate and inflation. The costs that rose the most were for contractors–due to the development of mining infrastructure, support systems, and ventilation shafts–and maintenance and repairs to optimize the availability of equipment and specialized services.

We invested a total of US$ 18.7 million during the year, targeted toward installation of a second gravity concentrator to increase gold recovery, the development of mining works to generate new production areas, the optimization of ore haulage circuits, the completion of the water tank for the flotation plant, and the acquisition of mobile equipment for inside the mine and construction of the north slope of the tailings deposit, its instrumentation, and monitoring.

In terms of safety management, an additional critical risk was added for monitoring under the High-Potential Accident Management system. The annual indicators deteriorated: the TRIFR was 11.90 vs. 9.46 the year before, and the LTIFR was 4.84 (vs. 3.27).



Milpillas

copper

Ownership:	100% Peñoles
Operational :	From 2006 to 2020, resumed operations in 2022
Location:	Santa Cruz, Sonora
Operation type:	Underground mine, leaching pads, and electrolytic plant
Production capacity:	45 kt copper cathode /yr
Reserves (proven and probable):	2 years
Investment in 2023:	**US$ 1.3 M**

Production	2023	2022	% Change
Deposited ore (Kt)	**2,062**	895	130
Copper cathode (t)	**13,676**	5,530	147.3
Ore grade			
Copper (%)	**0.73**	0.79	-8
Costs			
Cost per metric ton milled (US$/t)	**53.6**	63.9	-16
Pounds equivalent sold (M)	**32.3**	10.7	202.9
Cash cost (US¢/lbe copper)	**405.8**	338.1	20.0

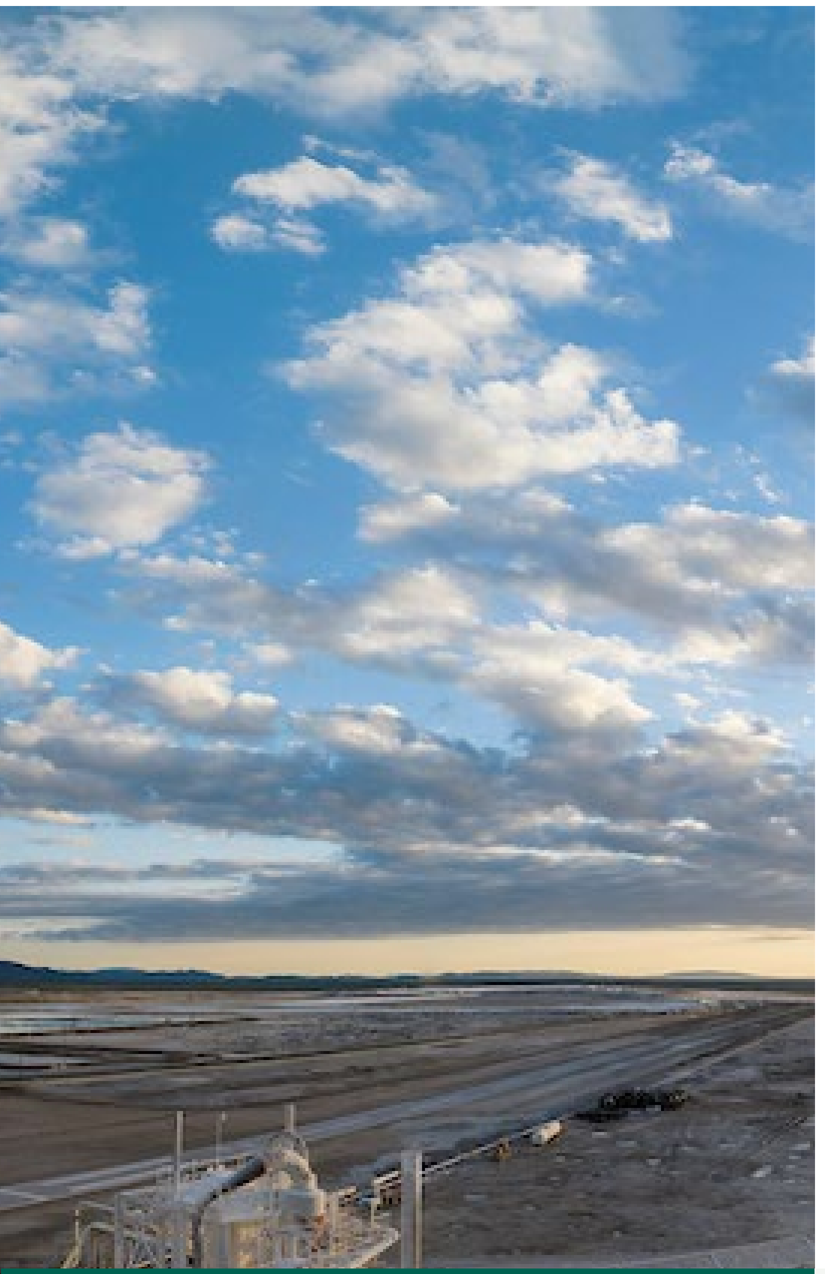
The volume of mineral deposited in leaching pads increased significantly in 2023, which brought it up to the pace that was expected after the resumption of extraction activities at the Milpillas mine in June 2022. At this facility, we plan to extract ore until the prepared reserves are exhausted in approximately two years. Thus, we must continue to develop infrastructure to access production stopes.

We carried out surface maintenance tasks to refurbish the pads and resume production capacity at the electrolysis plant, where efforts were made to optimize content recovery and maintain the quality of the produced cathodes. As a result, recovery increased from 78.4% to 91.3%, which together with the higher volume of ore, mitigated the reduction in the ore grade due to dilution. We have corrected this dilution as extraction advances in stopes with better grades. Thus, the volume of copper cathodes produced grew by 147.3%.

With the mine operating for a longer period at a stronger pace, gross sales were up by 194.5% to US$ 125.7 million, while production costs rose 94.7% due to higher ore extraction and processing. Increases were most pronounced in contractor expenses, maintenance and repairs, and operating materials. The volume of pounds equivalent sold grew from 10.7 million in 2022 to 32.3 million in 2023, respectively, while cash cost increased by 20.0%, due to higher production costs.

Investment for the year totaled US $1.3 million, primarily to purchase pumps for operating processes, an electricity metering system, and a monitoring system for the leaching pads.

On the safety front, Milpillas formally introduced the High-Potential Accident Management methodology, incorporating seven critical risks into its management system. For each of these risks, standards, verification sheets, and diagnostics were prepared to devise work plans for reducing gaps in field controls and achieving the desired level of the standards. TRIFR and LTIFR metrics rose in annual terms, from 3.68 to 12.31 and from 2.21 to 7.13, respectively.



VALUE CREATION PROJECTS

Consistent with our philosophy of teamwork and our prioritization of projects to improve key administrative and operational processes by ensuring proper documentation and metric-setting, in 2023 we introduced 47 value creation projects (VCP) at mining units operated by Peñoles. Each year, unit leadership teams define new VCPs based on competitiveness analyses, the priorities of the Strategic and Operational Plan, and the Risk and Opportunities Analysis identified in the management systems. They also select coordinators who have the potential to become future leaders of the organization.

In 2023, the most significant VCPs, based on their contribution to economic, operational, safety or environmental benefits, were:

Velardeña: Zinc recovery and grade, pounds equivalent zinc production, labor modernization, and the Peñoles Comprehensive Management System.

Sabinas: Safety, rock mechanics, lead-copper separation optimization, optimization of equipment availability, and increased milling at plant 1.

Capela: Safety, rock mechanics, reduction of operating damages, efficiency and cost, labor modernization and optimization of mine planning.

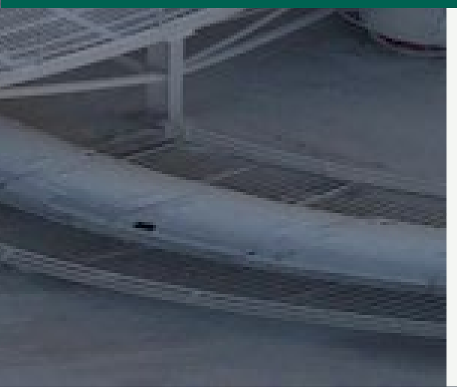
Tizapa: Increase in mine contents, optimization of recovery and zinc grade, safety, rock mechanics, implementation of expert systems, and optimal expansion of tailings storage deposits.

Milpillas: Increase in cathodes production, efficiency and costs, rock mechanics, safety, and development of personnel skills.

Aligned with the objectives of our Value Creation Projects, during 2023, more than 60 non-unionized employees developed leadership skills with the coordination of multidisciplinary work teams.

INTELLIGENT MINE

Consistent with our strategy, we continued to deploy cutting-edge technology for process automation, enhanced productivity and improved safety conditions in our mining operations. The following are the highlights of our progress in 2023:



Blasting process optimization

We extended installation of remote blasting systems to the Velardeña and Sabinas units, where we expect to complete it in 2024. The system is already in place at the Tizapa and Capela mines.

Telemetry of diesel vehicles inside the mine

We now monitor the engine health of ore haulage trucks at Sabinas with telemetry equipment. The trucks are also equipped with anticollision systems, speed alarms, sleep sensors, and backup cameras. At Capela and Velardeña, there is a system for automatically generating maintenance work orders for low-profile trucks, jumbos, and scooptram, linked to the supplier and the Maximum maintenance administration system to expedite diagnostics and repairs and improve vehicle productivity.

Advanced control at beneficiation plants

Capela strengthened operation of the Advanced Control System in the milling process, resulting in a reduction of the circulating load of ore, thus improving the quality of the ore sent to the flotation stage. We are now introducing this technology to flotation circuits, and will begin operating in 2024.

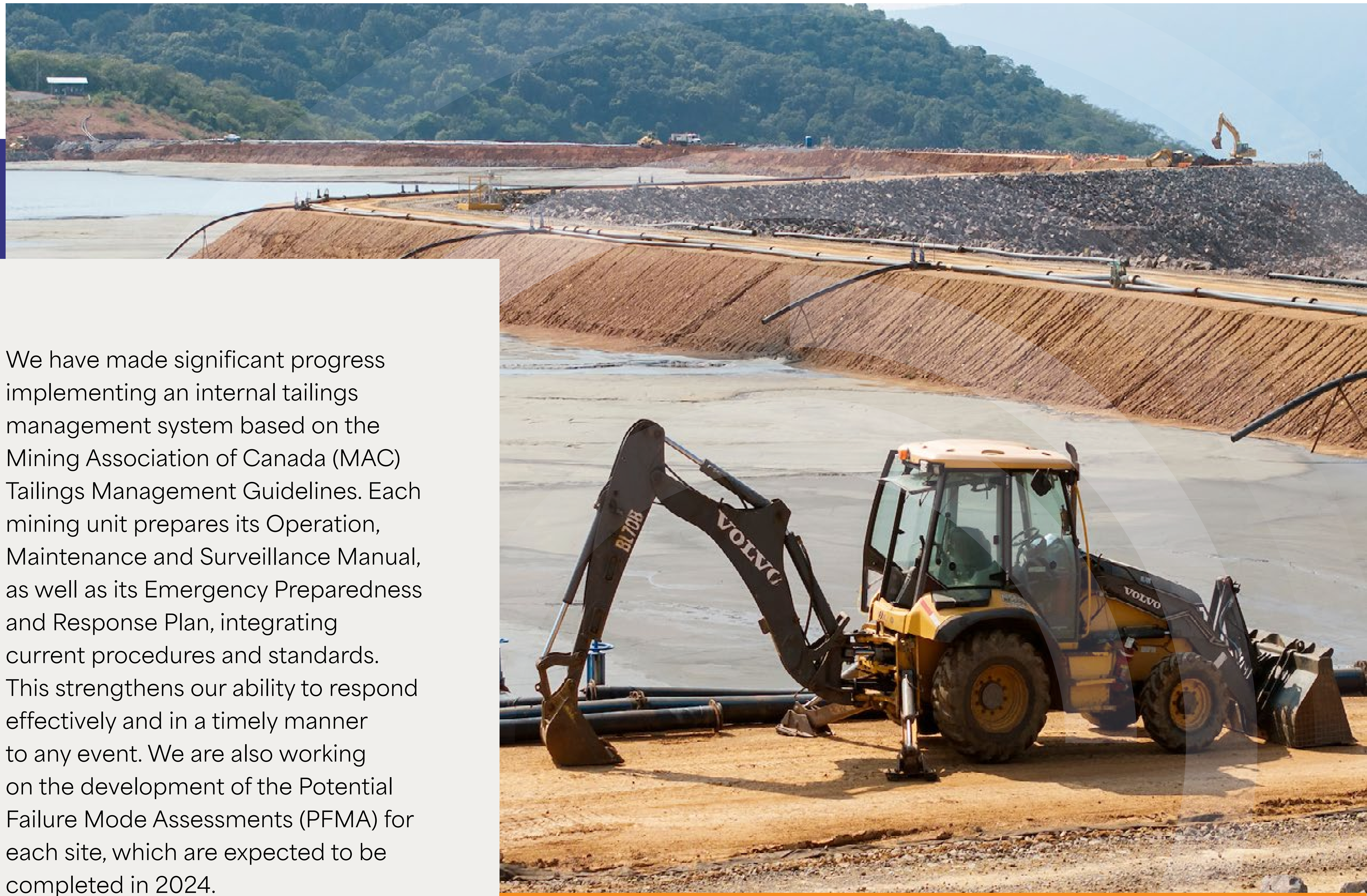
Data analytics

Under our data-driven approach, we consolidate information from the different operating systems by applying data mining methodologies. We developed analytical reports and dashboards under a collaborative scheme for cloud-based consultation to facilitate follow-up, goal-meeting, trends, and online monitoring of critical operating variables in the mines, which should allow for timely decision-making.

Haulage

At Sabinas, we introduced automatic ore haulage monitoring to improve process efficiency and support timely decision-making, with good results. We plan to replicate the use of this technology at the Capela unit.

Tailings storage **facilites**



Our strategy for comprehensive tailings management is based on adoption of best engineering practices and the international principles of 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), as well as a solid governance structure that establishes roles, skills, responsibilities, and accountability, supported by a panel of independent experts. Our goal is to apply technologies, controls, practices, and methods in all of our tailings facilities throughout their lifecycle–including post-closure–to ensure safe and responsible handling of mineral waste and avoid damage to neighboring communities and the environment.

A milestone in 2023 was the publication of tailings guidelines and the tailings management policy–essential pillars of our strategy for safe waste management that reflect our commitment to industry best practices. A control platform was also installed to monitor and follow up on the implementation of the panel's recommendations in an efficient manner, ensuring that priority issues are addressed.

The tailings review committee, which was established in 2020 and is comprised of members of Grupo BAL's management team and corporate directors, is the body in charge of informed decision-making and effective coordination of our tailings management strategy. The committee meets monthly, and among the highlights of 2023, reviewed the tailings governance structure, the role of the independent panel, and the tailings management guidelines and policy, which were approved and published.

The independent panel successfully completed the 13 site reviews scheduled for this year, reinforcing our commitment to facility integrity, transparency, and accountability. The most important recommendations resulting from these reviews were reduced from 30 in 2022 to 12 in 2023. Seven of these were duly addressed and closed, and work is underway to address the remaining recommendations.

We maintain a rigorous focus on geotechnical research, through specialized studies and updating the models of each tailings storage structure. This effort ensures that we have accurate and up-to-date information for the safe management of our deposits. At present, specialized consultants have performed Dam Safety Inspections (DSI) at all of our mining units. In addition, 82% of our units have completed the Dam Safety Review (DSR) by a registered engineer, and the process will continue until 100% of the reviews are completed.

We have made significant progress implementing an internal tailings management system based on the Mining Association of Canada (MAC) Tailings Management Guidelines. Each mining unit prepares its Operation, Maintenance and Surveillance Manual, as well as its Emergency Preparedness and Response Plan, integrating current procedures and standards. This strengthens our ability to respond effectively and in a timely manner to any event. We are also working on the development of the Potential Failure Mode Assessments (PFMA) for each site, which are expected to be completed in 2024.

Strategic investments in tailings focused on reinforcement and growth of current deposits to increase their capacity, as well as the development of new facilities to ensure operational continuity. During 2023, US$ 112 million was invested in 17 projects, highlighting the initiatives implemented at the Capela, Sabinas, and Velardeña units.

Specialized studies and updated models of each tailings storage facility gave us accurate and up-to-date information for the safe management of our deposits.

Fresnillo plc

Attributable production*	2023	2022	% Change
Ore milled and deposited (kt) [1]	**31.8**	38.5	-17.5
Content			
Gold (oz)	**610,646**	635,926	-4.0
Silver (koz)	**53,454**	51,052	4.7
Silverstream [2] Silver (koz)	**2,828**	2,688	5.2
Lead (t)	**57,833**	52,950	9.2
Zinc (t)	**107,705**	99,153	8.6

* Attributable production incorporates 56% of production from Juanicipio reported by Fresnillo plc.
[1] Excludes processed ore from Juanicipio, Pyrites Saucito or Pyrites Fresnillo
[2] Under the Silverstream contract, Fresnillo plc has the right to receive the revenues -before treatment and refinery fees- less US$5.0 per ounce -plus inflation since 2013- from the payable silver produced by Sabinas.

Fresnillo plc, a subsidiary in which Peñoles maintains a 74.99% stock ownership, is listed independently on the London Stock Exchange and the Mexican Stock Exchange. It operates eight mines 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.

A milestone for 2023 was the startup of the Juanicipio beneficiation plant in Zacatecas, a joint venture that is 56% owned by Fresnillo plc and 44% by Mag Silver Corp. This plant was interconnected to the national grid late in 2022, and since the third quarter of 2023, has been operating at nameplate capacity, as planned. Juanicipio has had a positive impact on both silver and gold production, helping to offset the drop in production from Noche Buena, which reached the end of its useful life, and is also turning out lead and zinc, which support its overall performance.

The volume of ore processed at Herradura was 20.2 million metric tons in 2023, 8.9% less than in 2022, mainly due to a temporary illegal shutdown and electrical failures at the dynamic leaching plants I and II, which limited operating capacity, especially in the third quarter of the year. At Noche Buena, 2.5 million metric tons were processed, 66.2% lower than the year before, because of a suspension of mining the pit, as the unit began its closure process in May, following exhaustion of its ore reserves.

Meanwhile, ore milled and processed at the underground mines increased 8.0% to 10.3 million metric tons, mainly due to the ramp-up of the Juanicipio beneficiation plant, and higher ore processed at Fresnillo and Saucito.

Attributable gold production was 4.0% lower than in 2022, mainly due to lower production at Noche Buena for the above-mentioned reasons, partly mitigated by higher ore grades in the Herradura sulfides and higher production at Juanicipio.

Attributable silver–excluding the Silverstream contract–grew 4.7%, helped by the contribution from Juanicipio, higher grades from the San Julián Veins, and to a lesser extent, higher ore processing at Saucito. The flotation plant at Fresnillo (Pyrites II), which started up operations in the second quarter of the year once it was connected to the national power grid, also contributed to the growth in silver content production. These operations offset lower production at San Julián (disseminated body), mostly because of the lower grade expected in peripheral areas of the deposit; at Ciénega, due to lower ore grades, ore processed and recoveries, and at Fresnillo, due to lower ore grade.

Technical work and performance tests were carried out at the new Pyrites II plant to improve recovery rates and define the strategy to optimize performance. As a result, we decided to process only historical tailings, as recovery rates improved significantly with this strategy, so we will continue this strategy in 2024. Although this means processing less volume than was initially planned, it will allow for higher recovery rates and yields than would be obtained by processing both current and historical tailings.

In base metals attributable annual production–which for Fresnillo plc are byproducts–lead was 9.2% higher than in 2022, due to a higher contribution from Juanicipio and a greater volume of ore processed, and ore grade at Saucito, partially offset by lower production at Ciénega. Attributable zinc production increased 8.6%, also favored by the contribution from Juanicipio, as well as higher ore volume processed and ore grade at Saucito, partially offset by lower ore grade at San Julián (disseminated body).

RESERVES

In 2023, we carried out 81,372 meters of diamond-bit drilling at Peñoles-operated mines in order to ascertain proven blocks of reserves and generate mineral resources to ensure operating continuity.

We conducted an estimation of ore resources and reserves in January 2023 to support budget and operating plans for the year. To enhance the accuracy of these estimates, we calculated mineral reserves and resources according to best industry practices, following the guidelines of the International Code of the Joint Ore Reserves Committee (JORC version 2012). Additionally, we used Datamine's Mineable Shape Optimizer (MSO) system in estimating reserves, allowing us to locate economic blocks of mineable reserves more precisely. Both an independent consultant and our own internal audit area audited the calculation processes.

The price assumptions we used correspond to Peñoles' long-term projections of the company at the moment when the estimation process was initiated: gold at US$ 1,450/ounce, silver at US$ 18.50/ounce, and lead at US¢ 90.00/pound. Zinc at US¢ 1.20/pound, and copper at US¢3.50/pound, were 9.1% and 6.1% higher, respectively. Estimates were equivalent to 30 and 14 years of mine life, respectively, at projected pace of production in five years–compared to the 31 and 15 years that were calculated in the 2022 assessment.

Estimated proven and probable reserves of ore were 13.5 million metric tons lower than the previous year -5.2 million lower once the ore processed during the year is incorporated-, mainly due to higher projected operating costs and refinery charges, and higher cut-off grade. This reduced the economic blocks, but increased the silver and lead content of the reserves. By mining unit, estimated reserves at Capela are unchanged, while in the rest of the operating units, they declined in millions of metric tons: by 10.1 at Velardeña, due to the elimination of reserve blocks that remained as inaccessible lateral columns of low-grade zinc; 4.1 at Sabinas, due to the optimization of the geological models and external audit recommendations; as well as 1.1 at Tizapa and 0.4 at Milpillas, in both cases due to the depletion of their reserves.

Metal content and the change in Peñoles' proven and probable reserves, including Fresnillo plc, were as follows:

Consolidated reserves*	2023	2022	% Change
Gold (koz)	**8,237**	9,268	-11.1
Silver (koz)	**604,014**	626,970	-3.7
Lead (kt)	**1,512**	1,510	0.1
Zinc (kt)	**4,860**	5,319	-8.6
Copper (kt)	**353**	364	-2.9

** Includes 56% of the reserves at the Juanicipio mine. Excludes gold reserves at Noche Buena, due to closure of its operations.*

For a detailed table of ore reserve estimates, please turn to page 49 of this Annual Report.

PROVEN AND PROBABLE RESERVES

Fresnillo plc reserves

Mine	Contribution	Ore processed (kt)		Total reserves (kt)		Ore grade in reserves 2023				
						Gold	Silver	Lead	Zinc	Copper
	(%)	2022	2023	2022	2023	(g/t)	(g/t)	(%)	(%)	(%)
PRECIOUS METALS:										
Underground										
Minera Fresnillo [1,3]	75	2,462	2,619	11,779	12,139	0.70	253.27	1.48	3.11	
Ciénega [1,3]	75	1,114	1,065	4,668	2,693	2.46	252.66	0.85	1.20	
Saucito [1,3]	75	2,073	2,164	13,662	10	1.27	342.99	1.30	2.04	
San Julián Veins [1,3]	75	1,176	1,142	5,629	4,311	1.52	327.14			
San Julián Disseminated [1,3]	75	2,093	2,074	5,871	2,208	0.11	157.32	0.50	1.09	
Juanicipio [2,3]	42	646	1,269	9,129	8,599	1.58	247.56	2.64	4.80	
Open pit										
Herradura [1,3]	75	22,195	20,224	240,847	205,872	0.83				

1 As of May 31, 2023. Proven and probable reserves in thousands of metric tons, on a 100% basis. Audited figures.
2 As of May 31, 2023. Proven and probable reserves in thousands of metric tons, on a 56% base. Audited figures.
3 Reserve calculation in 2023 considered the following prices: gold US$/oz 1,450.00; silver US$/oz 20.00; lead US¢/lb 90 and zinc US$/lb 1.15.

Peñoles reserves

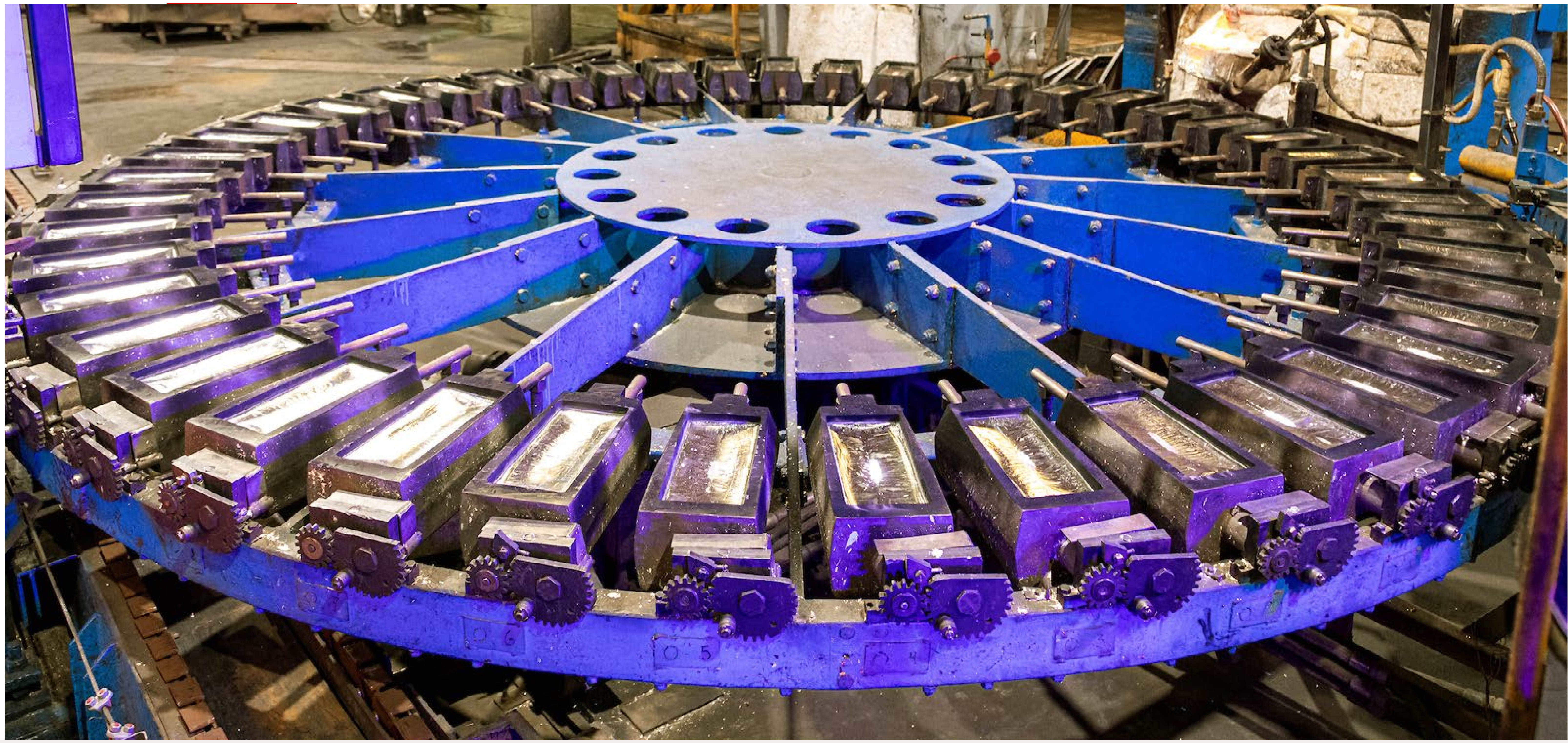
Mine	Contribution	Ore processed (kt)		Total Reserves (kt)		Ore grade in reserves 2023				
						Gold	Silver	Lead	Zinc	Copper
	(%)	2022	2023	2022	2023	(g/t)	(g/t)	(%)	(%)	(%)
BASE METALS:										
Underground										
Velardeña [4,5]	100	2,805	2,801	41,078	31,004	0.09	16.43	0.22	3.34	0.21
Sabinas [4,5]	100	1,155	1,251	22,115	18,007		107.79	1.11	1.98	0.36
Tizapa [4,5]	51	921	960	8,061	7,005	1.21	198.76	1.21	4.69	0.22
Capela [4,5]	100	1,302	1,216	20,788	20,819	1.23	112.36	0.78	3.18	0.81
Milpillas [4,5]	100	895	2,062	4,007	3,594					0.79
Naica [4,5,6]	100			10,391	12,530		120.85	3.41	11.39	0.10

4 As of May 31, 2023. Proven and probable reserves in thousands of metric tons, on a 100% basis. Audited figures.
5 Reserve calculation in 2023 considered the following prices: gold US$/oz 1,450.00; silver US$/oz 18.50; lead US¢/lb 90, zinc US$/lb 1.20 and copper US$/lb 3.50.
6 Operations at these mining units are suspended.

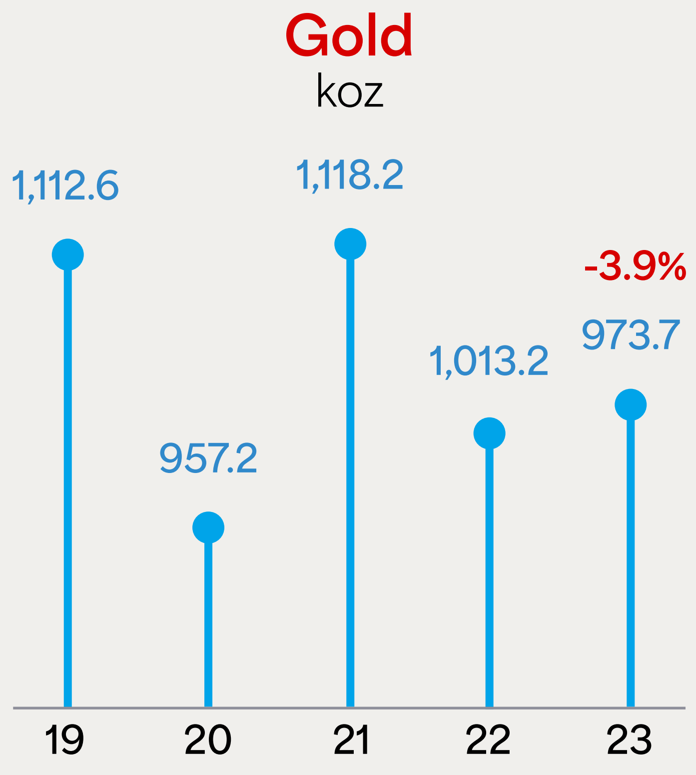
Metals

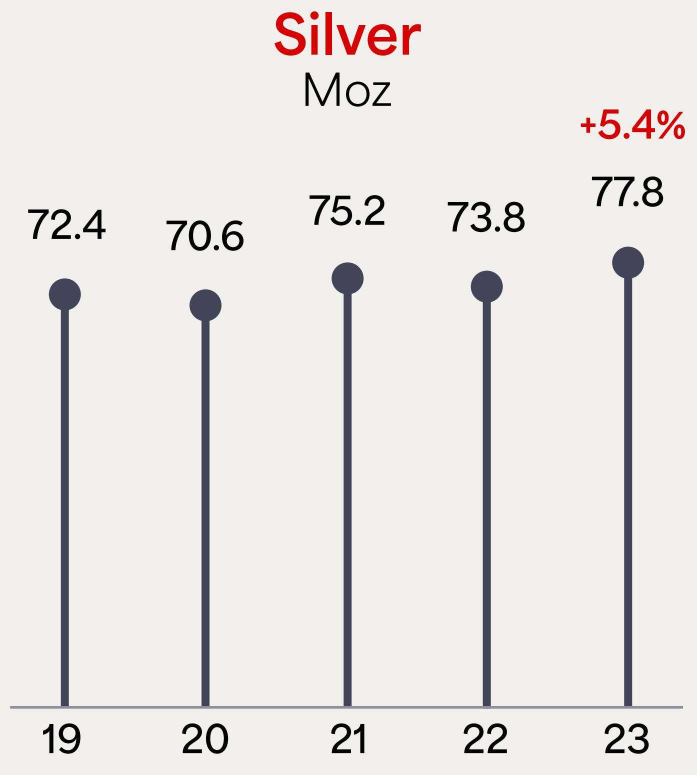
The Metals Division produces high-quality, high-purity gold, silver, lead, and zinc in a metallurgical complex located in Torreón, Coahuila, from complex concentrates and other materials produced in the company's own mines, by subsidiaries and other mining shippers. The plant in Bermejillo, Durango, uses the byproducts of these operations to produce copper sulfate, zinc sulfate, and antimony trioxide; and the Aleazin plant in Ramos Arizpe, Coahuila, turns out special zinc alloys. These plants make up the subsidiary Met-Mex Peñoles (Met-Mex), which is a very important business as it is the last link in our metal production value chain.

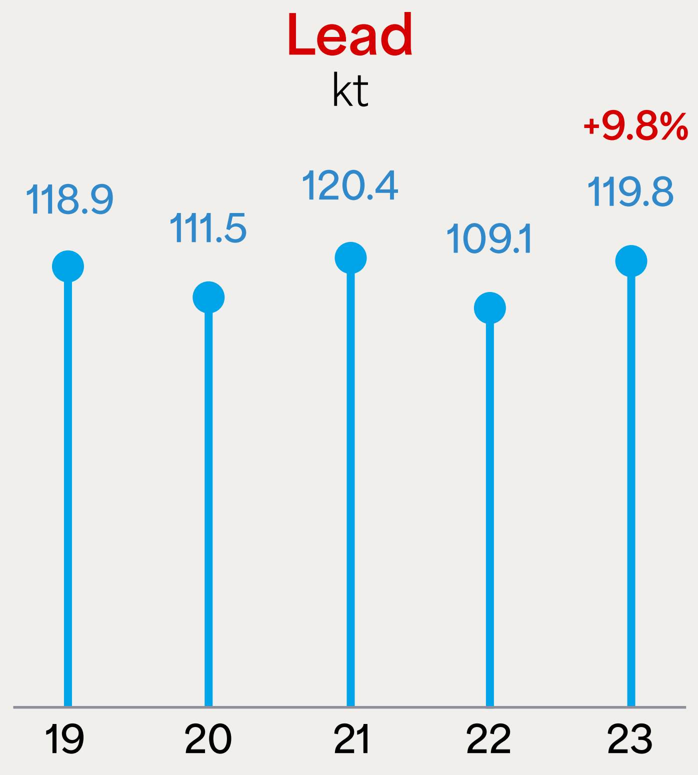
Today, Mex-Mex is the world's leading producer of refined silver. It is also the largest producer of primary gold and lead in Latin America, and ranks twelfth in the world in production of refined zinc.

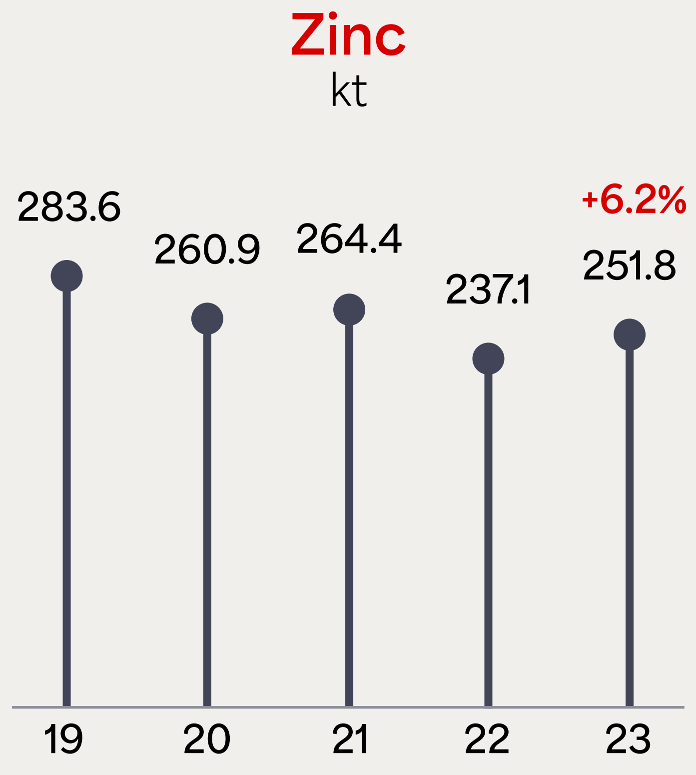


METAL PRODUCTION





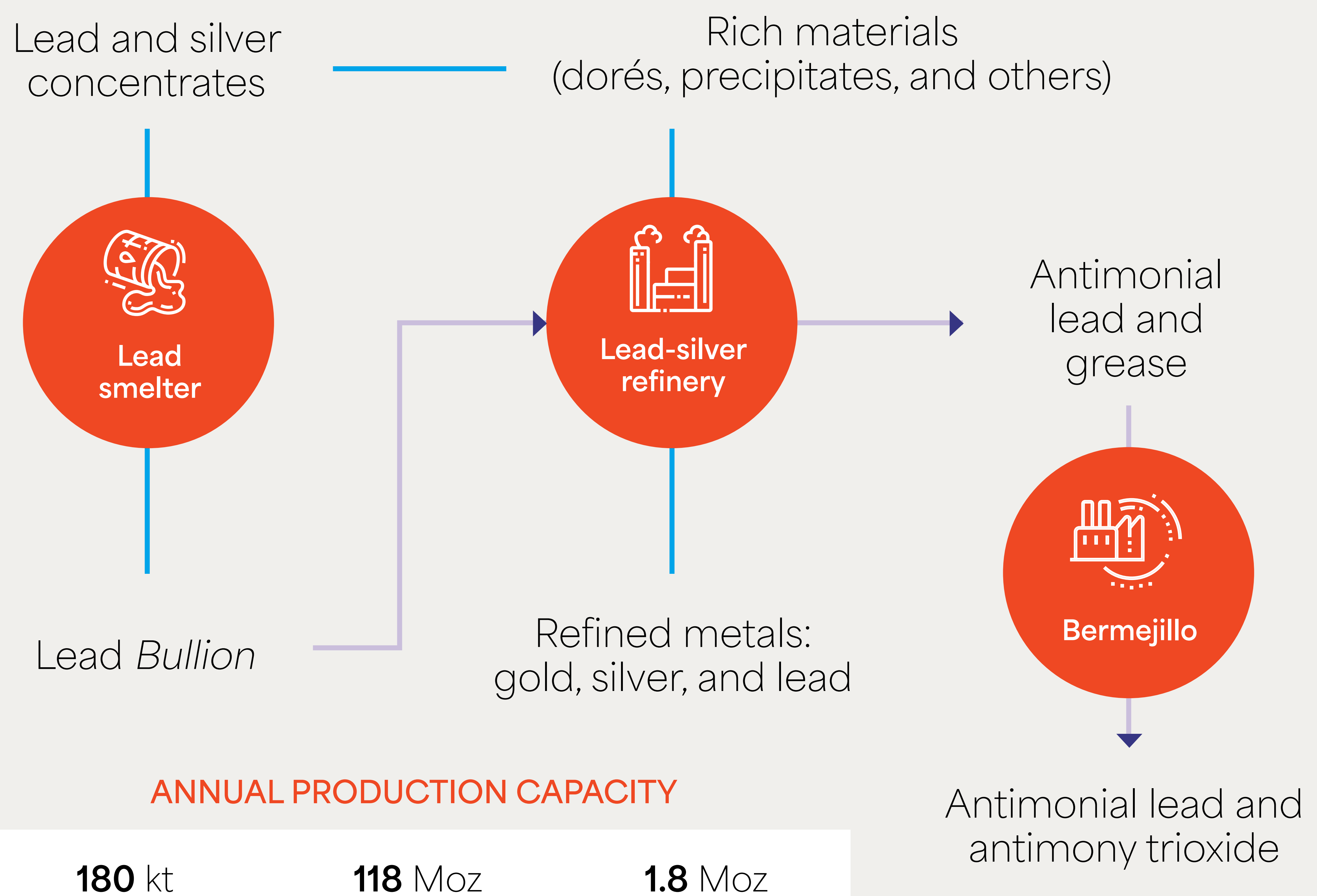




Met-Mex has two primary circuits:

Smelter-refinery circuit

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



ANNUAL PRODUCTION CAPACITY

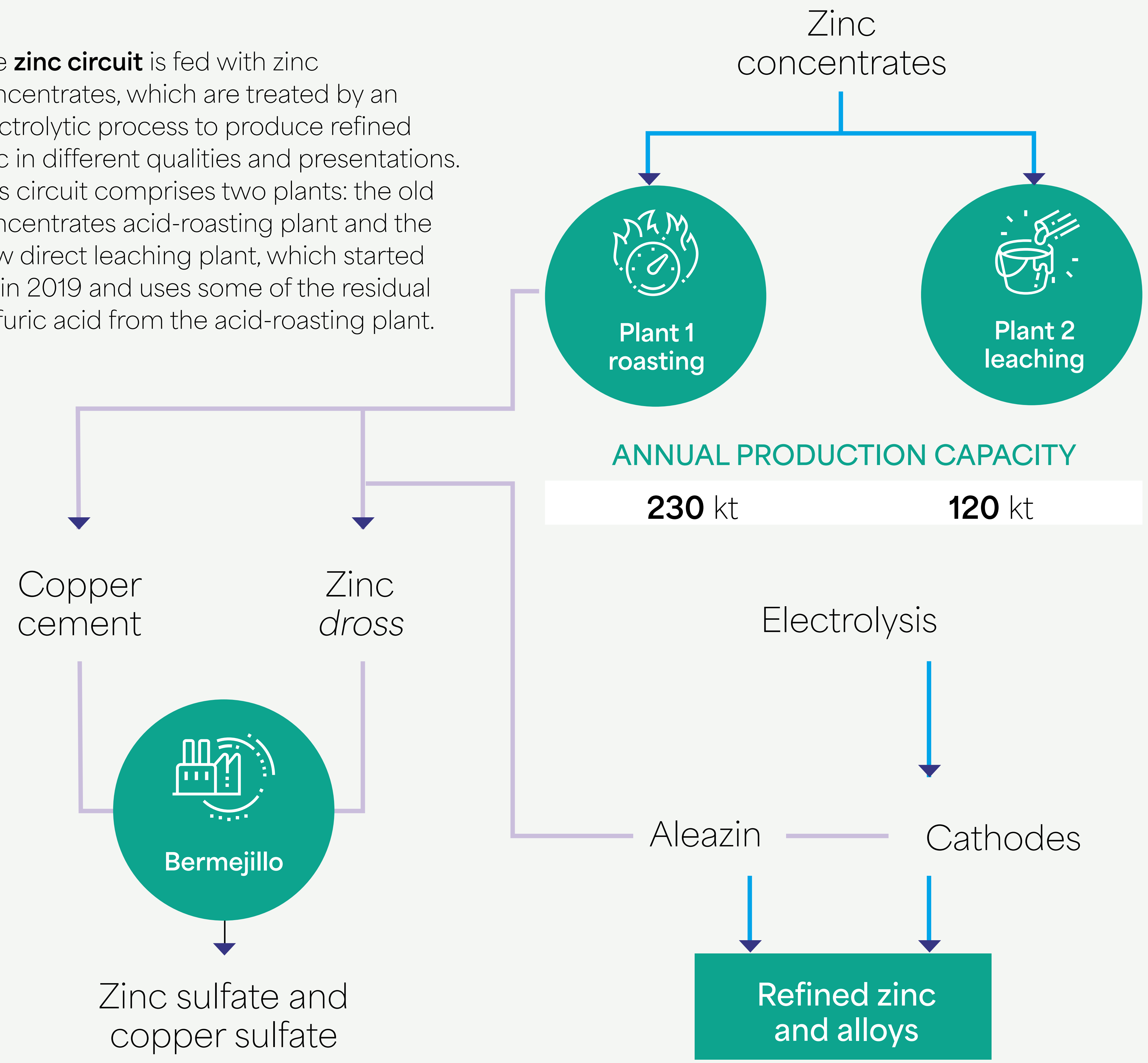
180 kt lead	**118** Moz silver	**1.8** Moz gold

ANNUAL PRODUCTION CAPACITY

864 t of antimony trioxide

Zinc circuit

The **zinc circuit** is fed with zinc concentrates, which are treated by an electrolytic process to produce refined zinc in different qualities and presentations. This circuit comprises two plants: the old concentrates acid-roasting plant and the new direct leaching plant, which started up in 2019 and uses some of the residual sulfuric acid from the acid-roasting plant.



ANNUAL PRODUCTION CAPACITY

9 kt of zinc sulfate	**8** kt of copper sulfate

PRODUCTION AND PERFORMANCE

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

	2023	2022	% Change
Gold (koz)	**974**	1,013	-3.9
Silver (koz)	**77,835**	73,818	5.4
Lead (t)	**119,793**	109,060	9.8
Zinc (t)	**251,754**	237,127	6.2

In the smelter-refinery circuit, processing of concentrates and other materials increased, due to improved operational continuity during the period. This, along with higher grades in concentrates, favored the production of refined silver and lead, which grew by 5.4% and 9.8%, respectively, compared to the previous year. Refined silver production reached an 11-year high of 77.8 million ounces. Production volume of refined gold decreased by 3.9%, mainly due to the lower receipts of doré from the Noche Buena mine, as this mining unit began its closure process, in addition to lower grades in the concentrates treated.

Meanwhile, in the zinc circuit, the replacement of anodes damaged during the unplanned shutdowns of 2021 and 2022 was completed. To address the problem of recurring failures and improve the operational stability and results of this business, we conducted a comprehensive analysis of production processes at both the original zinc plant and its expansion. As a result, we made the decision to temporarily reduce the annual production capacity of refined zinc from 350,000 to 270,000 metric tons, while the necessary modifications to the equipment, as well as process adjustments are made. For the time being, we are operating with only two of the three electrolysis modules, which will improve electricity consumption efficiency and cut down on operating and maintenance costs. Once completed, the capacity will be restored to 350,000 metric tons of refined zinc per year. Because of this, the volume of concentrates treated decreased, although zinc production grew by 6.2% compared to the previous year.

As for our economic performance, treatment charges—which are pegged to international standards and adjusted each year—increased for zinc concentrates, but declined for lead and processed rich materials in the smelter-refinery circuit, a trend that was offset by a higher volume of concentrates treated and revenues from free metals. Production costs were impacted by inflation in operating inputs and the peso's appreciation against the dollar, as well as maintenance and repair work, higher electricity costs, and human capital costs relating to layoffs that were necessary because of the temporary capacity reduction at the zinc plant. The combination of these factors resulted in lower operating margins for the Metal Division than the year before.

In addition to the above-mentioned measures, we implemented various initiatives to deal with the negative effects of cost increases and improve efficiency and cash generation in this business; some of these began to yield results towards the end of the year. Among the most important of these actions were:

- Optimization of working capital investment through reductions in inventories of concentrates in process and refined metal products, which allowed for the recovery of US$122 million through volume reduction.
- Monitoring and strict control of key process variables throughout the zinc circuit to ensure profitable production of special-grade refined zinc, in addition to temporarily reducing capacity at that plant.
- Processing of lead-silver cement inventories with domestic clients. Some of these cements were sent to Saucito for treatment and the precipitates returned to the silver refinery. This avoided the failures that had occurred in the sintering process when treating cements with high levels of insolubles, while maximizing the synergies of our value chain.
- Migration of Met-Mex to the WPM, after receiving authorization from the CRE in the last quarter of the year to exempt Met-Mex from electricity self-supply rules, which will allow access to more competitive prices.

Also during the year, we continued to apply our High Potential Accident Management system in metallurgical operations to identify critical risks, strengthen controls, and reduce accidents. This year, self-diagnostic work was carried out to detect existing gaps and develop short- and medium-term action plans to strengthen management according to the risk control hierarchy. Checklists were developed for identified critical risks, and eight performance standards were created with the participation of risk owners from the involved areas. We introduced this system to the South Jarosite Deposit, continued to promote Onsite Visible Leadership among company and contractor employees, and provided training to reinforce preventive behaviors. The total recordable incident frequency rate (TRIFR) increased from 22.56 in 2022 to 26.03 in 2023; and the lost time injury frequency rate (LTIFR) increased from 9.64 to 13.51. More information on this topic can be found in the Environmental, Health, and Safety chapter of this report.

LEAD-SILVER CIRCUIT

Volume received (t)	2023	2022	% Change
Concentrates (Smelter)	286,114	266,600	7.3
Direct materials (Refinery)	1,243	1,263	-1.7
Total raw materials	287,356	267,864	7.3
Peñoles*	189,270	158,166	19.7
% of total	65.9	59.0	
Third parties	98,086	109,698	-10.6
% of total	34.1	41.0	

Share in raw material content (%)	Gold	Silver	Lead
Peñoles*	67.0	71.3	53.4
Third parties	33.0	28.7	46.6

** From the mines of Peñoles and Fresnillo plc.*

The lead smelter treated 325,741 metric tons of concentrates and materials during the year, 4.4% above 2022. Imported concentrates with higher lead grades were purchased, which serve as a vehicle for silver recovery, helping to ensure the right balance in the concentrate mixtures that feed into the blast furnaces. This improved operating continuity, and in combination with optimization of maintenance, meant fewer corrective stops than in the previous year. Furthermore, to avoid affecting the sintering process and recovery of silver in concentrates, we decided to treat a controlled volume of high-grade lead-silver cements, between 60 and 80 metric tons a day. As a result, the annual volume of bullion produced by the smelter rose to 138,713 metric tons, 7.3% higher than in 2022.

At the lead-silver refinery, increased processing of bullion with higher lead and silver grades, combined with the receipt of precipitates from San Julián and Saucito and other rich materials from third-party shippers, along with the recovery of inventory and secondary materials, drove higher production of these refined metals compared to the previous year. Silver rose 5.4% to 77.8 million ounces, and lead grew 9.8% to 119,793 metric tons. However, refined gold production decreased by 3.9%, mainly due to the lower receipts of dorés from Noche Buena and the lower grades in the treated bullion.

Revenues per metric ton treated in the lead-silver business decreased by 14.5%, on average, from the previous year, due to lower refining charges, higher spending on imported concentrates, and less free gold metal, which was mitigated by a higher volume of free copper metal. Meanwhile, unit production costs rose by an average of 15.2%, due primarily to higher costs on operating materials, energy, labor, and preventive maintenance to keep operations running, in addition to the appreciation in the exchange rate and inflation in inputs.

Investment in the lead-silver circuit went to replacing critical equipment to maintain operational continuity, implementing technological updates, improving environmental performance, and reducing risks to our personnel. One of the biggest projects is the replacement of a reverberatory furnace, with an investment of US$ 1.4 million, expected to be complete by mid-2024.

ZINC CIRCUIT

	2023	2022	% Change
Concentrates received (t)	611,584	672,356	-9.0
Peñoles*	488,438	477,105	2.4
% of total	79.9	71.0	
Third parties	123,146	195,251	-36.9
% of total	20.1	29.0	

Share of content in concentrates %	
	Zinc
Peñoles*	79.8
Third parties	20.2

** From the mines of Peñoles and Fresnillo plc.*

As we discussed earlier, one of our company's priorities is to improve the efficiency and results of the zinc business. To this end, in the third quarter of the year, we decided to temporarily reduce production capacity, from 350,000 to 270,000 metric tons, while the necessary adjustments are made to the equipment and processes related to the expansion. Additionally, the replacement anodes in the electrolysis process that were damaged by interruptions from the previous two years has been completed.

These measures will mean greater operational stability and lower electricity costs through a more rational and efficient use of current. Maintenance and repair costs will also be lower, with both the quality and purity of zinc and the production of special grade (SHG) zinc higher as well. The zinc plant processed 466,302 metric tons, a marginal 1.7% growth over the 458,593 metric tons processed in 2022. Zinc recovery improved slightly to 93.1%—from 92.9% the previous year—and the annual volume of refined zinc increased by 6.2% to 251,754 metric tons.

The silver recovery process in the zinc circuit produced 4.7 million ounces of silver contained in cements. Of this, 2.8 million ounces were sent to the smelter; some were sold to domestic customers and some were sent to the lixiviation plant in Saucito for treatment and return to the smelter as precipitates. With some adjustments to process parameters, cement recovery improved from 74.3% in 2022 to 84.2% in 2023, bringing us closer to the goal of recovering 90% of this metal in zinc concentrates.

A concentrate inventory reduction program was also implemented to recoup our investment in working capital. This reduced the inventory indicator from five weeks of production at the beginning of the year to two weeks by the close of 2023.

Average revenues per metric ton treated increased by 13.1% due to higher base treatment charges, offset by less free zinc metal—mainly resulting from price declines—less income from lead-silver cements sent to the lead smelter for refining and to Saucito, as well as lower income from the sale of copper cements and byproducts. The unit production cost increased by an average of 7.3%, due to an increase in the cost of electricity, human capital (due to layoffs), maintenance and repair work, and operating materials, attributed to greater consumption and higher prices, the appreciation in the exchange rate and inflation in inputs.

Investments in fixed assets were directed towards sustaining and replacing and refurbishing critical equipment to ensure operating continuity and improve the efficiency of the zinc circuit.

MARKETS AND BUSINESS DEVELOPMENT

Physical demand for gold and silver on international markets was propped up by uncertainty over global growth and geopolitical conflicts, offset in part by high interest rates. With this, the volume of gold and silver exports accounted for 92.7% and 96.8% of our sales, respectively, in 2023. In the domestic market, demand for precious metals in the jewelry industry declined, which was reflected in a slight drop in sales volume.

We maintained our Good Delivery specification and Responsible Sourcing Silver & Gold certification from the London Bullion Market Association (LBMA), which reflect our commitment to guarantee that our supply chain is conflict-free and to assure our customers that environmental, social, and governance issues are taken very seriously in our production and business processes.

The year saw a temporary contraction in demand in the global lead market due to labor disputes at major US automakers, and prices were affected by increased supply from Asian sources. However, we are still a strategic supplier to the two main consumers in our own country, and maintain a presence in other countries and regions outside of the United States, such as Japan and South America. As part of our business strategy, and taking advantage of market conditions, we closed some spot sales to Asia and diversified our customer portfolio.

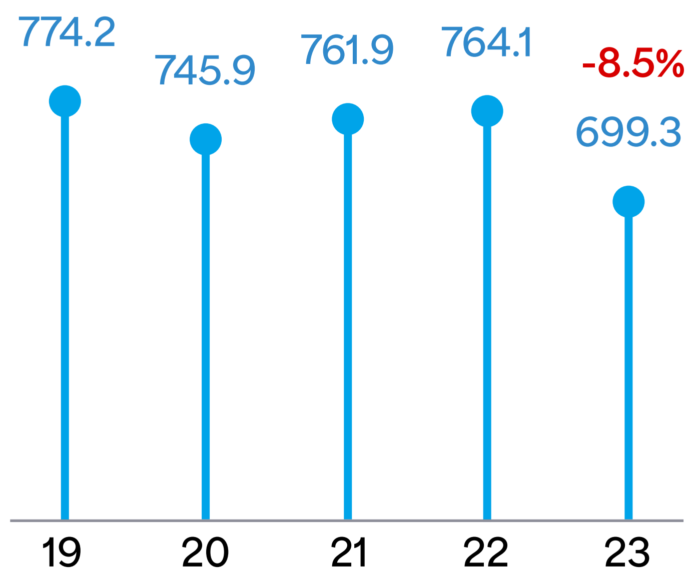
In the refined zinc and alloy business, we faced the challenge of variations in demand, both in the domestic and international markets, although we managed to sell our total production at competitive terms.

For products targeted at the mining industry, demand dwindled because some mines were operating at lower capacity, others with delayed startups, and even production stoppages, disrupting the previous years' growth trend. However, consumption picked up again in the last quarter of the year in both our own mines and others.

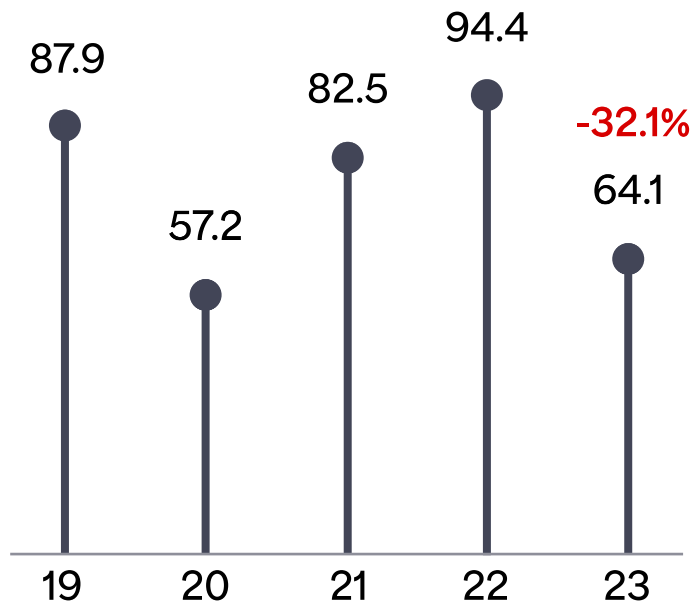
Chemicals

CHEMICAL PRODUCTION

Sodium sulfate
kt

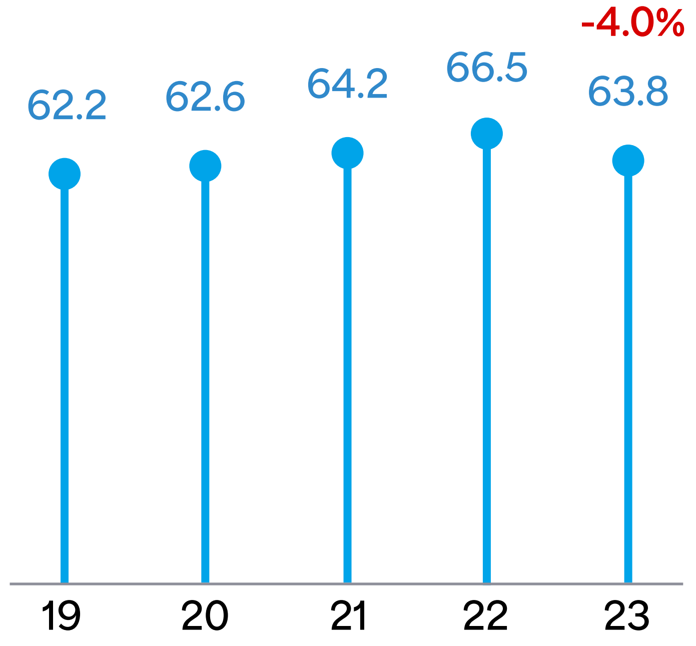


Magnesium oxide*
kt

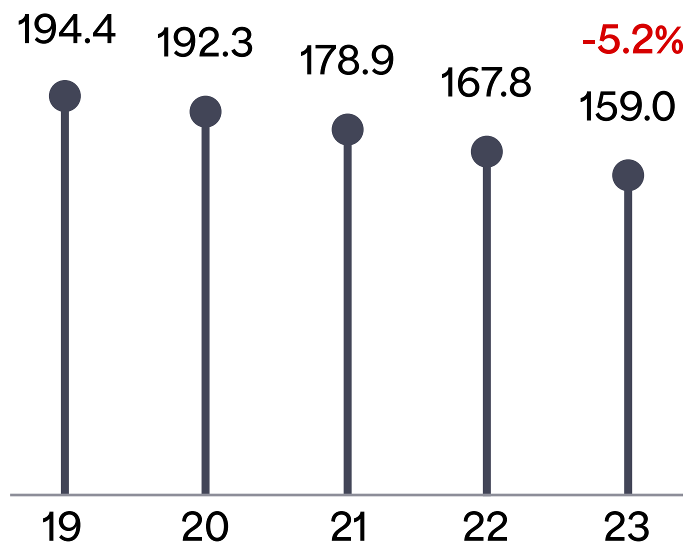


*Includes refractory, caustic, electrical, electrofused and hydroxide

Magnesium sulfate
kt



Ammonium sulfate
kt



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

This division's main product is sodium sulfate, which makes up more than 60% of its revenues. This material—in which we lead the domestic market with a 79% share—is mainly used in making powdered detergents, glass, and paper, and in the textile industry.

Today, Química del Rey is the largest sodium sulfate producer anywhere in the world outside of China, with an installed capacity of 780,000 metric tons a year.

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

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

Additionally, the sulfuric acid, a byproduct from the lead smelter is used to make ammonium sulfate, a subproduct of fertilizers, and ammonium bisulfite, a reagent for the beneficiation plants. These are produced at Fertirey plant, adjacent to the Met-Mex metallurgical complex at Torreón.

PRODUCTION AND PERFORMANCE

2023 was a challenging year for inorganic chemicals products. The division produced 699,316 metric tons of sodium sulfate, and sold 718,009 metric tons. These volumes were 8.5% and 5.8% lower, respectively, than in 2022. There were two main reasons for this: i) irregularities in product distribution due to logistical problems and inconsistency in the availability of railroad hoppers; and ii) variability in demand in the detergent sector, particularly in the second half of the year, affected by low sales of powdered detergents, which is the segment in which our product is most widely used. This situation was mitigated by an increase of around 15% in sales to the glass sector, since sodium sulfate is a sustainable raw material for this industry.

We adjusted the pace of production at our sodium sulfate plants to avoid increased inventories, while ensuring sufficient product availability to meet our clients' demand.

Despite all of this, gross margin per metric ton of sodium sulfate produced was higher than in 2022, because a higher average sales price absorbed the increase in the unit cost of production, which was in turn caused by the peso's revaluation against the dollar and higher electricity and maintenance costs in connection with work on the electrical infrastructure of our facilities, mitigated in part by lower natural gas costs. In terms of efficiency indicators per metric ton of product, the steam index remained basically stable, while consumption of virgin brine declined following the installation of an independent pumping system for spent brine from plant 2.

Development continued of the new geological and hydrogeochemical model for Química del Rey Lagoon. This model will improve the estimation of resources under current conditions and under different production scenarios. The aim is to optimize brine extraction and the reservoir's sustainability. This year, the database was fully integrated into a technological management tool, so that information on the deposit can be managed for decision-making support. In addition, a digital application was introduced to access critical variables on the production processes, which will enable operators to make quicker decisions on the performance of the equipment and thus improve its productivity and efficiency.

The magnesium oxide business was affected by the slower pace of global economic activity. Challenges were magnified in the second half of the year when demand for magnesium compounds (except for hydroxide for neutralization) weakened in the cement and steel, automotive, chemical, and household appliance sectors, which are the main consumers of these products. This prompted a 32.1% year-over-year drop in production volume to 64,085 metric tons and a 19.1% decline in sales of the main varieties to 58,264 metric tons.

An oversupply in Chinese exports of various types of magnesium oxide in 2022 caused prices to fall on international markets, so our products faced stiffer competition. To deal with this situation, we kept in close communication with our clients, stressing the superior efficiency, quality, service, and delivery times we offer. But we also encountered challenges in distribution logistics caused by the lack of available ships and the disruption of the railroad system to the United States. The US and Mexico remained our largest markets for magnesium oxide, accounting for more than 50% of our sales volume. We continued to

explore opportunities with new customers in Europe and Asia, where we were able to close sales in Poland, Spain, China, and India. We also developed some customized products for domestic and U.S. customers. Magnesium hydroxide, affected less by the contraction in demand, is widely used in the roofing membranes and cable insulation in Europe and the East. On the technical side, we introduced process improvements that raised productivity and enhanced the performance of our flame-retardant products in their interaction with the different polymers.

The drop in the average sales price, combined with higher production costs related to lower volume and exchange rate appreciation, caused the profit margin of the entire mix of magnesium compounds to shrink from its level in 2022.

Magnesium sulfate also had a tough year, due to strong competition from Chinese products that pressured sales prices, in addition to a drought that hampered the performance of Mexican farming. We renewed our product registration with the Organic Materials Review Institute (OMRI), which endorses its use in organic crops in the United States, so we were able to make up for some of the contraction in the domestic demand with exports to that country. As a result, annual production volume was down 4.0% to 63,845 metric tons, while sales declined 7.7% to 61,023 metric tons. Through operational efficiency measures in the crystallization, dams, and drying areas, we optimized production during the months of solar evaporation, reducing sulfuric acid consumption. However, lower sales prices and higher production costs affected the unit profit margin of magnesium sulfate.

Another byproduct, ammonium sulfate, saw lower production and sales volume. The market for this product has been depressed in recent years, while the cost of the ammonia used in its production has risen significantly. For this reason, we reviewed the process options available to dispose the sulfuric acid from the smelter in a sustainable and cost-effective manner. After conducting industrial-level tests at some Fresnillo plc mines, we decided that the best byproduct option for replacing ammonium sulfate is ammonium bisulfite, given its effectiveness in destroying cyanide.

As part of our High Potential Accident Management System, Química del Rey continued to move forward with its critical risk control strategy by working on implementation of critical control check sheets and visible onsite leadership practices, from the technical advisor level to the leadership team, with follow-up through the high potential measurement mechanism by plant. Four of our high-performance teams continued their outstanding records, reporting 22, 19, 18, and 14 years without accidents.

On the safety front, the Chemical Division's total TRIFR was 7.92, compared to 5.49 in 2022, while the LTIFR was reduced from 5.50 in 2022 to 3.75 in 2023.

Investments in the Chemicals Division totaled US$ 12.7 million, and were allocated to sustaining operations and replacement of critical equipment to ensure operational continuity. Particularly important were the installation of a filtration system to eliminate gypsum in the magnesium oxide plant, the engineering of a project for waste disposal in the magnesium plant, and a bagging system for magnesium specialties.

Financial highlights by division

	2019	2020	2021	2022	2023
MINING					
Net sales	3,026	3,424	4,063	3,550	3,777
Gross profit	628	1,138	1,407	862	644
% of sales	20.8	33.2	34.6	24.3	17.0
EBITDA	890	1,483	1,706	1,056	757
% of sales	29.4	43.3	42.0	29.7	20.0
Operating profit	289	860	1,077	484	214
% of sales	9.5	25.1	26.5	13.6	5.7
METALS					
Net sales	3,936	4,179	5,244	4,852	4,986
Gross profit	123	201	89	-154	-180
% of sales	3.1	4.8	1.7	-3.2	-3.6
EBITDA	161	249	139	-107	-138
% of sales	4.1	6.0	2.6	-2.2	-2.8
Operating profit	89	168	49	-196	-227
% of sales	2.3	4.0	0.9	-4.0	-4.6
CHEMICALS					
Net sales	255	218	232	299	292
Gross profit	105	83	70	113	115
% of sales	41.4	38.1	30.1	37.7	39.3
EBITDA	93	70	64	98	99
% of sales	36.4	32.3	27.7	32.9	34.0
Operating profit	79	56	40	78	78
% of sales	30.9	25.7	17.3	26.0	26.6

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 2023 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 the exception of certain non-operating companies and certain companies that provide services, the functional currency is the U.S. dollar.

The present analysis of the consolidated financial results is presented in U.S. dollars, which is the functional and reporting currency of the Company, and financial results obtained in 2023 are compared with those of 2022 in millions of U.S. 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 public company whose shares have been listed on the Mexican Stock Exchange (BMV) since 1968 under the ticker symbol PE&OLES.

Peñoles operates principally in the following sectors:

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

PRICES AND MACROECONOMIC VARIABLES:

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

1.
Metal prices:
In dollar terms, average prices were mixed compared to the previous year: higher for gold (+7.4%) and silver (+7.5%), and lower for zinc (-24.2%), copper (-3.6%), and lead (-1.0%).

2.
Treatment charges:
Base treatment charges per metric ton rose, on average, by 23.8% for zinc concentrates and fell by 14.6% for lead concentrates.

3.
Exchange rate (peso-dollar):

	2023	2022	% Change.
Close	16.8935	19.3615	-12.7
Average	17.7665	20.1254	-11.7

4.
Consumer inflation rate (%):

	2023	2022
Annual	4.66	7.82

* National Consumer Price Index (NPCI)

CONSOLIDATED RESULTS

Throughout 2023, central banks in major economies kept interest rates high to combat inflation. Markets awaited rate cuts as inflation eased, while assessing the extent of the economic slowdown. The weak dollar was one of the main drivers for stronger gold and silver quotations. The safe-haven precious metals duo was further propped up by geopolitical conflicts, and in the case of gold, by purchases by some central banks.

Weak economic and industrial growth, particularly in construction and manufacturing, dampened base metal prices. Specifically, the loss of confidence in the recovery of China, the world's main consumer of raw materials, due to a real estate crisis, lower investment, and a reduction in exports, has weighed on the demand and prices of copper, lead, and particularly, zinc. This was exacerbated by reports of high inventories held by the London Metal Exchange (LME).

In Mexico, the high benchmark interest rate, coupled with dollar inflows from remittances and exports, significantly strengthened the Mexican peso against the U.S. dollar. The peso's appreciation has an adverse effect by making our operating costs and expenses more expensive, since close to 50% of production costs and around 55% of operating expenses are incurred in pesos, while more than 95% of our sales are transacted in dollars.

In this context, mining and metallurgical production rose over the previous year, with the exception of gold, due to lower production at the Noche Buena mine where this metal is reaching depletion. The ramp-up of Juanicipio, which reached nameplate capacity in the third quarter, the growth in copper cathode production at Milpillas, and increased processing of concentrates and other materials in the smelter-refinery circuit of the metallurgical business, favored the Company's revenues. This benefit was offset by the lower production and sale of chemical products, hampered by logistical problems in railroad distribution and a downturn in demand. In the zinc plant, following an exhaustive analysis of the processes due to expansion-related operational failures, in the third quarter we decided to temporarily suspend operation of one of the three electrolysis modules to restore the circuit's efficiency and reduce electrical consumption, which temporarily curtailed production capacity from 350,000 to 270,000 tons of refined zinc per year. We will maintain this until the necessary repairs are made to reach the nominal capacity.

Cost of sales, however, increased due to inflation in our basket of operating inputs –6.7% annually in dollar terms, reflecting the adverse effect of the peso's appreciation against the U.S. dollar– higher consumption of inputs to support higher production, partly because of the ramp-up at Juanicipio, and a full year of operations at Milpillas, as well as maintenance and repairs, the cost of personnel layoffs at the zinc plant, reinforcement works at the tailings deposits, and development and preparation work at the mines. There was also a charge to cost of sales for the consumption of inventories that had been stockpiled for the start-up of Juanicipio and an increase in the cost of metal sold because we purchased concentrates and materials from third-party shippers for metallurgical operations, and due to higher gold and silver prices, partially offset by higher treatment revenues.

Operating expenses also increased, due to the increased pace of exploration activities at Fresnillo plc, higher freight and transportation costs, higher human capital costs due to personnel layoffs, and the effect of the aforementioned exchange rate appreciation.

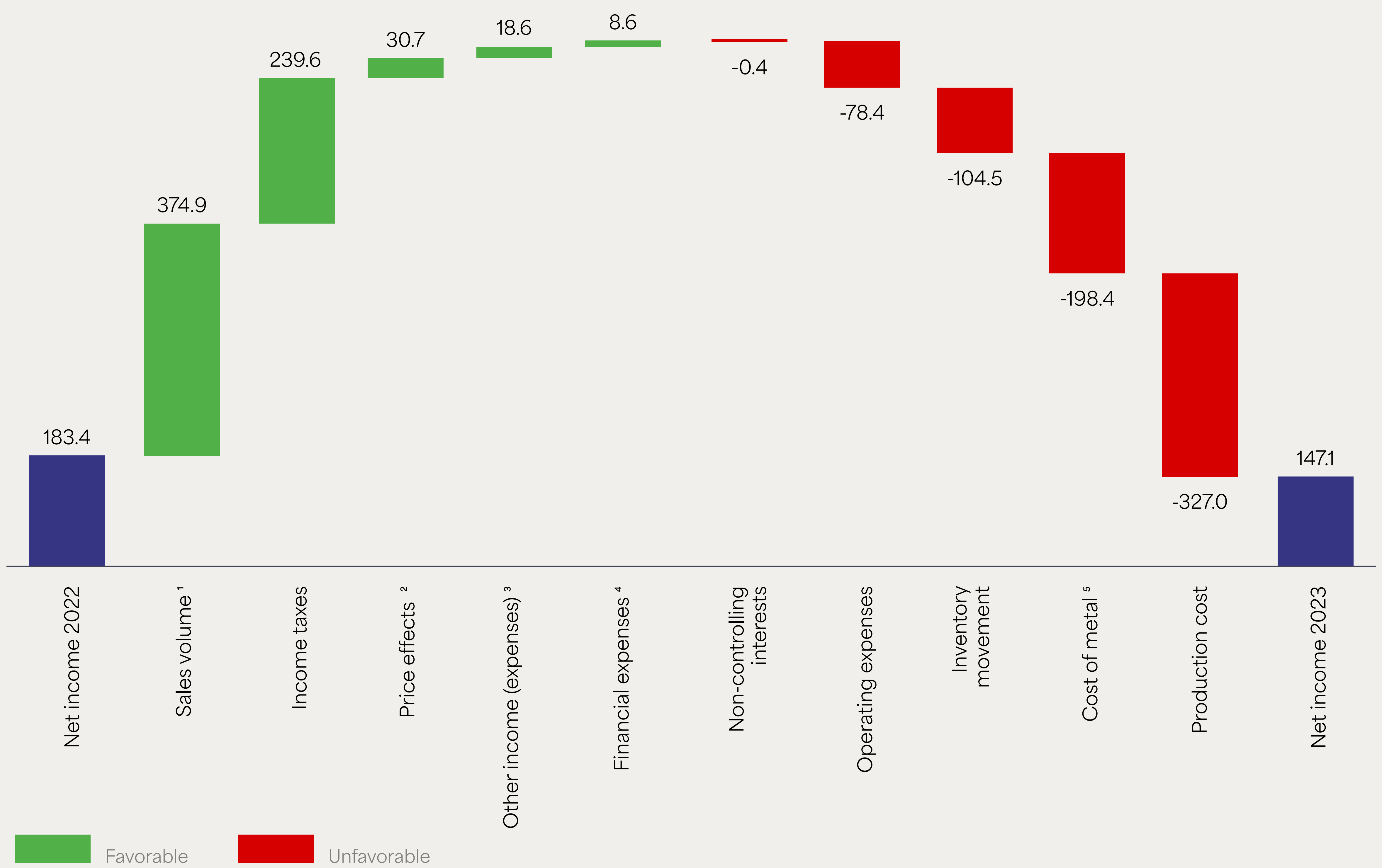
The other net income line in 2023 was positive in contrast to other net expenses of the previous year, attributed to the cancellation of accounting reserves accumulated in previous years on the cost of energy transmission, following favorable rulings in amparo lawsuits and the recovery of excess resources in retirement funds, while, at the net financial result level, interest earned on investments and the gain on interest rate hedging offset the higher financial expense of the debt.

Finally, the income tax provision was lower because of the reduction in our taxable income and a benefit from deferred taxes due to the effects of higher inflation and the peso's appreciation on the balance of the Company's assets and liabilities.

Due to the aforementioned factors, the financial results for fiscal year 2023 and their variation with respect to 2022 were: net sales US$ 5,929.0 (+7.3%), gross profit US$ 808.2 (-21.7%), EBITDA US$ 768.2 (-28.3%), operating income –excluding other income/ expenses and impairment loss– US$ 380.3 (-60.8%), and net income of the controlling interest US$ 147.1, comparing unfavorably against the US$ 183.4 gain reported for 2022.

INCOME STATEMENT

The following chart shows the variation by item of results and its influence on the change in net income from 2022 to 2023 (in millions of dollars):



1 Includes variation from sale of other products and services.
2 Includes variation in hedging results.
3 Other income (expenses) includes impairment loss.
4 Financial expense includes foreign-exchange result.
5 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$ 5,929.0, 78.9% of which went to the export market. The +US$ 405.5 (+7.3%) change from 2022 sales is attributed to the following:

- +US$ 365.7 due to the increase in sales volume of concentrates, silver, and copper, which offset lower sales volume of gold, chemicals, zinc, and lead.
- +US$ 23.1 due to the effect of the variation in prices of refined metals and other products, plus US$ 7.6 due to the favorable variation in metal price hedging transactions.
- +US$ 9.2 due to higher revenues from the sale of other products and services.

The **cost of sales** was US$ 5,120.8, a growth of +US$ 629.9 (+14.0%) for the reasons described below:

Higher **production cost**, up +US$ 327.0 (10.7%). Note that more than 40% of this increase was the result of the Mexican peso's appreciation against the U.S. dollar; while close to another 40% was generated by the start-up and ramp-up of the Juanicipio beneficiation plant (+US$ 64.7); together with the higher extraction and ore deposit at the Milpillas mine (+US$ 53.6), which resumed operations in June 2022. Variations by cost item were as follows:

- Maintenance and repairs (+US$ 90.4, 20.9%), mainly in Fresnillo plc mining units (Herradura, Juanicipio, and Saucito) and in the MetMex metallurgical complex.
- Human capital (+US$ 85.5, +22.7%), about 50% of which is attributable to exchange rate effects, and the rest to the increase in salaries and benefits, as well as the personnel layoffs due to the temporary reduction of capacity at the zinc plant of the metallurgical complex.
- Contractors (+US$ 71.9, +15.3%), due to development and infrastructure works in the mines, especially Juanicipio and Milpillas, and an unfavorable exchange rate effect.
- Operating materials (+US$ 17.0, +3.7%) mainly in anchors for mine support, hoses, aluminum for cathodes, quicklime stabilizer, steel and drill bits, cement, and safety equipment; offset by lower consumption of explosives, detonators, and sodium cyanide due to the suspension of mining at Noche Buena.
- Low-value leasing (+US$ 26.6, +44.1%), referring to the rental of machinery and equipment for the mining units that were previously capitalized, mainly at Herradura, and increased equipment rentals for mining operations.
- Energy (+US$ 15.7, +3.3%), due to an increase in the cost of diesel, fuels, and lubricants and electricity. The cost of electricity was higher in 2023 because of a temporary increase in consumption of power purchased from the CFE (more expensive than that produced by the Company's portfolio of power plants) as some operations migrated from the self-supply scheme to the WPM. There was also added electrical consumption from the startup of the Juanicipio beneficiation plant, the operation of Milpillas, and the Pyrites II plant in Fresnillo, in addition to higher variable costs of the energy supplied by Termoeléctrica Peñoles.
- Other cost items (+US$ 19.9, 2.5%), which include the transfer of byproducts, mining unit surveillance, and transportation equipment rental, as well as depreciation and amortization.

- **Inventory movements** contributed +US$ 105.9 to the increase in cost of sales, and was a charge of +US$ 5.6 in the period, compared to the credit of -US$ 98.9 reported in the previous year, mainly due to consumption of stockpile at Juanicipio, ore that had accumulated prior to the start-up of the beneficiation plant, inventories of copper in the leaching yards at Milpillas, and gold in leaching pads at Noche Buena, which offset a credit for the revaluation of gold inventories in the leaching pads at Herradura.

- An increase in the **cost of metal sold** (+US$ 198.4, +13.0%), due to the following changes:
  - +US$ 215.3 in the cost of concentrates and materials purchased from third parties for treatment in the metallurgical plants, and higher gold and silver prices; as well as the cost of untreated concentrates sold.
  - Lower metallurgical recovery (-US$ 2.9).
  - This was partially offset by higher treatment revenues (+US$ 14.0), which are recorded on the books as a credit on the cost of metal line, derived from higher volumes of concentrates and processed materials from third-party shippers.

The increase in sales was more than offset by the increase in cost of sales, resulting in a decrease of -US$ 224.3 (-21.7%) in **gross profit** comparing to 2022. As a result, the **gross profit margin with respect to net sales** was 13.6%, down from 18.7% in the previous year.

Operating expenses (excluding other expenses and revenues and asset impairment) totaled US$ 730.6, 12.0% (+US$ 78.4) higher than in 2022, with increases by item as follows:

- **Administrative and general expenses** (+US$ 39.5, 13.5%), mainly due to the peso's appreciation against the dollar, which was particularly influential in human capital expenses, as well as higher fees paid.
- **Selling expenses** (+US$ 23.4, 16.4%), mostly attributable to higher shipping and land transportation costs.
- **Exploration and geological expenses** (+US$ 15.6, 7.2%), resulting from the acceleration of field work in the project portfolio compared to the previous period, mainly by Fresnillo plc.

EBITDA for the year was US$ 768.2, lower than the previous year by -US$ 302.7 (-28.3%); **the EBITDA margin of 13.0% to net sales** was lower than the 19.4% recorded in 2022. Similarly, **operating income** of US$ 77.6 decreased by -US$ 302.7 (-79.6%), and the **operating margin on net sales** decreased from 6.9% to 1.3%.

Other net income (expense) was positive by +US$ 17.8, turning around from an expense of -US$ 0.8 the year before, due to:

I. **Higher revenues** by +US$ 21.9, mainly due to the cancellation of accumulated accounting reserves for the cost of energy transmission totaling US$ 75.6; US$ 26.9 of which correspond to reserves booked in previous years, stemming from favorable rulings in amparo lawsuits; coupled with the recovery of surplus resources in retirement funds for US$ 21.1, while in 2022, revenues of US$ 67.2 were raised by the sale of rights to an outside party to expand its pit on the Company's concessions, and US$ 6.7 by the sale of other products and services.

II. **Lower expenses** by -US$ 18.1, due to a write-off entered in 2022, for engineering of a new lead smelter technology amounting to -US$ 12.8 that was found not to be feasible, lower loss on sale of concentrates -US$ 20.3, remediation expenses -US$ 16.1, and donations -US$ 7.3. This was offset by a +US$ 21.9 inventory write-off, due primarily to illegal gold extraction at the Soledad and Dipolos yards, loss on the sale of other products and services, +US$ 10.4, which in 2022 was a gain, as well as losses from insurance claims, +US$ 5.5, among other items.

III. Regarding the **impairment of long-lived assets**, this line was lower by -US$ 21.4 in 2023 because it benefited in 2022 from a reversal for that amount when the value of the assets of the Madero mine was restored to the statement of financial position because at that time their sale was deemed possible.

Financial income (expense) - net was -US$ 149.8, lower (-US$ 8.6, -5.4%) than the -US$ 158.4 recorded in 2022, resulting from the following effects:

- **Financial income** of US$ 100.8, up from US$ 45.9 the year before, due to increased interest earned on investments and other financial income, attributable chiefly to derivative financial instruments.
- **Financial expenses** of -US$ 251.9, up from -US$ 201.1 in 2022, primarily due to interests accrued on cost-bearing debt and provisions discounts (primarily the provision for ecological remediation).
- **Foreign-exchange** gain of US$ 1.4, compared to a loss of -US$ 3.1 in 2022. This line reflects the impact of the translation exchange rate of monetary assets and liabilities in currencies other than the US dollar, including the Mexican peso, at the balance sheet date. In 2023, the peso appreciated 12.7% against the US dollar compared to 2022.

Equity in the results of associated companies was a gain of +US$ 1.8, compared to the previous year's loss of -US$ 1.4.

As a result, the **pretax loss** amounted to -US$ 56.1, declining -US$ 278.6 from the income of US$ 222.5 the previous year.

The **provision for income taxes** was -US$ 342.6, favorable in comparison to the provision of US$ 103.0 in 2022, which is attributed to the following factors:

- Lower income tax incurred (US$ 129.9 vs. US$ 214.5), the result of lower profits in the period and an increase in the deferred tax credit relating to the creation and reversal of temporary differences (-US$ 505.7 vs. -US$ 338.9), due mainly to the impact of higher inflation and the peso's appreciation on the tax value of the Company's assets and liabilities.
- Higher provision for the special mining right (US$ 36.4 compared to US$ 21.8 in the previous year), net of the corresponding deferred taxes, primarily because in 2022 the special mining right was a credit of -US$ 37.0, while in 2023 it was a charge of +US$ 0.3.
- A higher credit from the tax benefit relating to the Special Tax on Production and Services (IEPS) on diesel consumed by operations, which was -US$ 3.3 compared to -US$ 0.5 in 2022.

Due to the aforementioned factors, Peñoles' **consolidated net income** for fiscal year 2023 amounted to US$ 286.5, -US$ 39.0 lower than the income of US$ 325.6 in 2022. Of this amount, comparing 2023 to 2022, US$ 147.1 corresponds to **majority net income** (a decline compared to the gain of US$ 183.4 in 2022–and US$ 139.4 in **income from non-controlling interests** (below the income of US$ 142.2 recorded in fiscal year 2022).

CASH FLOW STATEMENT

As of December 31, 2023, the Company had **cash and cash equivalents** totaling US$ 1,040.2, which represented a reduction in cash of -US$ 428.7 from the balance on record at the end of 2022, which was US$ 1,468.9 (including +US$7.3 from translation effects).

The following were the salient changes in the period:

1. **Net cash flows from operating activities** of +US$ 476.1. This line reflects 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. It also includes changes in working capital.

2. **Net cash flows from investment activities** of -US$ 494.2 from the following items:
   a. Acquisition of property, plant, and equipment, for -US$ 596.0, in support of the operating units and development projects. The main investments are detailed below:

Company/Unit	US$ M	Concept
Fresnillo plc	472.3	Juanicipio project Mine works Capitalizable mining equipment Tailings deposits and leaching pads
Met-Mex	30.8	Fixed asset replacements and additions
Sabinas	26.6	Mine works Machinery and equipment Purchase and reconstruction of equipment for inside the mine Reinforcement of tailings dams
Capela	18.7	Installation of a second gravimetric concentrator Mine works Purchase and reconstruction of machinery and equipment Instrumentation and monitoring of tailings dam
Velardeña	17.7	Purchase of machinery Mine works Purchase and reconstruction of machinery and equipment Reinforcement of tailings dams
Tizapa	13.8	Mine works Purchase and reconstruction of machinery and equipment Acquisition of an electric truck
Química del Rey	12.3	Limestone stripping at the Dolomite mine Comprehensive waste management Bagging system in specialties plant Replacement of critical equipment

   b. Collection of loans granted, interest received and other items +US$ 100.7.
   c. Income from the sale of properties, plants and equipment +US$ 5.0.
   d. Acquisition of intangible assets -US$ 3.9.

3. **Net cash flows from financing activities,** -US$ 417.9, due to:
   a. Borrowing and repayment of financial debt (net of transaction costs) -US$ 174.0, which includes the liquidation of Fresnillo plc bonds for -US$ 317.9.
   b. Interest paid on financial debt and other loans -US$ 185.6.
   c. Dividends paid to minority interest -US$ 56.4.
   d. Increase in minority interest +US$ 9.7.
   e. Lease payments and others -US$ 11.6.

Our people

We reaffirm our commitment to the health and safety of our people in a sound, equitable, and inclusive work environment, prioritizing their integral well-being, so that everyone can reach their full potential.

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 of accidents and occupational illness
- Professional training and continuing education
- Competitive, fair compensation based on performance.

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

We have a Code of Ethics and Conduct, A Third-Party Code of Conduct, and our *Línea Correcta* ethical hotline to avoid and report practices that go against our ethical standards and to sanction them if they occur.

TALENT MANAGEMENT

Through our talent management processes, we seek to recruit, develop, and retain the best talent, in a safe work environment that allows our people to achieve their fullest potential for creating extraordinary results, aligned with our organizational culture. In 2023, we provided them with tools that foster productive behaviors and habits, such as the Ten Commandments of the Leader, which lists the fundamental principles of our leadership model.

The following are the components of the talent management system and the highlights for the year.

Process	Goal	Actions	Results
Recruitment and selection	Ensure that we recruit and hire new talent whose knowledge and experience match the organization's challenges and needs	• Promote outreach agreements with universities • Introduce internship, scholarship, and engineer-in-training programs • Post vacancies internally before listing them outside the company, giving preference to internal candidates	• In 2023, **398** people were hired, and **383** employees were promoted. • 100 classes have now graduated from the engineer-in-training program that we began in 2003; **2,489** professionals have joined the company.
Performance evaluation	Measure completion of established goals and expected behaviors, according to organizational competencies	• Evaluate employees according to clear, measurable, and challenging goals • Provide feedback through performance notes • Give raises and other recognitions for their achievements and create training actions that address detected areas of opportunity	• This year we updated our performance notes tool to align it with our Organizational Competencies Model.
Compensation	Offer an objective, competitive compensation system	• Provide compensation based on salary tables consistent with the market and with the level of professional responsibility and individual performance of each employee • Provide a compensation package superior to the legal minimum (savings fund, major medical expenses, pension plan, vacations, and seniority bonus)	• Compensation (including salaries and benefits) totaled **US$ 612.0** million, **19.3%** more than last year.[1] • The company's lowest salary level is **2.14** times higher than the legal minimum wage and, therefore, higher than the living wage.
Training	Train people according to needs detected in the performance evaluation	• Promote training aligned with current and future needs for technical, administrative, and human skills to achieve better productivity, quality, and competitiveness indicators for the company	• We provided **1.4** million hours of training, equivalent to an average of **42.6** hours per employee, to strengthen our people's technical and human skills.
Development and retention	Develop people with better performance and greater potential	• Create ways to develop and recognize people and encourage them to stay with the company • Identify posts that are critical for the operating continuity of the business, and prepare succession and career plans so that the right people have been prepared with the necessary leadership and technical skills.	• We awarded **2,276** loyalty awards to employees with five and up to 45 years of seniority, and **116** bonuses for academic achievement. • 75% of key positions have succession and career plans.

1 Includes the effect of the peso's 11.2% average appreciation and the extraordinary cost of layoffs relating to the optimization of our work teams and the temporary cutback in capacity at the zinc plant.

OUR LABOR STRATEGY

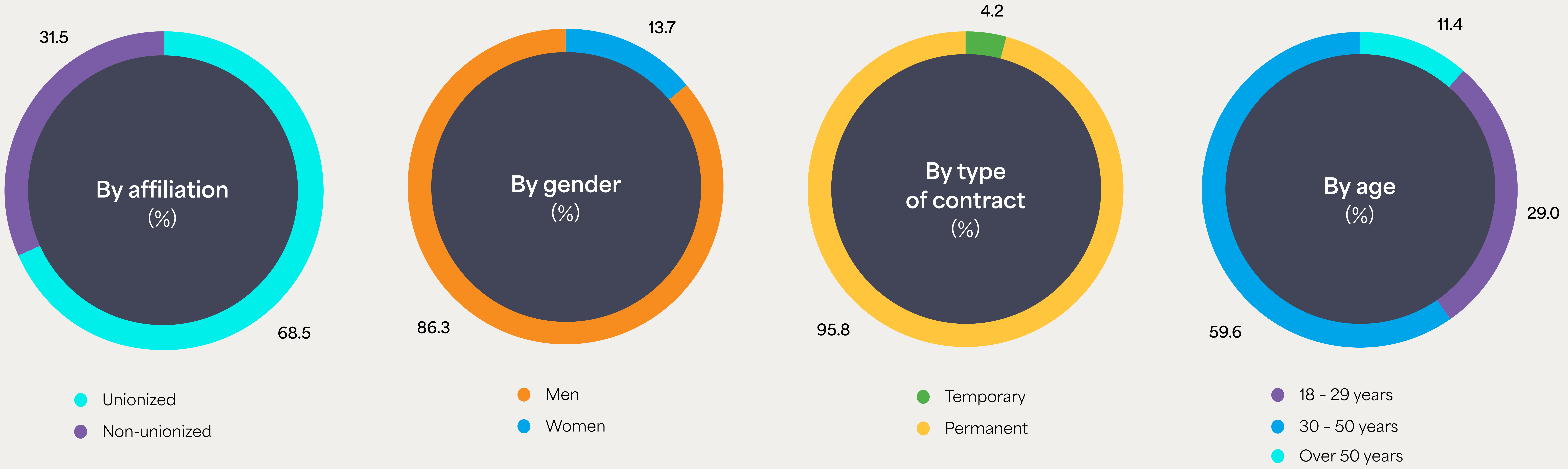
In 2023, we continued to implement our Labor Modernization system to promote ethical, safe, and productive work and meet the established goals, which contributes to labor stability, protects jobs, and supports comprehensive well-being for our employees.

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 reciprocal benefit, and to keep them strong, we have a frank and open relationship with unions and unionized employees, emphasizing our commitment to continuous dialogue and mutual understanding to co-build a better future.

Pursuant to current labor laws, the unions with which we have a collective bargaining agreement legitimized them within the period established by the regulatory framework of national laws.

COMPOSITION AND GENDER DIVERSITIY OF OUR WORKFORCE

At the close of 2023, the workforce of Peñoles and its subsidiaries was 15,573 employees–excluding affiliate companies and contractors



Our Equality and Non-Discrimination Policy expresses our intent to create an equitable and inclusive work environment, respectful of human dignity and equal opportunities, where all of our personnel feel valued and inspired to contribute to their fullest potential. This policy can be viewed on our website at www.penoles.com.mx. This year, we set up a committee to focus on two main areas: female talent and people with disabilities.

To promote labor equality, we deployed communication and awareness campaigns, and we provided training to management personnel on how to deal with and prevent bullying and sexual harassment in the workplace. We also began mapping people with disabilities in order to identify and make the necessary adjustments for them to do their jobs comfortably. In the area of female talent, the first class graduated from the Mentoring for Women program, and a network of women was activated in Torreón and Mexico City workplaces. We also organized the first survey of Women in the Mining Industry in partnership with an auditing firm and the Mexican Mining Chamber (Camimex) in order to learn about the development of female talent and the benefits they bring to our industry.

Baluarte Minero obtained Gold level in the WIM Seal, awarded at the Assembly of Women in Mining Mexico to companies in the mining sector that meet the standards of labor equality and non-discrimination, equality, and female inclusion.

The total percentage of women employees increased from 12.9% in 2022 to 13.7% in 2023. There are also some units where the percentage of women on staff is higher than the company's overall average–for example, Capela (22.9%), Velardeña (16.1%), and Servicios Administrativos Peñoles (45.7%). This brings us closer to the national average of 17.3% for women in the mining and metallurgical industry, according to figures from the Mexican Mining Chamber at the end of 2022.

HEALTH AND SAFETY

Peñoles makes the health and safety of our people a priority. We focus on identifying and controlling risks, with special attention to critical risks that could result in severe or fatal injuries.

Our safety and health governance is based on our sustainability policy, by which we commit to ensuring safe operations based on a culture of prevention, elimination of hazards and risk reduction, with the participation and involvement of our employees and outside experts. The Central Committee on Environment, Safety and Health establishes safety and health standards, monitors their enforcement, evaluates operating performance, and promotes adoption of best practices. Division heads are responsible for meeting those standards, led by the Assistant Vice President of Safety, Health and Environment, who defines key programs for eliminating fatal accidents and reducing incidents, in shared responsibility with the Vice Presidents of Operations, Explorations, and Projects. Our safety performance, progress, and metrics are reviewed in executive committees.

During the year, we continued to work on the three dimensions of our high-potential safety strategy: i) managing critical risks and controls; ii) managing leadership behaviors and practices; and iii) managing incidents.

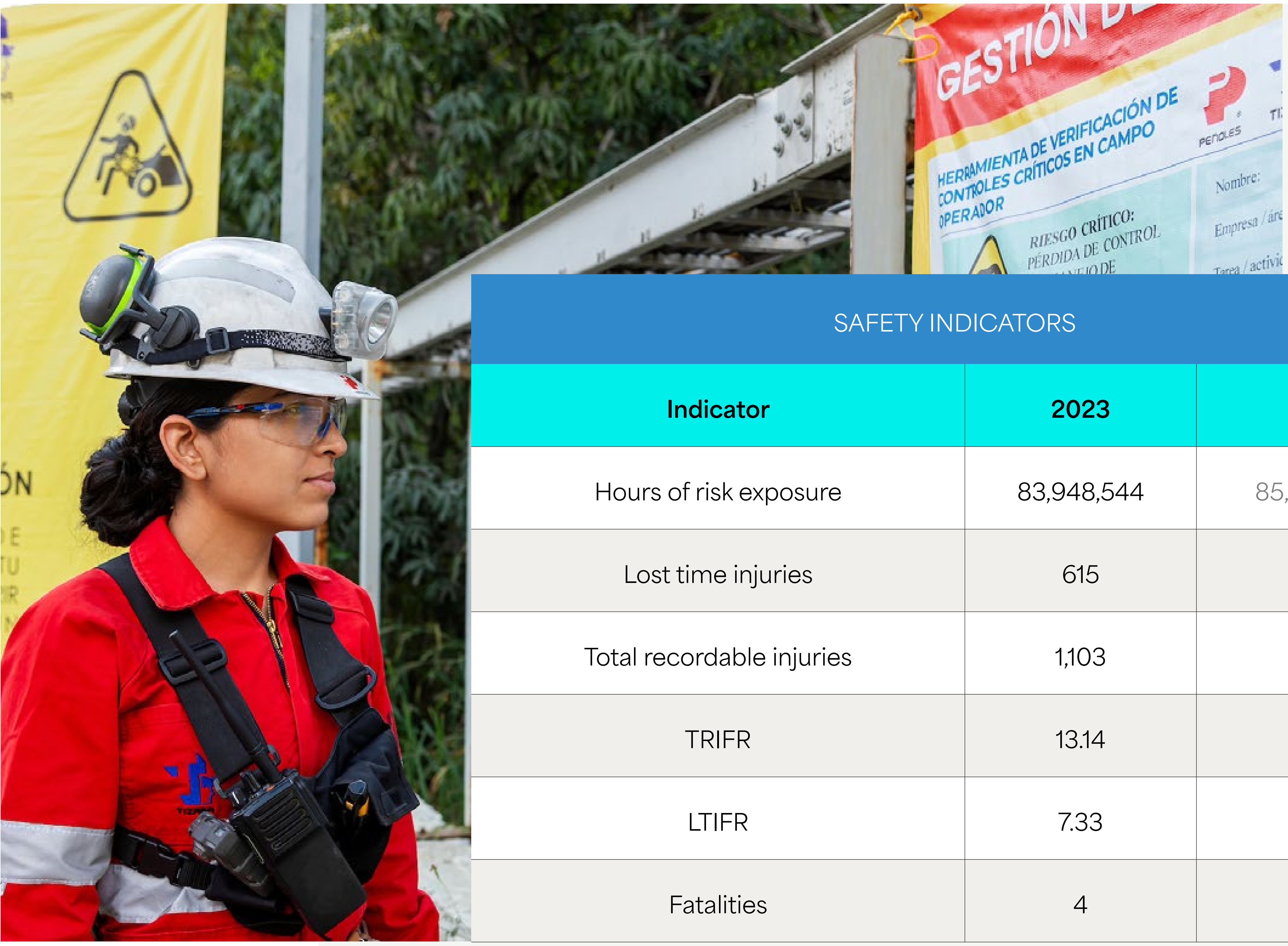
We identify and order critical risks by hierarchy in all operations, defining controls for each of them. Operating units completed self-assessments to detect existing gaps between their risks and implemented controls, and based on the results, we developed a plan of short- and medium-term actions to strengthen management. We also carried out site checks focused on critical risks, and began to develop uniform standards for the most prevalent critical risks.

We first investigated significant events using the Root Cause Analysis (RCA) methodology, followed by an Incident Cause Analysis Method (ICAM) study, sharing the lessons from these with the entire organization. We trained coaches and facilitators in this methodology and conducted workshops to reinforce the commitment and responsibility of leaders in incident investigation, follow-up, and control of preventive measures.

The involvement of all levels of the organization is key to instilling a preventive culture in our people, based on the Leadership Standard. We promote visible leadership in the field to detect areas of improvement and to motivate and reinforce pro-safety behaviors.

By managing incidents (near misses), we are able to detect critical controls that are absent or inadequate, and which could lead to high-potential accidents. All employees have the right to say NO when an activity does not meet the required safety standards, which fosters commitment and contributes to a higher level of maturity in our preventive safety culture.

Despite all of our efforts, we deeply regret four fatal accidents that occurred in 2023: three at Saucito and one in the explorations division at Fresnillo plc. We took corrective action to minimize the potential for recurrence of such incidents, and conducted detailed investigations and shared the lessons learned with all of the Peñoles and Fresnillo plc business units. These events are a vivid reminder that we must never cease our efforts to eradicate fatal accidents.



SAFETY INDICATORS

Indicator	2023	2022
Hours of risk exposure	83,948,544	85,560,784
Lost time injuries	615	474
Total recordable injuries	1,103	977
TRIFR	13.14	11.42
LTIFR	7.33	5.54
Fatalities	4	3

* Recordable injuries: fatal accidents + lost time injuries + restricted work injuries + injuries requiring medical treatment per 1,000,000 hours worked
* Lost time injuries: number of injuries with lost time per 1,000,000 hours worked

In our 2023 Sustainable Development Report, we communicate our progress on safety indicators over a period of five years.

Also last year, we began a high-potential occupational health strategy. This strategy is aligned with the International Council of Metals and Mining (ICMM) Good Practices and Critical Control Management Guide for Health and Safety. We established criteria for the medical classification of occupational hazards, and the management of fatigue and drowsiness in all our operations. In 2024, we will work to define and standardize the portfolio of critical occupational health risks to determine critical controls and create verification tools to manage them efficiently in the workplace.

All of our workplaces have both COVID-19 Sanitary Safety certification and the Safe and Healthy Workplace distinction from the IMSS. Additionally, seven workplaces have ISO 45001 certification: two Peñoles mines and four Fresnillo plc units, as well as one workplace in the Chemicals division.

We also monitored both the physiological and psychological condition of our employees through medical exams at the time of hiring, as well as regular checkups, occupational health checks, and gynecological exams. These evaluations enabled us to offer preventive intervention, primarily in occupational health. We continued to encourage healthy lifestyles to prevent chronic degenerative diseases.

Mental health is another priority goal, and we provide preventive attention to mentally related occupational disorders and illnesses by promoting holistic health, emotional containment, rehabilitation and detection of job stress, and through workshops and talks. In compliance with NOM-035, we shared the results of the questionnaire of psychosocial risk factors in workplaces. While the overall result is low risk, each work center focuses on addressing the potential risks detected, in order to maintain a healthy and productive work environment.

At the end of 2023, we recorded 119 cases of occupational ill health in the company, most frequently hypoacusis–hearing loss–and silicosis–respiratory disease–which are monitored and treated, as well as musculoskeletal disorders and the aftereffects of work-related accidents. Monitoring lead as an occupational health standard is highly important in our processes, and we have a strategic hygiene and medical oversight program according to our zero-damage approach, which has enabled us to prevent and control exposure. In the past five years, we have recorded no occupational illness resulting from high levels of lead in the blood.

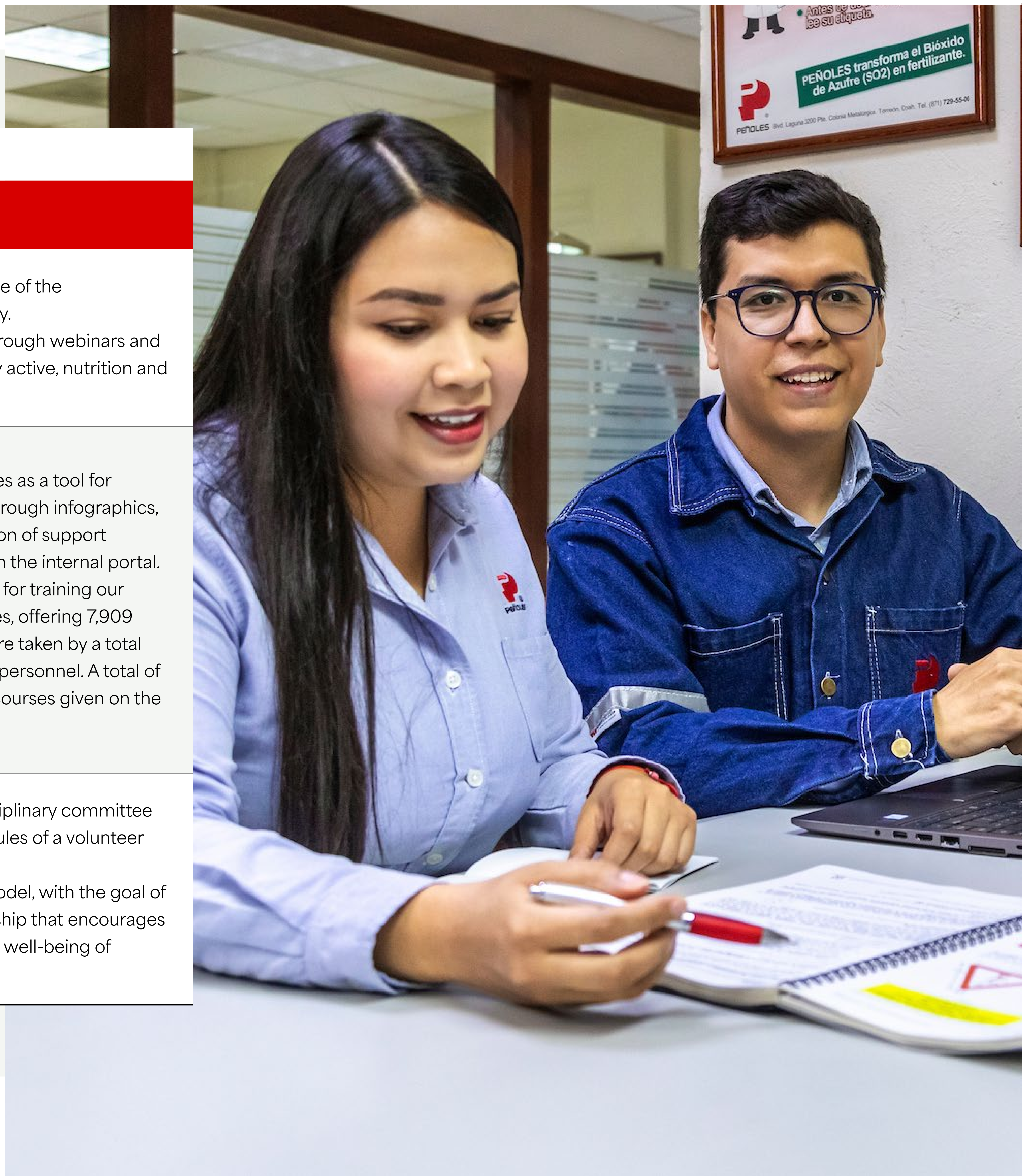
COMPREHENSIVE WELLNESS

The purpose of our comprehensive wellness strategy is to provide a safe and healthy work environment that allows everyone in the organization to lead a full and satisfactory life, through five paths:

- **Intellectual/Professional:** Cultivate reflective thinking in decision-making and continuous learning with a focus on change, and develop skills and competencies that allow talent to flourish.
- **Physical:** Ensure safe and healthy work environments to keep employees and their families well.
- **Emotional:** Build interpersonal relationships based on respect and trust, ensuring work environments free of stress, violence, and discrimination.
- **Cultural:** Promote an ethical work environment of unity, commitment, innovation, and efficiency to build a shared identity between the organization and its people through leadership and partnership.
- **Transcendental:** Foster awareness of a life purpose focused on being the best we can be, and working for the well-being of ourselves, of other people, families, and the environment.

In 2023, we incorporated the following high-impact projects:

Project	Key actions in 2023
Environments of prevention, trust, and balance *Physical/emotional routes*	• Formation of a technical committee in charge of the management and deployment of the strategy. • Promotion of the Live in Balance program through webinars and publications with topics on getting physically active, nutrition and eating habits, and lifestyle changes.
Empowering talent *Intellectual/professional routes*	• The “Wellness Contact” routine for employees as a tool for learning new healthy behaviors and habits through infographics, video capsules, and the creation of a collection of support materials, which are available to personnel on the internal portal. • Our virtual platform “Talent University,” a tool for training our people in technical and human competencies, offering 7,909 courses to our employees; 1,021 of which were taken by a total of 4,811 employees, or 99% of non-unionized personnel. A total of 605 employees also participated in English courses given on the same platform.
People with purpose and fullness *Cultural/transcendental routes*	• Documentation and formation of a multidisciplinary committee to define the description, goals, scope, and rules of a volunteer program. • Update and publication of our Leadership Model, with the goal of developing an agile, transformational leadership that encourages the culture our organization requires and the well-being of ourselves and our co-workers.



Energy

We started to draw up a roadmap to decarbonize our operations with the support of an external advisor.

We also made significant progress in our energy strategy, migrating several operations to the wholesale power market.

Although serious geopolitical conflict persisted in various parts of the world in 2023, natural gas prices remained relatively stable, with some variations at regional level, while the prices of coal and pet coke began the year very high, then trended downward but still remaining elevated.

Mexico's energy policy in recent years has remained substantially unchanged, and in this climate, Peñoles strives continually to obtain a safe, high-quality supply of energy to guarantee operating continuity, environmental sustainability, competitive costs, and an efficient use of energy.

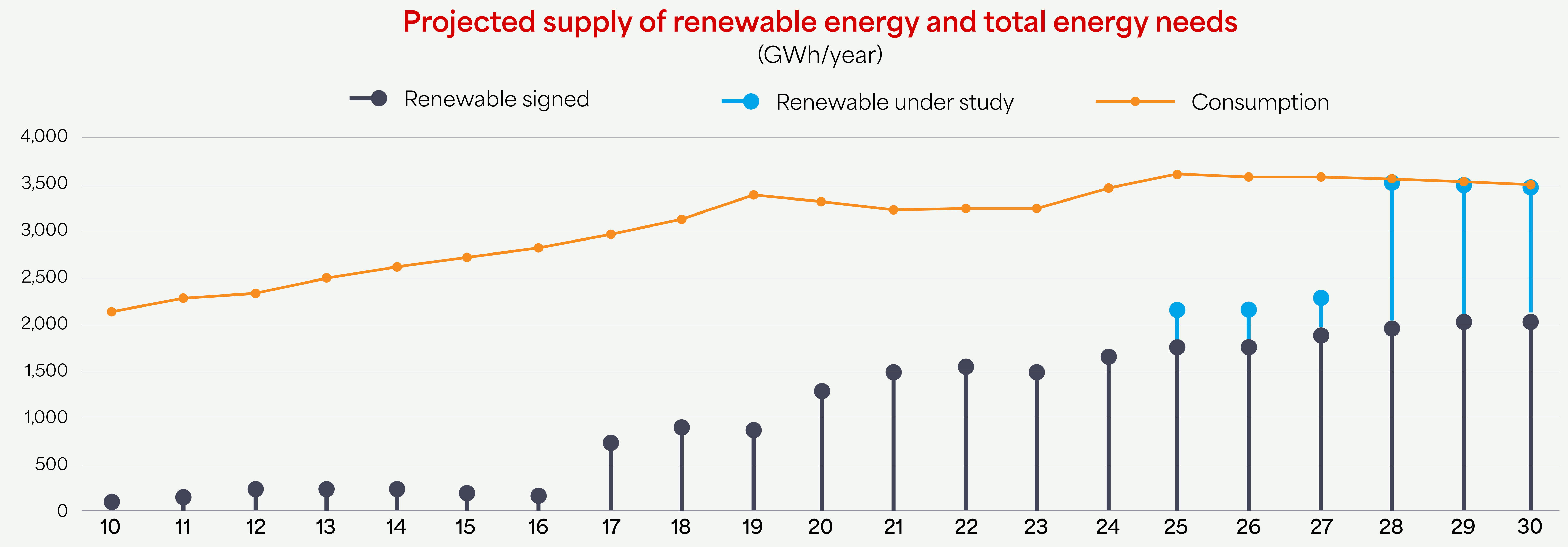
This year we undertook the important and comprehensive process of drawing up a roadmap to decarbonize our operations, with the support of an external advisor. This roadmap is expected to be completed in 2024. At the same time, we continued to explore emerging emission-free technologies, such as hydrogen and green ammonia, focused on reducing emissions from vehicles, processes, and equipment. We also explored the incorporation of electricity generation solutions based on clean technologies, ideally renewable, with isolated supply systems that are located close to our operations, lending viability to new projects with this promise of a reliable supply, aligned with our goals.

This year the company made significant progress in its energy strategy. Through various actions, we were able to carve out a number of operations from the self-supply scheme and incorporate them into the WPM, thereby increasing the use of our own generation sources, with more competitive electricity costs. Similarly, the technical, legal, and regulatory adjustments were completed, and the San Julián mine was incorporated as a consumer partner of Eólica de Coahuila (EDC), so this mine now receives a renewable supply.

In 2023, electricity generation by power plants under contract in our portfolio accounted for 101.6% of consumption. Because not all of the energy generated could be harnessed from the beginning of the year for allocation to our operations, part of the energy produced by the Mesa La Paz (MLP) wind farm had to be sold to the market. However, with the migration of several of our loads to the WPM, our utilization of this energy gradually increased. Thus, Metalúrgica Met-Mex Peñoles, Química del Rey, the Fresnillo iron ore flotation plant (Pyrites II), and Minera Penmont joined Minera Capela and Minera Juanicipio as WPM consumers during the year, with which we were able to allocate 40.3% of MLP's production, compared to 11.2% the previous year. This required some adaptation works in the substations to meet the specifications required for operation in the WPM.

We acquired 590.6 GWh of electricity from the CFE's basic supply operator, which covered 18.4% of our consumption. However, with the migration of loads to the WPM, we estimate that, going forward, purchases from CFE will be reduced to approximately 300.0 GWh.
By 2024, we expect to complete the migration of Termoeléctrica Peñoles (TEP) to the WPM. After the migration to the WPM of several of the loads that were supplied by this plant, only 59.5 MW are received from this plant at present.

We expect that the loads that have migrated to the WPM will ensure that most of the supply is covered by contracts with the MLP wind farm or other market participants, so that we can label the energy consumed by our loads as renewable.



In 2023, the group's power plants together generated 3,268.1 GWh, broken down as follows:

ELECTRICAL ENERGY GENERATION BY SOURCE (%)

Source	Description	2023	2022
Termoeléctrica Peñoles (TEP)	Located in Tamuín, San Luis Potosí, with capacity to generate 230 MW, the plant is operated by a third party, and electricity is supplied under a power purchase agreement expiring in 2027.	48.5	53.2
Eólica Mesa La Paz (MLP)	Located in Llera de Canales, Tamaulipas, with a capacity of 306 MW, the wind farm is operated by a third party, with its supply committed under an energy coverage contract expiring in 2045.	24.0	20.6
Eólica de Coahuila (EDC)	Located in General Cepeda, Coahuila, with installed capacity of 199.5 MW, it is operated by a third party; The wind farm's electricity is supplied under a power purchase agreement expiring in 2042.	21.8	21.0
Fuerza Eólica del Istmo (FEI)	Located in El Espinal, Oaxaca, operated by Peñoles. Installed capacity of 80 MW.	5.3	4.6
Co-generation at Mex-Mex	A turbogenerator with 7 MW unit capacity utilizes excess steam from the roasting area of the electrolytic zinc plant.	0.4	0.7
Generation from proprietary sources		**100.0**	**100.0**
Percentage of generation vs. consumption		**101.6**	**114.4**

Our generation of renewable energy totaled 1,684.5 GWh, avoiding the emission of 737,798 tCO_2e.

CONSUMPTION

In 2023, we consumed 3,218.1 GWh in our operations (0.7% less than in 2022), equivalent to an average demand of 367.4 MW. This was due to lower consumption at Met-Mex's zinc plant, which was offset by the start of operations at the iron ore flotation plant in Fresnillo and the beneficiation plant at the Juanicipio mine, as well as higher consumption at Milpillas, which resumed operations in mid-2022.

The share of electricity from renewable sources as a percentage of annual consumption was 48.0%, compared to 49.0% in the previous year.

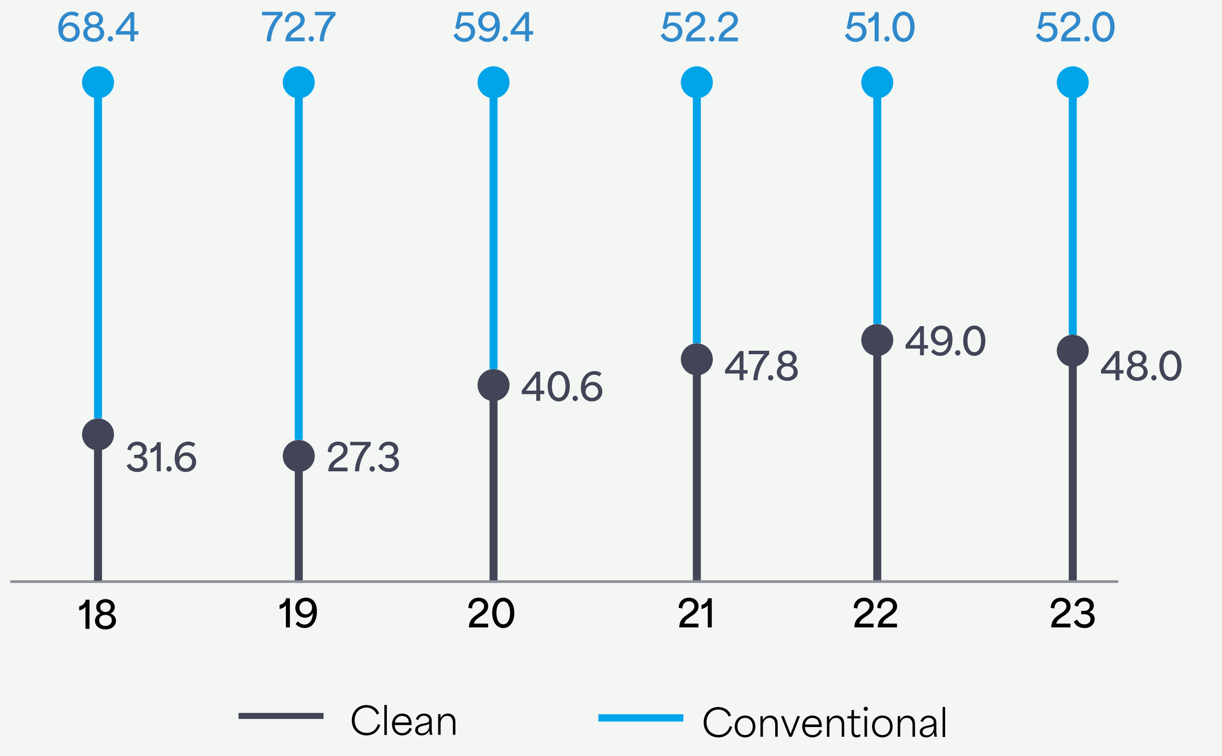
The contribution of each energy source to the group's total consumption is shown in the table below.

CONTRIBUTION OF EACH ENERGY SOURCE IN CONSUMPTION (%)

Source	2023	2022
Termoeléctrica Peñoles (TEP)	41.8	55.3
Eólica de Coahuila (EDC)	21.2	23.4
Fuerza Eólica del Istmo (FEI)	1.9	1.4
Cogeneration	0.4	0.7
Eólica Mesa La Paz (MLP)	9.9	2.7
Total supplied by proprietary sources	75.2	83.5
Energy purchased from CFE	18.4	16.5
Energy purchased from MEM	6.4	0.0
Total consumption Peñoles Group	100.0	100.0
Energy from MLP delivered to the WPM	14.5	20.8
Availability from proprietary sources for Peñoles	89.8	104.3
Consumption of clean energy generated	**48.0**	**49.0**

Electricity consumption by type of technology

(%)



In 2020, 2021, 2022 and 2023, the percentage of clean energy in total consumption–15.6%, 20.1%, 20.8%, and 14.5%, respectively–corresponds to the energy from the Mesa La Paz wind farm, which was sold to the WPM.

COST OF ENERGY

The unit cost of the electricity consumed in 2023 was US ¢ 9.78 per kWh, 12.3% higher than in 2022, due to the following factors: i) increase in the CFE rate; ii) higher temporary CFE energy consumption while the procedures to migrate loads to the WPM were being concluded; iii) substantial increase in the cost of coke for TEP starting October 2022, which affected costs in 2023; iv) inflation of costs originated in pesos–such as coke shipping and operation and maintenance expenses at TEP; and v) revaluation of the average peso/dollar exchange rate, which drove costs in pesos higher when translated to dollars.

OTHER MATERIAL EVENTS

We continue to meet all of the requirements for obtaining enough Clean Energy Certificates (CEC) to fulfill our obligations in the percentages established by the Ministry of Energy and the Energy Regulatory Commission.

Fuentes de Energía Peñoles, a qualified user supplier, completed its fourth year of operation in the WPM, having sold 991.4 GWh of energy, 113.9 MW of power, and 935,000 CEC in excess conveyed to the WPM, after meeting our own needs.

Peñoles remains highly active in industrial chambers and the electrical industry to dialogue constructively with the federal government in support of a new and more stable regulatory and legal framework for the electrical industry, with a long-term vision.

As regards the use of other energy sources in our mines and productive plants, diesel consumption was lower in 2023, due mainly to the suspension of mining at the Noche Buena pit, which meant less mineral hauled to the leaching pads. We also consumed less natural gas, particularly due to the drop in our production of inorganic chemicals.

Fuel	Unit	2023	2022	% Change
Liquefied natural gas	Ml	–	24.1	-100.0
Natural gas	Mm^3	214.1	217.7	-1.7
Diesel	Ml	172.8	196.9	-12.2

In addition to our ongoing effort to incorporate more renewable energy into our electricity supply and the thermal requirements of some operations, and with an eye to the medium and long term, we will continue to monitor the development of emerging technologies, such as electrification of mining equipment, battery storage, and production of green hydrogen and ammonia, which can be applied toward our goal of achieving CO_2 emission neutrality by 2050. For example, we are exploring a project to replace fossil fuels with green hydrogen in our personnel transport buses, and eventually in emissions-free mine trucks. In addition, the Tizapa mining unit acquired a low-profile electric truck for its operations.

Conceptual engineering was also begun for the incorporation of local electricity generation projects for some operations in order to replace non-renewable supply with clean energy.

Corporate governance

This year, we established an ESG Committee to assess Peñoles' performance, risks, and opportunities in environmental, social, and corporate governance issues. The committee will report regularly to the Board of Directors. For more details, see the Sustainable Development Report 2023.

Description, structure, and responsibilities of the Board of Directors

EXECUTIVE COMMITTEE

7 Directors elected by the Board from among its members

- Reviews, approves, and monitors operating, financial, and strategic performance, including security and environmental issues.
- Recommends changes to corporate and business strategy.

Regularly reviews economic and operating management, as well as product, social, environmental, and human development and safety issues, including related risks and opportunities

BOARD OF DIRECTORS

13 proprietary Board Directors and 12 Alternate Directors

- Defines vision and strategy of the company and oversees its execution.
- Establishes policies and guidelines.
- Validates and follows up on the risk matrix.
- Approves the budget and financial results.

Chief Executive Officer and Management Team

Business management, leadership, and execution

Secretary

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

3 independent Board members

- Reviews compliance with internal control policies and accounting guidelines.
- Monitors internal control and auditing systems, and the implementation of due diligence.
- Evaluates the performance of the external auditor.

FINANCE AND PLANNING COMMITTEE

7 Board members

- Reviews financial policies and projections.
- Evaluates investment projects and financing.

NOMINATION, EVALUATION AND COMPENSATIONS COMMITTEE

3 Board members

- Reviews the organizational structure.
- Validates the skills and experience of the Board members and recommends their compensation.
- Evaluates, according to company policies, the performance of relevant executives and authorizes salary and benefit increases.
- Defines the overall compensation policy and succession plans.

The Board met four times in fiscal year 2023. In all of the sessions, there was a remarkably high quorum, with an attendance of over 90% of Board members.

The company adheres to the recommendations of the Code of Corporate Principles and Best Practices. The committees met regularly and reported to the Board on their activities. The reports and recommendations of these committees were attached to the minutes of the meetings of the Board of Directors.

The Annual Ordinary Shareholders Meeting held on April 27, 2023, authorized a remuneration of Ps. 142,000 for each of the Board Members for each meeting attended, as well as Ps. 98,700 for each of the members of the Audit and Corporate Practices Committee for each meeting attended, and Ps. 119,700 for the Chairman of said committee.

In 2023, total compensation of the relevant executives amounted to Ps. 161 million, of which 92% corresponded to salaries and bonuses, and the remaining 9% to benefits.

The composition of the Board of Directors, as well as the detailed profile of the directors is available on our website www.penoles.com.mx

Board of **Directors**

DIRECTORS

Name	Category	Position	Education	Since	Committees	Expertise**
Alejandro Baillères Gual	4	Chairman Grupo BAL and Chairman of the Board of Directors of Industrias Peñoles, Fresnillo plc, Grupo Palacio de Hierro, Grupo Profuturo, Profuturo Afore and Profuturo Pensiones, ElectroBal and Tane	Stanford Executive Program (Stanford University)	1989	(A) (B) (C)	Finance - Materials - Industry - IT - Utilities
Juan Bordes Aznar	3	Corporate Director Grupo BAL	Stanford Executive Program (Stanford University)	1980	(A) (B) (C)	Finance - Energy - Industry - IT - Utilities
Fernando Senderos Mestre	1	Executive Chairman and Chairman of the Board Grupo KUO and Dine	BA in Business Administration Universidad Anáhuac	1988		Finance - Materials - IT
Arturo Manuel Fernández Pérez	3	Dean, Instituto Tecnológico Autónomo de Mexico	PHD in Economics The University of Chicago	1993	(A) (B) (C)	Finance - Energy - Materials - Industry
Raúl Baillères Gual	3	Director Digital Library , Servicios Corporativos BAL		1983		Finance - Materials
José Antonio Fernández Carbajal	1	Executive Chairman of the Board, Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA) and Chairman of the Board, Coca-Cola FEMSA	Master in Business Administration (Tecnológico de Monterrey)	2001		Finance- Materials - Industry - IT
Eduardo Cepeda Fernández	3	Financial Advisor, Grupo BAL	MA in Business Administration University of Southern California, Los Angeles, USA	2021	(A) (C)	Finance - Materials - Industry - Energy
Juan Francisco Beckmann Vidal	1	Chairman of the Board, Casa Cuervo S.A. de C.V. and subsidiaries, and JB and subsidiaries	MA in Administration (Stanford University)	2009		Finance - Industry
Jaime Lomelín Guillén	3	Corporate Director Grupo BAL	Chemical Engineer (UNAM)	1986	(A) (C)	Finance - Industry - Energy - Utilities - Materials
Tomás Lozano Molina	1	Notary Public No. 10, Mexico City	Notary Public	2002	(D)	Finance - Industry
José Octavio Figueroa García	3	Corporate Director Grupo BAL	Senior Business Management Program (IPADE)	2009	(A) (C)	Finance - Industry - Materials
Juan Pablo Baillères Gual	4	Corporate Director Grupo BAL	MA in Administration Arizona State University / ITAM	1995		Finance - Materials - Utilities - Energy
Ernesto Vega Velasco	1	Advisor and member of the Audit and Corporate Practices Committee of Industrial Peñoles S.A.B. de C.V.	Senior Business Management Program (IPADE)	2003	(D)	Finance - Industry - IT

COMMITTEES

A Executive Committee
Secretary: Miguel Linares
Guest: Diego Hernández
B Nomination, Evaluation and Compensations Committee
C Finance and Planning Committee
D Audit and Corporate Governance Committee

CATEGORY

1 Independent Director: * A Director whose characteristics allow them to perform their duties free from conflicts of interest and without being subject to personal, patrimonial or economic interests, and furthermore, is not a person excluded from restrictions provided by Article 26 of the Securities Market Law.
2 Shareholder Director: * A Director who has a 1% (one percent) direct interest or more in the equity capital of the Company.
3 Related Director: * A Director who is deemed neither "Independent" nor a "Shareholder." Among others, Related Directors are those who serve as officers at some level of the company and its subsidiaries, as well as officers at any level of the companies comprising Grupo BAL consortium. Directors who have kinship to the fourth degree with other Directors, as well as the spouses and a concubinage relationship.
4 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
** Expertise: According to the standard classification of The Global Industry Classification Standard (GICS®), which considers 11 sectors.

The Board is comprised of 13 proprietary Directors, five of whom are Independent – representing 38% of the Board, which is higher than the minimum 25% required by the Securities Market Law – and 12 alternate directors, with the same level of responsibility and independence as the proprietary Director. Two women are Independent Directors. The average age of the members of the Board is 68 years.

ALTERNATE DIRECTORS

Name	Category	Position	Education	Since	Committees	Expertise**
Leopoldo Antonio Alarcón Ruiz	3	Deputy VP Baluarte Minero	MA in Business Administration (Arizona State University)	2018		Finance Materials
Gabriel Eugenio Kuri Labarthe	3	VP Finance Servicios Corporativos BAL	Actuary (Universidad Anáhuac)	2010		Industrial Finance
Dolores Alicia Martin Cartmel	1	Advisor	BA in Economics (Universidad Iberoamericana)	2005		Finance
Alejandro Hernández Delgado	3	Vice Chancellor, Instituto Tecnológico Autónomo de México (ITAM)	MA and PHD in Economics (University of Rochester)	2008		Finance
Luis Manuel Murillo Peñaloza	3	CEO Valores Mexicanos Casa de Bolsa	The Wharton School - Investment Strategies and Portfolio Management (University of Pennsylvania)	2009		Industrial Finance
Francisco Javier Fernández Carbajal	1	CEO Servicios Administrativos Contry, S.A. de C.V.	MA in Business Administration (Harvard Business School)	2014		Finance Industrial Materials
Juan Carlos Escribano García	3	CEO Grupo Palacio de Hierro	BA in Economics and Business Science (Universidad Complutense)	2017		Industrial Finance
Raúl Carlos Obregón del Corral	1	Managing Partner at Alianzas, Estrategia y Gobierno Corporativo, S.C.	MA in Industrial Engineering and Planning (Stanford University)	1991	(D)	Finance
María Gabriela Ocampo González-Gamio	3	Project Leader Idea Laboratory, based in ITAM	Executive Master of Business Administration (ITAM)	2019		Industrial Finance
Francisco Javier Simón Havaux	1	President Formas para Negocios, Formas y Sistemas Mexicanos, Compañía Litográfica y Tipográfica América and Servisim	BA in Business Administration (Universidad Anáhuac)	2023		Industrial Finance Information Technology
Roberto Palacios Prieto	3	Corporate Director Grupo BAL	MA in Business Administration (Stanford University)	2018	(A) (C)	Industrial Finance Information Technology
Rafael Rebollar González	3	CEO Industrias Peñoles, S.A.B. de C.V.	Stanford Executive Program (Stanford University)	2021		Industrial Finance - Materials

Secretary of the Board: **Gerardo Carreto Chávez**

COMMITTEES

A Executive Committee
Secretary: Miguel Linares
Guest: Diego Hernández

B Nomination, Evaluation and Compensations Committee

C Finance and Planning Committee

D Audit and Corporate Governance Committee

CATEGORY

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* Pursuant to the corporate policy that defines the qualification or category of Directors

** Expertise: According to the standard classification of The Global Industry Classification Standard (GICS®), which considers 11 sectors.

Senior Executives **Peñoles**

Rafael Rebollar González
Chief Executive Officer
VP Metals-Chemicals

Óscar Luévano Ovalle
AVP Raw Materials

Luis Humberto Vázquez San Miguel
VP Mining

Francisco Javier Berumen Muro
AVP Southern Operations

José Luis Cervantes Segura
AVP Planning

Miguel Eduardo Muñoz Pérez
AVP Northern Operations

Jeremy Donald Gillis
VP Operations Metals-Chemicals

Isaías Almaguer Guzmán
AVP Technical Metals

Benito Noguez Alcántara
VP Exploration

Felipe Ortigoza Cruz
AVP Exploration

Manuel Medina Pegram
VP Commercial Metals-Chemicals

Luis Ernesto Ibarra Ortiz
AVP Commercial Chemicals

Juan Manuel Martínez González
AVP Commercial Metals

Mauricio Iván García Torres
VP Finance and CFO

Luis Carlos Navarro Figueroa
AVP Financial Planning

Gerardo Ramiro Rojas Favela
Comptroller

María Nancy Acosta Jáuregui
VP Internal Audit

Structure as of April 2024

Senior Executives **Baluarte Minero**

Fernando Alanís Ortega
Chief Executive Officer

David Giles Campbell
VP Exploration

Marcelo Ramos
VP Business Development

Leopoldo Alarcón Ruiz
Deputy VP

Álvaro Soto González
VP Law

Roberto Velasco Cuevas
AVP Union Relations

María Luisa Aguilera López
AVP Human and Organizational Development

José Von Bertrab Saracho
AVP Strategic Planning

Christopher Ávila Mier
AVP Government Relations

Daniel Torres Guerrero
AVP New Projects

Exequiel Rolón Michel
AVP Sustainability and Community Relations

Leopoldo González Villalvaso
AVP Exploration

Leopoldo Rodríguez Olive
AVP Energy

Aldo Bolívar Escarpita
AVP IT

Demetrio Juárez Martínez
AVP Procurement

Karla Carrillo Estrada
AVP Corporate Law

Javier Romero Castañeda
AVP Labor Law

Structure as of April 2024

Senior Executives **Baluarte Minero**

Martín Arreola Coronel
VP Administrative Services

Erika María Cabriada Martínez
VP Compliance

Herman Charles Dittmar
Deputy VP

Alexander Gutiérrez Palma
VP Engineering and Mine Planning

Leopoldo Villalobos Romo
VP Projects and Construction

Gerardo Saucedo Ortega
Comptroller

Luis Andrade León
AVP Fiscal Planning

Jorge Calderón Buendía
AVP Treasury and Financing

Humberto Aldana Martínez
AVP Infrastructure, Permits and Control

Sebastián Trejos Saldaña
AVP Health, Safety and Environment

Mario Esteban Hernández
AVP Projects Control

Daniel Aguilar Ortiz
AVP Technology and Innovation

Structure as of April 2024

Shareholder **information**

CORPORATE HEADQUARTERS
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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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AVP Treasury and Financing
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Phone: +52 (55) 5279 3216
Mauricio_Garcia@penoles.com.mx

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

SHARE INFORMATION
Share price (pesos):
Close $248.24
High $295.03
Low $193.23

Market capitalization at the end of the year:
US$ 5,841 M
Shares outstanding as of December 31st, 2023:
397,475,747

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

FINANCIAL CALENDAR
2022 Annual Shareholders' Meeting: April 29, 2024
1Q 2024 results: April 26, 2024*
2Q 2024 results: July 26, 2024*
3Q 2024 results: October 29, 2024*
4Q 2024 results: February 27, 2025*
* Estimated dates

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

Contact:
Investor_Relations@penoles.com.mx
Phone: +52 (55) 5279 3294

Financial statements

Consolidated Financial Statements **As of and for the years ended December 31, 2023 and 2022** **with Independent Auditor's Report**

PEÑOLES®

Independent Auditor’s Report

To the Shareholders
of Industrias Peñoles, S.A.B. de C.V.

Opinion

We have audited the accompanying consolidated financial statements of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries (“the Company”), which comprise the consolidated statement of financial position as of December 31, 2023, ,and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries as of December 31, 2023, 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 have carried out our audit in accordance with International Auditing Standards (IAS). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities in relation to the audit of the consolidated financial statements” section of our report. We are independent of the Company in accordance with the “International Code of Ethics for Professional Accountants (Including International Independence Standards)” (“IESBA Code of Ethics”) in conjunction with the ethical requirements applicable to our audit of the consolidated financial statements in Mexico by the “Professional Ethics Code of the Mexican Institute of Public Accountants” (“IMCP Code of Ethics”) and we have fulfilled other ethical responsibilities in accordance with those requirements and the IESBA Code of Ethics. We believe that the audit evidence we have obtained provides a sufficient and adequate 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 thecontext of ouraudit of the consolidated financial statements as a whole, and in forming our opinionthereon, and we do not provide a separate opinion on these matters. For each matter below, ourdescription 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

Description and why it was considered a key audit matter

We have considered a key audit matter the Company´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.

In the note 6, paragraph k) “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 evaluate 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.

We also evaluated the appropriateness of the disclosures related to the assessment of impairment indicators in long-lived assets, which were made in the attached consolidated financial statements as of December 31, 2023.

Estimates of mineral reserves and resources

Description and why it was considered a key audit matter

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 could 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 restoration 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 restoration of its production centers. The Company's mineral reserves and resources are determined by management's internal specialists.

Note 4 a) 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 specialist, 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 occurred during the year. 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.

We also evaluated the appropriateness of the disclosures related to the material estimates of reserves and resources, which were made in the attached consolidated financial statements as of December 31, 2023.

Estimation of Inventory in leaching pads

Description and why it was considered a key audit matter

We have considered as a key audit matter the estimation of the recoverable amount of gold in the leaching yards. This is because it is an estimate that requires various variables and assumptions, as well as the probability of these evolving over time as more information is obtained from leaching yard activities and assays of the deposited mineral.

In Note 4 b) of the attached consolidated financial statements, you can see further detail about the accounting policy and the criteria that the Company considered for the evaluation of the estimation of inventory in leaching yards.

How our audit addressed the matter

We evaluated the competence, experience, and independence of the Company's geologist involved in estimating the quantity of recoverable gold deposited in the leaching yards.

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

We involved our specialist in understanding the process and methodology for determining the estimated amount of gold contained in the leaching yards and evaluated the appropriateness of the methodology, including any changes from that used in previous periods.

We evaluated the basis of the judgments applied, including the appropriateness of including new information from the leaching yards. We evaluated the basis of the judgments applied, including how new information in the leaching yards was necessary to include.

We also evaluated the reasonableness of the recovery rate used in the calculation. We also evaluated the appropriateness of the disclosures related to the estimates of inventory in leaching yards, which were made in the attached consolidated financial statements as of December 31, 2023.

Deferred income tax

Description and why it was considered a key audit matter

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 p) and Note 21 to the accompanying consolidated financial statements as of December 31, 2023, 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 consolidation financial statement as of December 31, 2023.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sergio Mora González

Our audit opinion and the accompanying financial statements and footnotes have been translated from Spanish version into English for convenience purposes only.

Monterrey, Nuevo León,
March 4, 2024.

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Amounts in thousands of U.S. dollars)

	Note	As of December 31 2023	2022
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	8	**$ 1,040,222**	$ 1,468,918
Trade and other accounts receivable, net	9	**553,871**	598,735
Recoverable income tax		**141,662**	75,812
Other financial assets	10	**31,347**	46,059
Inventories	11	**1,798,453**	1,880,641
Prepaid expenses		**40,206**	52,221
Total current assets		**3,605,761**	4,122,386
Non-current assets classified as held for sale	39	**21,362**	21,362
NON-CURRENT ASSETS:			
Trade and other accounts receivable, net	9	**43,528**	39,415
Other financial assets	10	**5,818**	5,518
Inventories	11	**69,760**	91,620
Financial assets in equity instruments	12	**114,625**	167,123
Property, plant and equipment, net	13	**4,660,208**	4,710,657
Equity investments in associates	14	**81,215**	72,181
Right-of-use assets	15	**93,595**	98,422
Deferred income tax	21	**1,278,154**	702,938
Other assets		**5,230**	10,905
Total non-current assets		**6,352,133**	5,898,779
Total assets		**$ 9,979,256**	$ 10,042,527

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Amounts in thousands of U.S. dollars)

	Note	As of December 31 **2023**	2022
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Suppliers and other accounts payable	16	**$ 648,106**	$ 671,994
Other financial liabilities	17	**24,308**	54,399
Financial debt	18	**235,528**	376,840
Employee benefits	19	**55,704**	54,644
Lease liabilities	15	**14,882**	13,793
Provisions	20	**11,849**	4,827
Income tax payable		**99,391**	209,089
Total current liabilities		**1,089,768**	1,385,586
Liabilities directly associated with non-current assets classified as held for sale	39	**39,287**	35,609
NON-CURRENT LIABILITIES:			
Financial debt	18	**2,523,257**	2,531,178
Employee benefits	19	**49,690**	49,747
Other financial liabilities	17	**22,726**	97,627
Lease liabilities	15	**95,563**	94,215
Provisions	20	**481,298**	427,590
Deferred income tax	21	**171,879**	132,699
Total liabilities		**4,473,468**	4,754,251
EQUITY:			
Share capital	22	**401,399**	401,399
Legal reserve	38	**52,304**	52,304
Retained earnings		**3,782,467**	3,635,377
Components of other comprehensive loss	22	**(26,144)**	(14,781)
Equity attributable to equity holders of the parent		**4,210,026**	4,074,299
Non-controlling interests	3	**1,295,762**	1,213,977
Total equity		**5,505,788**	5,288,276
Total liabilities and equity		**$ 9,979,256**	$ 10,042,527

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

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Profit or Loss

(Amounts in thousands of U.S. dollars)

	Note	**For the years ended December 31 2023**	2022
Sales	25	**$ 5,928,965**	$ 5,523,358
Cost of sales	26	**5,120,766**	4,490,904
GROSS PROFIT		**808,199**	1,032,454
Administrative expenses	27	**332,170**	292,704
Exploration expenses	28	**232,691**	217,132
Selling expenses	29	**165,737**	142,329
Reversal of impairment in the value of long-lived assets	13	**-**	(21,362)
Other expenses	31	**79,001**	97,103
Other income	31	**(96,847)**	(74,940)
		712,752	652,966
OPERATING PROFIT		**95,447**	379,488
Finance income	32	**(100,797)**	(45,891)
Finance costs	33	**251,947**	201,146
Foreign exchange (loss)/gain, net		**(1,357)**	3,118
Share of profit/(loss) of associates	14	**1,767**	(1,418)
PROFIT BEFORE INCOME TAX		**(56,113)**	222,533
Income tax	21	**(342,649)**	(103,042)
CONSOLIDATED NET PROFIT		**$ 286,536**	$ 325,575
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$ 147,090**	$ 183,363
NON-CONTROLLING INTERESTS	3	**139,446**	142,212
		$ 286,536	$ 325,575
EARNINGS PER SHARE (basic and diluted in U.S. dollars)	23	**$ 0.37**	$ 0.46

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

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Other Comprehensive Income

(Amounts in thousands of U.S. dollars)

	Note	For the years ended December 31 2023	2022
CONSOLIDATED NET PROFIT		**$ 286,536**	$ 325,575
COMPONENTS OF OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain/loss on valuation of hedges:			
Gain reclassified to profit or loss	37	**85,483**	4,844
Deferred income tax	21 and 37	**(25,645)**	(1,453)
Changes in the fair value of hedging instruments	37	**(98,829)**	14,171
Deferred income tax	21	**29,649**	(4,251)
Net effect of unrealized gain on valuation of hedges		**(9,342)**	13,311
Share of profit/ (loss) of associates	14	**10,801**	4,486
Foreign currency translation reserve		**3,761**	13,327
Other comprehensive income items to be reclassified to profit or loss		**5,220**	31,124
COMPONENTS OF OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Unrealized gain on valuation of employee benefits:			
Actuarial gain	19	**13,019**	9,450
Deferred income tax	21	**(2,070)**	(1,503)
		10,949	7,947
Unrealized gain on valuation of financial assets in equity instruments	12	**(54,811)**	(9,437)
Deferred income tax	21	**16,443**	2,831
		(38,368)	(6,606)
Other comprehensive (loss)/profit items that will not be reclassified to profit or loss		**(27,419)**	1,341
TOTAL COMPONENTS OF OTHER COMPREHENSIVE INCOME		**(22,199)**	32,465
OTHER COMPREHENSIVE INCOME		**$ 264,337**	$ 358,040
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**$ 135,727**	$ 210,501
NON-CONTROLLING INTERESTS		**128,610**	147,539
		$ 264,337	$ 358,040

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

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the Years Ended December, 2023 and 2022

(Amounts in thousands of U.S. dollars)

				Retained Earnings						
	Note	Share capital	Legal reserve	Undistributed earnings	Net profit / (loss) for the year	Total retained earnings	Components of other comprehensive loss	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as of December 31, 2021		$ 401,399	$ 52,304	$ 3,064,172	$ 391,348	$ 3,455,520	$ (41,919)	$ 3,867,304	$ 1,156,576	$ 5,023,880
Changes in equity interest in associates	14			(859)		(859)		(859)		(859)
Acquisition of non-controlling interest	3			(2,647)		(2,647)		(2,647)	2,647	-
Net profit for the year					183,363	183,363		183,363	142,212	325,575
Components of other comprehensive income						-	27,138	27,138	5,327	32,465
Comprehensive income					183,363	183,363	27,138	210,501	147,539	358,040
Shareholders' resolutions:										
Allocation of net income from prior year				391,348	(391,348)					
Increase in non-controlling interests	3								10,143	10,143
Dividends declared									(102,928)	(102,928)
Balance as of December 31, 2022		401,399	52,304	3,452,014	183,363	3,635,377	(14,781)	4,074,299	1,213,977	5,288,276
Net profit of the year					**147,090**	**147,090**		**147,090**	**139,446**	**286,536**
Components of other comprehensive income							**(11,363)**	**(11,363)**	**(10,836)**	**(22,199)**
Comprehensive income					**147,090**	**147,090**	**(11,363)**	**135,727**	**128,610**	**264,337**
Shareholders resolutions:										
Allocation of net income from prior year				**183,363**	**(183,363)**					
Increase in non-controlling interests	3								**9,667**	**9,667**
Dividends declared									**(56,492)**	**(56,492)**
Balance as of December 31, 2023		**$ 401,399**	**$ 52,304**	**$ 3,635,377**	**$ 147,090**	**$ 3,782,467**	**$ (26,144)**	**$ 4,210,026**	**$ 1,295,762**	**$ 5,505,788**

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

INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands of U.S. dollars)

	Note	For the year ended December 31 2023	2022
OPERATING ACTIVITIES			
Net cash flows from operating activities	34	**$ 476,136**	$ 667,266
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(591,860)**	(734,673)
Interest capitalized in property, plant and equipment		**(4,133)**	(12,830)
Purchase of intangible assets		**(3,873)**	(5,082)
Proceeds from sale of property, plant and equipment		**4,952**	12,366
Collection of loans granted to contractors		**5,220**	6,513
Revenue from the redemption of shares of associates		-	8
Interest received		**75,004**	33,911
Increase in financial assets in equity instruments	12	**(2,313)**	-
Increase in equity investments in associates	14	**-**	(12,024)
Cash flows received from the Layback Agreement	4ii	**22,800**	15,000
Net cash flows used in investing activities		**(494,203)**	(696,811)
FINANCING ACTIVITIES			
Interest paid	18 and 24	**(185,647)**	(159,262)
Interest rate hedges of derivative financial instruments		**20,943**	6,327
Loans obtained	18	**2,769,670**	1,529,655
Repayment of loans	18	**(2,943,627)**	(1,576,939)
Principal and interest paid for leases	15	**(22,261)**	(24,399)
Cash dividends paid to equity holders of the parent		**(8)**	(2)
Cash dividends paid to non controlling interest		**(56,433)**	(102,657)
Increase in non-controlling interests	3	**9,667**	10,143
Loans from partners	24	**22,726**	8,626
Payment of loans from partners in non-controlling investments	24	**(32,965)**	(10,008)
Net cash flows used in financing activities		**(417,935)**	(318,516)
Decrease in cash and cash equivalents		**(436,002)**	(348,061)
Net foreign exchange difference		**7,306**	(115)
Cash and cash equivalents at the beginning of the year		**1,468,918**	1,817,094
Cash and cash equivalents at the end of the year		**$ 1,040,222**	**$** 1,468,918

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

I INDUSTRIAS PEÑOLES, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2023 and 2022
(Amounts in thousands of U.S. dollars)

1. Description of the Business

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

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

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

Mining concessions grant rights upon all the minerals and substances, but do not grant rights upon the surface where the mines are located. In accordance with the new Mining Law that came into effect on May 9, 2023, the duration of mining concessions for exploitation was reduced from 50 to 30 years and will be granted as long as certain requirements are met and can be extended for an additional 25 years. In total, new concessions granted after the implementation of the new law will be for a maximum of 55 years.

2. Basis of presentation

The consolidated financial statements and their notes were authorized by the Managing Director, Finance Director, Director of Administrative Services, and Legal Director on March 4th, 2024, in accordance with their respective roles for issuance and subsequent approval by the Board of Directors. Shareholders of Grupo Peñoles have the authority to approve or modify the consolidated financial statements.

The consolidated financial statements of Grupo Peñoles and all its subsidiaries were prepared in accordance with International Financial Reporting Standards (hereafter "IFRS") issued by the International Accounting Standards Board (hereafter "IASB").

The consolidated financial statements are presented in U.S. dollars (refer Note 6 a), which is the functional currency of Industrias Peñoles and most of the entities that comprise it. The amounts were rounded to thousands of U.S. dollars, unless otherwise indicated. Figures referred to in Mexican pesos (Ps) are expressed in thousands of Mexican pesos, unless otherwise indicated.

2. Basis of preparation (concludes)

The consolidated financial statements presented cover the following periods and dates:

- Statements of financial position as of December 31, 2023 and 2022.
- Statements of profit or loss for the years ended December 31, 2023 and 2022.
- Statements of other comprehensive income for the years ended December 31, 2023 and 2022.
- Statements of changes in equity for the years ended December 31, 2023 and 2022.
- Statements of cash flows for the years ended December 31, 2023 and 2022.

The consolidated financial statements were prepared on a historical cost basis, except for the following items which are valued at their fair value as of the reporting date of the consolidated statement of financial position:

- Derivative financial instruments.
- Financial assets in equity instruments.
- Certain inventories which are valued at their fair value.

3. Consolidation

The consolidated financial statements include the financial statements of Industrias Peñoles, S.A.B. de C.V. and its subsidiaries, prepared for the same reporting period as that of the parent company, applying uniform accounting policies.

Subsidiaries

Subsidiaries are understood as those entities over which Grupo Peñoles exercises effective control in order to govern the operating and financial policies and derive benefits from their activities, from the date it effectively gained control until the date it effectively ceded that control. The control of entities qualified as subsidiaries is evaluated based on the power it has and exercises through its shareholding of voting rights, exposure to its variable returns, and the ability to influence its returns.

The consolidated financial statements include all assets, liabilities, revenues, expenses, and cash flows, after eliminating intercompany balances and transactions. When shareholding in a subsidiary is less than 100% and thus there is non-controlling interest in the net assets of the consolidated subsidiaries, it is identified in a separate line item in equity as non-controlling interest.

The accounting for business acquisitions is performed using the purchase method, which requires the acquired assets and assumed liabilities to be recognized at their fair value at the date of purchase; the results of the acquired businesses are recognized in the consolidated financial statements from the effective date of acquisition. The results of the businesses sold during the year are included in the consolidated financial statements up to the effective disposal date, and the gain or loss for their disposal is recognized in the statement of profit or loss, as the difference between the revenues obtained from the sales, net of related expenses, and the net assets attributable to the equity interest of the business that has been sold.

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

3. Consolidation (continued)

Associates

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

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

Significant subsidiaries

The significant subsidiaries are as follows:

Subsidiaries with total participation

Subsidiary	Country	Functional Currency (1)	% Equity interest December **2023**	2022
Minas Peñoles, S.A. de C.V.	Mexico	USD	**100**	100
Química Magna, S.A. de C.V.	Mexico	USD	**100**	100
Metalúrgica Met-Mex Peñoles, S.A. de C.V.	Mexico	USD	**100**	100
Química del Rey, S.A. de C.V.	Mexico	USD	**100**	100
Minera Ciprés, S.A. de C.V.	Mexico	USD	**100**	100
Compañía Minera Sabinas, S.A. de C.V.	Mexico	USD	**100**	100
Minera Capela, S.A. de C.V.	Mexico	USD	**100**	100
Arrendadora Mapimí, S.A. de C.V.	Mexico	USD	**100**	100
Servicios Administrativos Peñoles, S.A. de C.V.	Mexico	Peso	**100**	100
Servicios Especializados Peñoles, S.A. de C.V.	Mexico	Peso	**100**	100
Bal Holdings, Inc.	USA (2)	USD	**100**	100
Fuerza Eólica del Istmo, S.A. de C.V.	Mexico	USD	**100**	100

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

Subsidiaries with non-controlling interests

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

3. Consolidation (continued)

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

Subsidiary	2023 %	2022 %	Non-controlling interest in net profit for the year 2023	2022	Non-controlling interests in equity 2023	2022
Fresnillo plc	**25**	25	**$ 111,127**	$ 107,068	**$ 1,234,286**	$ 1,150,314
Minera Tizapa	**49**	49	**28,163**	35,675	**62,076**	64,384
Otras			**156**	(531)	**(600)**	(721)
			$ 139,446	$ 142,212	**$ 1,295,762**	$ 1,213,977

For the years ended December 31, 2023, and 2022, Equipos Chaparral, S.A de C.V. and Exploraciones y Desarrollos Mineros Coneto, S.A.P.I 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 $9,667 and $10,143, respectively, in the non-controlling interests line item in the consolidated statements of changes in equity.

During December 2022, Grupo Peñoles acquired a 49% stake in its subsidiary Flobarco, S.A. de C.V., which was held by a third-party shareholder, for an amount of $1. With this purchase, Grupo Peñoles owns the entirety of the equity. As the acquisition of the non-controlling interest did not result in a change of control, this acquisition was considered an equity transaction, hence the amount of non-controlling interest, amounting to a deficit of $2,647, was recognized within the accumulated earnings line item.

The condensed financial information before eliminations as of December 31, 2023 and 2022, and for the years ended on those dates, of significant subsidiaries with non-controlling interests, is presented in the following tables:

Statement of financial position:

	2023		2022	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Assets:				
Current assets	**$ 1,539,018**	**$ 92,371**	$ 1,940,181	$ 118,884
Non-current Assets	**4,198,588**	**94,882**	3,974,099	90,062
Total assets	**$ 5,737,606**	**$ 187,253**	$ 5,914,280	$ 208,946

	2023		2022	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Current liabilities	**$ 372,024**	**$ 38,698**	$ 687,930	$ 55,293
Non-current liabilities	**1,298,385**	**21,871**	1,309,413	21,060
Total liabilities	**$ 1,670,409**	**$ 60,569**	$ 1,997,343	$ 76,353
Equity	**$ 4,067,197**	**$ 126,684**	$ 3,916,937	$ 132,593
Total liabilities and equity	**$ 5,737,606**	**$ 187,253**	$ 5,914,280	$ 208,946
Dividends paid	**$ 108,351**	**$ 59,999**	$ 201,950	$ 106,999

3. Consolidation (concludes)

Statement of other comprehensive income:

	2023		2022	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Sales	**$ 2,705,086**	**$ 258,390**	$ 2,432,990	$ 265,419
Operating profit	**$ 142,495**	**$ 83,153**	$ 283,593	$ 109,840
Net profit	**$ 288,300**	**$ 57,476**	$ 308,291	$ 72,804
Components of other comprehensive (loss)/income	**$(39,302)**	**$ 56**	$(2,260)	$ 123
Comprehensive income	**$ 248,998**	**$ 57,532**	$ 306,031	$ 72,927

Statement of cash flows:

	2023		2022	
	Fresnillo plc	Minera Tizapa	Fresnillo plc	Minera Tizapa
Net cash flows used in operating activities	**$ 425,922**	**$ 50,455**	$ 502,185	$ 86,934
Net cash flows used in investing activities	**(369,531)**	**(9,437)**	(514,182)	(12,307)
Net cash flows used in financing activities	**(495,834)**	**(59,999)**	(254,108)	(106,999)
Net decrease in cash and cash equivalents	**(439,443)**	**(18,981)**	(266,105)	(32,372)
Net foreign exchange difference	**4,963**	**-**	(117)	-
Cash and cash equivalents at the beginning of the year	**969,060**	**69,168**	1,235,282	101,540
Cash and cash equivalents at end of the year	**$ 534,580**	**$ 50,187**	$ 969,060	$ 69,168

4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

i) Rights over assets at Soledad and Dipolos mine

In 2009, five members of the El Bajío agricultural community in the state of Sonora, who claimed rights over certain land areas near the operations of Minera Penmont ("Penmont"), filed a legal lawsuit with the Agrarian Unification Court (Tribunal Unitario Agrario) of Hermosillo, Sonora, to have Penmont vacate an area of this surface land. The land in dispute covered a portion of the surface where part of the Soledad & Dipolos mine operations are located. The litigation led to a final court order, which Penmont complied with by vacating 1,824 hectares of land, resulting in the suspension of Soledad & Dipolos operations. Although the claim and final court order did not affect the Group's legal title over the mining concession or the mineral currently located in the leaching yards near the mine site, access to the land at the mine site is required for the exploitation of the concession in Soledad & Dipolos.

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

Penmont is the legal and registered owner of the land where the leaching yards are located but has not yet been able to physically access these yards due to opposition from certain local individuals. This land was purchased by Penmont from the Federal Government of Mexico in accordance with legal procedures. Grupo Peñoles has a reasonable expectation that Penmont will eventually regain access to the Soledad & Dipolos assets and process the mineral content in the Soledad & Dipolos leaching yards. This expectation considers different scenarios, including but not limited to the different legal processes that Minera Penmont has filed to regain access to the land, and other processes filed by members of the El Bajío agricultural community seeking cancellation of Penmont's title over this matter, whose file is pending final resolution. Therefore, Grupo Peñoles continues to recognise properties, plant and equipment, and inventories related to Soledad & Dipolos. Since it is not yet known with certainty when access can be granted for processing of the inventory, this inventory is classified as a non-current asset.

Regarding inventory, during the first half of the year, the Company identified certain suspicions of illegal extraction of gold content from its Soledad-Dipolos leaching platforms. The Company estimates a loss of approximately 20,000 ounces of gold content and therefore recognised a write-off of $21,861 regarding the gold content of Soledad-Dipolos in inventory, which has been presented as other expenses in the statement of profit or loss. The Company has taken necessary actions with the support of various authorities to stop illegal extraction. As a result of the authorities' visit to the mine site, it was confirmed that there were no personnel carrying out any mining activity in Soledad & Dipolos. Therefore, the Company currently does not expect any further loss of this inventory.

The write-off of the inventory considered both the estimated recoverable quantity of gold existing on the leaching platform and the potential volume of solution being irrigated in the area believed to have been leached to date. However, the nature of the estimate means that actual results may differ from these estimates.

Additionally, the claimants from the El Bajio community also filed claims against occupation agreements they entered into with Penmont, which covered land plots different from the surface where Soledad & Dipolos are located. Penmont has not had significant mining operations or specific geological interests on the affected plots and, therefore, these lands are not considered strategic for Penmont. The Agrarian Tribunal has issued rulings declaring these occupation agreements on these land plots null and void, and that Penmont must remediate such lands to the state in which they were before Penmont's occupation, as well as return any mineral extracted from this area. The case relating to the claims on these land plots is still subject to a final conclusion, as appeals progress as expected. However, since Penmont has not conducted significant mining operations or had specific geological interests on these land plots, Grupo Peñoles does not see any related contingencies as significant for these land plots. There are no material assets recognized in relation to these parcels of land as of December 31, 2023.

ii) Layback agreement

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

The effectiveness of the agreement was subject to the approval of the Federal Competition Commission of Mexico (COFECE), which was granted in February 2021. The consideration includes three payments: $25,000 which was received upon the approval of COFECE, $15,000 which was received in November 2022, and $22,800 which was received in November 2023.

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

Grupo Peñoles considered the assignment contracts as a single agreement (assignment agreement) since they were negotiated jointly. Based on this, Grupo Peñoles determined that the transaction should be accounted for as the sale of a single intangible asset and in accordance with IFRS 15 – *Revenue from Contracts with Costumers* is recognized as such, at a point in time when control is transferred, and that is when the performance obligation is satisfied. In December 2022, Grupo Peñoles successfully completed support to Orla regarding negotiations relevant to the acquisition of access rights from the local ejido, which was a performance obligation in accordance with the assignment agreement. Hence, the Company considered at this time that all obligations set out in the assignment agreement had been fulfilled and recognized the total value of the agreement ($67,200) in profit or loss as other income.

iii) Juanicipio Project

Commercial production refers to the point at which a mining operation is ready for use and capable of operating in the way intended by management. This typically means that the operation can produce the expected outcome at steady and sustainable levels. The determination of when a mine reaches commercial production can be complex and critical. Grupo Peñoles considered a range of factors in making this judgment, including the completion of substantially all construction development activities in accordance with the design, a ramp-up period which achieved an average throughput of 70% of the nominal grinding capacity, grades in line with the mine plan, and recoveries consistent with the design.

Grupo Peñoles evaluated the mine and plant's start of production separately. Grupo Peñoles had determined that the Juanicipio mine came into operation from January 1, 2022. After connecting the plant to the national power grid, Grupo Peñoles concluded that the Juanicipio plant achieved commercial production on June 1, 2023, following a successful start-up period of the plant and facilities. Once commercial production was reached, Grupo Peñoles began to depreciate all the plant assets and recognized the corresponding charge as a production cost.

iv) Subsidiaries with non-controlling interests

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

v) Climate Change

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

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

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

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

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

A summary of the main estimates used is presented below:

a) Mineral reserves and resources

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

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

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

b) Estimation of recoverable mineral in leaching platforms

In the Group's open-pit mines, certain extracted mineral is placed in leaching pads where a solution is applied to the surface of the heap to dissolve the gold and enable extraction. The determination of the quantity of recoverable gold requires an estimate, taking into account the amounts of mineral placed on the pads, the grade of the mineral (based on assay data) and the estimated recovery percentage (based on metallurgical studies and current technology).

The mineral grades placed on the pads are periodically compared with the amounts of metal recovered through the leaching process to assess the suitability of the estimated recovery (metallurgical balance). The Group monitors the results of the metallurgical balance process, and recovery estimates are adjusted based on actual results over time and when new information is available.

The Group monitors metallurgical balances to confirm the grade and recovery of the ore in inventories. Based on new technical information and reconsideration of actual recovery rates and updated leaching targets, the Group updated its estimate of the gold content in leaching platforms, increasing it by 30.7 thousand ounces of gold as of January 1, 2023.

This change in estimate was prospectively incorporated into inventory from January 1, 2023. The increase in the number of ounces reduced the weighted average cost of inventory. If the estimate had not changed, production cost during 2023 would have been $30,900 higher, with a compensatory impact on the balance of inventory as of December 31, 2023.

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

c) Deferred Income Tax Assets

The recognition of deferred tax assets, including those that arise from unused tax losses, requires management to assess the probability that the Group will generate taxable profits in future periods, in order to be able to utilize the recognized deferred tax assets. Estimates of future taxable income are based on the forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the Group's ability to realize the net deferred tax assets recorded at the balance sheet date could be affected.

d) Impairment

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

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

e) Property, plant and equipment

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

f) Provision for asset decommissioning and rehabilitation

The estimated costs of closure of mining units derived from the legal and implied obligations required to restore operating locations are recognized at their present value in the period in which they are incurred. Estimated rehabilitation costs include the costs of decommissioning and removing structures, rehabilitating mines and tailings dams and decommissioning the processing plant and operating facilities, as well as the costs incurred for rehabilitation, reclamation, and re-vegetation of affected areas. Provisions for asset decommissioning and rehabilitation are recognized at present value at the time the obligation becomes known and provision amounts are calculated based on management’s understanding of the related legal requirements and Grupo Peñoles corporate social responsibility policies.

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

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

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

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.

g) Retirement benefits

Assumptions are used to calculate Grupo Peñoles employee long term retirement benefits. Assumptions, as well as the estimates they give rise to, are determined together with independent actuaries. The assumptions cover demographical hypothesis, discount rates, expected salary increases, estimated working lives, and expected inflation rate, among other areas.

h) 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 6r.

i) Contingencies

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

j) Leases

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

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

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

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

The lease liability is measured at the present value of outstanding lease payments. The payments are discounted using the implicit interest rate in the lease if that rate can be easily determined. If that rate cannot be easily determined, the lessee's incremental borrowing rate is used. Subsequently, the liability is measured using the effective interest rate (EIR) method, it is increased to reflect interest on the lease liability and is discounted with the payments incurred. Like the right-of-use asset, the liability is remeasured when there are lease modifications or reevaluations. As of December 31, 2023, and 2022, the weighted-average incremental borrowing rate applied to the lease liabilities was 6.09% and 5.64%, respectively.

5. Changes in Accounting Policies

New standards, interpretations, and amendments

Grupo Peñoles applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2023 (unless otherwise indicated). Grupo Peñoles has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and Practice Statement 2, Disclosure of Material Accounting Policies.

The amendments require an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments explain how an entity can identify a material accounting policy. Examples are added of when an accounting policy is likely to be material. To support the amendments, the Board has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process" described in IFRS Practice Statement 2.

Grupo Peñoles conducted an analysis of its accounting policies addressing the practical statement and the requirements of materiality. The consolidated financial statements contain some adjustments to the Group's accounting policies derived from the analysis carried out to include only the accounting policies that are considered material for disclosure within its financial statements, thus facilitating optimal reading of the financial statements and decision making.

Amendments to IAS 8, Definition of accounting estimates

The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. According to the new definition, accounting estimates are "monetary amounts in the Financial Statements that are subject to measurement uncertainty".

Entities develop accounting estimates if accounting policies require financial statement items to be measured in a manner that involves uncertainty. The amendments clarify that a change in accounting estimate resulting from new information or developments is not the correction of an error.

5. Changes in Accounting Policies (continued)

Grupo Peñoles conducted an inventory of its accounting estimates and determined that all the estimates that are currently disclosed in the consolidated financial statements directly impact the monetary measurement of assets, liabilities, income and expenses, thus meeting the new definition. Therefore, the adoption of this amendment did not have any impacts on Grupo Peñoles.

IFRS 17 – Insurance Contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, replacing IFRS 4, Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing, and uncertainty of future cash flows and explicitly measures the cost of that uncertainty. It considers market interest rates and the impact of policyholder options and guarantees.

The standard is effective for annual reporting periods beginning on January 1, 2023, with early application allowed. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or fair value approach is applied.

For transition requirements purposes, the date of initial application is the start of the annual reporting period in which the Entity first applies IFRS 17, and the transition date is the start of the period immediately preceding the date of initial application.

This amendment did not have an impact on Grupo Peñoles as it is not an insurer and does not hold reinsurance contracts.

Amendment to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction.

The amendment introduces an exception to the IAS 12 initial recognition exemption. Applying this exception, the Entity does not apply the initial recognition exemption for transactions that result in equal amounts for taxable and deductible temporary differences.

The modifications apply to transactions that occur from the beginning of the first comparative period presented.

The modifications also apply to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, as well as decommissioning obligations and the corresponding assets recognized at the start of the first comparative period presented.

This amendment did not have an impact on Grupo Peñoles as the Group does not apply exemptions in the recognition of deferred taxes for leases. Grupo Peñoles specified the accounting treatment in its accounting policies for the initial recognition of temporary differences generated by right-of-use assets and lease liabilities that are generated from new contracts associated with its fixed assets.

Amendment to IAS 12, International Tax Reform - Second Pillar Model Rules

The amendments clarify that IAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Model Rules of the Second Pillar published by the Organization for Economic Co-operation and Development (OECD).

5. Changes in Accounting Policies (concludes)

The amendments introduce the following recognition and disclosure requirements:

<u>- Current tax disclosure</u>
Disclose the expense for current tax related to the second pillar model during periods when the legislation is in force.

<u>- Disclosure in periods prior to the entry into force of the tax reform</u>
In legislations where the second pillar model has been enacted but is not yet effective, entities must disclose at the end of their reporting period quantitative and qualitative information about their exposure to income taxes related to the second pillar model.

<u>- Disclosure of the application of the exception</u>
In May 2023, a mandatory exception was introduced in IAS 12 not to recognize and disclose deferred tax assets and liabilities related to the second pillar income tax. This exception allows entities to assess the accounting implications that will arise from the application of this amendment once legislation has been adopted in the jurisdictions where the entity is present.

Based on the above, since no effective rules related to Pillar Two have been enacted in the jurisdictions where Grupo Peñoles is present, there are no taxes incurred in the fiscal year to be disclosed in the consolidated financial statements for 2023. In addition, Grupo Peñoles will take the temporary exception of not recognizing or disclosing deferred taxes related to these rules, given the uncertainty in the markets where it operates and that the corresponding rules applicable to the entity have not been enacted. However, the Group's management is in the process of evaluating and monitoring the potential implications of these rules.

6. Material 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.

6. Material accounting policies (continued)

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

- Cumulative translation adjustments are recognized in other comprehensive income.

Foreign currency transactions

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

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

	2023	2022
Exchange rate as of December 31 (Mexican pesos per U.S. dollar)	**16.89**	19.36
Average exchange rate (Mexican pesos per U.S. dollar)	**17.76**	20.12

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

Initial recognition and measurement

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

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

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

6. Material accounting policies (continued)

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

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

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

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

Subsequent recognition

For the purpose of its subsequent recognition, Grupo Peñoles classifies its financial assets into the following categories:

- Financial assets at amortized cost

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

- Financial assets at fair value through profit or loss.

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

Grupo Peñoles reclassifies its debt instruments only when its business model for managing these financial assets changes.

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

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

Financial assets at amortized cost

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

6. Material accounting policies (continued)

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

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

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

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

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

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

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/(expenses) in the statement of profit or loss, as applicable.

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

Derecognition of financial assets

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

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

Grupo Peñoles enters into factoring agreements with the purpose of obtaining better term conditions in the collection of certain accounts receivables from clients, assuming a financial cost. As of December 31, 2023, and 2022, the financial assets that were derecognized due to the substantial transfer of all risks and rewards amount to $79,264 and $23,161, respectively.

6. Material accounting policies (continued)

d) Impairment of financial instruments

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

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

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

e) Derivative financial instruments

Hedging derivatives

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

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

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

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

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

Cash flow hedges

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

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

6. Material accounting policies (continued)

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

Fair value hedges

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

Embedded derivatives

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

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

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 37.

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

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

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

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

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

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

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

6. Material accounting policies (continued)

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

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

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

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

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

For the purpose of fair value disclosures, Grupo Peñoles has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Note 37 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 (based on normal operating capacity), including depreciation and amortization incurred for the mineral extraction and concentration of the metals contained in such. Mineral concentrate and doré purchases are recognized at cost, plus direct purchasing expenses.

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

As indicated in Note 37, Grupo Peñoles fair value hedges acquired to hedge the value of certain refined metal inventories or inventories under firm purchase commitments are measured at fair value. Consequently, metal inventories being hedged are measured at their fair value and subsequent changes in fair value are recognized in the consolidated statement of profit or loss, with this effect being offset by the effects of the fair value valuation of the derivative financial instruments.

Costs are determined using the weighted average cost method.

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

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

6. Material accounting policies (continued)

h) Property, plant and equipment

Property, plant and equipment is initially measured at cost. The cost includes the purchase price and any other costs directly attributable to refurbishing and getting the asset ready for use, including provisions for decommissioning or retirement, as well as interest costs. The cost of internally built assets includes materials, direct labor, and an appropriate allocation of indirect costs of construction.

Depreciation and depletion are calculated on the asset's acquisition cost, less the residual value of the property, plant and equipment throughout their useful lives or the waiting period in which the benefits of their use will be received. The estimate useful life of each asset has been evaluated considering the limitations of its physical life and the estimate of the economically recoverable mineral reserves of the mine where the assets are located.

Depreciation begins when the asset is available for use, on the following bases:

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

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

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

	Years
Mining properties	10
Metallurgic and chemical plants	7
Buildings and land	9 and 7
Other assets	5

Decommissioning and rehabilitation

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

Mine properties, mine development and stripping costs

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

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

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

6. Material accounting policies (continued)

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

Revenue earned on the sale of metal from the minerals extracted in the development stage prior to commercial production is recognized as income of the period.

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

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

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

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

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

Assets under construction

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

Sale and retirement of assets

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

Maintenance and repairs

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

6. Material accounting policies (continued)

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.

i) Leases

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

Grupo Peñoles applies a single recognition and measurement approach to all leases, except short-term leases and leases of low-value assets. Lease contracts as defined by IFRS 16 *Leases* are recognized in the consolidated statement of financial position, which results in the recognition of an asset that represents the right to use the underlying asset during the lease term and a liability related to the payment obligation.

Right-of-use asset measurement

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

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

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

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

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

After initial recognition, right-of-use assets are amortized on straight-line basis over the shorter of the useful life of the assets and the lease term as follows:

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

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

6. Material accounting policies (continued)

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

Lease liability measurement

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

Lease liability measurement includes the following lease payments:

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

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

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

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

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

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

j) Intangible assets

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

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

Intangible assets with finite useful lives consist of software licenses. Grupo Peñoles has no intangible assets with indefinite useful lives.

6. Material accounting policies (continued)

k) Impairment of non-financial long-lived assets

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

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

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

The recoverable amount of an asset is the higher of either its value in use or fair value less its disposal cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing value in use, estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to each asset. For an asset that does not generate cash flows independently from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. Cash generating units are the smallest identifiable groups of assets that generate cash flow that is independent from the cash flow attributable to other assets or groups of assets.

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

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

l) 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.

6. Material accounting policies (continued)

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 in this classification derivatives do not comply with the requirements to be designated as hedges.

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

Financial liabilities at amortized cost

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

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

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

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.

m) Provisions

Provision for decommissioning and rehabilitation

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

6. Material accounting policies (continued)

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.

n) 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.

o) Employee benefits

Short-term employee benefits

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

Defined benefit plan

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

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

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

6. Material accounting policies (continued)

Seniority premiums

In accordance with Mexican labor law, Grupo Peñoles is required to pay a premium equal to 12 days salary (capped at twice the minimum wage) for each year of service to its outgoing employees who have rendered 15 or more years of service.

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

Defined contribution plan

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

Termination benefits

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

Employee profit sharing (EPS)

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

p) 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.

6. Material accounting policies (continued)

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

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

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

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

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

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

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

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 profit or loss.

Grupo Peñoles has assessed whether there is uncertainty over the appropriate income tax treatment (IFRIC 23), considering (i) any uncertain tax treatment taken, (ii) the assumptions it made about the examination of tax treatments by taxation authorities, (iii) how it determined the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) how it considered changes in facts and circumstances.

Special tax over mining companies

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

q) 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.

6. Material accounting policies (continued)

Revenue from the sale of goods is recognized when the control of the related goods has been physically transferred to the buyer, which generally occurs at the time ownership of the product is physically transferred to the customer and collection of the related accounts receivable is reasonably assured. The performance obligations of Grupo Peñoles consist in the sale of products and the rendering of freight services, both are considered a single performance obligation within the context of the contract. Revenue is recognized as the performance obligation is satisfied.

The prices of refined metals are essentially determined by international prices, to which a premium is added, depending on the region where the products are sold, as well as the specific market conditions of the region in question.

Certain provisional pricing arrangements, primarily for the sale of concentrates, include future spot price adjustments to be determined after shipment of the product to the customer, and adjustments based on final assay results of the metal in concentrate originally determined by Grupo Peñoles. The revenue from sales under these agreements is recognized at the point in time when the control of the related goods is transferred to the buyer according to the agreed conditions and is measured using a provisional pricing and the most recent estimate of metal in concentrate (based on initial assay results).

For these provisional pricing arrangements, any future changes that occur over the quotation period are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 *Financial Instruments* and not within the scope of IFRS 15 *Revenue from Contracts with Customers*. These provisionally priced trade receivables are measured at fair value through profit or loss at each reporting date through the end of the quotation period based on the selling price for the quotation period stipulated in the base agreement. The forward sales price of the metals can be reliably determined as long as such metals continue to be sold in international markets. The unrealized gain or loss on agreements with forward prices is recognized in the consolidated statement of profit or loss. The subsequent adjustment to the initial estimate of metal in concentrate is also recognized in profit or loss after such estimate is determined based on final assay results, the conditions of the agreement have been met and the payment terms have been agreed on. The period between provisional invoicing and the end of the quotation period can be between one and four months.

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

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

Contract assets

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

Contract liabilities

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

6. Material accounting policies (continued)

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

r) 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.

s) Changes in accounting standards

Grupo Peñoles has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of Grupo Peñoles consolidated financial statements are disclosed below. Grupo Peñoles intends to adopt these new and amended standards and interpretations when they become effective. Grupo Peñoles does not expect that the adoption of these new and amended standards and interpretations will have a significant effect on its consolidated financial statements.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current with Covenants

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

6. Material accounting policies (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. Grupo Peñoles is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

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

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

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

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

The amendments are not expected to have a material impact on the financial statements of Grupo Peñoles, as it has not entered into any sale with leaseback transactions.

Amendments to IAS 7 and IFRS 7 - Supplier Financing Arrangements

The amendment specifies the disclosure requirements to provide users of financial statements with a better understanding of an entity's supplier financing arrangements on liabilities, cash flows, and the entity's exposure to liquidity risk.

In these agreements, one or more financial suppliers pay amounts that an entity owes to its suppliers (reverse factoring) while the entity agrees to settle these amounts with the financial suppliers according to the terms and conditions of the agreements.

The amendment introduces disclosure requirements on agreements with financial suppliers on liabilities and cash flows, including the terms and conditions of such agreements, as well as quantitative information on these agreements at the beginning and end of the period.

It is not expected that the amendments will have a material impact on the financial statements of Grupo Peñoles, as it has not entered into supplier financing agreements.

Amendments to IAS 21 - Lack of Convertibility

The amendment specifies how an entity should assess whether a currency is exchangeable and how to determine the exchange rate ("ER") when there is a lack of exchangeability.

A currency is considered exchangeable for another currency when an entity can exchange that currency for another currency through markets or exchange mechanisms that create enforceable rights and obligations without abnormal delays on the measurement date. A currency is not exchangeable for another currency if an entity can only obtain an insignificant amount of the other currency.

6. Material accounting policies (concludes)

If a currency is not exchangeable for another currency, an entity is required to estimate the spot ER on the measurement date to reflect the ER at which an orderly exchange transaction would take place on the measurement date between market participants under prevailing economic conditions. The amendments indicate that an entity may use an observable exchange rate without adjustment or another estimation technique.

The amendment introduces disclosure requirements that allow users of its financial statements to understand how the lack of exchangeability for another currency affects the profitability of the entity, financial performance, financial position, and cash flows.

It is not expected that the amendments will have a material impact on the financial statements of Grupo Peñoles, as it does not conduct operations in currencies with a lack of convertibility.

7. Segment Information

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

The CODM monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. In addition, Grupo Peñoles financing and income taxes are managed at the corporate level and are not allocated to the operating segments, except for those entities that are managed separately.

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

Precious metal mines

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

Base metal mines

This segment groups mineral exploration, extraction, and processing to obtain concentrates of zinc, lead, and copper. Zinc and lead concentrates are sent to Met-Mex for treatment and refining primarily to obtain refined zinc and lead. The copper concentrates are sold to metallurgical companies abroad that are not related parties.

7. Segment Information (continued)

Metallurgical

The metallurgical segment involves treating and refining the concentrates and dorés received from the precious metals and base metals business. The activities of this segment are performed in two main metallurgical plants: a) an electrode plant that produces zinc cathode; and b) the smelting-refining plant that primarily produces refined silver and gold (mostly presented in bars), as well as molded lead. The plants also process precious metals and base metals from non-related parties and this segment represents approximately 40% of production. The refined metals, which are mostly silver, gold, lead, and zinc, are sold in Mexico and abroad, primarily in the United States through the subsidiary Bal Holdings, as well as in Europe and South America.

Other

This segment consists primarily of the following operations: a) the production and sale of chemical products, primarily sodium sulfate, and b) entities that provide administrative and operating support activities. These operations do not meet the criterion for segment reporting under IFRS 8 *Operating Segments*.

The accounting policies used by Grupo Peñoles in reporting segments internally are the same as those contained in the notes to the consolidated financial statements.

The financial performance of the different segments is measured by the CODM using a net profit/loss approach.

The segment information as of December 31, 2023, and for the year ending on this date, is shown below:

	Precious Metal Mines	Base Metals Mines	Metallurgical	Others	Eliminations and Reclassifications	Total
Third-Party Sales	$ 741	$ 491,313	$ 5,181,490	$ 251,019	$ 4,402	$ 5,928,965
Intra-group Sales	2,704,345	580,250	32,693	285,303	(3,602,591)	-
Total Sales	2,705,086	1,071,563	5,214,183	536,322	(3,598,189)	5,928,965
Cost of Sales	2,201,848	931,137	5,228,986	176,428	(3,417,633)	5,120,766
Gross Profit	503,238	140,426	(14,803)	359,894	(180,556)	808,199
Administrative Expenses	128,428	83,106	88,854	245,855	(214,073)	332,170
Exploration Expenses	182,447	53,464	252	2,093	(5,565)	232,691
Selling Expenses	34,023	58,517	37,223	37,428	(1,454)	165,737
Other expenses/(income), net	15,845	21,033	(27,394)	(46,893)	19,563	(17,846)
	360,743	216,120	98,935	238,483	(201,529)	712,752
Operating profit/(loss)	$ 142,495	$(75,694)	$(113,738)	$ 121,411	$ 20,973	95,447
Finance income						(100,797)
Finance costs						251,947
Foreign exchange gain, net						(1,357)
Share of profit of associates						1,767
Profit before income tax						(56,113)
Income tax						(342,649)
Consolidated net profit						$ 286,536

7. Segment Information (continued)

Statement of financial position:

	Precious Metal Mines	Base Metal Mines	Metallurgical	Others	Eliminations and reclasifications	Total
Segment assets	$ 5,737,606	$ 1,775,352	$ 2,570,232	$ 8,085,464	$(8,189,398)	$ 9,979,256
Segment liabilities	$ 1,670,409	$ 876,745	$ 2,418,416	$ 3,037,669	$(3,529,771)	$ 4,473,468
Depreciation	$ 498,469	$ 44,198	$ 62,231	$ 13,488	$ 55,472	$ 673,858
Fixed asset investments	$ 472,320	$ 78,653	$ 30,847	$ 3,084	$ -	$ 595,993
Investments in associates	$ -	$ -	$ -	$ 83,866	$ (2,651)	$ 81,215

An analysis of segment information as of and for the year ended December 31, 2022 is as follows:

	Precious Metal Mines	Base Metal Mines	Metallurgical	Others	Eliminations and reclasifications	Total
Third-party sales	$ 61	$ 412,469	$ 4,883,984	$ 230,042	$(3,198)	$ 5,523,358
Intra-group sales	2,432,929	704,949	74,992	293,405	(3,506,275)	-
Total sales	2,432,990	1,117,418	4,958,976	523,447	(3,509,473)	5,523,358
Cost of sales	1,896,970	791,362	4,989,617	204,173	(3,391,218)	4,490,904
Gross Profit	536,020	326,056	(30,641)	319,274	(118,255)	1,032,454
Administrative expenses	94,123	94,870	112,048	205,656	(213,993)	292,704
Exploration expenses	165,790	54,022	193	1,667	(4,540)	217,132
Selling expenses	25,619	50,459	32,809	35,062	(1,620)	142,329
Reversal of Impairment loss of Long-lived assets	-	(21,362)	-	-	-	(21,362)
Other expenses/(income), net	(33,105)	29,440	16,240	(26,958)	36,546	22,163
	252,427	207,429	161,290	215,427	(183,607)	652,966
Operating profit/(loss)	$ 283,593	$ 118,627	$(191,931)	$ 103,847	$ 65,352	379,488
Finance income						(45,891)
Finance costs						201,146
Foreign exchange gain, net						3,118
Share of profit of associates						(1,418)
Profit before income tax						222,533
Income tax						(103,042)
Consolidated net profit						$ 325,575

7. Segment Information (concludes)

Statement of financial position:

	Precious Metal Mines	Base Metal Mines	Metallurgical	Others	Eliminations and reclasifications	Total
Segment assets	$ 5,914,280	$ 2,034,897	$ 2,526,353	$ 8,096,052	$(8,529,055)	$10,042,527
Segment liabilities	$ 1,997,343	$ 879,460	$ 2,217,551	$ 3,023,221	$(3,363,324)	$ 4,754,251
Depreciation	$ 501,769	$ 75,251	$ 62,684	$ 22,905	$ 9,128	$ 671,737
Fixed asset investments	$ 592,129	$ 97,030	$ 44,341	$ 14,003	$ -	$ 747,503
Investments in associates	$	$	$	$ 74,832	$(2,651)	$ 72,181

In 2023, three customers (three customers in 2022) from the Metallurgical business individually exceeded 10% of the value of net sales, together concentrating 39.7% of this item (39.4% in 2022).

The analysis of income by geographic area is included in Note 25.

As of December 31, 2023, and 2022, non-current assets located outside of Mexico amounted to $52,500 and $50,685, respectively.

8. Cash and Cash Equivalents

An analysis of cash and cash equivalents is as follows:

	2023	2022
Cash in hand and in banks	**$ 90,247**	$ 72,214
Liquid investments (1)	**949,975**	1,396,704
	$ 1,040,222	$ 1,468,918

(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:

	2023	2022
Trade Receivables (1)	**$ 158,315**	$ 266,844
Other accounts receivable	**22,891**	17,578
Less:		
Expected credit losses for trade receivables (Note 38)	**(1,979)**	(1,880)
Expected credit losses for other accounts receivable (Note 38)	**(1,277)**	(1,053)
Total trade and other accounts receivable	**177,950**	281,489

9. Trade and Other Accounts Receivable (concludes)

	2023	2022
Related parties (Note 24)	**14,354**	14,939
Recoverable value added tax	**392,390**	295,168
Advances to suppliers	**10,976**	20,140
Account receivable related to layback agreement (Note 4 ii)	**1,729**	23,819
Other accounts receivable to contractors	**-**	2,595
	597,399	638,150
Less: Non-current maturity		
Other accounts receivable to contractors	**773**	2,595
Recoverable value added tax	**42,755**	36,820
Long-term accounts receivable and other receivables	**43,528**	39,415
Total trade and other current accounts receivable, net	**$ 553,871**	$ 598,735

(1) As of December 31, 2023, and 2022, approximately 71% and 76%, respectively, of the accounts receivable are related to provisional price agreements.

Accounts receivable do not accrue interest. Gold and silver sales are made almost exclusively in cash, while lead, zinc, and copper sales are made both in cash and through a credit line (in each case previously authorized by a credit committee), with an average term of 30 days.

An analysis of the changes in the allowance for expected credit losses for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Initial balance	**$ 2,933**	$ 3,952
Increase for the year	**390**	(69)
Charges	**(67)**	(950)
Ending balance	**$ 3,256**	$ 2,933

10. Other Financial Assets

An analysis of this caption is as follows:

	2023	2022
Fair value of hedging derivatives (Note 37)	**$ 5,800**	$ 20,069
Fair value of derivative financial instruments (Note 37)	**15,156**	8,731
Derivative financial instruments at fair value through profit or loss	**1,552**	-
Hedging derivative financial instrument “cross currency swap”	**2,930**	-
Accounts receivable from settled derivatives contracts	**6,395**	18,544
Total other financial assets	**31,833**	47,344
Less: Non-current maturity	**(486)**	(1,285)
Other current financial assets	**$ 31,347**	$ 46,059
Other non-current financial assets	**$ 486**	$ 1,285
Security deposits and other financial assets	**5,332**	4,233
Total other non-current financial assets	**$ 5,818**	$ 5,518

11. Inventories

An analysis of this caption is as follows:

		2023		2022
Inventories stated at cost:				
Refined metals and ore concentrates (1)	$	1,387,709	$	1,620,760
Raw materials and chemical products in process		21,196		27,677
Operating materials (1)		299,145		252,406
		1,708,050		1,900,843
Inventories measured at fair value:				
Refined metals		160,163		71,418
Inventories,		1,868,213		1,972,261
Less: Non-current portion		69,760		91,620
Inventories, current potion	$	1,798,453	$	1,880,641

(1) As of December 31, 2023, and 2022, Grupo Peñoles has a reserve for a decrease in the net realizable value of its inventory amounting to $28,826 and $37,738, respectively.

12. Financial assets in equity instruments

An analysis of this caption is as follows:

		2023		2022
Equity investments in entities listed on the Canadian Stock Exchange (1):				
Cost	$	65,045	$	62,732
Increase in fair value		48,732		103,243
Subtotal		113,777		165,975
Equity investments in entities listed on the U.S. Stock Exchange:				
Cost		180		180
Increase in fair value		668		968
Subtotal		848		1,148
Total	$	114,625	$	167,123

An analysis of changes in these equity investments for the years ended December 31, 2023 and 2022 is as follows:

		2023		2022
Initial balance	$	167,123	$	176,560
Stock Purchases (2)		2,313		-
Loss reclassified to components of other comprehensive loss	(	54,811)	(	9,437)
Ending balance	$	114,625	$	167,123

(1) As of December 31, 2023, and 2022, approximately 88% of the investments correspond to 9,746,193 shares of Mag Silver, Corp., for an amount of $101,420 and 5% of Endeavor, Inc., represented by 2,800,000 shares for an amount of $5,494. The investments are traded on the Canadian stock exchange. The prices per share as of December 31, 2023, and 2022 amounts to $13.79, $2.60 and $21.15, $4.38 respectively.

(2) Purchase of share units of Osisko Mining Inc by Fresnillo plc.

13. Property, Plant and Equipment

Changes in property, plant and equipment for the year ended December 31, 2023 are as follows:

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Investment:						
Initial balance 2023	$ 7,498,107	$ 1,712,564	$ 1,338,190	$ 22,495	$ 607,358	$ 11,178,714
Acquisitions	266,740	8,981	44,634	2,474	276,243	599,072
Increase in the Provision for asset dismantling	31,471	-	-	-	-	31,471
Capitalized interest	-	-	-	-	4,133	4,133
Disposals and retirements	(59,843)	(1,798)	(324)	(2,679)	-	(64,644)
Transfers and others	410,027	41,679	-	-	(451,706)	-
Conversion adjustment	9,471	112	114	6,763	-	16,460
Final balance 2023	8,155,973	1,761,538	1,382,614	29,053	436,028	11,765,206

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Depreciation, amortization, depletion and impairment:						
Initial balance 2023	(4,800,887)	(948,239)	(704,573)	(11,432)	(2,926)	(6,468,057)
Depreciation of the period	(541,394)	(96,516)	(35,376)	(7,104)	(1,031)	(681,421)
Disposals and retirements	47,349	1,633	1,317	766	-	51,065
Conversion adjustment	(2,863)	(48)	(132)	(3,542)	-	(6,585)
Final balance 2023	(5,297,795)	(1,043,170)	(738,764)	(21,312)	(3,957)	(7,104,998)
Net investment	$ 2,858,178	$ 718,368	$ 643,850	$ 7,741	$ 432,071	$ 4,660,208

The movement in property, plant and equipment for the year ended December 31, 2022, is as follows:

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

13. Property, Plant and Equipment (continued)

	Mining properties	Metallurgical plants and equipment	Buildings and land	Other assets	Assets under construction	Total
Depreciation, amortization, depletion and impairments:						
Initial balance 2022	(4,485,791)	(851,514)	(701,348)	(9,770)	(2,926)	(6,051,349)
Depreciation of the period	(545,111)	(97,081)	(33,671)	(1,342)	-	(677,205)
Disposals and retirements	139,112	387	483	64	-	140,046
Impairment reversal	16,770	-	4,592	-	-	21,362
Accumulated depreciation of non-current assets held for sale	76,168	-	25,417	-	-	101,585
Conversion adjustment	(2,035)	(31)	(46)	(384)	-	(2,496)
Final balance 2022	(4,800,887)	(948,239)	(704,573)	(11,432)	(2,926)	(6,468,057)
Net investment	$ 2,697,220	$ 764,325	$ 633,617	$ 11,063	$ 604,432	$ 4,710,657

Depreciation as of December 31, 2023, and 2022 amounted to $681,421 and $677,205, respectively, of which $673,858 and $671,737, respectively, were recorded in the results. The remainder are depreciations of equipment used in units that are in their construction stage, which are included under the heading of constructions in process.

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:

	2023	2022
Discount rate	**9.4%-12.7%**	8.5% -11.6%
Commodity prices (average):		
Gold (US$/oz)	**1,890**	1,641
Silver (US$/oz)	**23**	22
Zinc (cUS$/lb)	**131**	135
Copper (cUS$/lb)	**444**	431
Lead (cU$/lb)	**111**	98

During 2023 and 2022, Grupo Peñoles has not recognized any impairment losses since the expected cash flows (value in use) of the cash generating units showing indicators of impairment exceeded their carrying amount of long term assets.

As mentioned in Note 39, in December 2022, Grupo Peñoles, received a binding offer for the sale property, plant and equipment from the Madero unit with a third party. Due to the foregoing, a reversal of the impairment of the assets of this unit that were impaired was made for $21,362; this value represents the lower of its carrying amount or its fair value. The amount is shown as an asset held for sale.

13. Property, Plant and Equipment (concludes)

Assets under Construction

In 2023, the assets under construction mainly include adjustments and replacements of mining property assets and metallurgical plants, while for 2022, in addition to the previous concepts, investments were made in fixed assets and pre-operational expenses for the construction and development of the Juanicipio mining project (State of Zacatecas) which started operations in June 2023.

It is estimated that investments in 2024 for adjustments and replacements of equipment will amount to approximately $123,558.

Commitments

As of December 31, 2023, and 2022, several agreements have been entered into for the purchase of machinery and equipment, as well as for the completion of adjustments to mining and metallurgical projects. The amount of the commitments at each of these dates is $122,576 and $218,519, respectively.

14. Equity Investments in Associates

The investments in associates are detailed as follows:

	2023	2022	**2023**	2022
Aerovics, S.A. de C.V. (1)	**63.36%**	63.36%	**$ 80,487**	$ 69,994
Línea Coahuila Durango, S.A. de C.V.	**50.00%**	50.00%	**(19)**	1,664
Administradora de Riesgos Bal S.A. de C.V.	**35.00%**	35.00%	**747**	523
			$ 81,215	$ 72,181

(1) Of this investment, as of December 31, 2023, and 2022, 30.98% corresponds to non-voting shares. Grupo Peñoles does not have control over these investments for the years ended on those dates, respectively.

The movement in investments for the periods ended December 31, 2023 and 2022 is analyzed as follows:

	2023	2022
Starting balance in associates	**$ 72,181**	$ 55,120
Share in the result of associates	**(1,767)**	1,418
Change in associate's participation (1)	**-**	(859)
Investment reimbursement (2)	**-**	(8)
Share capital increase (1)	**-**	12,024
Conversion adjustment	**10,801**	4,486
Ending balance in associates	**$ 81,215**	$ 72,181

14. Equity Investment in Associates (continued)

The investments in associate companies are described as follows:

- Aerovics, S.A. de C.V., a company dedicated to private air transportation.
- Línea Coahuila-Durango, S.A. de C.V., a company dedicated to the provision of railway transportation services through a concession granted by the Federal Government.
- Administración de Riesgos Bal, S.A. de C.V., a company dedicated to risk management.

(1) During January 2022, a capital increase was made to Aerovics, S.A. de C.V. for an amount of $12,024. The increase in this capital represented a change in the participation of the associate, and an amount of $859 was recognized as a deficit of the associate's accumulated results, which was accounted for as part of retained earnings.

(2) On June 30, 2022, the shareholders of MGI Fusión, S.A. de C.V. (formerly Administradora Moliere 222, S.A. de C.V.) decided to fully reimburse the shares owned by Grupo Peñoles for an amount of $8.

The condensed financial information of the main associates is as follows:

As of December 31, 2023, and 2022, and years ended on those dates.

Statement of financial position:

	2023	
	Aerovics	Línea Coahuila Durango
Asets:		
Current assets	**$ 21,045**	**$ 12,012**
Non-current assets	**112,828**	**5**
Total assets	**$ 133,873**	**$ 12,017**
Current liabilities	**$ 1,822**	**$ 6,271**
Non-current liabilities	**5,023**	**5,783**
Total liabilities	**6,845**	**12,054**
Total equity	**127,028**	**(37)**
Total liabilities and equity	**$ 133,873**	**$ 12,017**

14. Equity Investment in Associates (concludes)

Statement of financial position:

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

Statement of comprehensive income 2023:

	Aerovics	Línea Coahuila Durango
Sales	**$ 22,338**	**$ 28,145**
Operating income (loss)	**$ 64**	**$(539)**
Net income (loss)	**$ 767**	**$(2,631)**
Other comprehensive income items	**$ 14,519**	**$ 682**
Comprehensive income (loss)	**$ 15,286**	**$(1,949)**

Statement of comprehensive income 2022:

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

15. Leases

The movement in the right-of-use assets for the year ended December 31, 2023, is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Starting balance on January 1, 2023	**$ 26,254**	**$ 78,606**	**$ 38,319**	**$ 143,179**
Additions	**1,902**	**-**	**7,287**	**9,189**
Contract modifications	**1,068**	**2,093**	**2,114**	**5,275**
Disposals	**(1,703)**	**-**	**(13,552)**	**(15,255)**
Conversion effect	**(2,360)**	**(50)**	**(102)**	**(2,512)**
Ending balance on December 31, 2023	**25,161**	**80,649**	**34,066**	**139,876**
Amortization:				
Starting balance on January 1, 2023	**(10,394)**	**(12,924)**	**(21,439)**	**(44,757)**
Amortization of the period	**(3,292)**	**(4,021)**	**(9,407)**	**(16,720)**
Disposals	**1,644**	**-**	**13,552**	**15,196**
Ending balance on December 31, 2023	**(12,042)**	**(16,945)**	**(17,294)**	**(46,281)**
Net investment	**$ 13,119**	**$ 63,704**	**$ 16,772**	**$ 93,595**

The movement in the right-of-use assets for the year ended December 31, 2022, is as follows:

	Buildings	Machinery and equipment	Computer equipment and other assets	Total cost
Investment:				
Starting balance on January 1, 2022	$ 23,651	$ 72,216	$ 45,302	$ 141,169
Additions	87	3,933	6,896	10,916
Modification in Contracts	1,393	2,457	1,260	5,110
Disposals	(588)	-	(15,496)	(16,084)
Effect by Conversion	1,711	-	357	2,068
Final balance as of December 31, 2022	26,254	78,606	38,319	143,179
Amortization:				
Initial balance as of January 1, 2022	(7,860)	(9,371)	(24,694)	(41,925)
Amortization of the period	(3,049)	(3,553)	(12,240)	(18,842)
Disposals	515	-	15,495	16,010
Final balance as of December 31, 2022	(10,394)	(12,924)	(21,439)	(44,757)
Net investment	$ 15,860	$ 65,682	$ 16,880	$ 98,422

15. Leases (concludes)

An analysis of the changes in lease liabilities as of December 31, 2023 and 2022 are as follows:

	2023	2022
Initial balance as of January 1	**$ 108,008**	$ 108,006
Additions	**9,189**	10,916
Contract modifications	**5,275**	5,110
Interest of the period	**9,045**	8,482
Payments	**(22,261)**	(24,399)
Disposals	**(275)**	(64)
Exchange rate effect	**1,464**	(43)
Final balance as of December 31	**$ 110,445**	$ 108,008

The maturity analysis of the lease liability as of December 31, 2023 is as follows:

	2023		
	Lease liability	Accrued interest	Total
2024	**$ 22,322**	**$(7,440)**	**$ 14,882**
2025	**18,336**	**(6,628)**	**11,708**
2026	**15,772**	**(5,849)**	**9,923**
2027	**13,093**	**(5,124)**	**7,969**
2028 and forward	**97,758**	**(31,795)**	**65,963**
	167,281	**(56,836)**	**110,445**
Current maturity	**22,322**	**(7,440)**	**14,882**
Non-current maturity	**$ 144,959**	**$(49,396)**	**$ 95,563**

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

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

The amortization of the right-of-use assets as of December 31, 2023 and 2022 amounted to $16,720 and $18,842 respectively.

Expenses related to short-term and low-value leases for the periods ended December 31, 2023 and 2022 amounted to $107,617 and $80,598, respectively, which were recorded in the results.

16. Suppliers and Other Accounts Payable

The analysis is shown below:

	2023	2022
Commercial suppliers	$ **214,594**	$ 265,871
Concentrate and mineral shippers	**96,078**	132,668
Related parties (Note 24)	**90,977**	29,827
Other accrued liabilities	**168,732**	97,167
Interest payable (Note 18)	**39,613**	41,371
Energy resources	**23,717**	92,433
Market expenses	**12,172**	10,620
Dividends payable	**2,223**	2,037
	$ **648,106**	$ 671,994

17. Other financial liabilities

They are analyzed as follows:

	2023	2022
Hedging derivative financial instruments (Note 37)	$ **11,625**	$ 13,931
Fair value derivative financial instruments (Note 37)	**7,911**	954
Derivative financial instruments with changes to profit or loss (Note 37)	**1,171**	8,959
Payable accounts from expired derivative contracts	**3,601**	32,329
Accounts payable to related parties (Note 24)	**22,726**	95,853
Total other financial liabilities	**47,034**	152,026
Less: non-current maturity (Note 24)	**(22,726)**	(97,627)
Total current other financial liabilities	$ **24,308**	$ 54,399

18. Financial Debt

As of December 31, 2023 and 2022, short-term direct loans were contracted for:

	2023	2022
Bank loans denominated in pesos (1)	$ **125,930**	$ -
Unsecured bonds issued by Fresnillo plc (2)	**-**	317,486
Bank loan (3)	**100,000**	50,000
Current maturity of long-term liability	**9,598**	9,354
Total current debt denominated in U.S. dollars	$ **235,528**	$ 376,840

18. Financial Debt (continued)

(1) As of December 31, 2023, direct loans maturing on January 24, 2024 for $61,060 (equivalent to Ps. 1,031,520) and on January 31, 2024 for $64,870 (equivalent to Ps. 1,095,885), accruing interest at an average rate of 12.17%.

(2) Remaining Unsecured Debt Bonds issued by Fresnillo plc; debt placed in the international market under the 144A/Reg S format on November 7, 2013, with a term of 10 years, principal payment at maturity, semi-annual interest at a fixed rate of 5.50% plus withholding tax and without guarantees, which were repurchased for 60% of the issue during September 2020.

On November 13, 2023, the remainder of this debt was settled.

(3) As of December 31, 2023, direct loans maturing on January 31, 2024 at an average rate of 6.32%.

The loans correspond to an allocation of uncommitted credit lines that are available as of December 31, 2023, similarly, short term amounts are available for Industrias Peñoles, S.A.B. de C.V. with Mexican and foreign banks for $601,500.

As of December 31, the connection of the interest payable on short and long-term debt is shown below:

	2023	2022
Opening balance on January 1	**$ 41,371**	$ 39,295
Interest accrued during the year	**172,117**	145,877
Interest capitalized in properties, plant and equipment	**4,133**	11,299
Payment of short and long-term interest	**(178,008)**	(155,100)
Ending balance on December 31	**$ 39,613**	$ 41,371

At the same dates, long-term debt consisted of the following dollar-denominated loans payable:

	2023	2022
Unsecured bonds issued by IPSAB (4)	**$ 1,173,846**	$ 1,172,193
Unsecured bonds issued by IPSAB (5)	**500,735**	501,105
Unsecured bonds issued by Fresnillo plc (6)	**829,506**	829,124
Bilateral with ECA guarantee (7)	**28,768**	38,110
Total	**2,532,855**	2,540,532
Less:		
Current maturity	**9,598**	9,354
Total non-current debt	**$ 2,523,257**	$ 2,531,178

As of December 31, the connection of short and long-term debt excluding interest is shown below:

	2023	2022
Opening balance on January 1	**$ 2,908,018**	$ 2,936,822
Debt obtained	**2,769,670**	1,529,655
Debt payment	**(2,943,627)**	(1,576,939)
Amortization of transaction costs	**2,408**	2,688
Exchange rate result	**22,316**	15,792
Ending balance on December 31	**$ 2,758,785**	$ 2,908,018

18. Financial Debt (continued)

The maturities of long-term debt, from 2025 onwards, are as follows:

	Amount
2025	$ 9,555
2026	9,614
2027	-
2028	-
2029-2050	2,504,088
	$ 2,523,257

(4) Unsecured debt bonds issued by Industrias Peñoles S.A.B. de C.V. for a total of $1,100,000 placed in the international market under the 144A/Reg. S format on September 5, 2019. The issuance was made in two equal parts of $550,000 each with terms of 10 and 30 years, with principal payment at maturity and interest payable semi-annually at a fixed rate of 4.15% and 5.65% respectively plus taxes. The proceeds from this transaction were used to prepay the issues of Stock Certificates for a total of $600,000 due in 2020 ($400,000) and 2022 ($200,000) and the rest for corporate purposes. Standard & Poor's Global Ratings (S&P) and Fitch Ratings, Inc. assigned the notes "BBB" ratings. Additionally, on July 30, 2020, the original issue with a maturity in 2029 was reopened to which $100,000 was added at the same fixed rate of 4.15% and a placement yield at maturity of 3.375%. The use of the funds included pre-payment of the syndicated credit with Bank of America, N.A. (Administrative Agent) and Scotiabank Inverlat S.A., payment of short-term debt and for general corporate purposes.

(5) Unsecured debt bonds issued by Industrias Peñoles S.A.B. de C.V., for an amount of $500,000, debt placed in the international market under the 144A/Reg. S format on July 30, 2020, with a term of 30 years, principal payment at maturity, semiannual interest at a fixed rate of 4.75% plus taxes and no endorsements. The use of the funds included pre-payment of the syndicated credit with Bank of America, N.A. (Administrative Agent) and Scotiabank Inverlat S.A., payment of short-term debt and for general corporate purposes. Transaction costs amounted to $3,627.

(6) On September 29, 2020, with settlement on October 2, Fresnillo plc issued Unsecured Debt Bonds for $850,000; debt placed in the international market under the 144A/Reg S format, with a term of 30 years, principal payment at maturity, semi-annual interest at a fixed rate of 4.25% plus taxes and no endorsements. The use of the funds includes the payment for the partial repurchase of the current debt mentioned in point (2) and for general corporate purposes. Standard & Poor's and Moody's Investors Service assigned the notes ratings of BBB and Baa2, respectively. Transaction costs amounted to $3,844.

(7) On June 22, 2017, Industrias Peñoles S.A.B. de C.V. signed a credit agreement with Crédit Agricole Corporate and Investment Bank based on the purchases of equipment that its subsidiary Metalúrgica Met-Mex Peñoles S.A. de C.V. has made to the supplier Outotec Oy (Finland) for the projects of expansion of its zinc plant and Silver Recovery II. The debt is 95% guaranteed by Finnvera as Export Credit Agency (ECA) of the country of origin of the supplier under the protection of goods and services eligible under the agreement, as well as local costs.

The drawdown amounted to a notional of $82,590 and the settlement is made through 17 semiannual repayments from September 28, 2018 to September 30, 2026. Applicable rate of 6-month LIBOR plus 0.94% on outstanding balances (without considering the ECA's commission for its guarantee). The floating component of the interest rate has been fixed through an interest rate swap.

18. Financial Debt (concludes)

In relation to the benchmark rate of this credit, on October 23, 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 the other IBOR rates, and a new Protocol was issued. During 2022, Grupo Peñoles adhered to the ISDA IBOR "Fallback" protocol.

On June 29, 2023, an amendment to the credit agreement was signed for changing the benchmark interest rate from LIBOR to compounded SOFR. The change will apply from September 29, 2023.

- Credit actions by Rating Agencies.

As of the end of December 2023 and 2022, the rating of IPSAB de CV's unsecured senior notes by S&P is "BBB" with a Negative outlook on a Global scale, and "BBB" with a Stable outlook on a Global scale by Fitch Ratings.

Similarly, as of the end of December 2023 and 2022, the rating of Fresnillo plc's unsecured senior notes by S&P is "BBB" with a Negative outlook on a Global scale, and "Baa2" with a Stable outlook on a Global scale by Moody's Investors Services.

- Obligations to do and not to do financial debt.

The Group's financial debt is subject to certain obligations to do and not to do, all of which have been fully complied with as of December 31, 2023.

19. Employee Benefits

Employee benefits

The current obligations for employee benefits are detailed as follows:

	2023	2022
Salaries and other employment benefits payable	**$ 17,178**	$ 25,436
Paid annual leave and vacation premium payable	**16,739**	13,838
Social security dues and other provisions	**21,787**	15,370
	$ 55,704	$ 54,644

Retirement benefits

Grupo Peñoles has a defined pension and benefit contribution plan for its non-unionized workers, which includes pension plans based on each worker's earnings and years of service provided by personnel hired through 30 June 2007, and a defined contribution component as of such date, based on periodic contributions made by both Grupo Peñoles and the employees.

The plan is managed exclusively by a Technical Committee, which is comprised of three people that are appointed by Grupo Peñoles.

Defined benefit component

The defined benefit component of the plan referred to the worker salaries and the number of years of service provided through 30 June 2007, in accordance with the benefits generated through this date in respect of the pension granted. This defined retirement benefit plan was for its non-unionized employees and included pension plans based on each worker's salaries and the number of years of service, seniority premiums payable upon death and due to permanent disability or voluntary separation. Benefits accrued through this date are restated for inflation based on the National Consumer Price Index through the date of the employee's retirement.

19. Employee Benefits (continued)

Defined contribution component

The defined contribution component of the plan consists of periodic contributions made by employees, as well as matched contributions made by Grupo Peñoles beginning on 1 July 2007, capped at 8% of the employee's daily integrated salary.

There is also a seniority premium plan for voluntary separation for Grupo Peñoles' unionized workers.

Death and disability benefits are covered through insurance policies.

Recognition of employee benefits

An analysis of the actuarial value of these obligations recognized in the consolidated statement of financial position as of December 31, 2023 and 2022 is as follows:

	2023	2022
Defined benefit obligation of active workers	**$ 51,936**	$ 53,503
Defined benefit obligation of retired workers (1)	**77,241**	69,271
Defined benefit obligation	**129,177**	122,774
Unfunded defined benefit obligation (2)	**42,804**	33,850
	171,981	156,624
Fair value of plan assets	**(122,291)**	(106,877)
Employee benefits	**$ 49,690**	$ 49,747

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

An analysis of pensions, defined contribution and seniority premiums recognized in the consolidated statement of profit or loss for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Current-year service cost	**$ 4,487**	$ 4,352
Interest cost (Note 34)	**15,638**	11,204
Return on plan assets (Note 34)	**(10,244)**	(7,044)
Defined contribution	**14,871**	12,893
Total	**$ 24,752**	$ 21,405

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

	2023	2022
Actuarial gains	**$ 13,019**	$ 9,450

19. Employee Benefits (continued)

A reconciliation of the actuarial value of the defined benefit obligation as of December 31, 2023 and 2022 is as follows:

	2023	2022
Beginning balance of the defined benefit obligation	$ 156,624	$ 164,229
Current-year service cost	4,487	4,352
Interest cost	15,638	11,204
Actuarial (gain) loss due to experience adjustments	(9,046)	14,531
Actuarial loss due to adjustments in demographic assumptions	5	-
Actuarial loss (gain) due to adjustments in financial assumptions	2,312	(32,499)
Benefits paid	(21,860)	(15,488)
Exchange rate result	23,821	10,295
Ending balance of the defined benefit obligation	$ 171,981	$ 156,624

A reconciliation of the actuarial value of plan assets as of December 31, 2023 and 2022 is as follows:

	2023	2022
Beginning balance of plan assets	$ 106,877	$ 111,630
Current return on plan assets	10,244	7,044
Actuarial gain (loss) due to experience adjustments	6,290	(8,518)
Plan contributions	630	1,603
Benefits paid	(18,169)	(12,578)
Foreign exchange loss	16,419	7,696
Ending balance of plan assets	$ 122,291	$ 106,877

An analysis of plan assets is as follows:

	2023	2022
Debt instruments issued by Federal and state-owned entities	$ 64,113	$ 56,121
Investment funds	24,262	21,070
Equity instruments	33,916	29,686
Total plan assets	$ 122,291	$ 106,877

The financial instruments that make up the plan's assets are represented by publicly traded securities in the Mexican market with credit ratings of "AAA" and "AA" on a national scale.

As of December 31, 2023, Grupo Peñoles estimates that it will not make contributions to the defined benefit plan during 2024.

The most important assumptions used in determining the defined benefit obligations, plan assets, and the net cost of the period are as follows:

Actuarial assumptions

	2023	2022
Average discount rate to reflect present value	10.04%	10.22%
Average wage increase rate	5.25%	5.25%
Inflation rate for expected growth	3.75%	3.75%

19. Employee Benefits (concludes)

The most significant demographic assumptions for 2023 and 2022 were "EMMSSA09 dynamic" and the mortality rates published by the Mexican Social Security Institute (IMSS).

The weighted average duration of the DBO as of December 31, 2023, is 8.4 years.

The discount rate to reflect obligations at their present value, future salary increases, and the expected working life of employees were identified as significant actuarial assumptions. The determination of the DBO can be sensitive to a change in the assumptions stated above.

The following adjustments in the assumptions that impact the determination of the DBO are considered reasonably possible:

- A 0.5% increase/decrease in the discount rate.
- A one-year adjustment in life expectancy.

Below is a sensitivity analysis showing the impact that the DBO could experience by increasing/decreasing the assumptions as of December 31, 2023, keeping the rest of the variables constant:

	Increase in assumption		Decrease in assumption	
	Effect	%	Effect	%
Discount rate by 0.5%	**$(6,389)**	**(3.7%)**	**$ 7,836**	**4.6%**

The change in the liability as a result of increasing the expected working lifespan of employees by one more year amounts to $3,347, which represents approximately 1.9%.

Below is a sensitivity analysis showing the impact that the DBO could experience by increasing/decreasing the assumptions as of December 31, 2022, keeping the rest of the variables constant:

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

The change in the liability as a result of increasing the expected working lifespan of employees by one more year amounts to $2,635, which represents approximately 1.5%.

20. Provisions

An analysis of provisions is as follows:

	2023	2022
Ecological restoration	**$ 490,183**	$ 429,831
Other provisions	**2,964**	2,586
	$ 493,147	$ 432,417

20. Provisions (concludes)

The movement in the provision for ecological restoration for the years ending December 31, 2023, and 2022, is analyzed as follows:

	2023	2022
Balance as of January 1	**$ 432,417**	$ 463,005
Increase (decrease) capitalized in the period (Note 13)	**31,471**	(37,020)
Payments of the period	**(7,978)**	(4,263)
(Decrease) increase in the provision for remediation in units closed	**(3,653)**	17,031
Increase in other accounts payable	**-**	2,586
Financial discount (Note 33)	**43,775**	27,438
Provision associated with non-current assets classified as held for sale (Note 39)	**(3,678)**	(35,609)
Exchange rate result	**793**	(751)
Ending balance as of December 31	**493,147**	432,417
Less:		
Provision for current mine closure costs	**11,849**	4,827
Ending balance as of December 31	**$ 481,298**	$ 427,590

The provision represents the present value of the liability to dismantle and rehabilitate the mining units at the date when it is estimated that their mineral resources will be depleted due to the exploitation of non-renewable natural resources, in accordance with the legal obligation established in the Mining Law, other applicable legal regulations, and in agreement with the environmental policy and social responsibility established by Grupo Peñoles.

There are several assumptions on which the estimates of the costs to dismantle and rehabilitate the mineral beneficiation plants, tailings deposits, removal of structures, rehabilitation of mines, and reforestation of the different mining units are determined. The assumptions used are in line with the sustainable development policy of Grupo Peñoles, which were reviewed and certified by external advisors with extensive international experience in the rehabilitation of mining units. Another assumption used is to discount the provision to reflect the obligations for ecological restoration at its present value.

In determining the provision, there are certain uncertainties about the estimation of these costs that include changes in the applicable legal environment, in the options for eviction, dismantling, and claiming of each mining unit, the estimated mineral resources, as well as in the levels of discount rates and inflation at the time the costs are incurred.

Changes to the above assumptions were recognized as an adjustment to the previously recorded dismantling asset that will be amortized over the average remaining life of the mining units, which ranges between 2 and 47 years as of December 31, 2023.

The present value of the provision was calculated using discount rates ranging from 9.84% to 11.19% in 2023 and 10.00% to 10.62% in 2022.

21. Income Tax and Special Tax for Mining Companies

Tax environment

As previously explained in these consolidated financial statements, Grupo Peñoles is a Mexican corporation with subsidiaries abroad which, as of December 31, 2023 and 2022, were subject to a minor tax effect of $16,108 and $6,002, respectively. An analysis of income tax matters related to Grupo Peñoles operations in Mexico are as follows:

2024 and 2023 Income Tax amendments

For 2024 and 2023, there are no significant changes that affect the income tax. In 2023, there were only formal matters regarding the implementation of the new version of the issuable digital invoice “CFDI” (“Comprobante Fiscal Digital por internet” by its acronym in Spanish) and the bill of lading.

Income tax

The Mexican Income Tax Law (MITL) stipulates a 30% corporate income tax rate.

Fiscal consolidation

Industrias Peñoles, S.A.B. de C.V. and its subsidiaries determined the ISR on a consolidated basis until 2013 in accordance with the tax legislation in force in this year. As of January 1, 2014, with the Tax Reform, both IPSAB and its controlled subsidiaries pay the ISR on individual bases.

In accordance with the provisions of the new LISR in force as of 2014, the groups that were fiscally consolidated as of December 31, 2013, must deconsolidate and pay the ISR and/or Asset Tax (IA) that they might have deferred and that is pending payment by each entity on individual bases. Therefore, IPSAB, as the controlling company, pays the ISR that was deferred due to fiscal consolidation, in a similar manner to the payment of the ISR deferred by fiscal consolidation in accordance with the changes introduced to the fiscal consolidation regime of 2010.

The 2014 Tax Reform establishes two deadlines for the payment of previously deferred taxes from the effects of deconsolidation; the first is five years, so that 25% must be paid no later than May 31, 2014, while the remaining 75% will be divided into four parts (25%, 20%, 15% and 15%), to be covered, subject to an update in the following four exercises; and the second is up to ten years applying the provisions in force until 2013.

The main concepts that originate the deferred ISR for fiscal consolidation are:

a) Fiscal losses of controlled companies included in the determination of the consolidated fiscal result and that have not been individually amortized by the controlled companies.

b) Dividends distributed by the controlled companies that did not come from their CUFIN and reinvested CUFIN balance.

c) Special consolidation concepts derived from operations held between the consolidating companies.

As a result of the fiscal deconsolidation, during 2023 the last annuity was paid corresponding to fiscal losses decreased in the fiscal consolidation for an amount of $5,220.

Special Mining Right

The Special Mining Right (SMR) is considered an income tax payable by holders of mining concessions and assignments, consisting of the application of a rate of 7.5% to the positive difference resulting from reducing their accrued income by the deductions established in the LISR, excluding deductions for investments, interests, and annual inflation adjustment. This SMR can be credited against the ISR of the same fiscal year and must be paid within the first three months following the corresponding fiscal year.

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

Movement of the deferred income tax liability

The temporary differences on which the effect of deferred income tax is recognized are detailed below:

	2023	2022
Deferred income tax liabilities:		
Trade and other accounts receivable	**$ 131,166**	$ 104,681
Inventories	**(117,602)**	(128,656)
Property, plant and equipment	**(359,743)**	(84,095)
Other financial assets	**3,668**	50,726
Deferred income tax assets:		
Other financial liabilities	**(10,771)**	(7,616)
Suppliers and other accounts payable	**(157,082)**	(138,304)
Net leases payments	**(4,102)**	(7,361)
Provisions	**(113,069)**	(107,925)
Employee benefits	**(7,815)**	(7,774)
Available tax loss carryforwards	**(453,983)**	(226,674)
Deferred income tax	**(1,089,333)**	(552,998)
Special tax for mining companies	**(16,942)**	(17,241)
Deferred income tax liability, net	**$(1,106,275)**	$(570,239)
Shown in the consolidated statement of financial position:		
Deferred income tax asset	**$ 1,278,154**	$ 702,938
Other financial liabilities	**171,879**	132,699
	$(1,106,275)	$(570,239)

As of December 31, 2023, the analysis of the tax losses to be amortized in Mexico recognized in the deferred tax balance, as well as the tax losses to be amortized for which a deferred tax asset was not recognized for accounting purposes and their corresponding expiration year, are presented below:

Year	Total	Recognized	Non reconongnized
2024	**$ 3,672**	**$ -**	**$ 3,672**
2025	**13,472**	**-**	**13,472**
2026	**8,688**	**13**	**8,675**
2027	**6,705**	**834**	**5,871**
2028	**5,718**	**447**	**5,271**
2029	**53,601**	**3,167**	**50,434**
2030	**78,489**	**40,098**	**38,391**
2031	**134,265**	**119,129**	**15,136**
2032	**71,242**	**58,927**	**12,315**
2033	**250,644**	**231,368**	**19,276**
	$ 626,496	**$ 453,983**	**$ 172,513**

In Mexico, tax losses to be amortized expire independently in ten years.

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

Deferred tax assets are recognized for unused tax losses and unused tax credits to the extent that it is probable that taxable benefits will be available in the future against which the losses or credits can be used.

The deferred ISR assets for tax losses that have not been recognized because they are considered not to be used to offset accrued profits in Grupo Peñoles, have arisen in subsidiaries that have been in losses for some time and there is no other evidence of recoverability in the near future to support (either partially or fully) the recognition of the losses as deferred tax assets.

Income tax recognized in results

The income taxes recorded in the consolidated statement of results for the periods ended December 31, 2023, and 2022, are composed as follows:

	2023	2022
ISR caused	$ 129,901	$ 214,524
Deferred ISR related to the creation and reversal of temporary differences	(505,650)	(338,850)
IEPS tax benefit	(3,336)	(506)
Income tax	(379,085)	(124,832)
Special mining fee caused	36,137	58,820
Deferred special mining fee	299	(37,030)
Special mining fee	36,436	21,790
Income tax as an expense in results	$(342,649)	$(103,042)

The items that cause the difference between the legal and effective ISR rates are as follows:

	2023	2022
Result determined at the legal ISR rate in Mexico (30%)	$(16,834)	$ 66,758
Effects of inflation for tax purposes	(121,882)	(126,691)
Non-deductible expenses	27,755	17,612
Effects of exchange rate on the fiscal values of assets and liabilities	(304,090)	(108,343)
IEPS Benefit	(3,336)	(506)
Deferred tax assets not recognized	78,116	46,595
Deferred special mining right	(11,635)	(6,692)
Other ítems	(21,819)	5,821
Benefit in border region rate	(5,360)	(19,386)
Income tax	$(379,085)	$(124,832)
Effective rate	675.6%	(56.1%)

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

ISR recognized in other items of comprehensive (loss) income

The movement for the years ended December 31, 2023, and 2022 of the deferred ISR recognized directly in the stockholders' equity is as follows:

	2023	2022
Result from valuation of financial assets in capital instruments	**$ 16,443**	$ 2,831
Result from valuation of employee benefits	**(2,070)**	(1,503)
Result from valuation of hedges	**4,004**	(5,704)
	$ 18,377	$(4,376)

Deferred tax not recognized on investments in subsidiaries and associates

Grupo Peñoles has not recognized all the deferred tax liability with respect to the distributable reserves of its subsidiaries because it controls them and it is expected that only a portion of the temporary differences will be reversed in the foreseeable future. The temporary differences for which a deferred tax liability has not been recognized amount to $893,844 and $678,762 as of December 31, 2023 and 2022, respectively.

22. Equity and other comprehensive loss items

Share capital

The share capital as of December 31, 2023, and 2022 is represented by ordinary, registered shares without an expression of nominal value and is made up of class one shares representing the minimum fixed capital and class two shares, representing the variable part, as follows:

	Shares		Amount	
	2023	2022	**2023**	2022
Authorized and subscribed share capital	**413,264,747**	413,264,747	**$ 403,736**	$ 403,736
Repurchased shares	**15,789,000**	15,789,000	**2,337**	2,337
Nominal share capital in circulation	**397,475,747**	397,475,747	**$ 401,399**	$ 401,399

As of December 31, 2023, and 2022, the nominal share capital is made up of a minimum fixed capital without the right to withdrawal of $401,399 (equivalent to Ps. 2,191,210) and a variable capital that may not exceed ten times the amount of the fixed capital.

Undistributed Profits

Starting in 2014, dividends paid to individuals and corporate residents abroad on profits generated from that year will be subject to an additional ISR withholding of 10%.

At the Ordinary General Shareholders Meeting held on May 31, 2022, the Assembly authorized an amount that could be used to purchase own shares up to $191,515 (equivalent to Ps.3,500,000) in accordance with the Securities Market Law. This amount is reserved under the item "Undistributed Profits".

22. Equity and other comprehensive loss items (concludes)

Legal Reserve

The net profit for the year is subject to the legal requirement that 5% of it must be allocated to increase the legal reserve until the amount of the reserve is equal to 20% of the share capital in pesos. To date, this percentage has been fully covered. This reserve cannot be distributed, except as dividends in shares.

Other comprehensive loss items

Valuation effect of hedges

This balance includes the effective portion of gains or losses from the valuation of financial instruments designated as cash flow hedges, net of deferred ISR. When the transaction being hedged occurs, the gain or loss is transferred from equity to the statement of profit or loss.

Valuation effect of financial assets in capital instruments (VRORI)

This corresponds to changes in the fair value of capital instruments, net of deferred ISR. The corresponding gains and losses on these financial assets will never be reclassified to consolidated income. Dividends are recognized as other income in the consolidated statement od profit or loss when the right to payment has been established, except when the dividend clearly represents a recovery of part of the investment cost. Under this classification, capital instruments are not subject to impairment testing.

Accumulated conversion effect

The balance includes the conversion effect of the financial statements to the reporting currency (dollar) of certain subsidiaries and associates whose functional currency is the Mexican peso.

Accumulated effect of employee benefits revaluation

It is composed of the actuarial gains and losses resulting from the adjustment to the liabilities for retirement personnel benefits due to changes in the actuarial assumptions used for their determination.

The analysis as of December 31, 2023, and 2022 of the other comprehensive loss items is presented below:

	Revaluation of employee benefits	Effect from hedge valuation	Effect from VRORI valuation	Conversion effect	Total
Opening balance as of January 1, 2023	**$(13,565)**	**$ 5,310**	**$ 63,131**	**$(69,657)**	**$(14,781)**
Other comprehensive income (loss) items	**10,990**	**(9,371)**	**(29,065)**	**16,083**	**(11,363)**
Balance as of December 31, 2023	**$(2,575)**	**$(4,061)**	**$ 34,066**	**$(53,574)**	**$(26,144)**

	Revaluation of employee benefits	Effect from hedge valuation	Effect from VRORI valuation	Conversion effect	Total
Opening balance as of January 1, 2022	$(21,732)	$(7,495)	$ 68,737	$(81,429)	$(41,919)
Other comprehensive income (loss) items	8,167	12,805	(5,606)	11,772	27,138
Balance as of December 31,2022	$(13,565)	$ 5,310	$ 63,131	$(69,657)	$(14,781)

23. Earnings Per Share

Earnings per share is calculated by dividing the net profit for the year attributable to the holders of the ordinary shares representing the capital of Grupo Peñoles, by the weighted average of ordinary shares in circulation for the period.

The basic and diluted earnings per share are the same since Grupo Peñoles does not have ordinary shares with potential dilutive effects.

As of December 31, 2023, and 2022, the earnings per share were calculated as follows:

	2023	2022
Net profit (in thousands of U.S. dollars):		
Attributable to the shareholders of Grupo Peñoles	**$ 147,090**	$ 183,363
Shares (in thousands of shares):		
Weighted average of ordinary shares in circulation	**397,476**	397,476
Earnings per share:		
Basic and diluted earnings per share (Expressed in U.S. dollars)	**$ 0.37**	$ 0.46

24. Related parties

The balances receivable and payable to non-consolidated related entities are analyzed as follows:

	2023	2022
Accounts receivable from:		
Sales:		
Dowa Mining Co. Ltd. (3)	**$ 2,219**	$ 2,674
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**1,053**	987
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**11,053**	71
Eólica de Coahuila, S. de R.L. de C.V. (4)	**-**	243
Others	**29**	25
	14,354	4,000
Short-term loans:		
Inmobiliaria Industrial La Barra, S.A. (4)	**-**	10,939
Total (Note 9)	**$ 14,354**	$ 14,939
Accounts payable from:		
Short-term accounts:		
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$ 15,392**	$ 18,790
Altos Hornos de México, S.A.B. de C.V.	**44**	-
Línea Coahuila-Durango, S.A. de C.V. (2)	**2,528**	1,138
Others	**379**	789
	18,343	20,717
Loans:		
Minera los Lagartos, S.A. de C.V. (3) (Note 38)	**72,634**	9,110
Total	**$ 90,977**	$ 29,827
Long-term loans:		
Minera los Lagartos, S.A. de C.V. (3) (Note 17)	**$ 22,726**	$ 95,853

24. Related parties (continued)

As of December 31, the reconciliation of loans and interest with Minera Los Lagartos, S.A. de C.V. is shown below:

	2023	2022
Opening balance as of January 1	**$ 104,963**	$ 107,918
Loans obtained	**22,726**	8,626
Loan amortization	**(32,965)**	(10,008)
Interest accrued in the year	**8,150**	1,058
Capitalized interest	**-**	1,531
VAT on interest payable	**125**	-
Interest payment	**(7,639)**	(4,162)
Closing balance as of December 31	**$ 95,360**	$ 104,963

In the periods ended December 31, 2023, and 2022, various business transactions were conducted with related entities, as indicated below:

(a) Grupo Peñoles, through its subsidiary Minera Tizapa, made sales of lead, zinc, and gravimetric concentrate and copper, setting sale prices according to international market references and the payable metal content.
(b) Grupo Peñoles, through a subsidiary, has several energy supply contracts with its related parties under the self-supply scheme. For more detail, see note 36.
(c) Grupo Peñoles has concluded contracts for the supply of electricity with its related parties under the self-supply scheme and the wholesale electricity market. For more detail, see note 36.
(d) Transaction corresponding to insurance paid to Grupo Nacional Provincial, S.A.B. de C.V.
(e) Business consulting and corporate administration services.

Income (a):	2023	2022
Sales of concentrates and refined metal:		
Dowa Mining Co. Ltd. (3)	**$ 47,213**	$ 65,858
Sumitomo Corporation (3)	**104,941**	217,469
	152,154	283,327
Interests:		
Inmobiliaria Industrial La Barra, S.A. (4)	**-**	844
Electrical energy *(b):*		
Grupo Palacio de Hierro, S.A.B. de C.V. (1)	**11,239**	10,295
Grupo Nacional Provincial, S.A.B. de C.V. (1)	**826**	678
Instituto Tecnológico Autónomo de México (1)	**249**	208
	12,314	11,181
Others:		
Línea Coahuila Durango, S.A. de C.V. (2)	**328**	268
Petrobal, S.A.P.I. de C.V. (1)	**591**	464
Petrobal Upstream Delta 1, S.A. de C.V. (1)	**447**	400
	1,366	1,132
	$ 165,834	$ 296,484

24. Related parties (concludes)

		2023		2022
Expenses:				
Electrical energy (c):				
Termoeléctrica Peñoles, S. de R.L. de C.V. (4)	**$**	**159,412**	$	125,390
Eólica de Coahuila, S.A de C.V. (4)		**58,728**		71,513
Eólica Mesa la Paz, S. de R.L. de C.V. (4)		**36,237**		36,180
		254,377		233,083
Administrative fees (e):				
Servicios Corporativos Bal, S.A. de C.V. (1)		**44,661**		40,635
Insurance and finance (d):				
Grupo Nacional Provincial, S.A.B. de C.V. (1)		**43,597**		40,035
Others		**570**		350
		44,167		40,385
Air transport:				
Aerovics, S.A. de C.V. (2)		**9,358**		17,871
Royalties:				
Dowa Mining Co. Ltd. (3)		**9,668**		8,586
Dowa Holdings Co. Ltd (3)		**1,617**		2,485
Sumitomo Corporation (3)		**4,056**		3,308
		15,341		14,379
Rents:				
MGI Fusión, S.A. de C.V. (2)		**4,318**		3,632
Others		**11,038**		9,333
	$	**383,260**	$	359,318

(1) Affiliated entities under the control exercised by Grupo Bal, a private and diversified organization, composed of independent Mexican companies, among which are 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 shareholders
(4) Other related parties

The benefits given by Grupo Peñoles to its key personnel, which includes its Executive Committee and members of its Board of Directors who receive remuneration, are as follows:

		2023		2022
Short-term benefits:				
Remuneration and other short-term benefits	**$**	**10,408**	$	11,785
Long-term benefits:				
Retirement benefits	**$**	**8,304**	$	8,523

25. Sales

An analysis of sales by product type is as follows:

	2023	2022
Silver	$ 1,796,111	$ 1,587,367
Gold	1,855,970	1,838,024
Zinc	753,592	879,372
Lead	311,190	310,480
Ore concentrates	559,025	387,627
Copper matte	139,904	131,163
Sodium sulfate	165,748	130,130
Other products	347,425	259,195
	$ 5,928,965	$ 5,523,358

An analysis of sales by geographical area is as follows:

	2023	2022
Domestic sales	$ 1,248,793	$ 1,137,146
Asia	525,150	680,939
United States of America	2,410,855	2,238,716
Europe	1,042,301	805,716
Canada	673,385	613,690
South America	25,061	31,711
Other	3,420	15,440
	$ 5,928,965	$ 5,523,358

26. Cost of Sales

The cost of sales is composed as follows:

	2023	2022
Personnel expenses (Note 30)	$ 462,657	$ 377,181
Energy	497,257	481,605
Operating materials	471,307	454,303
Maintenance and repairs	522,074	431,675
Depreciation and amortization (Note 13)	673,858	671,737
Amortization of right-of-use assets (Note 15)	5,180	4,551
Transfer of by-products	(137,859)	(153,158)
Contractors	540,463	468,602
Leases of low-value assets (Note 15)	87,098	60,451
Other	265,758	263,878
Inventory adjustments	5,594	(98,919)
Cost of sale of extraction and treatment	3,393,387	2,961,906
Cost of metals sold	1,727,379	1,528,998
Total cost of sales	$ 5,120,766	$ 4,490,904

27. Administrative Expenses

An analysis of administrative expenses is as follows:

		2023		2022
Personnel expenses (Note 30)	$	**135,550**	$	122,300
Fees		**107,424**		91,246
Travel expenses		**15,905**		10,146
Information technology expenses		**16,747**		15,755
Amortization of right-of-use assets (Note 15)		**9,587**		11,284
Leases of low-value assets (Note 15)		**16,758**		15,806
Fees, associations and other		**30,199**		26,167
Total administrative expenses	$	**332,170**	$	292,704

28. Exploration Expenses

An analysis of exploration expenses is as follows:

		2023		2022
Personnel expenses (Note 30)	$	**23,028**	$	20,238
Contractors		**140,780**		126,804
Taxes and duties		**40,654**		33,423
Operating materials		**1,027**		1,465
Amortization of right-of-use assets (Note 15)		**852**		1,072
Leases of low-value assets (Note 15)		**2,244**		3,314
Fees, assays and other		**24,106**		30,816
Total exploration expenses	$	**232,691**	$	217,132

An analysis of liabilities associated with the exploration and evaluation of mineral resources as of December 31, 2023 and 2022 is as follows:

		2023		2022
Total exploration liabilities	$	**2,598**	$	2,366

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

		2023		2022
Cash flows used in operating activities	$(	**73,093)**	$(	98,054)

29. Selling Expenses

An analysis of selling expenses is as follows:

		2023		2022
Freight and transfers	$	**106,374**	$	90,415
Royalties		**10,356**		10,192
Handling		**3,686**		2,600
Extraordinary mining tax		**13,825**		11,271
Amortization of right-of-use assets (Note 15)		**1,101**		1,935
Other expenses		**30,395**		25,916
Total selling expenses	$	**165,737**	$	142,329

30. Personnel Expenses

An analysis of personnel expenses is as follows:

	2023	2022
Salaries and other employee benefits	$ 361,816	$ 313,947
Employee benefits at retirement	19,358	17,245
Social security contributions	113,021	90,663
Social welfare and other benefits	127,040	97,864
Total personnel expenses	$ 621,235	$ 519,719

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

	2023	2022
Cost of sales	$ 462,657	$ 377,181
Administrative expenses	135,550	122,300
Exploration expenses	23,028	20,238
Total personnel expenses	$ 621,235	$ 519,719

In 2023 and 2022, Grupo Peñoles average number of employees (unaudited information) is as follows:

	2023	2022
Number of non-union workers	4,907	5,413
Number of unionized workers	10,666	11,438
Total	15,573	16,851

Reform to the Federal Labor Law (LFT) regarding vacations

December 2022, articles 76 and 78 of the LFT were amended, where the minimum benefits to which workers are legally entitled were increased, which include an increase in the number of vacation days and consequently, the vacation bonus, except in cases where the benefits given to workers by internal policy are equal to or greater than the changes established in these articles. On December 31, 2022, Grupo Peñoles recognized an increase in its vacation reserve and vacation bonus for an amount of $12,544, which is included in the vacation and vacation bonus payable (See Note 19).

31. Other (Income) Expenses

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

	2023	2022
Rental income	$ -	$(935)
Income from royalties	(140)	(122)
Gain on sale of concentrates	(12)	-
Income from sale of other products and services	-	(6,701)
Income from layback agreement (Note 4ii)	-	(67,182)
Cancellation of reserves (1) and (Note 40)	(75,614)	-
Income from expense recovery	(21,081)	-

31. Other (Income) Expenses (concludes)

An analysis of other expenses is as follows:

	2023	2022
Rental expenses	**$ 499**	$ -
Donations	**4,444**	11,771
Maintenance expenses and increase on ecological reserve provision in closed mines	**18,833**	34,921
Losses from accidents	**9,712**	4,205
Loss on sale of material and waste	**495**	3,750
Loss on sale of other products and services	**10,436**	-
Loss on sale of fixed asset (Note 34)	**12,377**	7,482
Loss on sale of concentrates	**-**	20,253
Write-off of inventories (Note 4i)	**21,861**	-
Cancellation of investment projects (Note 34)	**-**	12,843
Other	**344**	1,878
Other expenses	**$ 79,001**	$ 97,103

(1) In July 2020, a resolution by the Regulatory Commission was published for a disproportionate increase in the rates for electric power transmission service ("carriage"), as a result of the above, Eólica de Coahuila, S.A. de C.V. ("EDC") holds the Self-Supply Permit, filed a legal injunction against said resolution to contest this increase. As a precautionary measure, the consumer partners (subsidiaries of Grupo Peñoles) decided to provisionally account for the increase in order to meet, in case of an unfavorable sentence, with the payment obligation of the carriage cost with the increase.

During the month of December 2023, a final favorable judgment was obtained in this injunction lawsuit, so the Company proceeded to cancel the increases to the provision accounted for during 2023 for $10,636 against the energy cost housed in the production costs and $26,900 against the reserves cancellation account of the other income as they correspond to increases to the provision accounted for in previous years.

32. Finance Income

An analysis of finance income is as follows:

	2023	2022
Interest income on cash equivalents and other investments	**$ 73,616**	$ 31,787
Interest income from trade receivables	**1,388**	2,124
Finance income on tax refund	**820**	4,285
Other	**24,973**	7,695
	$ 100,797	$ 45,891

33. Finance Costs

An analysis of finance costs is as follows:

	2023	2022
Interest arising on financial debt	**$ 180,267**	$ 146,935
Financial discount of liability provisions (Note 20)	**43,775**	27,438
Net interest on defined benefit obligation (Note 19)	**5,394**	4,160
Finance cost on lease liabilities (Note 15)	**9,045**	8,482
Other	**13,466**	14,131
	$ 251,947	$ 201,146

34. Note to the statements of cash flows

A reconciliation of consolidated net profit and cash flows provided by operating activities for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Consolidated net profit	**$ 286,536**	$ 325,575
Items not affecting cash flows:		
Depreciation, amortization, and depletion (Note 13)	**673,858**	671,737
Amortization of right-of-use assets (Note 15)	**16,720**	18,842
Net cost of the period of employment obligations (Note 19)	**24,752**	21,405
Share of profit (loss) of associates (Note 14)	**1,767**	(1,418)
Income tax (Note 21)	**(342,649)**	(103,042)
Provisions and allowances	**58,865**	77,621
Financial costs of lease liabilities (Note 33)	**9,045**	8,482
Cancelations of provisions (Note 31)	**(75,614)**	-
Other labor obligations	**13,250**	24,089
Foreign exchange loss	**25,872**	23,078
Loss on sale and disposal of fixed assets (Note 31)	**12,377**	7,482
Reversal of impairment of property, plant, and equipment (Note 13)		(21,362)
Interest income (Note 32)	**(75,004)**	(33,911)
Interest expense (Note 33)	**180,267**	146,935
Investment projects cancellation (Note 31)	**-**	12,843
Derivative financial instruments	**(22,202)**	8,025
Other	**(14,485)**	7,389
Subtotal	**773,355**	1,193,770
Trade and other accounts receivable	**(86,395)**	(18,829)
Inventories	**89,579**	(189,226)
Suppliers and other accounts payable	**99,257**	(53,655)
Income tax paid	**(342,998)**	(195,104)
Labor obligations (Note 19)	**(4,321)**	(4,513)
Reserve for ecological rehabilitation (Note 20)	**(7,978)**	(4,263)
Income tax refunds obtained	**47,959**	35,911
Special tax for mining companies paid	**(69,167)**	(68,982)
Employee profit sharing paid	**(23,155)**	(27,843)
Net cash flows from operating activities	**$ 476,136**	$ 667,266

35. Contingencies

As of December 31, 2023 and 2022, Grupo Peñoles had the following contingencies:

a) Grupo Peñoles is subject to various laws and regulations which, if not observed, could give rise to penalties. Grupo Peñoles' income tax is open to review by the tax authorities (Tax Administration Service) for a period of five years following the filing of the annual corporate income tax return, and during this period the tax authorities have the right determine additional taxes owed by Grupo Peñoles, including penalties and surcharges. Under certain circumstances, these reviews may cover longer periods. As such, there is the risk that transactions, especially those with related parties, that have not been questioned in the past by the tax authorities, could be challenged by the authorities in the future.

   Grupo Peñoles is currently subject to various tax audits by the tax authorities (Tax Administration Service) in relation to income tax, special mining tax and employee profit sharing and has submitted the information and documentation requested by the authorities.

   As of December 31, 2023, Industrias Peñoles S.A.B de C.V., and its subsidiary, Comercializadora de Metales Fresnillo, are in a tax audit process for the operation called Silverstream. During 2023, both companies began a conclusive agreement with PRODECON, which closed without agreement for Industrias Peñoles, S.A.B. de C.V. in December 2023 and for Comercializadora de Metales Fresnillo in January 2024. It is expected that SAT will issue a final conclusion on the subject no later than May 2024.

   As of December 31, 2022, Metalúrgica Met-Mex Peñoles (a subsidiary of Grupo Peñoles) was in a tax audit process for the fiscal years 2014 and 2015 related to compliance with its tax obligations in terms of income tax, by the Tax Administration Service (SAT) which issued various observations related to the tax treatment of the right to use the brand and the payment of energy, purchase of raw materials, and manufacturing. During 2023, a conclusive agreement with SAT was achieved without resulting in material amounts to liquidate.

b) In 2011, a flood occurred at the Saucito mine, after which the Group submitted a claim to the insurance company for the damages caused (and for the interruption of the business). This claim was rejected by the insurance provider. In early 2018, after the matter was taken to mutually agreed arbitration, the insurance claim was deemed valid; however, there is disagreement over the appropriate amount to be paid. In October 2018, the Group received $13,600 in relation to the insurance claim; however, this does not constitute a final settlement and the management continues to seek a higher insurance payout. Due to the fact that negotiations are ongoing and there is uncertainty about the timing and the amount involved to reach a final settlement with the insurer, it is currently not feasible to determine the total amount expected to be recovered.

36. Commitments

Commitments for the purchase of mineral products

As of December 31, 2023 and 2022, contracts have been signed with third parties for the purchase of various mineral products, with the aim of optimizing productive operation and operating metallurgical plants at full capacity, for an approximate amount of $1,365,553 and $1,391,500, respectively. These contracts can be cancelled with prior notice, without causing any penalty for both parties.

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.

36. Commitments (concludes)

a) Termoeléctrica Peñoles

A contract was signed to purchase, through its subsidiaries, the electrical energy production of a plant with a production capacity of 230 mega-watts, valid until 2027.

In addition to the supply contract, an agreement was signed to create a business activities trust for the operation and maintenance of an electricity generating plant under the self-supply permit granted to Termoeléctrica Peñoles, S. de R. L. de C.V. (TEP). This Trust was terminated early in 2023 and its rights and obligations were directly lodged in the bylaws of TEP and a shareholders agreement. To guarantee the commitments to purchase electricity, the project's owners/operators were granted a sell option (“Put option”) so that, in the event of non-compliance by its subsidiaries, they can demand that Grupo Peñoles purchase the shares that make up the share capital of TEP at a price equivalent to the present value of the remaining scheduled payments that its subsidiaries are obligated to pay according to the contract. In April 2024, the Legacy Interconnection Contract signed with the CFE ends, which will be replaced by an Open Access and Not Unduly Discriminatory Interconnection Contract, so TEP will stop operating under the rules of the Public Service Law of Electric Power and from May 2024 will start operating under the regulatory framework of the Electric Industry Law. Under this scheme, Peñoles subsidiaries through the Qualified Services Supplier will acquire the net energy production and 230 MW-year of Power. The estimated cost for electricity consumption for 2024 for the 980.6 million kWh and 230 MW-year of Power is $112,665.

b) Eólica de Coahuila

An electricity supply contract was signed on April 25, 2014, under self-supply regime with Eólica de Coahuila, S.A. de C.V. (EDC), for a term of 25 years. The subsidiaries of Peñoles adhering to this contract will acquire all the net energy production that EDC generates within the contracted term, at an estimated average of 700 million kWh per year, payable monthly at a fixed price determinable per each kWh that EDC delivers to the Federal Electricity Commission at the interconnection point stipulated in the contract. Commercial operation began in April 2017. Simultaneously with this contract, a purchase and sale option agreement (“Put option”) was signed for the transfer of EDC's social shares in certain circumstances of non-compliance. The approximate cost for electricity consumption for 2024, estimated at 793.4 million kWh, is $61,885.

c) Eólica Mesa La Paz

On January 25, 2018, Grupo Peñoles entered into an electricity hedging contract under the regime of the Electricity Industry Law with Eólica Mesa La Paz, S. de R.L. de C.V. (MLP), for a term of 25 years. Peñoles subsidiaries, through the Qualified Services Supplier, will acquire during the first 7 years 67.8% of MLP's net energy production, which is estimated at an average of 782.3 million kWh per year. From year 8 until the end of the contract, they will acquire 100% of MLP's net energy production, estimated at an average of 1,170.0 million kWh per year, payable monthly at a fixed price per each kWh that MLP delivers to the National Electric System at the interconnection point established in the contract. Commercial operation began on April 1, 2020. As part of the contract, a purchase and sale option agreement (“Put option”) was stipulated for the transfer of MLP's social shares under certain circumstances of non-compliance. The approximate cost for electricity consumption for 2024, estimated at 835.1 million kWh, is $38,113.4.

37. Financial Instruments

Analysis by category

As of December 31, 2023, the analysis by category of financial instruments is:

	At amortized cost and nominal value(*)	Fair value: Changes in results	Fair value: Changes in ORI	Fair value: Derivative instruments with hedge
Financial assets:				
Cash and cash equivalents (*)	**$ 1,040,222**	**$ -**	**$ -**	**$ -**
Clients and other accounts receivable	**192,818**	**1,215**	**-**	**-**
Other financial assets (Note 10)	**5,332**	**-**	**-**	**31,833**
Financial assets in capital instruments (Note 12)	**-**	**-**	**114,625**	**-**
	$ 1,238,372	**$ 1,215**	**$ 114,625**	**$ 31,833**

	Amortized cost	Fair value: Changes in results	Fair value: Derivative instruments with hedge
Financial liabilities:			
Financial debt (Note 18)	**$ 2,758,785**	**$ -**	**$ -**
Suppliers and other accounts payable	**442,884**	**601**	**-**
Other financial liabilities (Note 17)	**22,726**	**1,171**	**23,137**
	$ 3,224,395	**$ 1,772**	**$ 23,137**

As of December 31, 2022, the analysis by category of financial instruments is:

	At amortized cost and nominal value(*)	Fair value: Changes in results	Fair value: Changes in ORI	Fair value: Derivative instruments with hedge
Financial assets:				
Cash and cash equivalents (*)	$ 1,468,918	$ -	$ -	$ -
Clients and other accounts receivable	321,275	1,567	-	-
Other financial assets (Note 10)	4,233	-	-	47,344
Financial assets in capital instruments (Note 12)	-	-	167,123	-
	$ 1,794,426	$ 1,567	$ 167,123	$ 47,344

37. Financial Instruments (continued)

	At amortized cost	Fair value: Changes in results	Fair value: Derivative instruments with hedge
Financial liabilities:			
Financial debt (Note 18)	$ 2,908,018	$ -	$ -
Suppliers and other accounts payable	470,719	1,055	-
Other financial liabilities (Note 17)	95,853	8,959	47,214
	$ 3,474,590	$ 10,014	$ 47,214

Fair value of financial instruments and hierarchy of fair values

As of December 31, 2023, and 2022, the analysis with the fair value of financial instruments is:

	December 31, 2023		December 31, 2022	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalents	**$ 1,040,222**	**$ 1,040,222**	$ 1,468,918	$ 1,468,918
Clients and other accounts receivable	**194,033**	**194,033**	322,842	322,842
Other financial assets	**37,165**	**37,165**	51,577	51,577
Financial assets in capital instruments	**114,625**	**114,625**	167,123	167,123
	$ 1,386,045	**$ 1,386,045**	$ 2,010,460	$ 2,010,460

	December 31, 2023		December 31, 2022	
	Book value	Fair value	Book value	Fair value
Financial liabilities:				
Financial debt	**$ 2,758,785**	**$ 2,118,730**	$ 2,908,018	$ 2,482,177
Suppliers and other accounts payable	**443,485**	**443,485**	471,774	471,774
Other financial liabilities	**47,034**	**47,034**	152,026	152,026
	$ 3,249,304	**$ 2,609,249**	$ 3,531,818	$ 3,105,977

The following analysis shows the fair value measured according to three methodologies as described:

Level 1: Market quotes in active markets and considering the same valued assets or liabilities.

Level 2: Market quotation data, not included in level 1, that are observable for valued assets and liabilities, either directly (prices) or indirectly (derived from prices).

Level 3: Techniques that include data on valued assets and liabilities and that are not based on observable market data.

37. Financial Instruments (continued)

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Customers and other accounts receivable:				
Embedded Derivatives	**$ -**	**$ 1,215**	**$ -**	**$ 1,215**
Other financial assets:				
Forwards and options	**-**	**28,476**	**-**	**28,476**
Futures	**427**	**-**	**-**	**427**
Swaps	**-**	**2,930**	**-**	**2,930**
Financial assets in capital instruments	**114,625**	**-**	**-**	**114,625**
	$ 115,052	**$ 32,621**	**$ -**	**$ 147,673**

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Suppliers and other accounts payable:				
Embedded Derivatives	**$ -**	**$ 601**	**$ -**	**$ 601**
Other financial liabilities:				
Forwards and options	**-**	**46,808**	**-**	**46,808**
Futures	**226**	**-**	**-**	**226**
	$ 226	**$ 47,409**	**$ -**	**$ 47,635**

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

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

37. Financial Instruments (continued)

Hedging financial derivatives

Grupo Peñoles contracts with various institutions financial derivative instruments to reduce its level of exposure to the risk of adverse movements in the prices of the variables to which it is exposed. This risk consists of fluctuations in the prices of metals that are produced or processed, energy inputs that are consumed, and exchange rates at which its financial and commercial transactions are agreed upon.

To minimize counterparty risk, contracts are made only with intermediaries of recognized reputation and financial capacity, so it does not foresee that any of the counterparties will fail to meet their obligations and therefore Grupo Peñoles must create reserves associated with this risk.

Cash flow hedges

As of December 31, 2023, the fair value of financial derivative instruments that qualify as cash flow hedges recognized directly in capital as unrealized gain is as follows:

Commodity	Derivative	Notional (2)	Strike Price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	**1,430,952**	**$22- $32**	**$ 551**
Silver (ounces)	Future	**2,699,241**	**$24**	**1,044**
Gold (ounces)	Option	**4,644**	**$1,765- $2,548**	**2**
Gold (ounces)	Future	**153,048**	**$2,078**	**283**
Cooper (Tons)	Future	**2,132**	**$8,173**	**815**
Lead (Tons)	Future	**7,950**	**$2,085**	**180**
Zinc (Tons)	Option	**2,800**	**$2,509**	**342**
Foreign currency (b):				
Dollar	Future	**3,588**	**$17**	**2**
Euro (3)	Future	**12,251**	**$2**	**283**
Financial interest rate (d):				
Interest rate	IRS	**29,149**	**2**	**1,448**
Interest rate (4)	CCS	**2,127,405**	**17**	**850**
Total (Note 10)				**$ 5,800**

As of December 31, 2023, the fair value of financial derivative instruments that qualify as cash flow hedges recognized directly in equity as an unrealized loss is as follows:

Commodity	Derivative	Notional (2)	Strike Price (1)	Fair value
Metal price (a):				
Gold (ounces)	Option	**4,644**	**$1,765- $2,548**	**$ 28**
Copper (Tons)	Future	**1,734**	**$8,618**	**101**
Zinc (Tons)	Future	**54,151**	**$2,485**	**8,164**
Energy program (d):				
Natural gas (MMbtu)	Future	**3,840**	**$2.99**	**3,332**
Total (Note 17)				**$ 11,625**

37. Financial Instruments (continued)

As of December 31, 2022, the fair value of derivative financial instruments that qualify as cash hedges directly recognized in equity as an unrealized gain is as follows:

Commodity	Derivative	Notional (2)	Strike Price (1)	Fair value
Metal price (a):				
Silver (ounces)	Option	11,656,400	\$22 - \$32	\$ 5,477
Silver (ounces)	Future	2,135,671	\$24	372
Gold (ounces)	Option	42,142	\$1,651- \$2,109	106
Gold (ounces)	Future	188,888	\$1,809	1,240
Lead (Tons)	Swaps	4,341	\$2,146	377
Zinc (Tons)	Option	6,275	\$2,645- \$3,326	67
Zinc (Tons)	Swap	74,610	\$3,092	9,557
Energy program (d):				
Natural gas (MMbtu)	Future	320	\$4.25	379
Foreign currency (b):				
Euro (3)	Future	17,828	\$2.09	355
Financial interest rate (d):				
Interest rate	IRS	38,866	0.02	2,139
Total (Note 10)				\$ 20,069

As of December 31, 2022, the fair value of derivative financial instruments that qualify as cash hedges directly recognized in equity as an unrealized loss is as follows:

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

Note:

(1) The prices shown in the table correspond to the average weighted sale or purchase prices in the case of forwards transactions, and the average weighted exercise prices in the case of put and call options.
(2) The contracts commit a portion of their 2022 to 2023 production.
(3) Notional amount in thousands of euros.
(4) Amount in thousands of pesos.

37. Financial Instruments (continued)

a) Metal Price Hedging Program

Grupo Peñoles uses international market quotes as a reference for its business transactions, primarily those issued by the London Metal Exchange (for base metals) and the London Bullion Market Association (for precious metals).

As a result, Grupo Peñoles income is subject to fluctuations in the prices of the referred markets, so hedge programs are established based on the budgeted production, using derivative financial instruments "forwards" and "put" and "call" options.

b) Foreign Exchange Hedging Program

As of December 31, 2023 and 2022, derivative financial transactions have been established that cover part of the obligations, denominated in euros (EUR), related to the acquisition of fixed assets.

c) Energy Program

This program is established with the goal of stabilizing the dollar outflows associated with fluctuations in the price of natural gas consumed by certain subsidiaries. This is aimed at ensuring the continuity of their operations.

d) Interest Rate Hedging Program

This program is established with the aim of stabilizing the financial cost of loans contracted in U.S. dollars and/or Mexican pesos through 'swaps'. Grupo Peñoles contracts hedging instruments to fix the cost of its loans when the corresponding interest rate includes variable components.

As of December 31, 2023 and 2022, the debt contracted under the Export Credit Agency (ECA) scheme has a floating interest rate component referred to LIBOR and the strategy was to hedge up to 100% of the outstanding debt. See Note 18.

In addition, the Grupo Peñoles contracted exchange rate hedges to mitigate the potential adverse effects of a significant revaluation of the peso / dollar exchange rate on its production costs in pesos.

The fair value of cash flow hedging financial instruments, net of deferred ISR recognized in equity, is as follows:

	2023	2022
Fair value of financial instruments	**$(5,825)**	$ 6,264
Ineffectiveness and effect of the time value of options excluded from hedges	**46**	1,303
Deferred Income Tax	**1,734**	(2,270)
Net fair value of deferred income tax directly recognized in equity	**$(4,045)**	$ 5,297

37. Financial Instruments (continued)

The movement of hedging valuation (losses) gains for the years ending December 31, 2023 and 2022 is shown below:

	2023	2022
Opening balance as of January 1st	**$ 5,297**	$(8,014)
Income reclassified to the period's results	**85,483**	4,844
Deferred income tax	**(25,645)**	(1,453)
Changes in fair value in hedging instruments	**(98,829)**	14,171
Deferred income tax	**29,649**	(4,251)
Unrealized (loss) gain net of deferred income tax as of December 31st	**$(4,045)**	$ 5,297

As of December 31, 2023 the contracts with derivative financial instruments include transactions that are expected to be executed between 2024 and 2026. The analysis with the estimation of the expectation of reclassification of equity (in years) to the outcomes of these periods is:

	2023		
	1	2 or more	Total
(Unrealized) gains or losses	**$(4,152)**	**$ 107**	**$(4,045)**

	2022		
	1	2 or more	Total
Unrealized gains	$ 161	$ 5,136	$ 5,297

The net effects resulting from the settlement of derivative contracts are as follows:

	2023	2022
Sales	**$ 4,403**	$(3,198)
Cost of sales	**(58,861)**	(2,297)
Interest expense	**(21,029)**	(6,907)
Total	**$(75,487)**	$(12,402)

Fair Value Hedges

As of December 31, 2023, the fair value of derivative financial instruments that qualify as fair value hedges as an unrealized gain is as follows:

Commodity	Derivative	Notional	Strike Price (1)	Fair Value
Metal price:				
Silver (ounces)	Futures	1,200,000	**$ 24**	**$ 1,970**
Lead (Tons)	Futures	905	**$ 2,516**	**530**
Lead (Tons)	Futures	14,975	**$ 2,111**	**212**
Zinc (Tons)	Futures	14,447	**$ 2,971**	**12,388**
Copper (Tons)	Futures	380	**$ 8,656**	**56**
Total (Note 10)				**$ 15,156**

37. Financial Instruments (continued)

Fair Value Hedges

As of December 31, 2023, the fair value of derivative financial instruments that qualify as fair value hedges unrealized gain is as follows:

Commodity	Derivative	Notional	Strike Price (1)	Fair value
Metal price:				
Gold (ounces)	Futures	12,000	**$ 2,043**	**$(221)**
Zinc (Tons)	Futures	260,600	**$ 2,489**	**(7,643)**
Copper (Tons)	Futures	397	**$ 8,458**	**(47)**
Total (Note 17)				**$(7,911)**

As of December 31, 2022, the fair value of derivative financial instruments that qualify as fair value hedges as an unrealized gain is as follows:

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

As of December 31, 2022, the fair value of derivative financial instruments that qualify as fair value hedges as an unrealized loss is as follows:

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

Note:
(1) The prices in the above table reflect the average weighted purchase or sale price of futures and the average weighted (Strike Price) of the purchase and sale options.

Metal Price Hedging Program

Grupo Peñoles uses international market quotes as a reference for its business transactions, primarily those issued by the London Metal Exchange (for base metals) and the London Bullion Market Association (for precious metals).

As a result, Grupo Peñoles income is subject to fluctuations in the prices of the referred markets, so hedge programs are established based on the budgeted sales, using derivative financial instruments "forwards" and "put" and "call" options.

37. Financial Instruments (concludes)

The following analysis shows earnings in the results of the hedging instrument and of the hedged item attributable to the hedged risk:

	2023		2022	
	Effect of the derivative	Hedged item	Effect of the derivative	Hedged item
Profit	**$ 7,245**	**$ 11,065**	$ 7,777	$ 10,655

Derivative financial instruments with changes to results

As of December 31, 2023 and 2022, the fair value of derivative financial instruments with changes to results is as follows:

2023				
Commodity	Derivative	Notional (in thousand)	Strike Price	Fair Value
Interest rate	IRS	**300,000**	**1.42**	**$ 1,171**

2022				
Commodity	Derivative	Notional (in thousand)	Strike Price	Fair Value
Interest rate	IRS	300,000	0.63	$ 8,959

This corresponds to "Swap" positions that were designated as cash flow hedges on the interest rate of prepaid variable rate debt during 2020, which ceased to meet the conditions to be treated as hedges for accounting purposes, recycling their value from the effect of previously recognized hedging valuation in equity, to the results of the fiscal year.

38. Financial Risk Management

The principal financial instruments of Grupo Peñoles comprise financial assets and financial liabilities. Grupo Peñoles principal financial liabilities, other than derivatives, comprise accounts payable, financial debt and debentures. The main purpose of these financial instruments is to manage short-term cash flows and secure financing for Grupo Peñoles capital expenditure program. Grupo Peñoles has various financial assets, such as accounts receivable and cash and short-term cash deposits, which arise directly from its operations.

Grupo Peñoles is exposed to the following risks associated with its use of financial instruments:

a) Market risk, which includes foreign currency risks, commodity price risk (precious metals and base metals), equity instrument pricing and interest rate risks
b) Credit risks
c) Liquidity risks

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

38. Financial Risk Management (continued)

Grupo Peñoles senior management oversees the management of financial risks. Grupo Peñoles management is supported by a financial risk committee that advises on financial risks and the appropriate governance framework for proper financial risk identification, measurement, and management. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience, and supervision. It is Grupo Peñoles policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: metal price risk, interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payable, accrued liabilities, and derivative financial instruments.

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 of December 31, 2023 and 2022.

- The impact on equity is the same as the impact on profit before tax.

Commodity price risk

Due to the nature of its business and economic environment, Grupo Peñoles uses hedging derivatives to reduce the variability in its cash flows and operating margins arising from various factors, such as:

Price fluctuations:

- of the metals it produces (silver, gold, zinc, lead, and copper)

- of the supplies and raw materials it consumes and/or processes (mineral concentrates, natural gas, etc.)

The following chart shows the sensitivity of changes in commodity prices, with all other variables held constant, and the impact of these changes on Grupo Peñoles equity and profit before taxes.

38. Financial Risk Management (continued)

	10%-20% increase December 31, 2023		10%-25% increase December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$ 11,425**	**$ -**	$ 29,326	$ -
Financial liabilities:				
Suppliers and Other Accounts Payable	**(3,328)**	**-**	(8,583)	-
Derivative financial instruments	**25,106**	**19,711**	11,899	(15,987)
	$ 33,203	**$ 19,711**	$ 32,642	$(15,987)

	10%-10% decrease December 31, 2023		10%-15% decrease December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
Financial assets:				
Trade and other accounts receivable	**$(11,427)**	**$ -**	$(23,283)	$ -
Financial liabilities:				
Suppliers and other accounts payable	**3,328**	**-**	6,942	-
Derivative financial instruments	**(25,202)**	**(16,195)**	(11,853)	8,359
	$(33,301)	**$(16,195)**	$(28,194)	$ 8,359

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

	2023		2022	
	Increase	Decrease	Increase	Decrease
Silver	**10%**	**10%**	20%	15%
Gold	**10%**	**10%**	10%	10%
Zinc	**10%**	**10%**	20%	15%
Lead	**10%**	**10%**	15%	15%

Risk of fluctuations in the prices of equity instruments

Grupo Peñoles is exposed to the risk of fluctuations in the prices of equity instruments, represented by shares of companies listed primarily in the Canadian Stock Exchange. Equity investments are classified in the consolidated statement of financial position as financial assets in equity instruments.

The following table demonstrates the sensitivity of financial assets in equity instruments to a reasonably possible change in the market price of equity instruments. The impact on equity corresponds to the recognition of the unrealized gain/(loss) on valuation and on the consolidated statement of profit or loss, as a possible recognition of impairment of the financial instrument.

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

	December 31, 2023		December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
40% increase (10% in 2022)	**$ -**	**$ 45,848**	$ -	$ 16,422
45% decrease (25% in 2022)	**$ -**	**$(51,579)**	$ -	$(41,054)

38. Financial Risk Management (continued)

Interest rate risk

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

As of December 31, 2023 and 2022, Grupo Peñoles has a combination of debt bearing interest at variable rates and floating rates tied to the London Interbank Offered (LIBOR) rate. Grupo Peñoles fixes its floating interest rates using interest rate swaps.

Grupo Peñoles risk management policy is focused on providing certainty regarding its future cash flows. As of December 31, 2023 and 2022, Grupo Peñoles has hedge instruments that it has contracted in order to obtain fixed interest rate for its loans that bear variable interest rates. The derivative that Grupo Peñoles has contracted, through which it swaps its floating interest equal to the LIBOR, is designed to fully hedge the interest rate of its current debt under the ECA structure. In this interest rate swap, Grupo Peñoles pays a fixed interest rate and receives the underlying floating rate applied to the current nominal balance of the loan.

The following table shows the sensitivity of the Company's financial assets and liabilities to a reasonably possible change in the interest rates applied on a complete year basis as of the consolidated statement of financial position date, with all other variables held constant

	December 31, 2023		December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
0 basis point increase (100 in 2022)	**$ -**	**$ -**	$ 15,418	$ 682
75 basis point decrease (25 in 2022)	**$ 8,015**	**$(364)**	$ 1,003	$(317)

Foreign currency risk

Grupo Peñoles manages, through the use of IFD (Derivative Financial Instruments), the risk of fluctuations in foreign currencies to which it is exposed and which can affect its future cash flows.

Among the main foreign currencies to which Grupo Peñoles is exposed (other than the US dollar, which is the functional currency) are; the Mexican peso, a currency in which they incur a significant percentage of their operating costs and investments; as well as certain capital acquisitions denominated in foreign currencies such as euros, Swedish krona, and British pounds.

The Board of Directors of Grupo Peñoles has appointed a Hedging Committee responsible for establishing the strategy and the limits to cover the imbalance between its income in U.S. dollars and its costs in pesos, as well as certain acquisitions of fixed assets denominated in euros and Swedish krona, through the execution of IFD (Derivative Financial Instruments).

38. Financial Risk Management (continued)

As of December 31, 2023, the sensitivity of Grupo Peñoles financial assets, financial liabilities and cash and cash equivalents denominated in foreign currencies, expressed in the presentation currency, is as follows:

	Denominated in pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	**$ 72,728**	**$ 168**	**$ 72,896**
Trade and other accounts receivable	**48,788**	**1,739**	**50,527**
Financial liabilities:			
Suppliers and other accounts payable	**(62,637)**	**(13,342)**	**(75,979)**
	$ 58,879	**$(11,435)**	**$ 47,444**

The exposure of financial assets, financial liabilities, and cash and its equivalents as of December 31, 2022 in foreign currencies, expressed in the reporting currency, is as follows:

	Denominated in pesos	In other currencies	Total
Financial assets:			
Cash and cash equivalents	$ 55,302	$ 237	$ 55,539
Trade and other accounts receivable	55,654	7,888	63,542
Financial liabilities			
Suppliers and other accounts payable	(52,467)	(22,317)	(74,784)
	$ 58,489	$(14,192)	$ 44,297

The following table demonstrates the sensitivity of Grupo Peñoles financial assets and liabilities to a reasonably possible change in the Mexican peso / U.S. dollar exchange rate and the effect on Grupo Peñoles profit before taxes, based on the foreign currency risk exposure maintained as of December 31, 2023 and 2022 and Grupo Peñoles derivatives whose underlying are the peso-to-dollar exchange rate (assuming that all other variables are held constant):

	December 31, 2023		December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
10% increase in mexican pesos (5% in 2022)	**$ 6,494**	**$ 326**	$ 3,078	$ -
5% decrease in mexican pesos (5% in 2022)	**$(2,783)**	**$(1,888)**	$ (2,785)	$ -

Grupo Peñoles is exposed to the risk of fluctuations in the exchange rates of the euro and Swedish krona to the U.S. dollar, since a portion of its fixed asset acquisitions are made in these currencies. The following table shows the sensitivity of the financial assets and liabilities to potential fluctuations in the exchange rates of euro and Swedish krona and the U.S. dollar, expressed in the presentation currency:

	December 31, 2023		December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
5% increase in euros (5% in 2022)	**$(571)**	**$ 668**	$(704)	$ 1,049
5% decrease in euros (5% in 2022)	**$ 571**	**$(669)**	$ 704	$(1,042)

38. Financial Risk Management (continued)

	December 31, 2023		December 31, 2022	
	Profit or loss	Equity	Profit or loss	Equity
5% increase in SEK (10% in 2022)	**$(2)**	**$ -**	$(4)	$ -
10% decrease in SEK (5% in 2022)	**$ 4**	**$ -**	$ 2	$ -

a) Liquidity risk

Liquidity risk is the risk of not being able to meet its financial liabilities and obligations when they come due.

Grupo Peñoles has established a treasury policy to manage its liquidity risk, which primarily includes maintaining a balance between short-, medium- and long-term funds, borrowing facilities available and access to other financing. Grupo Peñoles conducts on-going debt maturity profile analyses of its financial assets and liabilities and constantly monitors its projected cash flows.

An analysis of the borrowing facilities available as of December 31, 2023 and 2022 is as follows:

	2023			2022		
	Credit limit	Credit used	Unused credit	Credit limit	Credit used	Unused credit
A2	**$ 120,000**	**$ 60,000**	**$ 60,000**	$ -	$ -	$ -
Aa3	**80,000**	**-**	**80,000**	80,000	-	80,000
Aaa	**-**	**-**	**-**	250,000	50,000	200,000
Baa1	**85,000**	**-**	**85,000**	374,500	-	374,500
BBB	**539,500**	**163,000**	**376,500**	-	-	-
Total	**$ 824,500**	**$ 223,000**	**$ 601,500**	$ 704,500	$ 50,000	$ 654,500

Grupo Peñoles has available lines of credit that are rolled over annually and bear no fees to maintain them.

The table below summarizes the maturity profile of Grupo Peñoles financial liabilities based on contractual undiscounted payments.

As of December 31, 2023:

		Maturities			
	Amount	1 year	2 years	3 years	Thereafter
Non-derivative financial instruments:					
Financial debt	**$ 4,751,836**	**$ 135,291**	**$ 134,714**	**$ 134,144**	**$ 4,347,687**
Suppliers and other accounts	**442,884**	**442,884**	**-**	**-**	**-**
Participation loans					
Non-controlling interest (Note 24)	**95,360**	**72,634**	**22,726**	**-**	-
Other financial liabilities:					
Hedging instruments	**24,308**	**24,308**	**-**	**-**	**-**
	$ 5,314,388	**$ 675,117**	**$ 157,440**	**$ 134,144**	**$ 4,347,687**

38. Financial Risk Management (continued)

As of December 31, 2022:

		Maturities			
	Amount	1 year	2 year	3 years	Following
Non-derivative financial instruments:					
Financial debt	$ 5,198,377	$ 471,863	$ 135,108	$ 134,598	$ 4,456,808
Suppliers and other accounts	470,719	470,719	-	-	-
Participation loans					
Non-controlling interest (Note 24)	104,963	9,110	95,853	-	-
Other financial liabilities:					
Hedging instruments	56,173	54,399	1,774	-	-
	$ 5,830,232	$ 1,006,091	$ 232,735	$ 134,598	$ 4,456,808

b) Credit risk

Exposure to credit risk arises as a result of the dynamics of the business in which Grupo Peñoles operates and applies to all financial assets, which include cash and cash equivalents, accounts receivable from customers and debtors, the values of equity instruments, and the rights acquired over the agreed IFDs.

Grupo Peñoles trades only with counterparties of recognized reputation and solvency. It is Grupo Peñoles policy that all customers who wish to buy on credit will be subject to solvency verification procedures, which include an assessment of credit rating, short-term liquidity, and financial situation.

Where appropriate, sufficient collateral guarantees are obtained from customers to mitigate the risk of financial loss due to non-payment. Furthermore, receivable balances are continuously monitored, which makes the exposure to expected losses not significant.

Regarding the credit risk related to other financial assets, which include cash, investments, and derivative financial assets, the exposure comes from the possible default of payment by the counterparties. The maximum exposure equals the net book value of these instruments, values, or operations. Grupo Peñoles seeks to limit the credit risk it assumes with the counterparty regarding these assets by entering into contracts only with financial institutions whose credit rating is considered high-grade investment.

The expected credit loss on accounts receivable balances is determined considering the probability of default by each client to whom a risk rating is assigned derived from the financial and commercial analysis of the entity. The result is applied to a business unit insolvency factor, calculated with the portfolio's behavior over the last 18 months. Additionally, factors such as the existence of collateral and bad debts (clients who have defaulted on payment) are included in the expected credit loss.

38. Financial Risk Management (concludes)

Customers and other accounts receivable

An aging analysis of balances is shown below:

As of December 31, 2023:

		Not impaired			
	Not due	From 1-30 days	From 31-60 days	More - 60 days	Impaired
Clients	**$ 142,456**	**$ 3,409**	**$ 4,234**	**$ 6,237**	**$ 1,979**
Related parties	**14,354**	**-**	**-**	**-**	**-**
Other accounts receivable	**32,590**	**-**	**-**	**-**	**1,277**
	$ 189,400	**$ 3,409**	**$ 4,234**	**$ 6,237**	
Deteriorated by aging	**$ -**	**$ 465**	**$ -**	**$ 2,791**	**$ 3,256**

As of December 31, 2022:

		Not impaired			
	Not due	From 1-30 days	From 31-60 days	More – 60 days	Impaired
Clients	$ 239,706	$ 6,731	$ 4,725	$ 13,802	$ 1,880
Related parties	14,939	-	-	-	-
Other accounts receivable	36,665	-	-	-	1,053
	$ 291,310	$ 6,731	$ 4,725	$ 13,802	
Deteriorated by aging	$ -	$ 511	$ -	$ 2,422	$ 2,933

The credit risk of other financial assets mainly lies in loans granted to contractors for the acquisition of machinery that allows them to maintain the service level to the mining units. The policy is to use the acquired machinery as collateral, which is safeguarded at Grupo Peñoles facilities, as well as the partial application of the payments due for the services received to the credit balance.

Capital management and administration

Grupo Peñoles manages its capital structure to ensure its ability to continue as a going concern, maintain investor and financial market confidence, and to support the future development of medium and long-term projects that maximize returns for shareholders.

To maintain adequate financial solvency and cost of capital optimization, Grupo Peñoles has determined a capital structure with an adequate balance of debt and capital, understood as the equity shown in the consolidated financial position statement excluding non-controlling interest.

Grupo Peñoles has no capital requirements or restrictions that may affect its position to manage and administer its capital. The legal requirement to create a legal reserve equivalent to 20% of its share capital has been covered, the balance as of December 31, 2023, and 2022, is $52,304 (equivalent to Ps.683,026).

39. Assets Held for Sale

In December 2022, Grupo Peñoles received a binding offer for the sale of property, plant and equipment related to the Madero unit. In February 24, 2023 the master contract for assets was signed for an amount of $47,000 subject to certain conditions; among them that the Federal Economic Competition Commission (COFECE) issues a favorable written approval of the transaction's formalization; the related assets and liabilities are recognized separately as part of the assets and liabilities held for sale caption. The carrying amount of these assets and liabilities add up to $21,362 and $35,609, respectively.

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

As of December 31, 2023, the sale has not materialized because the potential buyer continues in the process of managing financing. Therefore, COFECE granted a six-month extension from December 13, 2023. The Company continues to actively manage the sale of this unit, so it has maintained the classification of the related assets and liabilities as held for sale.

An analysis of the principal class of assets and liabilities of the Madero unit classified as held for sale as of December 31, 2023 and 2022, is as follows:

	2023	2022
ASSETS		
Property, plant, and equipment	**$ 21,362**	$ 21,362
LIABILITIES		
Provisions	**$ 39,287**	$ 35,609

40. Subsequent Events

(a) In January 2024, the subsidiary Fresnillo Plc entered into a revolving credit line ("the Line") with several national financial institutions for a 5-year period from January 2024 to January 2029. The maximum amount available under the Line is $350,000. The Credit Line is unsecured and has an interest rate on the amounts withdrawn of SOFOR plus an interest margin of 1.15%. The Fund considers some financial clauses related to leverage and interest coverage ratios. The Line has not been yet disposed.

(b) In July 2020, through a resolution of the Regulatory Commission, a disproportionate increase in electricity transmission service fees ("carriage") was published. In light of this, Termoeléctrica Peñoles, S.A. de C.V. ("TEP") holder of the Self-Supply Permit filed an injunction against this Resolution to challenge the increase. As a preventive measure, the consumer partners (subsidiaries of Grupo Peñoles) decided to provisionally account for the increase in order to be able to meet the payment obligation, in the case of an unfavourable judgment.

During February 2024, a definitive favorable judgment was obtained for this injunction, so the Company proceeded to cancel the increases to the provision accounted for in previous years for $48,714 against the account cancellation of reserves from other income, it should be mentioned that during 2023 no reserve increases were recorded.

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.