

## MANAGING OUR RISKS CONTINUED

### RESPONSE/MITIGATION TO OUR RISKS

#### 9. PROJECTS (PERFORMANCE RISK)


##### RISK DESCRIPTION

The pursuit of advanced exploration and project development opportunities are core to meeting our strategic goals. However, they carry certain risks:

- **Economic viability:** the impact of capital cost to develop and maintain the mine; future metal prices; and operating costs through the mine's life cycle.
- **Uncertainties associated with developing and operating new mines and expansion projects:** fluctuations in ore grade and recovery; unforeseen complexities in the mining process; poor rock quality; unexpected presence of underground water or lack thereof; lack of community support; and inability to obtain and maintain required operating permits.
- **Delivery risk:** projects may go over budget in terms of cost and time; they may not be constructed in accordance with the required specifications or there may be a delay during construction; and major mining equipment may not be delivered on time.

##### RESPONSE/MITIGATION

Our investment evaluation process determines how to best direct available capital using technical, financial and qualitative criteria.

- **Technical:** we assess the resource estimate and confirmed resources, the metallurgy of the mineral bodies, the investment required in general infrastructure (e.g. roads, power, general services, housing) and the infrastructure required for the mine and plant.
  - **Financial:** we look at risk relative to return for proposed investments of capital. We set expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital, based on the present value of expected cash flows from the invested capital, and undertake stochastic and probabilistic analysis.
  - **Qualitative:** the alignment of the investment with our strategic plan and business model; synergies with other investments and operating assets; and the implications for safety, security, people, resourcing and community relations.
- We closely monitor project controls to ensure that we deliver approved projects on time, on budget and in line with the defined specifications. The executive management team and Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk register containing the identified and assessed risks specific to the project.
- The project development pipeline in 2018 included:
- Completion of the first stage of the Pyrites plant project (leaching plant at Saucito).
  - The Centauro Extension, including a second line of the Dynamic Leaching Plant, at Herradura.
  - The conclusion of a feasibility study at Juanicipio and the start of discussions regarding construction and operations agreements. Approval of the project is anticipated in due course.
-  See development projects on page 49 for more information.

##### DESCRIPTION OF RISK LEVEL

Our investment governance process and system of capital project controls remain in place, safeguarding our ability to deliver growth through development projects. During 2018, we commissioned the 2nd Dynamic Leaching Plant, with some delays due to the testing period taking longer than expected. We anticipate construction of Juanicipio commencing in 2019. Several factors have led us to perceive a lower level of risk for Juanicipio compared to San Julián, these include a lower level of investment, easier access to infrastructure and the site's proximity to current operations.

##### KEY RISK INDICATORS

- Earned value (rate of financial advancement vs. physical advancement).
- Percentage of major equipment ordered and received according to plan.
- Percentage of completion of mine development.

##### RISK APPETITE

#### MEDIUM

##### Risk rating (relative position)

2018: Medium (9)

2017: Medium (7)

##### LINK TO STRATEGY



##### CHANGE IN HEAT MAP

