

MANAGING OUR RISKS RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

6 – Projects (Performance risk)

RISK DESCRIPTION

Pursuing advanced exploration and project development opportunities is essential to achieving our strategic goals. However, this carries certain risks:

- **Economic viability:** the impact of the cost of capital to develop and maintain the mine; future metals prices; and operating costs throughout the mine's life cycle.
- **Access to land:** a significant failure or delay in land acquisition has a very high impact on our projects.
- **Uncertainties associated with the development and operation of new mines and expansion projects:** includes fluctuations in the degree of ore and recovery; unforeseen complexities in the mining process; poor quality of the ore; unexpected presence of groundwater or lack of water; lack of community support; and inability or difficulty in obtaining and maintaining the required building and operating permits.
- **Delivery risk:** projects can exceed the budget in terms of cost and time; they cannot be built according to the required specifications or there may be a delay during construction; and major mining teams cannot be delivered on time.

Other important risks:

- Failure to effectively manage our development projects could result in delays to the start of production and cost overruns.

- Projects that cannot be delivered on time, on budget and according to specifications planned.
- Geotechnical conditions of the ore body/poor rock quality.
- High costs making it difficult to justify the project.

The following risks relate specifically to the Juancipio project:

- Regularising electricity consumption with CFE.
- Delays in the design and obtaining permits related to the tailings dams.
- Obtaining building permits with CONAGUA.
- Lack of qualified labour.
- Low contractor productivity.

For Orisyvo, the following risks have been identified:

- Rockfalls due to vibrations.
- Contact with articulated heavy equipment and diamond sweeping machines.
- Electrocutation from in-mine or surface electrical equipment.
- Hit-and-run incidents involving contractor utility vehicles and heavy equipment.
- Drops in levels and unevenness, both in the mine and on the surface.
- Explosion.

FACTORS CONTRIBUTING TO RISK

- The paperwork and permits stopped for a few months because government offices were closed due to the pandemic.
- Contractor productivity may be lower than anticipated, causing delays in the programme.
- Increase in the number of high impact crimes (homicide, kidnapping, extortion) in the regions of the projects.
- We have identified the following threats to project development:
 - Insufficient resources for project execution.
 - Change in operational priorities that can affect projects.
 - Inadequate management structure for project supervision.
 - Lack of efficient and effective contractors.
 - Delays in obtaining necessary permits for construction and operation.
 - Lengthy procedures for land acquisition, electricity supply and water.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

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

- **Technical:** we evaluate and confirm the resource estimate; conduct metallurgical research of mineral bodies to optimise the recovery of economic elements; calculate and determine the investment required for the overall infrastructure (including roads, energy, water, general services, housing) and the infrastructure required for the mine and plant.
- **Financial:** we analyse the risk in relation to the return on the proposed capital investments; set the expected internal rates of return (IRR) per project as thresholds for approving the allocation of capital based on the current value of expected cash flows of invested capital; and perform stochastic and probabilistic analyses.
- **Qualitative:** we consider the alignment of investment with our Strategic Plan and business model; identify synergies with other investments and operating assets; and consider the implications for safety and the environment, the safety of facilities, people, resources and community relations.


The management of our projects is based on the PMBOK standard of the Institute of Project Management (PMI). It allows us to closely monitor

project controls to ensure the delivery of approved projects on time, within budget and in accordance with defined specifications.

The executive management team and the Board of Directors are regularly updated on progress. Each advanced exploration project and major capital development project has a risk record containing the project-specific identified and assessed risks.

The project development process in 2020 included:

- Continuing the construction of the tailings flotation plant (Pyrites Plant project).
- Continuing to ensure the ability of the second stage of the Fresnillo flotation plant, to manage a higher base metal content.
- Continuing the construction of the Juancipio project.
- Continuing the construction of the third tailings dam at La Ciénega.
- Constructing stage four of the tailings dam at San Julián.
- Constructing the 14th leaching pads at Herradura.
- Constructing the Carbon-in-Column process at Herradura.

 For more details see Development Projects on pages 45-47

COVID-19 PANDEMIC IMPACT

Covid-19 affected project development and delays to getting approvals, for example at the Pyrites Plant.

Activities were suspended for three months, causing delays to priority projects. The contractors failed to meet commitments, leading to disruptions in the supply of critical inputs such as cement, fuels and spare parts.

KEY RISK INDICATORS

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

LINK TO STRATEGY



RISK APPETITE

Medium

CHANGE IN HEAT MAP

 Increasing

RISK RATING (RELATIVE POSITION)

2020: High (6)

2019: High (8)