

MANAGING OUR RISKS RESPONSE/MITIGATION TO OUR RISKS

CONTINUED

9 – Tailings and environmental incidents

RISK DESCRIPTION

Environmental incidents are an inherent risk in our industry. These incidents include the possible overflow or collapse of tailings deposits, cyanide spills and dust emissions, any of which could have a high impact on our people, communities and businesses.

We continue to be alert to the following risks:

- Cyanide management risk.
- Implications of future regulations for our tailings management.
- Ensuring the stability of our tailings storage facilities (TSFs) during their entire lifecycles is central to our operations. A failure or collapse

of any of our TSFs could result in fatalities, damage to the environment, regulatory violations, reputational damage and the disruption of the quality of life of neighbouring communities as well as our operations.

- Impact on the environment in the area of influence through erosion/deforestation/forest loss or disturbance of biodiversity as a result of the operations of the business unit or project activities.
- An event involving a leak or spill of cyanide or SO₂ which due to its chemical properties could generate an event of major consequence on the premises of the business unit and/or in the nearby area.

FACTORS CONTRIBUTING TO RISK

- Design, construction and operation of current tailings dams under local and national controls, which do not comply with recommended best practices.
- Historic tailings dams with little or no operation construction design.
- Little known conditions of the state of some tailings dams, both current and historical.
- Some historical tailings dams located in rural areas are now surrounded by facilities or residential areas, increasing the consequences of failure.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

Based on the level of perceived risk due to recent serious and catastrophic developments in the industry, the Board decided to increase the severity of this risk in 2018 and maintained the same level in 2020.

Our operations are inherently hazardous. We seek to achieve operational excellence to ensure that our employees and contractors go home safe and healthy, and that there are no adverse impacts on the communities and the environment where we operate.

Our environmental management system ensures compliance with national and international regulations and best practices, provides transparency and supports initiatives that reduce our environmental footprint. We are a company responsible for its activities and the fulfilment of the environmental commitments made.

Our environmental management system, together with our investment in preventive measures and training, are key factors that reduce the risk of large environmental incidents.

Herradura, Saucito, Fresnillo and Noche Buena each have an integrated certificate of management. The first two have ISO 9001, 14001 and 4500; Herradura and Noche Buena have SIG ISO 14001 and 45000; and Ciénega and San Julián have worked this year to achieve certification (ISO 14001 and 45000). Due to the pandemic, it has not been possible to schedule the audits necessary to define progress in Ciénega and San Julián. Juanicipio is in the process of being certified.

In addition, Ciénega, Herradura, Noche Buena, Saucito, San Julián, Juanicipio and Fresnillo are certified according to the standards of the Clean Industry; the first two achieved the badge of environmental excellence issued by the Environmental Protection Attorney's Office (PROFEPA). Our Herradura and Noche Buena leaching operations comply with the Cyanide Code issued by the International Cyanide Code Institute with the respective certification.

The Executive Committee is well aware of the risks associated with tailings dams. Therefore, before we construct a reservoir, we carry out a series of studies to confirm the suitability of the area. These studies include geotechnical, geological, geophysical, hydrological and seismic analyses.

Before construction begins, the Ministry of Environment and Natural Resources (SEMARNAT), through the Federal Office for Environmental Protection (PROFEPA), conducts several assessment studies and then continues to periodically review deposits in relation to the works.

→ For more details see Environment on pages 92-105

Environmental protection and safety are critical for cyanide leaching systems. We comply with international best practices as promoted by the International Cyanide Management Institute (ICMI) and the Mexican standard NOM-155SEMARNAT-2007, which establishes environmental requirements for gold and silver leaching systems.

→ For more details see Cyanide Management on page 100

Safe management of our tailings facilities has always been a priority. With increased focus on the issue of tailings dam safety across the global mining industry, we have taken the opportunity to renew and increase this focus.

In 2020, we launched a number of initiatives to align our governance practices with current best practices. These initiatives included:

- Updating the inventory of the TSFs and validating the data log.
- Initiating a third-party review programme of dam safety inspections for all TSFs.
- Establishing an Independent Queue Review Panel (ITRP) comprising renowned international experts.
- Accelerating a review programme by independent experts for all sites.
- Reviewing the ITRP and prioritising recommendations arising from inspections.

The Board and the HSECR Committee continue to keep these issues under scrutiny. It is important to note that our tailings dams differ from those involved in recent high-profile incidents, such as the tragedy in Brazil.

COVID-19 PANDEMIC IMPACT

The construction programmes for new tailings dams and the expansion of existing ones were adjusted, due to the increased complexity caused by the pandemic, such as the required health and safety protocols.

KEY RISK INDICATORS

- Number of business units with ISO 14001:2004 certification.
- Number of business units with Clean Industry certification.
- Number of business units with International Cyanide Code certification.
- Number of environmental permits for all advanced exploration projects (according to schedule).

LINK TO STRATEGY**RISK APPETITE**

Low

CHANGE IN HEAT MAP

Increasing

Considering the importance of the tailings dams complex for the Company, we decided to include this topic in the name of the risk.

RISK RATING (RELATIVE POSITION)

2020: Medium (9)

2019: Medium (11)