



Independent practitioner's limited assurance report on the LBMA Refiner's Compliance Report

To: The Management of Metalúrgica Met-Mex Peñoles S.A de C.V.

We have undertaken a limited assurance engagement on the LBMA Refiner's Compliance Report of Metalúrgica Met-Mex Peñoles S.A de C.V. for the period January 1, 2018 to December 31, 2018.

Management's responsibility

Management is responsible for preparation of the LBMA Refiner's Compliance Report in accordance with the LBMA Responsible Gold Guidance version 7, September 2017 and the Responsible Silver Guidance version 1, September 2017 (the criteria). Management is also responsible for such internal control as management determines necessary to enable the preparation of the LBMA Refiner's Compliance Report.

Our responsibility

Our responsibility is to express limited assurance conclusion on the LBMA Refiner's Compliance Report based on the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standards on Assurance Engagements (ISAE) 3000, *Attestation Engagements Other Than Audits or Reviews of Historical Financial Information*. This standard requires us to conclude whether anything has come to our attention that causes us to believe that the LBMA Refiner's Compliance Report is not fairly stated, in all material respects.

A limited assurance engagement involves performing procedures (primarily consisting of making inquiries of management and other within the entity, as appropriate, and applying analytical procedures) and evaluating the evidence obtained. The procedures are selected based on our professional judgment, which includes identifying areas where the risks of material misstatement in preparing the LBMA Refiner's Compliance Report in accordance with the criteria are likely to arise.

Limited assurance procedures performed

We planned and performed our work to obtain all the evidence, information and explanations considered necessary in relation to the above scope. These procedures included:

- Enquiries of management to gain an understanding of Peñoles' processes and risk management protocols in place.
- Enquiries of relevant staff responsible for the preparation of the Refiner's Compliance Report
- Site visits to the Refiner
- Assessing the suitability of the policies, procedures and internal controls that the Refiner has in place to conform to the Guidance
- Review of a selection of the supporting documentation, including gold and silver supplier counterparty due diligence file and transaction's documentation

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- Test a selection of the underlying processes and controls that support the information in the Report
- Review of the presentation of the Report to ensure consistency with our findings.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement and, consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Metalúrgica Met-Mex Peñoles S.A de C.V.'s LBMA Refiner's Compliance Report prepared in accordance with the criteria for the period January 1, 2018 to December 31, 2018 is not fairly stated, in all material respects.

Purpose of statement and restriction of use and distribution

The LBMA Refiner's Compliance Report has been prepared to report how the Metalúrgica Met-Mex Peñoles S.A de C.V. as a Good Delivery Refiner has complied with the criteria during the period January 1, 2018 to December 31, 2018. As a result, the LBMA Refiner's Compliance Report may not be suitable for another purpose.

Our report is intended solely for Metalúrgica Met-Mex Peñoles S.A de C.V., in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than Metalúrgica Met-Mex Peñoles S.A de C.V. for our work, or for the conclusions we have reached in the assurance report.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 28, 2019



LBMA Refiner Compliance Report

Table 1: Refiner's details

Refiner's name	Metalúrgica Met-Mex Peñoles, SA de CV
Location	Boulevard Laguna Poniente 3200 Torreón, Coahuila México
Reporting year-end	December 31, 2018
Date of Report	March 29, 2019
Senior management responsible for this report	Rafael Rebollar Vice-President Metals & Chemicals Group

Table 2: Summary of activities undertaken to demonstrate compliance

Step 1: Establish strong Company management systems

Compliance Statement with Requirement:

We have fully complied with Step 1: Establish strong management systems

1.1. Has the Refiner adopted a Company policy regarding due diligence for supply chains of gold and silver?

Comments and Demonstration of Compliance:

Industrias Peñoles has adopted an overarching group policy regarding ethical behavior in business. This policy is called 'Declaration of Responsible Industry' and it is publically available in our company website (www.penoles.com.mx). This policy is implemented through a detailed process regarding due diligence for supply chains (including gold and silver supply chains). This procedure is known as 'Administrative Excellence - Know your customer and due diligence procedures. In order to strengthen our company's safeguards, we apply it to all our suppliers, contractors and customers.

1.2. Has the Refiner set up an internal management structure to support supply chain due diligence?

Comment and Demonstration of Compliance:

Our Internal management structure that supports supply chain due diligence includes:

- Compliance Officer
- Commercial and Raw Materials Committees
- Ethics and Corporate Values Committee
- Ethics and Compliance Manager
- Internal Audit Department
- Compliance Coordinator Metals and Chemicals Group

1.3. Has the Refiner established a strong internal system of due diligence, controls and transparency over gold and silver supply chain, including traceability and identification of other supply chain actors?

Comments and Demonstration of Compliance:

We complete detailed KYC and due diligence processes on each supplier before we process any precious metal. In addition, we have a robust material reception process, which we apply to each lot (batch) of material we receive. Each lot we receive is entered into our system even before it is received, which ensures complete traceability within our production streams.

1.4. Has the Refiner strengthened company engagement with gold and silver supplying counterparties, and where possible, assist gold and silver supplying counterparties in building due diligence capabilities?

Comments and Demonstration of Compliance:

As mentioned in our Group Policy 'Declaration of Responsible Industry', we do not wish to conduct business with third parties associated with high risk countries and conflict areas on mining industry, or those who benefit from, contribute, support or help forced labor and child labor, as well as armed groups, human rights violation, labor discrimination, links to subversive groups, unsafe work practices or conditions, disrespect to religious, political or sexual preferences, among others. Additionally we share with our suppliers our expectation in terms of business conduct through an 'Ethical Declaration' (Verificación Cadena de Suministro Libre de Conflicto) which each supplier has to agree to. Peñoles strives long-term business relationships with reliable business partners.

1.5. Has the Refiner established a Company-wide communication mechanism to promote broad based employees participation and risk identification to management?

Comments and Demonstration of Compliance:

Peñoles has developed and promoted a whistleblower channel for any situation that its employees, suppliers or contractors deem inadequate or suspicious. This channel is known as Peñoles Plays Fair, with different means to report situations.

<https://penoles.lineacorrecta.com/> As an internal reinforcement, we provide training to our administrative and operative personnel involved in the supply chain.

Step 2: Identify and assess risks in the supply chain

Compliance Statement with Requirement

We have fully complied with Step 2: Identify and assess risks in the supply chain

2.1. Does the Refiner have a process to identify risks in the supply chain?

Comments and Demonstration of Compliance:

We identify and assess risks in the supply chain. We have developed a comprehensive list of potential risks in the gold and silver supply chains, every supplier is assessed against these risks and a risk score is assigned. This process is applied to all of our raw material suppliers. We also analyze the transportation routes of the material to detect any possible risk points.

2.2. Does the Refiner assess risks in light of the standards of their due diligence system?

Comments and Demonstration of Compliance:

We conduct a due diligence process before entering into a business relationship with any counterparty. One of the steps in the due diligence is to conduct a site-visit to all new gold or silver supplier counterparties (regardless of their risk profile).

2.3. Does the Refiner report risk assessment to the designated manager?

Comments and Demonstration of Compliance

The result of the due diligence process conducted on any new gold or silver supplying counterparty is presented for approval to Senior Management. In addition, a summary of all active gold and silver supplying counterparties, their risk classification and dates for re-assessments, is presented once a year to Senior Management. To strengthen the process, we conduct a due diligence on the intermediary companies (traders, mines, warehouses, transports) that intervene in the supply chain of gold and silver concentrates. We manage appropriate and timely updated records every year

Step 3. Design and implement a management system to respond to identified risks

Compliance Statement with Requirement

We have fully complied with Step 3: Design and implement a management system to respond to identified risks

3.1. Has the Refiner devised a strategy for risk management for an identified risk by either (i) mitigation of the risk while continuing to trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk?

Comments and Demonstration of Compliance:

Peñoles has devised a risk management strategy contemplating the three scenarios, this document is known 'Guide for risk classification for raw material suppliers' in the 'Procedure of Knowledge and Verification of Third Parties'.

3.2. Where a management strategy of risk mitigation is undertaken, it should include measureable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated senior management.

Comments and Demonstration of Compliance:

A management strategy for risk mitigation is published in the 'Risk classification for raw material supplier's Guide'. It includes frequencies and activities to be carried out based on the level of risk assigned. All raw material suppliers' risk classification is reviewed once a year by Senior Management.

Step 4: Arrange for an independent third-party audit of the supply chain due diligence

Compliance Statement with Requirement

We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence

Comments and Demonstration of Compliance:

As part of the LMBA certification program, an independent and competent third-party audits and verifies whether Peñoles actually meets all requirements of the gold and silver responsible sourcing guidance.

Step 5: Report on supply chain due diligence

Compliance Statement with Requirement

We have fully complied with Step 5: Report on supply chain due diligence

Comments and Demonstration of Compliance:

We publically report our commitment to ethical business conduct and on some aspects of our supply chain due diligence policy. We also make publically available, on an annual basis, our compliance with the LBMA responsible guidance.

Table 3: Management conclusion

Is the Refiner in compliance with the requirements of the LBMA Responsible Gold and Responsible Silver Guidance for the reporting period?

Yes

Peñoles has reinforced and improved effective management systems, procedures, processes and practices to confirm to the requirements of the LBMA Responsible Gold and Responsible Silver Guidance, as explained above in Table 2, for the reporting year ended 31 December 2018.

It is Peñoles' policy and commitment to:

- * keep and share our high standards of ethics,
- * adhered to our values of Confidence, Responsibility, Integrity and Loyalty (CRIL),
- * comply with our internal regulations and applicable law,
- * promote respect of human rights, and
- * ensure a value chain free of ethical and legal conflict

Table 4 Other report comments

If users of this report wish to provide any feedback to Peñoles with respect to this report, they can contact angeles_garza@penoles.com.mx

Prepared by: Angeles Garza, Compliance Coordinator Metals and Chemicals Group

Approved by: Rafael Rebollar, Vice-President Metals and Chemicals Group