



How to Strengthen the Continuity of Extractive Operations in a Volatile, Uncertain, Complex and Ambiguous World?

Management Model of Strategic Fences

SUPERA proposal to strengthen the Competitive Advantage of Extractive Companies

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INTRODUCTION TO THE **STRATEGIC FENCES MODEL**

Extractive companies have played a leading role for thousands of years (copper, bronze, and iron age) through the extraction of metallic and non-metallic mineral elements, which have been used for the development of yesterday's and today's society and will continue to be for the development of tomorrow's society, because everything around us comes from the extractive industry, or depends on mining, or has a very close link to mining, to the extreme mining, to the extent that if mining were to be paralyzed, in a short time the modern world, as we know it, would be paralyzed.

Despite the above, the extractive industry in the world, particularly in Latin America, has been facing a systemic rejection from the communities of direct and indirect influence. This rejection has been very well exploited by opportunists (social and political) who have found in the "opposition" and in the "no for no" a very lucrative and sustainable business model.

This unfortunate situation has generated the interruption/paralysis not only of current operations but also the postponement/cancellation of mega projects in various industries causing not only significant losses of employment opportunities, tax collection, and poverty reduction but also the increase of illegal operations that further worsen the reputation of the mining as an extractive industry, due to unsafe conditions.

In this context, it is imperative that legal, incorporated and responsible extractive companies recognize that there have probably been some unintentional errors at the company and/or guild level.

"We believe in an operating system within a Model of Strategic Fences for Protection that will strengthen the internal capacity and provide operational continuity in a highly volatile, uncertain, complex, and ambiguous environment, which increasingly demands better and better and faster responsiveness."



NEW MODEL OF COMPETITIVE ADVANTAGE

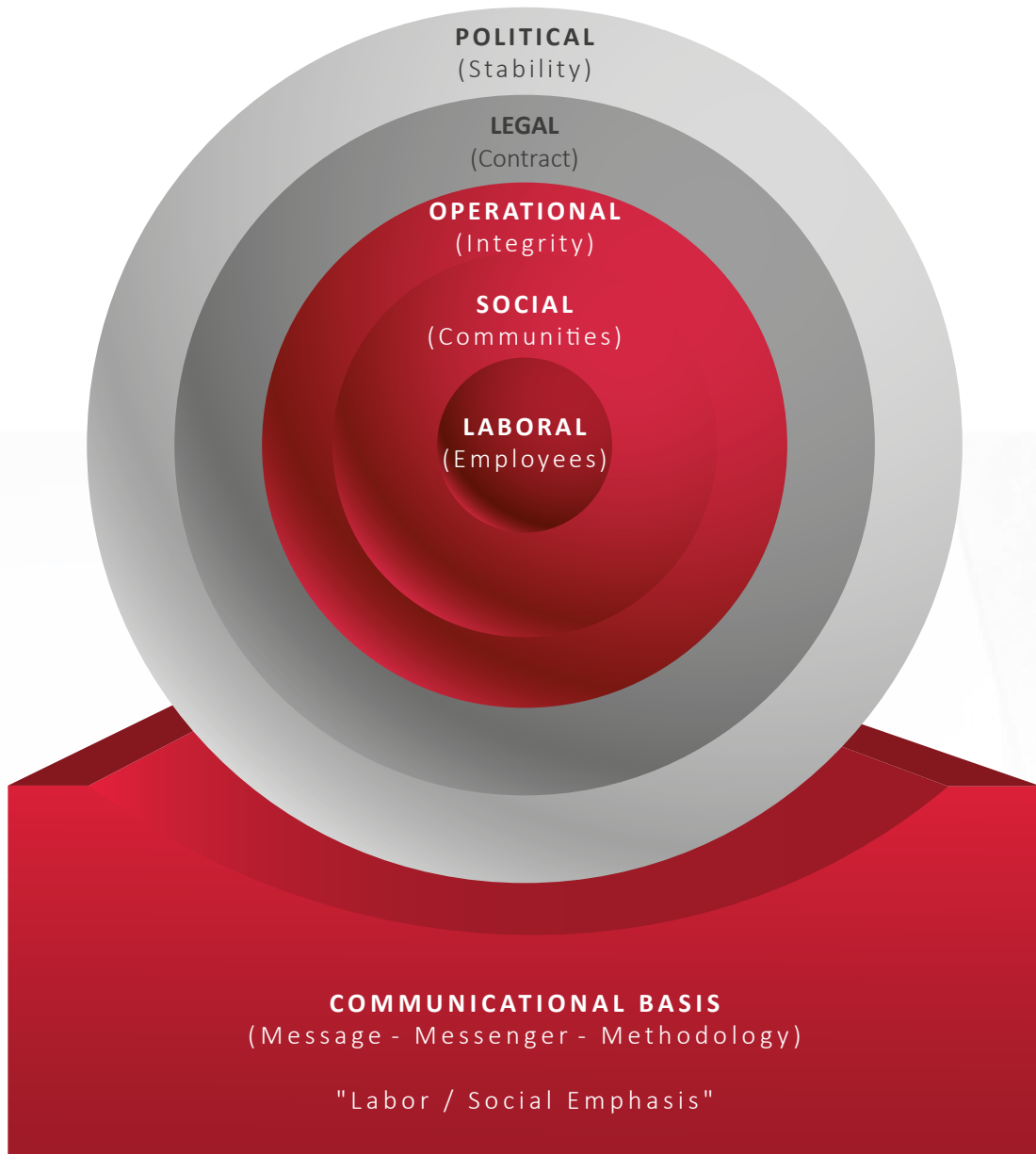
In the volatile, uncertain, complex, and ambiguous environment, every extractive enterprise in the analogy is like a valuable castle that must be protected from its "enemies" using "moats" surrounding and protecting it. Such moats, which in their deepest essence are functional strategic alliances between the different Stakeholders, must be as wide and deep as possible to prevent their enemies from being able to take it by storm.



In this sense, the modern extractive company should ideally have Strategic Fences of Protection that allows you to strengthen your competitive/comparative advantage, protecting your operations from those who wish to make illegal/unfair usufruct of their activities. However, it is important to note that the notion of "fences" is used as a symbol of strength of competitive advantage and not as an exclusive, defensive or restrictive connotation that prevents expansion towards Stakeholders and in particular towards communities of influence. In fact, it is quite the opposite, as we will see later. In the following scheme, we show a **Strategic Protection Fence Model** that any operation can implement with the supreme end of ensuring its integrity and continuity.



STRATEGIC PROTECTION FENCES



Below is a simple but significant description of each Strategic Fence of Protection of the modern extractive company in the 21st century.



1

The **POLITICAL FENCE** is the first and most unstable defensive fence because of the lower power of management. A common mistake traditional extractive companies make is believing it is the only encircling to manage or the most important.

2

The **LEGAL FENCE** is the traditional EIA fence, which is then transferred to the Operational Fence. Legal management must be "human" regarding communication within and/or outside the organization.

3

The **OPERATIONAL FENCE** is the third defense fence, whose strength is given by protecting the "critical assets" and avoiding the technological obsolescence of equipment and processes.

4

SOCIAL FENCE is the fourth defense fence, whose strength is given by the level or degree of acceptance of the Operations by the direct and indirect influence communities.

5

The **LABOR FENCE** is the fifth defense fence, whose strength is given by the Sense of Belonging of Employees. It is the last barrier of defense when all the others have failed. It is the "core" of value creation of all fences.

6

The **BASE COMMUNICATION** is the "water" that connects all the moats (fences) facilitating their functionality and effectivity. The choice of Messages, Messengers and Methodology is transcendental.

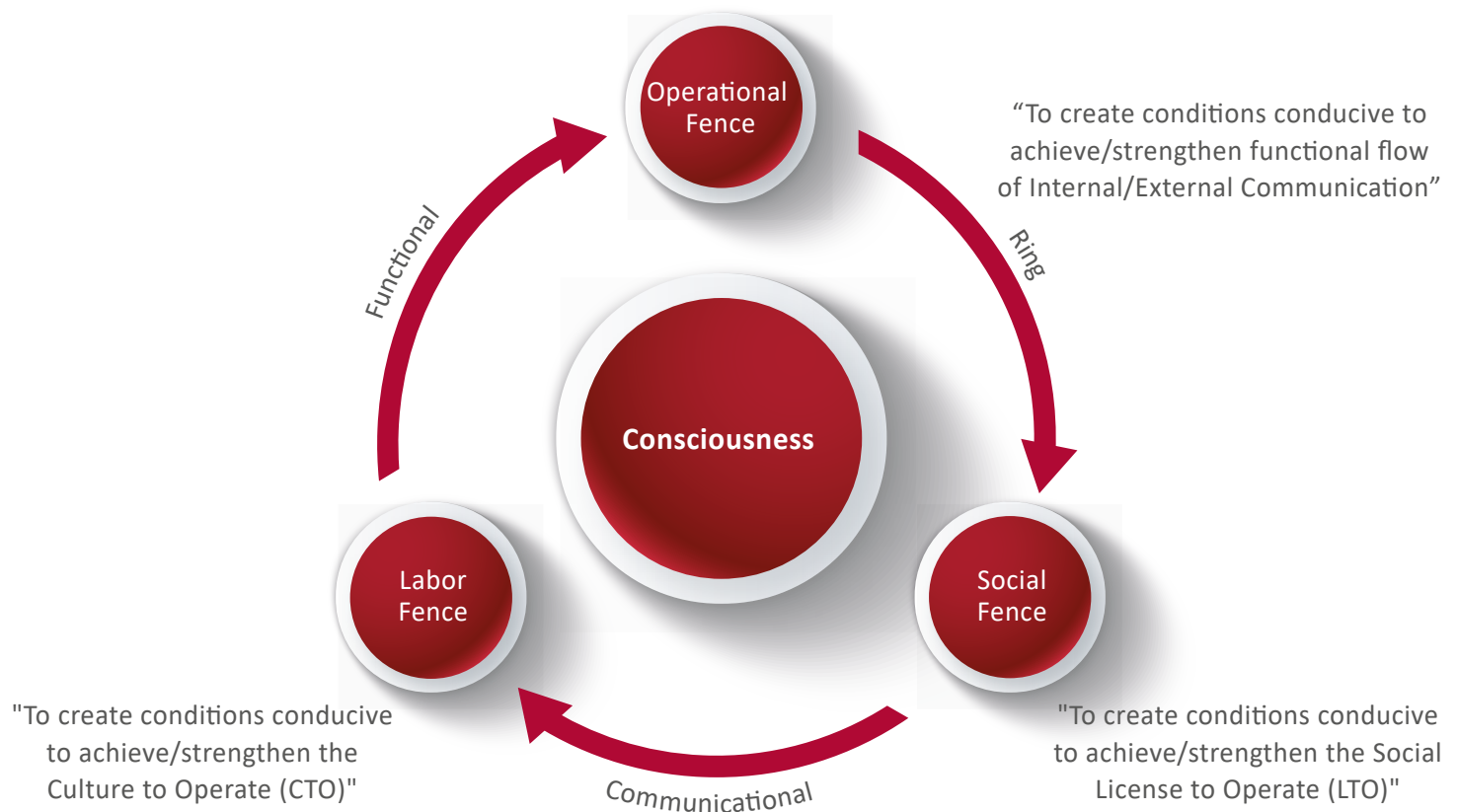
In that sense, there is an excellent opportunity for business leaders to expand their traditional vision to a more holistic view of business model management, incorporating the Model of Strategic Fences of Protection in the daily management of operations.

MANAGEMENT OF CRITICAL PROTECTION FENCES

In the current global context, characterized by great social and political polarization, it is imperative that the leaders of extractive operations can become even more aware of the transcendence to manage with greater emphasis the Strategic Critical Protection Fences, since they not only are critical fences but represent those that can be managed directly and immediately, as shown in the following master diagram:

CRITICAL STRATEGIC FENCES

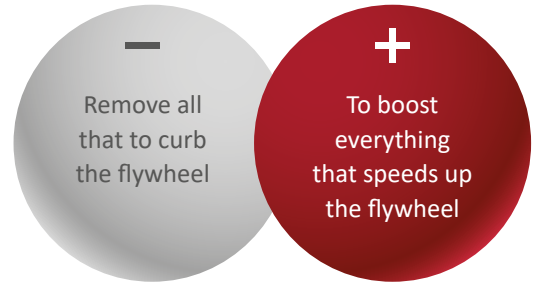
"To create conditions conducive to achieving/strengthening Excellence Sustainable Operational"



Therefore, in this new reality facing the extractive industry, it would be ideal for every leader to develop their awareness and competencies further to contribute holistically to the daily management of each of the critical protection fences of its operation: Labor Fence, Social Fence, Operational Fence and Communicational Ring, which demands in-depth knowledge of the flywheels that create value in the daily management of the extractive company.

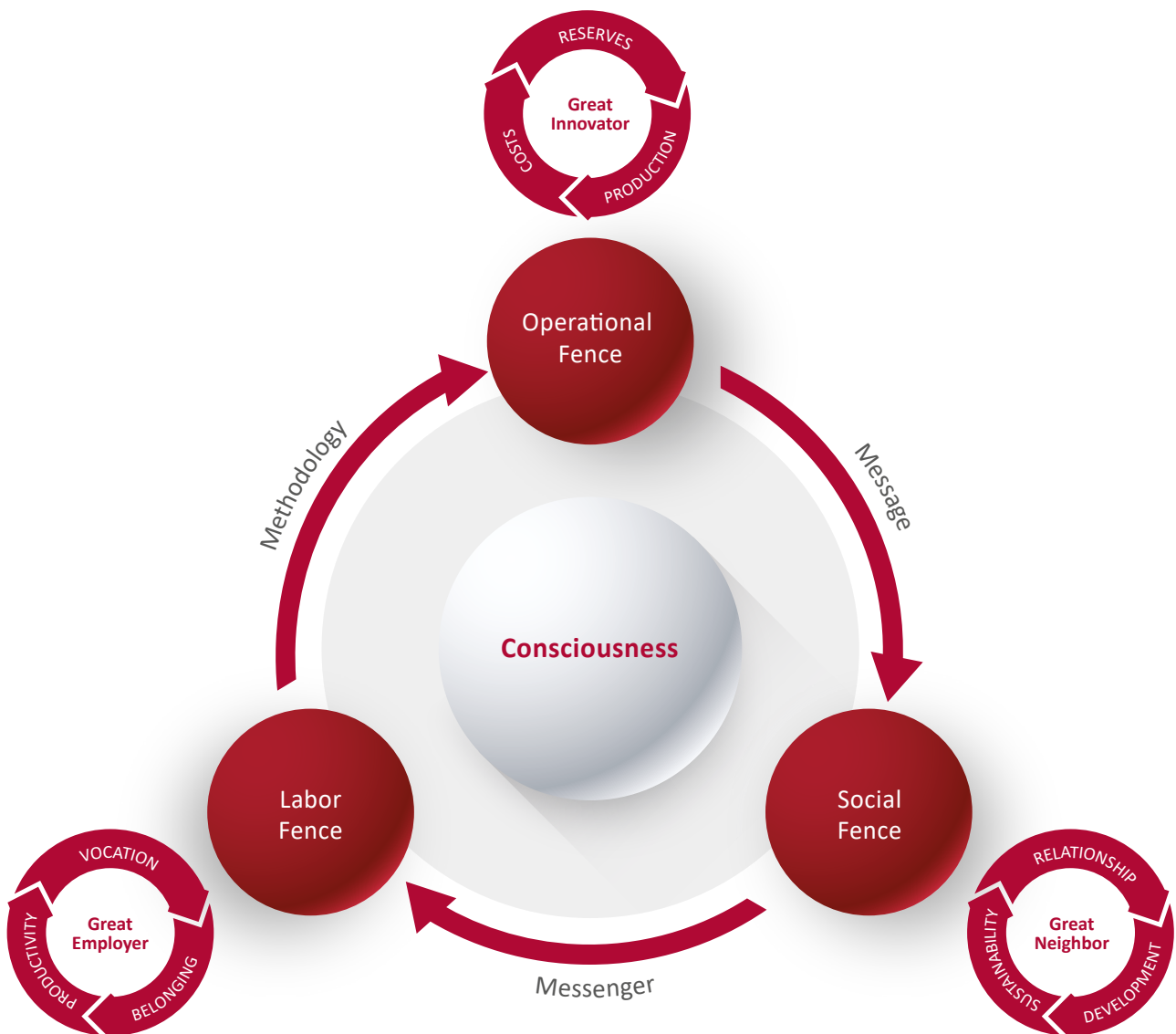
ESSENTIAL FLYWHEELS OF CRITICAL FENCES

The "Flywheel" or wheel of value creation of each Strategic Critical Fences has three essential "KeyDrivers" that must be managed daily in an extractive company. The basic actions to keep the flywheel turning are two very simple but very significant:



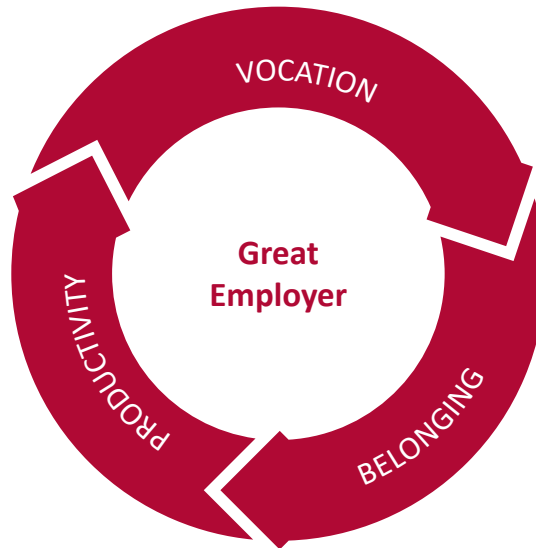
The following master diagram shows the four Critical Protection Fences with their flywheels and constituent key drivers:

FLYWHEELS FOR CRITICAL PROTECTION FENCES



The following is a descriptive summary of each of the critical fences and the communicational ring, as follows as well as their respective flywheels that will allow a better understanding of the structured operation of the system: essential cause-effect relationships that broaden the signification context of each fence critical strategic protection:

- 1. Labor fence:** The labor fence is the most important and represents the last barrier to protect against systemic failure of all other fences. The flywheel of the labor fence, which would become a "large employer" is composed of:



- a) Vocation:** The first masterpiece of the job hedge flywheel is for the person to love what they do. There is an excellent opportunity for people in the industry to work not just for the income (occupation) but for vocation. Vocation is managed through an operational personnel selection process and the placement of the right person in the right position: alignment of talent and need, essential actions that directly impact the sense of belonging.
- b) Belonging:** The second masterpiece of the flywheel of the labor fence is that the person wants to do what he/she loves, out of conviction, in the company where he/she works. There is an excellent opportunity for people working in the extractive industry to strengthen their sense of belonging further, leaving aside fears and/or attachments. Belonging is managed through three Wages: Economic, related to remuneration, bonuses/utilities, and benefits; Emotional, related to affection/treatment, support, and recognition; Spiritual, related to collaboration, growth, and contribution.
- c) Productivity:** The third masterpiece of the flywheel of the labor fence is that the person is and feels doing what he/she loves in the place where he/she feels a great sense of belonging. The extractive industry has a great opportunity to achieve greater sustainable integral productivity, strengthening vocation (love for what one does), and sense of belonging (love for the place where one does what one loves). In short, productivity is a natural consequence of these.

"When each of the elements of the Work Fence Flywheel: Vocation, Belonging, and Productivity, are functional, we can develop/strengthen a great Culture to Operate: First Essential Pillar to strengthen the functionality of the Operational Fence".

2. Social Fence: The social fence is the second most important and represents the penultimate barrier of protection against the systemic failure of the operational, legal, and political fence. The flywheel of the social fence is composed of:



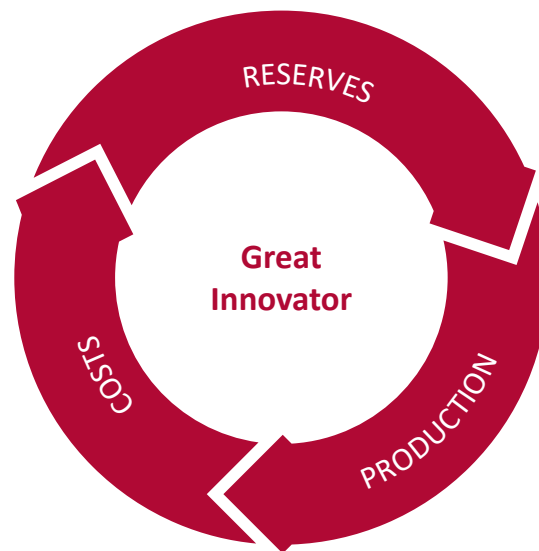
- a) **Relationship:** The first masterpiece of the flywheel of the social fence is the existence of a relationship with the communities of direct and/or indirect influence, a **positive relationship** that implies mutual respect, honesty and transparency, humility, and humanity, among other essential virtues such as empathy and vocation of service. Without a positive relationship, the social fence is not possible.

- b) **Development:** The second masterpiece of the flywheel of the social fence is effective community development based on the associativity and legitimacy of people and/or institutions to make more lucid decisions in favor of developing the communities of influence. **Social investment should be oriented to high social impact programs** relevant to the intrinsic nature of the communities themselves, usually agricultural, that create the conditions for the boom and/or strengthening of the circular economy and the productive chain, essential for the sustainability of a developing community.

- c) **Sustainability:** The third masterpiece of the social fence flywheel is the sustainability of the communities of its influence. The modern extractive company understands and accepts temporary "attachment behaviors" to create conditions conducive to the subsequent development of self-management and self-sustainability of the communities, as it recognizes that the extractive activity has a finite life cycle. Therefore, all the actions of community relations and development must be oriented to answer the following question, and community development actions should be oriented to answer the following dominant question: **What will be the future of the community once the operation closes?**

"When each of the elements of the Social Fence Flywheel: Relationship, Development, and Sustainability, are functional, we succeed in developing/strengthening a great Social License to Operate: Second Essential Pillar to strengthen the functionality of the Operational Fence."

3. Operational Fence: The operational fence is the third most important and represents the antepenultimate barrier of protection against the systemic failure of the legal and political fence. The flywheel of the operational fence is composed of:



- a) **Reserves:** The first masterpiece of the operational fence flywheel is the proven and probable reserves of the mining asset. However, **when the social fence is weak, the possibilities of operation/expansion are limited due to social possibilities of operation/expansion are limited due to the social rejection** experienced by the operation/project. An even more critical situation occurs when, in addition to having a weak social fence, there is a weak labor fence since the execution of the plans becomes more onerous and untimely.

- b) **Production:** The second masterpiece of the operational fence flywheel is production. The modern extractive company understands that we are at a critical point in an energy shift that will demand a larger supply of minerals for the next 10-20 years in a context of likely higher prices for mineral commodities, a demand that is occurring in a situation where more than a few **extractive companies are having problems to ensure their operational continuity due to the weakness of their labor and social fences.**

- c) **Costs:** The third masterpiece of the operational fence flywheel is cost (All In Sustaining Cost). The modern extractive company understands that one of the competitive advantages of the commodity industry is its sustainable cost leadership. **When the labor and social fences are functional, we create the right conditions to develop a great sense of internal/external belonging that allow us to ensure production and save costs and expenses that directly impact its competitive/comparative advantage.**

"When each of the elements of the Operational Fence Flywheel: Reserves, Production, and Costs, are functional, we succeed in developing/strengthening Operational Integrity and Sustainability."

4. **Communicational Ring:** The communicational ring is the "water that joins the moats (fences)" because thanks to its effectiveness, all the other fences: Labor, Social, Operational, Legal, and Political reach their maximum resonance and functionality. The flywheel of the communicational ring is composed of:



- a) **Message:** The first masterpiece of the flywheel of the communication ring is **the message, which must be perfectly aligned on all fences**. Unfortunately, the anti-extraction industry has managed to inoculate the collective imagination with very effective messages, such as: "Agro Yes, Mine No"; "Tourism Yes, Mine No"; "Pesticide", etc. **The traditional extractive enterprise has generally underestimated the power of interpersonal connection/communication** on an individual, group, and mass basis. There is an urgent need to develop communication skills to counteract the anti-mining narrative.
- b) **Messenger:** The messenger is the second masterpiece of the flywheel of the communication ring. There is an excellent opportunity to complement the great rational intelligence to think and decide and the great motor intelligence to act and correct leaders with **great emotional intelligence to "connect and communicate"** effectively. Reality shows that one of the reasons why some large extractive projects have stalled has been the inappropriate choice of messengers.
- c) **Methodology:** The third masterpiece of the communication ring flywheel is the communication methodology. Today there is an excellent opportunity to transcend the communication trap of large extractive companies: **placing the operations at the service of the corporation instead of placing the corporation at the service of the operation**, generating communication methodologies that are not very agile and do not allow us to respond quickly to the communication needs that today's new reality demands, where the anti-mining narrative is the order of the day in all communication channels.

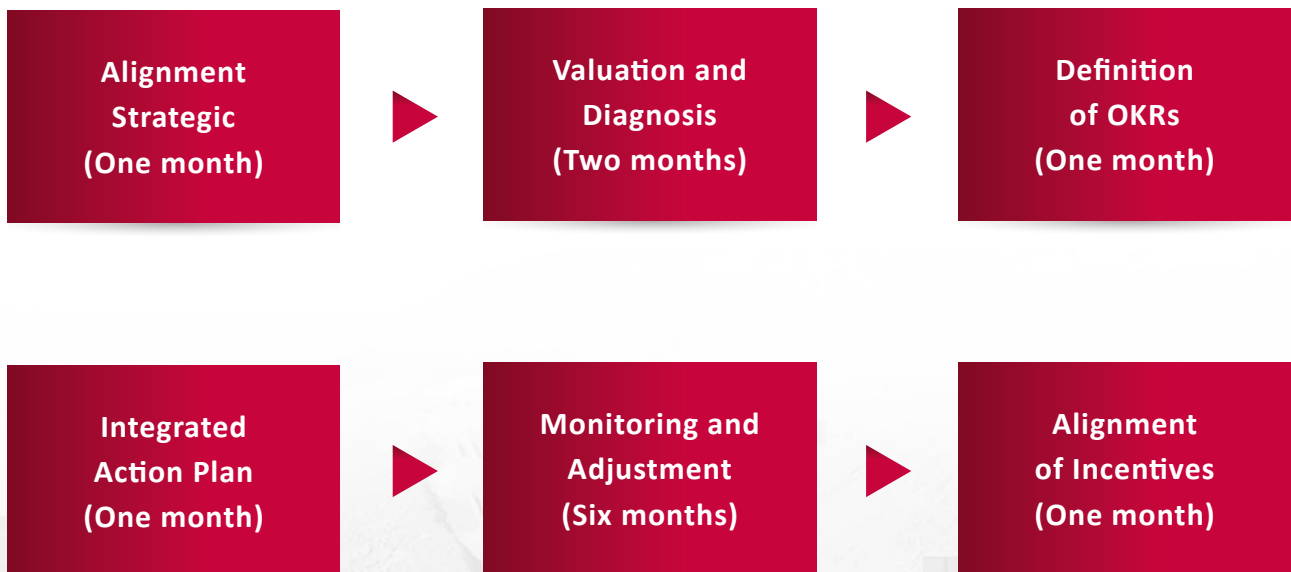
"When each of the Flywheel elements of the Communication Ring: Message, Messenger and Methodology, are functional, we maximize the functionality of each fence: Labor, Social, Operational, Legal and Political".

TRANSFORMATION PLAN

CONSCIOUSNESS - ACTION

Before implementing any plan, the leader must understand the cause-effect relationship between the Strategic Protection Fences described above. Thus, it is not possible to talk about the sustainable functionality of the Operational Fence (Reserves, Production, Costs) if we do not first ensure the functionality of the Labor, Social, and Communication Ring Fences. In fact, given the dysfunctionality of the Political and Legal Fences, which is very characteristic today, the functionality of the Trinomial is more crucial than ever: Labor Fence, Social Fence, and Communicational Ring, so that the Operational Fence can ensure its integrity and continuity.

In this context, the Consciousness Transformation - Action Plan recommended to ensure the functionality of the Strategic Critical Fences: Labor, Social, Operational, and Communication Ring, has the following six stages:



Strategic Alignment: In this first stage, the objective is to achieve a shared vision among operations leaders and support areas regarding the management of the four critical fences to ensure the continuity and sustainability of the mining operations. This stage in its deepest essence, is an educational stage.

Assessment and Diagnosis: In this second stage, the objective is to measure qualitatively and quantitatively the functionality of each of the four critical fences. The valuation is done using the traffic light technique in each key driver part of the flywheels of the strategic protection fences.

Definition of OKRs: In this third stage, the objective is to decide the objectives in each of the fences, ratify the Key Drivers to be managed, as well as establish the expected results in 90, 180, and 360 days, in addition to two and three years of management.

Integrated Action Plan: In this fourth stage the objective is to choose the essential initiatives/actions that will allow the extractive operation to go from the current situation (assessment and diagnosis) to the desired situation (OKRs), a structured action plan in each of the 4 critical strategic fences.

Monitoring and Adjustment: In this fifth stage, the objective is to follow up on the integrated action plan, monitoring progress and results. At this point, there are only three possibilities for action: Start new actions, continue ongoing actions, or stop actions that do not work within the current context of the extractive operation.

Incentive Alignment: In this sixth stage, the objective is to ensure that the energy of the entire team goes in the right direction because vision and action only complement each other when incentives, particularly economic incentives, are perfectly aligned, as where the focus is, the energy flows, and where the energy flows, the results flourish. The rudder of attention is the incentives.

QUESTIONS & FREQUENT ANSWERS

P. What is the framework for environmental management?

R. Every modern extractive company today needs to minimize its environmental impact. This is done through an environmental impact assessment or EIA managed throughout the project's life. Environmental management is traditionally limited to the legal fence in the project stage. According to ISO 18001, environmental management is circumscribed to the Operational Fence in the operation stage. However, culturally speaking, as it should be seen, environmental management belongs to all Strategic Fences. belongs to all Strategic Fences.

P. What happens if there is no political stability in a country?

R. The political fence should ideally ensure the minimum stability necessary to ensure the integrity of the operations. However, in circumstances where it is not available, it is much more imperative and transcendental to have a solid labor, social and communicational fence that will help to minimize the risks of loss of operational continuity.

P. Why do extractive companies and the mining industry have such a bad reputation?

R. The answer has many vectors and nuances. However, a characteristic decisive factor as an industry has been its poor associativity and poor communication with the different stakeholders. Some industries pollute, generate less employment, and deliver less foreign exchange and taxes which are more welcome than legal and responsible extractive industries.

P. Why have those against extraction won the communication battle against the industry?

R. For many reasons, one of the essential reasons is that the power of communication is underestimated in society and the industry in general. The main problem in couples is the lack of communication. The main problem in families is the lack of communication. The main problem in companies is the lack of communication. We need Simple but Powerful Messages, Messengers with Credibility, and Communication Methodologies in the new volatile, uncertain, complex environment, and ambiguous (VUCA).

P. What are the two central aspects of Operational Sustainability?

R. There are many, but the two most important according to our experience are Operating Culture (CTO) and the Social License to Operate (LTO), as Sustainable Operational Excellence is built on these two pillars. There is no viable operation if we have internal and external dysfunctionality.

P. Is it possible to start a project without political support?

R. Technically no, because the government should promote any project that has complied with all legal requirements (ownership, environmental impact studies, etc.). However, suppose the company/project has a solid labor and social fence. In that case, this allows to increase the real social capital that the company has, creating the right conditions for the politicians in power to support the initiative.

Let's remember that the politicians in office base their power on social support, so it will be difficult for them to decide against the company's desires.



Management Models of Strategic Fences