ARGONAUT GOLD

Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in thousands of United States dollars)

Management's responsibility for financial reporting

These consolidated financial statements have been prepared by management of Argonaut Gold Inc. (the "Company") in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management's best estimates and judgments based on currently available information.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board of Directors for approval.

The Company's independent auditors, who are appointed by the shareholders, conduct their audits in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements.

A system of internal control is maintained to provide reasonable assurance that financial information is accurate and reliable. Management conducts ongoing reviews of these controls and reports on their findings to the Audit Committee.

/s/ Peter C. Dougherty
President and Chief Executive Officer

/s/ David A. Ponczoch
Chief Financial Officer

February 25, 2021

Independent auditor's report

To the Shareholders of Argonaut Gold Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Argonaut Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of mineral properties, plant and equipment related to the El Castillo and San Agustin mines and reversal of impairment assessment related to mineral properties, plant and equipment of the La Colorada mine *See note 2 – Significant accounting policies, note 3 – Significant estimates and judgments, note 9 – Mineral properties, plant and equipment and note 27 – Impairment and reversal of impairment to the consolidated financial statements.* The Company's mineral properties, plant and equipment balance as at December 31, 2020 was $635 million of which $156.6 million was related to the El Castillo, San Agustin and La Colorada mines. At each reporting date, management reviews its non-current assets including mineral properties, plant and equipment for impairment indicators. If any such indicators exist, management estimates the recoverable amount of the assets in order to determine the extent of the impairment, if any. Where the assets do not generate cash flows that are independent from other assets, management estimates the recoverable amount of the cash generating unit (CGU) to which the assets belong. If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the recoverable amounts of the El Castillo, San Agustin and La Colorada mines, including: – Evaluated the appropriateness of management's discounted cash flow models and tested the mathematical accuracy thereof. – Tested the underlying data used by management in the discounted cash flow models. – Evaluated the reasonableness of significant assumptions by evaluating (i) the reasonableness of estimated future commodity prices and exchange rates by comparing them with external market and industry data, and (ii) expected future operating costs by comparing them with the past performance of the mines. – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable reserves and resources, future production and sales volume, and metallurgical recovery estimates. As a basis for using this work, the management experts' competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the

Key audit matter	How our audit addressed the key audit matter
indicate that the impairment may have reversed. Where an impairment charge subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion, or amortization) had no impairment loss been recognized for the asset in prior periods. During the year ended December 31, 2020, management determined that the continued weakness in the Company's share price during 2020, resulting in the Company's market capitalization being below the carrying amount of the net assets of the Company, constituted an impairment indicator. For the La Colorada mine, management identified indicators of reversal of impairment including an increase in long-term gold prices and estimated recoverable reserves and resources. Therefore, management estimated the recoverable amounts of the El Castillo, San Agustin and La Colorada mines. The recoverable amounts were determined as the fair value less cost of disposal (FVLCD) using discounted cash flow models. Calculating the FVLCDs required management to make estimates and assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production and sales volume, the expected future operating, capital and reclamation costs, discount rates and exchange rates. Estimated recoverable reserves and resources, future production and sales volume, and metallurgical recovery estimates are based on information compiled by appropriately qualified persons (management's experts). No impairment was recognized for the El Castillo and San Agustin mines as a result. For the La Colorada mine, management recorded an impairment reversal of $5.9 million during 2020. We considered this a key audit matter due to the	assumptions, methods and findings. The procedures performed also included tests of relevant data used by management's experts. – Utilized professionals with specialized skill and knowledge in the field of valuation to assist in the evaluation of the discount rates.

Key audit matter	How our audit addressed the key audit matter
significant judgment made by management in developing assumptions to determine the recoverable amounts of the El Castillo, San Agustin and La Colorada mines, including estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production and sales volume, the expected future operating costs, discount rates and exchange rates. This in turn resulted in significant audit effort and subjectivity in performing audit procedures to test the significant assumptions used by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	
Valuation of the mineral property related to the Florida Canyon operation (the Florida Canyon mineral property) acquired in the Alio Gold Inc. business combination *Refer to note 2 – Significant accounting policies, note 3 – Significant estimates and judgments, note 5 – Alio Gold Inc. Acquisition and note 9 – Mineral properties, plant and equipment to the consolidated financial statements.* On July 1, 2020, the Company completed the acquisition of Alio Gold Inc. (Alio) for total consideration of $111.4 million. The fair value of the identifiable assets acquired included $95.3 million related to the Florida Canyon mineral property. Management accounted for the acquisition of Alio as a business combination using the acquisition method. Under this method the identifiable assets and liabilities of the business which can be measured reliably are recorded at fair values at the date of acquisition. To estimate the fair value of the Florida Canyon mineral property, management utilized a discounted cash flow model incorporating estimates and significant assumptions that included: quantities of ore reserves and resources, projected future production levels, metallurgical	Our approach to addressing the matter included the following procedures, among other: • Tested how management estimated the fair value of the Florida Canyon mineral property, which included the following: – Evaluated the appropriateness of management's discounted cash flow model and tested the mathematical accuracy thereof. – Tested the underlying data used by management in the discounted cash flow model. – Evaluated the reasonableness of significant assumptions by (i) comparing future gold prices with external market and industry data; (ii) comparing expected future production costs and capital expenditures to recent actual production costs and capital expenditures incurred; and (iii) assessing whether these assumptions were consistent with evidence obtained in other areas of the audit. – The work of management's experts was used in performing the procedures to

Key audit matter	How our audit addressed the key audit matter
recovery estimates, expected future production costs and capital expenditures, future gold prices and the discount rate. Quantities of ore reserves and resources, projected future production levels and metallurgical recovery estimates are based on information compiled by appropriately qualified persons (management's experts). We considered this a key audit matter due to the significant judgment applied by management in estimating the fair value of the Florida Canyon mineral property, including the development of the significant assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	evaluate the reasonableness of the quantities of ore reserves and resources, projected future production levels, and metallurgical recovery estimates. As a basis for using this work, the management experts' competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions and methods and findings. The procedures performed also included tests of relevant data used by management's experts. – Utilized professionals with specialized skill and knowledge in the field of valuation to assist in evaluating the appropriateness of the discount rate.
Valuation of ore placed on the leach pads *Refer to note 2 – Significant accounting policies, note 3 – Significant estimates and judgments and note 8 – Inventories to the consolidated financial statements.* The Company's work-in-process inventory balance amounted to $68.5 million at December 31, 2020, of which a substantial portion related to ore placed on leach pads. Inventories are stated at the lower of weighted average cost and net realizable value. Work-in-process cost includes all direct costs incurred in production including direct labor and materials, freight, depreciation and amortization of plant and equipment used in the production process, depletion of mineral properties and directly attributable overhead costs. If the net realizable value is lower than the expected cost of the finished product, the inventory is written down to its estimated selling price less cost of completion and disposal. The write down may be reversed if	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the value of ore placed on leach pads, which included the following: – Evaluated the appropriateness of management's models to value ore placed on leach pads and tested the mathematical accuracy thereof. – Tested the underlying data used by management in the models. – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates associated with the type of ore tonnes mined and placed on leach pads, rock density, grams of gold per tonne, expected recovery rates and timing of recoveries. As a basis for using this work, the management experts' competence,

Key audit matter	How our audit addressed the key audit matter
circumstances change. Work-in-process inventory that management does not expect to process in the 12 months following the statement of financial position date are classified as non-current. The net realizable value of the non-current portion of inventory is calculated based on the estimated price at the time of sale using long-term gold prices less estimated future production costs to convert the inventories into saleable form discounted over the planned processing timeframe. The significant assumptions used by management in the valuation of work-in-process inventory include type of ore tonnes mined and placed on leach pads, expected recovery rates, timing of recoveries, current and long-term gold prices, discount rate and remaining costs of completion to bring inventory into its saleable form. The type of ore tonnes mined and placed on leach pads, rock density, grams of gold per tonne, expected recovery rates and timing of recoveries are estimated by the Company's metallurgical experts (management's experts). During the year, management recorded a reversal of a net realizable value adjustment recognized in the prior year, for its non-current inventory, of $1.6 million. We considered this a key audit matter due to the significant judgment applied by management in the valuation of ore placed on leach pads. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions and methods and findings. The procedures performed also included tests of relevant data used by management's experts. – Evaluated the reasonableness of significant assumptions by comparing: ○ current and long-term gold prices with external market and industry data; and ○ remaining cost of completion with recent actual costs incurred. – Utilized professionals with specialized skill and knowledge in the field of valuation to assist in evaluating the appropriateness of the discount rate.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Dean Larocque.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
February 25, 2021

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2020 and 2019
(Expressed in thousands of United States dollars)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 214,188	$ 38,787
Receivables (Note 7)	28,033	22,335
Inventories (Note 8)	69,836	55,885
Prepaid income tax	1,145	1,177
Prepaid expenses and other	3,289	1,744
Marketable securities	7,998	-
Assets held for sale (Note 6)	35,934	-
	360,423	119,928
Non-current portion of inventory (Note 8)	12,742	11,405
Mineral properties, plant and equipment (Note 9)	634,967	464,086
Deferred income taxes (Note 15)	34,725	10,906
Reclamation deposits (Note 10)	8,457	-
Other assets	2,096	300
Total assets	$ 1,053,410	$ 606,625
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	$ 52,655	$ 37,935
Income taxes payable	17,095	2,229
Flow-through share premium (Note 16b)	1,435	480
Current portion of lease liabilities (Note 13)	10,128	-
Current portion of derivative liabilities (Note 26f)	12,753	378
Liabilities held for sale (Note 6)	343	-
	94,409	41,022
Debt (Note 12)	58,306	10,000
Lease liabilities (Note 13)	23,186	-
Reclamation provision (Note 14)	54,202	17,651
Deferred income taxes (Note 15)	41,799	1,864
Derivative liabilities (Note 26f)	4,885	1,484
Other liabilities	4,445	3,688
Total liabilities	281,232	75,709
SHAREHOLDERS' EQUITY		
Share capital (Note 16b)	1,002,448	789,425
Contributed surplus	20,913	18,004
Deficit	(177,846)	(192,057)
Accumulated other comprehensive loss	(73,337)	(84,456)
Total shareholders' equity	772,178	530,916
Total liabilities and shareholders' equity	$ 1,053,410	$ 606,625

Commitments and contingencies (Note 25)
Events after the reporting period (Note 28)

Approved by the Board of Directors
/s/ Peter C. Dougherty, Director /s/ Dale C. Peniuk, Director

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended December 31, 2020 and 2019
(Expressed in thousands of United States dollars, except share numbers)

	2020	2019
Revenue	$ 319,692	$ 268,885
Cost of sales		
Production costs (Note 18)	174,622	181,027
Depreciation, depletion and amortization	50,683	45,918
Inventory (reversal) write down (Note 8)	(1,611)	27,464
Total cost of sales	223,694	254,409
Gross profit	95,998	14,476
Exploration expenses	884	693
General and administrative expenses	14,455	13,819
Other operating expense (income) (Note 14)	1,209	(2,356)
Care and maintenance expenses (Note 1)	8,201	-
Transaction costs on acquisition (Note 5)	4,604	-
Impairment (reversal) of mineral properties, plant and equipment (Note 27)	(6,251)	111,291
Profit (loss) from operations	72,896	(108,971)
Finance income	920	58
Finance expenses (Note 19)	(3,329)	(1,709)
Losses on derivatives (Notes 12 and 26)	(25,415)	(1,438)
Other (expense) income (Note 20)	(986)	3,529
Income (loss) before income taxes	44,086	(108,531)
Current income tax expense (Note 15)	11,931	3,712
Deferred income tax expense (recovery) (Note 15)	14,225	(19,151)
Income (loss) from continuing operations	$ 17,930	$ (93,092)
Loss from discontinued operations (Note 6)	(3,719)	-
Net income (loss)	$ 14,211	$ (93,092)
Earnings (loss) per share from continuing operations		
Basic and diluted	$ 0.08	$ (0.52)
Loss per share from discontinued operations		
Basic and diluted	$ (0.02)	$ -
Earnings (loss) per share		
Basic and diluted	$ 0.06	$ (0.52)
Weighted average number of common shares outstanding (Note 17)		
Basic	233,204,334	178,585,738
Diluted	237,775,495	178,585,738

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 2020 and 2019
(Expressed in thousands of United States dollars)

		2020		2019
Net income (loss)	$	14,211	$	(93,092)
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences		11,119		10,891
Comprehensive income (loss)	$	25,330	$	(82,201)

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019
(Expressed in thousands of United States dollars)

	2020	2019
Operating activities		
Net income (loss)	$ 14,211	$ (93,092)
Items not affecting cash:		
Depreciation, depletion and amortization	50,963	46,176
Loss (gain) on disposal of mineral properties, plant and equipment	46	(1,101)
Share-based compensation	3,640	2,295
Net finance expense	1,672	1,651
Unrealized foreign exchange gain	(3,173)	(843)
Unrealized loss on other assets	-	3
Unrealized losses on derivatives	19,212	1,438
Unrealized (gain) on reclamation deposits	(499)	-
Unrealized loss on marketable securities	906	-
Deferred income taxes	10,929	(18,834)
Change in estimate of reclamation costs where mining activities have ceased (Note 14)	1,209	(2,356)
Transaction costs for acquistion and derivative liability component of convertible debentures	4,444	-
Reduction of obligation to renounce flow-through exploration expenditures	(681)	(312)
Inventory (reversal) write down (Note 8)	(1,611)	27,464
(Reversal) impairment of mineral properties, plant and equipment (Note 27)	(6,251)	111,291
	95,017	73,780
Changes in non-cash operating working capital items		
Receivables	(684)	1,340
Inventories	1,178	(3,134)
Prepaid expenses and other	(453)	(450)
Accounts payable and accrued liabilities	3,760	3,324
Income taxes	15,364	2,406
Changes in other long-term assets	(1,515)	(3)
Changes in other long-term liabilities	(1,339)	651
Reclamation paid	-	(65)
Income taxes paid	(807)	(3,124)
Interest received	920	58
Net cash provided by operating activities	111,441	74,783
Investing activities		
Expenditures on mineral properties, plant and equipment	(63,919)	(51,750)
Cash acquired through acquisition of Alio (Note 5)	5,830	-
Transaction costs paid for acquisition (Note 5)	(3,839)	-
Reclamation deposits refunded	4,247	-
Other	400	1,086
Net cash used in investing activities	(57,281)	(50,664)
Financing activities		
Proceeds from issuance of common shares, net of share issuance costs (Note 16b)	89,439	-
Proceeds from debt, net of issuance costs	53,958	1,000
Debt (repayment)	(28,656)	(4,000)
Principal element of lease payments	(4,467)	(162)
Proceeds from exercise of stock options	1,791	97
(Payments) proceeds from settlement of derivatives	(6,204)	934
Proceeds from issuance of flow-through shares, net of share issuance costs (Note 16b)	8,247	2,778
Interest paid	(2,189)	(915)
Net cash provided by (used in) financing activities	111,919	(268)
Effects of exchange rate changes on cash and cash equivalents	9,397	(442)
Increase in cash and cash equivalents	175,476	23,409
Cash and cash equivalents, beginning of year	38,787	15,378
Less: cash related to discontinued operation (Note 6)	(75)	-
Cash and cash equivalents, end of year	$ 214,188	$ 38,787

The accompanying notes are an integral part of these consolidated financial statements

ARGONAUT GOLD INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2020 and 2019
(Expressed in thousands of United States dollars)

	2020	2019
Share capital (Note 16b)		
Balance at the beginning of the year	$ 789,425	$ 786,200
Issuance of common shares related to acquisition of Alio (Note 5)	109,956	-
Issuance of common shares by way of public offering	89,439	-
Issuance of common shares on exercise of stock options	3,575	149
Issuance of common shares related to a community agreement	1,722	-
Issuance of common shares for services provided on Magino	793	-
Issuance of flow-through shares	6,499	1,986
Restricted shares and restricted share units vested, net of shares withheld to satisfy tax withholding	1,039	1,090
Balance at the end of the year	1,002,448	789,425
Contributed surplus		
Balance at the beginning of the year	18,004	17,137
Options and warrants issued related to acquisition of Alio (Note 5)	3,168	-
Stock options exercised	(1,784)	(52)
Restricted shares and restricted share units vested	(1,350)	(1,376)
Share-based compensation	2,875	2,295
Balance at the end of the year	20,913	18,004
Deficit		
Balance at the beginning of the year	(192,057)	(98,965)
Net income (loss)	14,211	(93,092)
Balance at the end of the year	(177,846)	(192,057)
Accumulated other comprehensive loss		
Balance at the beginning of the year	(84,456)	(95,347)
Other comprehensive income	11,119	10,891
Balance at the end of the year	(73,337)	(84,456)
Total shareholders' equity	$ 772,178	$ 530,916

The accompanying notes are an integral part of these consolidated financial statements

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is a Canadian public company listed on the Toronto Stock Exchange ("TSX") and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at December 31, 2020, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the producing Florida Canyon mine in Nevada, USA, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Ana Paula project in the State of Guerrero, Mexico, and the construction stage Magino project in the Province of Ontario, Canada. The Company continues to hold several other exploration stage projects, all of which are located in North America.

On July 1, 2020, the Company acquired all of the outstanding common shares of Alio Gold Inc. ("Alio") (note 5). Through the acquisition, the Company acquired the Florida Canyon mine and the Ana Paula project. On September 11, 2020, the Company announced that it had entered into a definitive agreement to sell the Ana Paula project (note 6).

The registered office of the Company is located at Suite 3400, One First Canadian Place, 100 King Street West, Toronto, Ontario, M5X 1A4, Canada. The head office and principal address of Argonaut Gold (U.S.) Corp., a subsidiary of the Company providing management services, is 9600 Prototype Ct., Reno, Nevada, 89521, USA.

COVID-19 pandemic update

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") a global pandemic. During the remainder of March 2020 and through to December 31, 2020, the COVID-19 pandemic has negatively impacted global economic and financial markets. Most industries have been impacted by the COVID-19 pandemic and are facing operating challenges associated with the regulations and guidelines resulting from efforts to contain it.

As a direct result of the COVID-19 pandemic, the Company temporarily suspended all mining, crushing and stacking activities at its Mexican mines in response to the Mexican federal government decree on April 1, 2020. Given that the Company's Mexican mines are heap leach operations, the Company continued to process pregnant solution coming from the leach pads for the safety of the environment. Therefore, gold and silver production and sales continued during the temporary suspension of mining activities. Costs incurred during the temporary suspension associated with the suspended activities, that did not generate additional inventory, have been separately identified and accounted for as care and maintenance expenses within operating income in the statement of income (loss). By June 1, 2020, the Company had resumed all operations in Mexico.

The global response to the COVID-19 pandemic has resulted in, among other things, border closures, severe travel restrictions, as well as quarantine, self-isolation, and other emergency measures imposed by various governments. Additional government or regulatory actions or inactions around the world including in jurisdictions where the Company operates may also have potentially significant economic and social impacts. The COVID-19 virus and efforts to contain it may have a significant effect on commodity prices, and the possibility of a prolonged global economic downturn may further impact commodity demand and prices. If the Company's business operations are disrupted or suspended as a result of these or other measures, it may have a material adverse effect on the Company's business, results of operations and financial performance. Factors that may be impacted, among other things, are the Company's operating plan, production, supply chain, construction, and maintenance activities. The Company continues to monitor the situation closely, including any potential impact on its operations. The extent to which COVID-19 may impact the Company's business and operations will depend on future developments that are highly uncertain and cannot be accurately estimated, at this time, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied in all material respects to all the years presented, unless otherwise noted.

a) Basis of presentation

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

These consolidated financial statements have been prepared in accordance with the significant accounting policies presented below and are based on the IFRS issued and effective as of December 31, 2020. The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

These consolidated financial statements include the accounts of Argonaut Gold Inc. and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Inter-company transactions, balances, and unrealized gains or losses on transactions between the Company and its subsidiaries and between the Company's subsidiaries are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies.

The consolidated financial statements were authorized for issue by the Company's board of directors on February 25, 2021.

b) Segment reporting

Operating segments are determined in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Company's operating segments, before aggregation, have been identified as the Company's individual operating mines. Aggregation of one or more operating segments into a single operating segment is permitted if aggregation is consistent with the core principle of the standard, the operating segments have similar economic characteristics, and the operating segments have a number of other similarities, including similarities in the nature of their products, production processes, and regulatory environment.

c) Foreign currency translation

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States ("US") dollars.

Foreign currency transactions are translated into the functional currency using the average monthly exchange rates, where this is a reasonable approximation of the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at period-end exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated using the historical rate on the date of the transaction.

Foreign currency exchange gains and losses are presented in the statement of income (loss) within other (expense) income.

Assets and liabilities of entities that have a functional currency different from the presentation currency are translated into the presentation currency at the period-end rates of exchange and the results of their operations are translated into the presentation currency at average rates of exchange for the period. The resulting exchange differences are recognized in accumulated other comprehensive loss in shareholders' equity.

d) Business combinations

Transactions whereby the assets acquired and liabilities assumed constitute a business are business combinations. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities.

Business combinations in which the Company is identified as the acquirer are accounted for using the acquisition method of accounting, whereby identifiable assets acquired, and liabilities assumed, including contingent liabilities, are recognized at their fair values at the acquisition date. The acquisition date is the date at which the Company obtains control over the acquiree, which is generally the date that consideration is transferred, and the Company acquires the assets and assumes the liabilities of the acquiree.

It generally requires time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed as of the acquisition date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Company reports in its consolidated financial statements provisional amounts for the items for which the fair value measurement is incomplete. During the period after the acquisition date and the time the Company receives the relevant information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable (the "measurement period"), the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new relevant information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date, including recognizing additional assets or liabilities. The measurement period does not exceed one year from the acquisition date.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, the liabilities, including contingent consideration, incurred and payable by the Company to former owners of the acquiree and the equity interests issued by the Company. Acquisition-related costs, other than costs to issue debt or equity securities of the Company, are expensed as incurred.

At the acquisition date, non-controlling interests are recorded at their proportionate share of the fair value of identifiable net assets acquired. When the cost of the acquisition exceeds the fair value of the identifiable net assets acquired, the difference is recognized as goodwill.

The results of businesses acquired during the period are included in the consolidated financial statements from the date of acquisition.

e) Cash and cash equivalents

Cash and cash equivalents are unrestricted as to use and consist of cash on hand and demand deposits which can readily be liquidated to known amounts of cash and are subject to an insignificant risk of change in value.

f) Marketable securities

Marketable securities consist of common shares and warrants of publicly traded mining companies received in connection with mineral property transactions. The common shares and warrants are recorded at quoted market value at each reporting period and gains or losses arising from changes in quoted market value are recognized in the statement of income (loss).

g) Receivables and accounts payable

Receivables and accounts payable are non-interest bearing and are recognized initially at fair value and subsequently measured at amortized cost. Receivables include allowances, and expected credit losses, for uncollectible amounts.

h) Inventories

Inventories are stated at the lower of weighted average cost and the net realizable value ("NRV"), which is the estimated selling price less cost of completion and disposal. Cost of supplies inventory includes acquisition, freight and other directly attributable costs. Work-in-process inventory includes ore in the leaching process, stockpiled ore at mining operations, and gold on carbon. Finished goods include gold in dore or bullion. For work-in-process and finished goods inventories, cost includes all direct costs incurred in production including direct labor and materials, freight, depreciation and amortization of plant and equipment used in the production process, depletion of mineral properties and directly attributable overhead costs. If the NRV is lower than the expected cost of the finished product, the inventory is written down to the NRV. The write down may be reversed if circumstances change.

Work-in-process inventories that the Company does not expect to process in the 12 months following the statement of financial position date are classified as non-current. The NRV of the non-current portion of inventories are calculated based on the estimated price at the time of sale using long-term gold prices less estimated future production costs to convert the inventories into saleable form discounted over the planned processing timeframe.

i) Asset held for sale and discontinued operations

Assets and liabilities held for sale represent the assets and liabilities of a disposal group when the underlying non-current asset(s) will be recovered principally through a sale transaction that is highly probable and expected to be completed within one year, management is committed to the sale, and the underlying assets are available for immediate sale in their present condition subject only to terms that are usual and customary. Assets and liabilities that are held for sale are presented in current assets and current liabilities in the statement of financial position. Classification as held for sale results in non-current assets being measured at the lower of carrying amount and fair value. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the statement of income (loss). Once classified as held for sale, mineral properties, plant and equipment are no longer amortized.

A discontinued operation is a component of the Company's business that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification of a component of a business as a discontinued operation results in the reclassification of the after-tax income (loss) from discontinued operation for the comparative period being restated in the statement of income (loss) for the current period (note 6).

j) Mineral properties, plant and equipment

i) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and impairment charges. The cost of buildings, mobile equipment, and plant and processing equipment used in the Company's mining operations are amortized on either a straight-line basis over the estimated useful life of the related asset or on a unit-of-production basis over estimated proven and probable reserves, resources or other relevant metric. The cost of office equipment, furniture and fixtures and vehicles is amortized on a straight-line basis over the estimated useful life of the related asset.

ii) Exploration and evaluation assets

Exploration and evaluation expenditures relate to properties where the Company has valid ownership and exploration rights, and comprise costs that are directly attributable to:

- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that one of the following conditions is met:

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves or resources, and active and significant operations in relation to the area are continuing, or planned for the future; or
- such costs are expected to be recouped in full through successful exploration and development of the area of interest or alternatively, by its sale.

Once management has determined that the development potential of the property is economically viable and technically feasible, which generally coincides with the permits for its development and approval of construction, the exploration and evaluation asset is reclassified to assets under construction within mineral properties, plant and equipment. Exploration and evaluation assets are assessed for impairment, and any impairment loss recognized, before reclassification from exploration and evaluation assets to assets under construction.

Proceeds received from a partial sale of, or option, on any interest in a mineral property are credited against the carrying value of that property. When the proceeds exceed the carrying costs, the excess is recorded in the statement of income (loss) in the period the excess is received. When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated property costs are written-off, with any gain or loss included in the statement of income (loss) in the period the transaction takes place.

iii) Assets under construction

Construction of mining and processing facilities on a mineral property commences when approved by management and the Company has obtained all regulatory permissions to proceed. During construction, equipment purchases and expenditures on construction of mining and processing facilities are capitalized and classified as assets under construction. Assets under construction are not amortized until construction of the specific asset has been completed. Once completed and available for use, all applicable assets related to construction are reclassified to mineral properties or plant and equipment within mineral properties, plant and equipment.

iv) Mineral properties and mine development costs

The costs of acquiring, exploring and developing mineral properties or property rights, and to increase future output by providing access to additional sources of reserves or resources, are capitalized up to the time the asset is ready to use. Revenue and expenses derived from mining activities prior to the assets being ready for use in the manner intended by management are included in the cost of the related mineral property.

Mineral properties are recorded at cost less accumulated depletion and impairment charges. When assets are ready for use as intended by management, mineral properties and mine development costs are amortized on a unit-of-production basis over the estimated proven and probable reserves, resources or other relevant metric to which they relate. Mine development costs associated with each distinct section of the mine are amortized over the reserves, resources or other relevant metric to which they relate. Upon sale or abandonment of mineral properties, the cost and related accumulated depletion are written off and any gains or losses thereon are included in the statement of income (loss).

During the production phase, further mining expenditures, including exploration or development costs, incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized to mineral properties. Stripping costs incurred in the production phase are accounted for as variable production costs. However, stripping costs incurred to improve access to the identified component of ore, which are determined using strip ratio methodology will be capitalized and recorded on the statement of financial position as deferred stripping, a component of mineral properties. The deferred stripping will be depleted on a unit-of-production basis over the reserves or resources that directly benefited from the stripping activity.

v) Amortization of mineral properties, plant and equipment

The carrying amounts of mineral properties, plant and equipment are depreciated, depleted or amortized to their estimated residual value over the estimated economic life of the specific assets to which they relate, or using the straight-line method over their estimated useful lives indicated below:

- Plant and equipment - 1 to 10 years straight-line;
- Exploration and evaluation assets - not amortized;
- Assets under construction - not amortized; and
- Mineral properties and mine development costs - based on a unit-of-production basis over estimated proven and probable reserves and resources.

Estimates of residual values, useful lives, and proven and probable reserves, resources or other relevant metrics are reassessed at least annually and any change in estimate is considered in the determination of remaining depreciation, depletion or amortization charges. Depreciation, depletion or amortization commences on the date the asset is available for use as intended by management.

vi) Borrowing costs

Interest and other financing costs directly attributable to the construction of mineral properties, plant and equipment are capitalized as assets under construction, and interest and other financing costs directly attributable to mine development costs are capitalized in mineral properties, until they are complete and available for use, at which time they are transferred to depreciable plant and equipment or to depletable mineral properties, within mineral properties, plant and equipment. Interest costs incurred after the asset has been placed into service are charged to the statement of income (loss).

k) Impairment of non-current assets

The carrying values of capitalized non-current assets are reviewed at each reporting date, or when indicators of impairment are present. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on the Company's intentions for development of such a project. If a project does not prove viable, all unrecoverable costs associated with the project are charged to the statement of income (loss).

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU" or "CGUs") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs of disposal ("FVLCD") and the asset's value in use. FVLCD is the amount that would be obtained from the sale of an asset or CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. For mineral assets, when a binding sale agreement is not readily available, FVLCD is often estimated using a discounted cash flow approach using a post-tax discount rate. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. Estimated future cash flows are calculated using estimated recoverable reserves or resources, future commodity prices and future operating, capital and reclamation costs. The discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset. Determining the discount rate includes appropriate adjustments for the risk profile of the countries in which the individual CGUs operate. If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in the statement of income (loss).

Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment charge subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion, or amortization) had no impairment loss been recognized for the asset in prior years. A reversal of impairment is recognized as a gain in the statement of income (loss).

l) Reclamation deposits

The reclamation deposits classified as financial assets principally include funds holding fixed income and equity interests, which are measured at fair value through profit and loss ("FVTPL"). The Company initially recognizes the reclamation deposits assets at their fair value with subsequent changes to fair values recognized in the statement of income (loss).

m) Debt

Debt is initially recorded at fair value, net of transaction costs incurred. Debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income (loss) over the period of the debt using the effective interest method.

Financing and transaction costs paid on the establishment of debt facilities are recognized as transaction costs of the debt to the extent that it is probable that some or all the facility will be drawn down. In this case, the costs are deferred until the draw down occurs. To the extent there is no evidence on the establishment of the debt that it is probable that some or all of the facility will be drawn down, the costs are capitalized as a pre-payment for liquidity services and amortized over the period of the loan to which they relate.

n) Convertible debentures

Convertible debentures issued by the Company represent a compound financial instrument that includes the host debt component and the convertible component, with the proceeds received allocated between the two components at the date of issue. The Company then assesses whether the convertible component qualifies as equity or is considered a derivative liability. The debt liability component is initially recognized at the difference between the fair value of the convertible debenture as a whole and the fair value of the derivative liability component, using the Partial Differential Equation model method. The debt liability component is subsequently measured at amortized cost, with the proportionate share of the transaction costs offset against the balance. The transaction costs allocated to the derivative liability component are recognized in the statement of income (loss) at the initial recognition date. The debt liability component is subsequently accreted to the face value of the debt liability component of the convertible debentures at the effective interest rate. The derivative liability component is re-measured at fair value at each reporting period with fair value gains or losses recognized in the statement of income (loss).

o) Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance expense. The finance expense is charged to the statement of income (loss) over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the life of mine, on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company’s incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income (loss). Short-term leases are leases with a lease term of 12 months or less.

Certain leases contain variable payment terms. Non-principal components of variable lease payments are recognized in the statement of income (loss) in the period in which the condition that triggers those payments occurs.

p) Provisions

Reclamation provision

Provision is made for close down, reclamation and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the date of the statement of financial position. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates. For properties where mining activities have ceased or are in reclamation, changes to the reclamation provision are charged directly to the statement of income (loss). The provision is discounted using a current market-based, risk-free discount rate and the accretion of the discount is included in finance expenses.

The provision is reviewed at each reporting date for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Other provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the effect is material, the provision is discounted to its present value using an appropriate current, market-based, pre-tax discount rate and the accretion of the discount is included in finance expenses.

q) Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. Revenue from the sale of goods is recognized when control has transferred, which is generally considered to occur when title passes to the customer. Once the title has passed to the customer, the significant risks and rewards of ownership have been transferred and the customer is able to direct the use of and obtain substantially all the remaining benefits from the goods.

r) Share-based compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as compensation expense and contributed surplus. The fair value of options is determined using the Black-Scholes option pricing model using estimates at the date of the grant. Restricted share units ("RSU" or "RSUs") are recorded at fair value based on the market value of the grant. Deferred share units ("DSU" or "DSUs") are recorded at fair value based on the market value of the grant. Performance share units ("PSU" or "PSUs") are subject to certain vesting requirements based on performance criteria over the vesting period established by the Company. PSUs are recorded at fair value as follows: the portion of the PSUs related to market conditions are recorded at fair value based on the application of a Monte Carlo pricing model at the date of grant and the portion related to non-market conditions is fair valued based on the market value of the shares at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of income (loss) with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

When RSUs and PSUs vest, the share-based compensation expense associated with the net units issued that is included in contributed surplus is credited to share capital. If tax is withheld by the Company to satisfy tax withholding obligations, the fair value of shares withheld is accounted for as a reduction of contributed surplus.

s) Income taxes

Current tax for each taxable entity of the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the date of the statement of financial position and includes adjustments to tax payable or recoverable in respect of previous years.

Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences except where the deferred income tax asset and liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realized, based on tax rates and tax laws enacted or substantively enacted at the date of the statement of financial position. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the statement of income (loss).

Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences.

t) Financial instruments

Financial instruments are recognized when the Company becomes party to a contractual obligation. At initial recognition, financial instruments are measured at fair value, net of the attributable transaction costs, except for financial assets and liabilities classified as FVTPL. The transaction costs attributable to assets and liabilities carried at FVTPL are expensed in the period in which they are incurred. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or they expire.

On initial recognition, financial assets and liabilities are classified as and measured at: amortized cost, FVTPL and fair value through other comprehensive income ("OCI") according to their contractual cash flow characteristics and the business models under which they are held.

Financial assets are measured at amortized cost if they are held for the collection of contractual cash flows where those cash flows solely represent payments of principal and interest. The Company's intent is to hold these financial assets in order to collect contractual cash flows and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are debt instruments are measured at fair value through OCI if they are held for the collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest. The Company initially recognizes these financial assets at their fair value with subsequent changes to fair values recognized in OCI. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the statement of income (loss).

Financial assets are measured at FVTPL if they do not qualify as financial assets at amortized cost or fair value through OCI. The Company initially recognizes these financial assets at their fair value with subsequent changes to fair values recognized in the statement of income (loss).

Financial liabilities are measured at amortized cost unless they are measured at FVTPL.

Financial liabilities are measured at FVTPL if they are specific liabilities, including derivatives, which cannot be classified as financial liabilities at amortized cost. The Company initially recognizes these financial liabilities at their fair value with subsequent changes to fair values recognized in the statement of income (loss).

Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost and fair value through OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9 - *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

u) Share capital

The proceeds from the issuance of common shares and the exercise of stock options together with the fair value of stock options, DSUs, RSUs and PSUs previously recorded over the vesting period are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of approval to issue. Incremental costs directly attributable to the issue of common shares are charged to share capital.

v) Flow-through common shares

The Company may, from time to time, issue flow-through common shares (as defined in the *Income Tax Act* (Canada)) to finance a portion of its Canadian exploration and development programs. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the proceeds received from flow-through shares into: i) a flow-through share premium, equal to the premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The Company derecognizes the flow-through share premium liability when the qualifying resource expenditures are made and recognizes a deferred tax liability or recovery for the tax reduction renounced to the shareholders that relates to the qualifying expenditures made.

w) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings (loss) per share only from the date when all necessary conditions are satisfied. Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. PSUs are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

Diluted earnings per share is calculated using the weighted average number of common shares outstanding adjusted to include the effects of dilutive common share equivalents such as stock options, DSUs, RSUs, PSUs and convertible debentures. Diluted earnings per share is calculated using the treasury method, whereby proceeds from the exercise of stock options, RSUs, DSUs, and PSUs and the amount of compensation expense measured but not yet recognized in the statement of income (loss), which together form the assumed exercise prices, are assumed to be used to purchase common shares of the Company at the average market price during the period. The number of PSUs included in the diluted earnings per share calculation, if the conditions are not satisfied, is based on the number of shares that would be issuable if the end of the period were the end of the contingency period. Dilution from convertible debentures is calculated using the if-converted method, based on the number of shares to be issued upon conversion of the convertible debentures, with a corresponding adjustment to net income for the after-tax interest expense related to the convertible debentures.

The diluted earnings per share calculation excludes any potential conversion of DSUs, RSUs, PSUs or stock options that would increase earnings per share. In periods of loss, diluted loss per share is the same as basic loss per share as the effect would be anti-dilutive.

3 SIGNIFICANT ESTIMATES AND JUDGMENTS

a) Significant areas where judgment is applied, apart from those involving estimations, are:

Functional currency

The functional currency for each of the Company's entities is the currency of the primary economic environment in which the entity operates. The determination of the functional currency may involve judgments to determine the primary economic environment, if the functional currency is not or may not be clear. The Company reconsiders the functional currency if there is a change in conditions used to determine the economic environment. The Company has determined the functional currency of its parent company and Prodigy Gold Inc. to be Canadian dollars ("CA$") and its other subsidiaries to be the US dollar.

Acquisition accounting

The acquisition of a company may result in the reporting of the acquisition as a business combination or an asset acquisition as defined within IFRS. Judgment is required to determine the basis of accounting for the acquisition.

Deferred income taxes

The determination of deferred income tax requires management to make judgments related to the probability that future taxable profit will be sufficient to allow the recognition of deferred income tax assets and the likelihood that tax positions taken will be sustained upon assessments by applicable tax authorities.

Tax judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets may require adjustment, resulting in a corresponding credit or charge to the statement of income (loss). Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognized only where it is probable that taxable earnings will be available against which the losses or deductible temporary differences can be utilized. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, resources, operating costs, closure and decommissioning costs, capital expenditures, dividends and other capital management transactions.

Stripping costs

The Company incurs waste removal costs (stripping costs) during the pre-production and production phases of its surface mining operations. During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of production costs, while the latter are capitalized as deferred stripping, when certain criteria are met. Significant judgment is required to distinguish between pre-production stripping and production stripping and to distinguish between production stripping that relates to the extraction of inventory and that which relates to the creation of a deferred stripping asset.

Once the Company has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgment is required to identify and define these components, and to determine the expected volumes (e.g. in tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan.

Judgment is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any deferred stripping asset for each component. The Company considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body is the most suitable production measure.

Probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which were capitalized as exploration and evaluation assets have probable future economic benefits and are economically viable. Management uses several criteria in its assessments of economic viability and probability of future economic benefit which may include geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

b) The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Work-in-process inventory / Production costs

The Company's management makes estimates of the amount and the expected timing of recovery of recoverable ounces in work-in-process inventory, which is used in the determination of the cost of sales during the period. Management relies on internal geological and metallurgical experts to develop estimates. Changes in these estimates can result in a change in the carrying amount of inventories and reported cost of sales. The Company monitors the recovery of gold ounces from the leach pads and may refine its estimate based on these results. Assumptions used in inventory valuation include the gold price, type of ore tonnes mined, rock density, grams of gold per tonne, expected recovery rate based on the type of ore placed on the leach pads, timing of recovery, discount rate, remaining costs of completion to bring inventory into its saleable form and assays of solutions and gold on carbon, among others (note 8).

Mineral properties

The cost of acquiring, exploring and developing mineral properties and the cost to increase future output by providing access to additional reserves or resources, are capitalized. Management relies on internal geological and metallurgical experts to develop estimates of reserves and resources, metallurgical recovery estimates, and future production and sales volumes. After a mine commences production, these costs are amortized over the proven and probable reserves to which they relate if available; otherwise, the Company will use its best estimate based on measured and indicated resources or other relevant metric. The determination of reserves and resources is complex and requires the use of estimates and assumptions related to geological sampling and modeling, future commodity prices and costs to extract and process the ore. The mineral reserve or resource is used in estimating the value of the mineral property and in the determination of recoverable ounces which is further used in depletion and depreciation calculations.

Impairment (impairment reversal) of non-current assets

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts determined by reference to estimated future operating results and discounted future cash flows. An impairment loss is recognized when the carrying amount of those assets is no longer considered recoverable. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed (note 27). Calculating the estimated recoverable amount of the CGUs for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production and sales volume, the expected future operating, capital and reclamation costs, discount rates and exchange rates. These estimates are subject to various risks and uncertainties which may ultimately influence the estimated recoverability of the carrying amounts of non-current assets.

Future gold prices, exchange rates, discount rates, estimates of recoverable reserves and resources, operating and capital costs, and other key assumptions used in the Company's impairment assessment are subject to greater uncertainty given the current economic environment (note 1). Changes in these assumptions could significantly impact the valuation of the Company's assets in the future.

Fair value of assets and liabilities acquired through an acquisition

Judgment and estimates are used to determine the fair value of the assets acquired and liabilities assumed by way of an acquisition. In the determination of the fair value of the assets acquired and liabilities assumed, management makes certain judgments and estimates regarding its production profile, quantities of ore reserves and resources, exploration potential, metallurgical recovery estimates, capital expenditures, commodity prices, operating costs, economic lives, reclamation costs and discount rates, among others.

It may take time to obtain the information necessary to measure the fair values of the assets acquired, and liabilities assumed. Until such time, provisional fair values are assigned. In the case of a business combination, changes to the provisional measurements of assets and liabilities acquired are retrospectively adjusted when new information is obtained until the final values are determined. Final values will be determined within one year of closing the acquisition.

Reclamation provision

Reclamation provision represents the present value of estimated future costs for the reclamation of the Company's mines and properties. These estimates include assumptions as to the future activities, cost of services, timing of the reclamation work to be performed, inflation rates, exchange rates and discount rates. The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mine. Management periodically reviews the reclamation requirements and adjusts the liability as new information becomes available and will assess the impact of new regulations and laws as they are enacted.

Contingencies

Due to the nature of the Company's operations, various legal and tax matters can arise from time to time that require estimation of amounts and probability of outcome. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

4 RECENT ACCOUNTING PRONOUNCEMENTS

New and amended standards not yet adopted.

In May 2020, the International Accounting Standards Board published a narrow scope amendment to IAS 16 - *Property, Plant and Equipment - Proceeds before Intended Use*. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible. The Company is assessing the effect of the narrow scope amendment on its consolidated financial statements and the possibility of early adoption.

In August 2020, the International Accounting Standards Board published an amendment for *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16*, with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021. The Company believes that this amendment is not expected to have a material impact on the Company's consolidated financial statements.

There are no other IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

5 ALIO GOLD INC. ACQUISITION

On July 1, 2020 (the "Closing Date"), the Company completed the acquisition of Alio and its Florida Canyon operation, an open-pit operating gold mine located in Nevada, USA and its Ana Paula project located in the State of Guerrero, Mexico. Under the definitive arrangement agreement announced on March 30, 2020, between the Company and Alio, the Company acquired all of the issued and outstanding common shares of Alio for consideration of 0.67 common shares of the Company for each common share of Alio (the "Exchange Ratio"). Outstanding Alio options and warrants were converted into options and warrants to acquire the Company's common shares based on the Exchange Ratio.

On the Closing Date, the Company issued 57,615,460 common shares in exchange for all of Alio's issued and outstanding common shares, exchanged Alio options into 3,121,352 Argonaut options (the "Replacement Options"), and entitled Alio warrant holders to purchase 1,544,892 Argonaut common shares upon exercise of their warrants (the "Alio Warrants").

The Company has determined that this transaction represents a business combination under IFRS 3 - *Business Combinations*, with Argonaut identified as the acquirer. Based on the share price of the Company's common shares, the value of Argonaut common shares issued, the estimated fair value of Argonaut options issued in exchange for Alio options and the estimated fair value of warrants, the total consideration of the acquisition was $111,400. The Company began consolidating the operating results, cash flows and net assets of Alio beginning July 1, 2020, onwards. Had the transaction occurred on January 1, 2020, pro-forma unaudited consolidated revenue for the year ended December 31, 2020 would have been approximately $357,506 and net income before tax would have been $45,693.

Replacement options

Each Alio share option, which gave the holder the right to acquire common shares of Alio, was exchanged for a share option which gave the holder the fully vested right to acquire common shares of the Company on the same basis as the Exchange Ratio. The exercise price of the Replacement Options was determined by dividing the exercise price of the Alio share options by the Exchange Ratio. As a result of the acceleration of the vesting date upon the change of control being pursuant to Alio's option plan, the full option value was accounted for as consideration, and no future compensation expense will be recorded with respect to the Replacement Options.

The 3,121,352 Replacement Options issued have been included in the consideration paid at their estimated fair value based on the Black-Scholes option pricing model using the following weighted average assumptions:

Risk-free interest rate	0.30%
Expected life of options	1.25 years
Annualized volatility	64%
Forfeiture rate	0%
Dividend rate	0%

The weighted average issue date fair value of the Argonaut Replacement Options was CA$1.30 per option.

Alio warrants

Each Alio Warrant becomes exercisable for Argonaut shares in lieu of Alio shares, based on the exercise prices and expiry dates of the Alio Warrants prior to the Closing Date and the number of shares based on the Exchange Ratio.

The 1,544,892 Alio Warrants have been included in the consideration paid at their estimated fair value based on the Black-Scholes option pricing model using similar assumptions to the Replacement Options with an expected weighted average term of 0.66 years. The weighted average fair value of warrants deemed to be exchanged on the acquisition date was CA$0.17 per warrant.

The following table summarizes the fair value of the consideration paid and the fair values of the assets acquired, and liabilities assumed on the Closing Date:

		July 1, 2020
Consideration paid		
57,615,460 Argonaut common shares issued to Alio shareholders	$	108,232
3,121,352 Argonaut options in exchange for Alio options		2,975
1,544,892 Alio warrants deemed to be exchanged for Argonaut warrants		193
Total consideration	$	111,400
Allocation of consideration		
Cash and cash equivalents	$	5,830
Marketable securities		8,862
Receivables		7,008
Inventories		10,644
Prepaid expenses and other		2,339
Mineral properties, plant and equipment, including right of use assets		144,983
Exploration and evaluation assets		31,726
Deferred income taxes		1,038
Reclamation deposits		12,205
Accounts payable and accrued liabilities		(16,297)
Debt		(18,656)
Reclamation provision		(32,345)
Lease liabilities		(36,637)
Deferred income taxes		(6,224)
Other liabilities		(3,076)
Net assets acquired	$	111,400

The fair value of marketable securities was estimated using the quoted market price. The fair values of inventories, mineral properties, exploration and evaluation assets, debt, and reclamation provision were estimated using discounted cash flow models. The right of use assets and lease liabilities were recorded based on the present value of future lease payments over the expected term of the lease at the incremental borrowing rate. The fair values of other plant and equipment were estimated using market or cost approaches. Expected future cash flows, used to estimate the fair value of mineral properties, are based on estimates of future gold prices, projected future production, estimated quantities of ore reserves and resources, metallurgical recovery estimates, expected future production costs, capital expenditures, and discount rates based on the life of mine plan at the Closing Date. In the case of lease liabilities, estimates of expected future lease payments are based on estimated machine hours and minimum usage guarantees. The fair value of receivables, less any expected credit losses, and payables are equal to their gross contractual amounts at the Closing Date.

During 2020, transaction costs of $4,604 were expensed in the statement of income (loss) and included advisory, legal, and other professional fees of $1,543, and change of control payments of $2,296 in cash and the issuance of 404,932 common shares with a fair value of $765. The Company assumed other liabilities of $3,076 consisting of outstanding obligations under Alio's restricted share units (RSUs), performance share units (PSUs) and deferred share units (DSUs), which were settled on or about the Closing Date through the issuance of 512,842 common shares of the Company with a fair value of $959 and total cash payments of $2,117 to Alio's RSUs, PSUs and DSUs holders. Alio had no contingent liabilities in place on the date of the acquisition.

6 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On September 11, 2020, and amended on December 30, 2020, the Company entered into a definitive agreement with 1252201 BC Ltd ("AP Mining") to sell its 100% interest in the Ana Paula project, an exploration and evaluation asset. In accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, the Ana Paula project is a disposal group classified as assets held for sale as at December 31, 2020 and as a discontinued operation for the year ended December 31, 2020. Under the terms of the agreement, Argonaut will receive as consideration $30,000 on closing, a $1,000 promissory note due 15 months from closing, a commitment by AP Mining to reimburse the Company for carrying costs incurred from January 1, 2021 to closing, CA$10,000 upon the announcement of commencement of construction on the Ana Paula project, a 1% net smelter returns royalty upon commercial production, and 9.9% of the issued and outstanding common shares of AP Mining immediately following the completion of the qualifying transaction between AP Mining and Pinehurst Capital II Inc. ("Pinehurst"), a TSX Venture Exchange listed capital pool company together with a proportionate interest in convertible securities issued in connection with the qualifying transaction. The transaction of AP Mining and Pinehurst is being done to create a new publicly traded gold development company. Closing of the transaction set out in the definitive agreement is subject to a number of conditions including regulatory approvals, including TSX Venture Exchange approval, government approvals, approval of the business combination of AP Mining and Pinehurst and successful completion of the capital raising.

At December 31, 2020, all assets and liabilities related to the Ana Paula project disposal group have been classified as held for sale and are presented in current assets and current liabilities in the statement of financial position. Expenses related to the Ana Paula project disposal group incurred during the period from acquisition on July 1, 2020 (note 5) to December 31, 2020 have been presented as loss from discontinued operations in the statement of income (loss). There is no impact on the presentation in the statements of cash flows other than the reconciliation of cash related to discontinued operations.

		Six months ended December 31, 2020
General and administrative	$	1,179
Foreign exchange loss		2,540
Loss and comprehensive loss from discontinued operations	$	3,719

The net assets of the Ana Paula disposal group as at December 31, 2020 are as follows:

		December 31, 2020
Cash and cash equivalents	$	75
Trade and other receivables		2,023
Advances and prepaid expenses		28
Exploration and evaluation assets and equipment		33,808
Assets held for sale		35,934
Trade payables and accrued liabilities		343
Liabilities held for sale		343
Net assets	$	35,591

The cash flows of the Ana Paula project disposal group for the period from acquisition on July 1, 2020 to December 31, 2020, included in the Company's consolidated statement of cash flows, are as follows:

		Six months ended December 31, 2020
Cash used in operating activities	$	(423)
Cash received from the Company		463
Increase in cash and cash equivalents	$	40

7 RECEIVABLES

		2020		2019
Mexican value added tax receivable	$	17,399	$	17,944
Receivables from acquisition		6,896		-
Due from customer		715		2,275
Other receivables		3,023		2,116
	$	28,033	$	22,335

8 INVENTORIES

		2020		2019
Supplies	$	12,712	$	14,789
Work-in-process		68,564		52,081
Finished goods		1,302		420
		82,578		67,290
Non-current portion of work-in-process inventory		(12,742)		(11,405)
	$	69,836	$	55,885

Cost of inventories recognized as expense in cost of sales for 2020 totalled $223,694 (2019 - $254,409).

During the year ended December 31, 2020, the Company recognized a non-cash impairment reversal of $1,611 at the El Castillo mining complex related to the net realizable value of the work-in process inventory, primarily due to a revision in management's estimate of the price of gold, the future recoverable ounces, costs to convert the non-current work-in-process inventory into saleable form and the expected timing of recoveries of the inventory.

During the year ended December 31, 2019, the Company recognized a non-cash impairment write down of $15,345 at the El Castillo mining complex and $12,119 at the La Colorada mine related to the net realizable value of the work-in-process inventory, primarily due to a revision in management's estimate of future recoverable ounces, costs to convert the non-current work-in-process inventory into saleable form and the expected timing of recoveries of the inventory.

The impairment and the impairment reversal have been presented in a separate component of cost of sales in the statement of income (loss).

9 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Assets under construction	Mineral properties[(1)(3)]	Plant and equipment[(1)(3)]	Total[(2)]
Cost					
Balance at January 1, 2020	$ 392,942	$ -	$ 531,716	$ 149,992	$ 1,074,650
Acquisition (Note 5)	31,726	-	95,331	49,652	176,709
Additions	11,078	24,362	24,740	9,868	70,048
Transfer to assets under construction	(263,198)	263,198	-	-	-
Option proceeds	(383)	-	-	-	(383)
Impairment reversal (Note 27)	383	-	-	-	383
Disposals	(121)	-	-	(5,236)	(5,357)
Transfer to assets held for sale	(31,417)	-	-	(2,391)	(33,808)
Adjustment on currency translation	(6,711)	12,775	-	-	6,064
Balance at December 31, 2020	134,299	300,335	651,787	201,885	1,288,306
Accumulated depreciation, depletion, amortization and impairment					
Balance at January 1, 2019	111,034	-	392,518	107,012	610,564
Additions	-	-	38,925	14,403	53,328
Disposals	-	-	-	(4,685)	(4,685)
Impairment (reversal) (Note 27)[(4)]	-	-	(3,921)	(1,947)	(5,868)
Balance at December 31, 2020	111,034	-	427,522	114,783	653,339
Net book value at December 31, 2020	$ 23,265	$ 300,335	$ 224,265	$ 87,102	$ 634,967
Cost					
Balance at January 1, 2019	$ 370,308	$ -	$ 500,125	$ 141,008	$ 1,011,441
Adjustment on adoption of IFRS 16	-	-	271	474	745
Restated balance at January 1, 2019	370,308	-	500,396	141,482	1,012,186
Additions	10,357	-	31,320	13,283	54,960
Disposals	-	-	-	(4,773)	(4,773)
Adjustment on currency translation	12,277	-	-	-	12,277
Balance at December 31, 2019	392,942	-	531,716	149,992	1,074,650
Accumulated depreciation, depletion, amortization and impairment					
Balance at January 1, 2018	-	-	354,539	100,848	455,387
Additions	-	-	37,979	10,670	48,649
Disposals	-	-	-	(4,763)	(4,763)
Impairment (Note 27)	111,034	-	-	257	111,291
Balance at December 31, 2019	111,034	-	392,518	107,012	610,564
Net book value at December 31, 2019	$ 281,908	$ -	$ 139,198	$ 42,980	$ 464,086

[(1)]As at December 31, 2020, plant and equipment includes $1,532 and mineral properties includes $10,729 of mine development costs, primarily related to the El Castillo mining complex, the La Colorada mine and Florida Canyon mine (2019 - $692 and $564, respectively), which were not subject to depreciation and depletion at the statement of financial position date.

[(2)]Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (see note 12).

[(3)]During 2020, the Company assumed right-of-use assets as part of the acquisition of Alio and recorded additions of $36,435 within plant and equipment. During the year ended December 31, 2020, depreciation on right-of-use assets was $1,838 and $44 within plant and equipment and mineral properties, respectively (2019 - $229 and $44 respectively). As at December 31, 2020, the net book value of right-of-use assets was $34,607 and $183 within plant and equipment and mineral properties, respectively (2019 - $470 and $227 respectively).

[(4)]As at December 31, 2020, the Company recognized a non-cash impairment reversal of $2,019 and $3,921 at La Colorada within plant and equipment and mineral properties respectively (see note 27).

On October 14, 2020, the Company announced that it had received board approval for construction of the 100%-owned Magino project in Ontario, Canada. As a result, the Company reclassified $263,198 from exploration and evaluation assets to construction in progress during 2020, representing the capitalized cost of the Magino project. The Company anticipates a two-year construction period, which commenced January 2021, following the closure plan filing and posting of financial assurance. With the Company's construction decision for Magino, payments of both cash and shares, valued in aggregate at approximately $2,367, became due under various community agreements. The Company assessed that there was no impairment of the asset prior to reclassification (note 27).

In October 2020, the Company entered into a mineral property option agreement whereby a third party has the option to earn up to a 90% interest in a non-core mineral property of the Company located in Ontario, Canada, for cash or common share payments, at the discretion of the Company, totalling up to CA$8,500 ($6,375), incurring CA$7,000 ($5,250) of exploration expenditures and delivering a National Instrument 43-101 compliant pre-feasibility study on the mineral property before December 31, 2026. In October 2020, the Company received CA$500 ($383) of cash in connection with this option agreement. As the Company had previously recorded a full impairment of the carrying value of this mineral property, the payment received has resulted in a partial reversal of this impairment, which is included in impairment (reversal) of mineral properties, plant and equipment in the statement of income (loss).

Change in accounting estimate

Effective July 1, 2020, the Company revised the method used in depreciating its mobile equipment from units of production basis to straight-line. The change in accounting estimate was treated prospectively and did not have a material impact on depreciation during the year ended December 31, 2020.

10 RECLAMATION DEPOSITS

Upon acquisition of Alio (note 5), the Company acquired reclamation deposits of $12,205 representing funds that have been placed in trust as security to the United States Bureau of Land Management relating to site closure obligations of the Florida Canyon mine. Subsequent to the acquisition, the Company negotiated the release of $4,247 of the collateral.

The surety bonds and restricted certificates of deposit have named the overseeing government agencies as beneficiaries in the event of the Company's failure to complete site restoration. These deposits will be released when the government approves successful site restoration and surety bonding is no longer required.

At December 31, 2020, the reclamation deposits are carried at fair value of $8,457. The reclamation deposits consist of $968 of cash, $5,410 of fixed income funds, and $2,079 of equity funds. During 2020, interest income and gain on funds were $52 and $465, respectively.

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Trade accounts payable	$ 30,182	$ 24,422
Accrued liabilities	22,473	13,513
	$ 52,655	$ 37,935

12 DEBT

	2020	2019
Revolving credit facility	$ -	$ 10,000
Convertible debentures		
Debt liability	42,205	-
Derivative liability	16,101	-
Debt	$ 58,306	$ 10,000

Revolving credit facility

To October 14, 2020, the Company had an amended and restated credit agreement (the “Revolving Credit Facility”, or “RCF”) with a syndicate of banks. The RCF provided for total availability of up to $75,000 upon execution of the RCF in February 2018 (subject to certain commitment reductions over the term), with a maturity date of March 31, 2021, was secured by all of the Company’s assets and had an interest rate of London Inter-bank Offered Rate (“LIBOR”) plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company’s consolidated leverage ratio, as defined in the agreement. The RCF was subject to various covenants that required the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. During the period from January 1, 2020 to October 14, 2020, the Company repaid $10,000 on the RCF. The Company incurred transaction costs and upfront fees on closing of the original and amended RCF, which were being amortized over the term of the RCF. With the repayment of the balance on the RCF, together with the amendment of the RCF as described in the following paragraph, the remaining balance of unamortized costs of $52 related to the RCF were written off.

On October 14, 2020, the RCF lenders agreed to increase the amount of the RCF to $100,000 with an accordion feature of $25,000 (the “Amended Revolving Credit Facility” or “ARCF”). The ARCF interest rate is according to the terms described in the agreement and are on a scale ranging from LIBOR plus 2.25% to 3.50% on drawn amounts and 0.56% to 0.79% on undrawn amounts, based on the Company’s senior secured debt leverage ratio, as defined in the agreement. The Company incurred transaction costs and upfront fees of $488 on the setup of the ARCF, which are being amortized over the term of the ARCF.

As at December 31, 2020, the Company had utilized $nil of the ARCF. The ARCF is secured by all of the Company’s assets and is subject to various covenants including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at December 31, 2020, the Company was in compliance with these covenants.

The following table summarizes changes to the Company’s RCF and ARCF:

Balance at December 31, 2018	$ 13,000
Draws on the RCF	1,000
Repayments on the RCF	(4,000)
Balance at December 31, 2019	$ 10,000
Draws on the RCF	-
Repayments on the RCF	(10,000)
Balance at December 31, 2020	$ -

The ARCF matures on November 17, 2023. The commitment reduction beginning April 30, 2023 is detailed in the following table:

Commitment Reduction Date	Accordion + Commitment (000's)
Initial	$125,000
30-Apr-23	$115,000
31-May-23	$100,000
30-Jun-23	$85,000
31-Jul-23	$70,000
31-Aug-23	$55,000

Convertible debentures

On October 30, 2020, the Company closed a bought deal public offering of unsecured convertible debentures with an aggregate amount of $57,500 (the "Debentures"). The Debentures mature on November 30, 2025 and bear interest at a rate of 4.625% per annum, payable semi-annually. The Debentures are convertible at any time at the holder's option into common shares in the capital of the Company at a conversion price of US$2.86 per share. The Debentures will not be redeemable by the Company before November 30, 2023. The Company intends to use the net proceeds of the Debentures for the advancement of the Magino project.

The principal amount is convertible, at the option of the holder, into common shares of the Company at any time before the maturity date at a rate of 350.1155 common shares per $1 of convertible debt, resulting in a conversion price of US$2.86 per common share. The conversion price is subject to adjustment in certain instances such as dilution or a change of control, all as described in the Debenture indenture. The Company has an early redemption right whereby the Company may elect to redeem the convertible debentures in certain instance, all as described in the Debenture Indenture.

For convertible debt, under IFRS 9, when the currency of the conversion price of the conversion option is different than the functional currency of the legal entity in which the convertible debt was issued, or when conversion price adjustments exist, the conversion option triggers the accounting for a derivative liability to be recognized. The debt liability component is initially recognized at the difference between the fair value of the convertible debenture as a whole and the fair value of the derivative liability component. The derivative liability component can only be reclassified into the entities' equity instruments when the convertible debt is converted; otherwise the derivative liability will be extinguished on repayment of the debt component and, as a result, will not result in any additional cash outflows by the Company.

The Company allocated the net proceeds to the debt liability component and the derivative liability component based on the prorated fair value of the debt liability and derivative liability components.

The fair value of the debt liability component was estimated at $44,159 using a discounted cash flow model with an expected life of five years and a discount rate of 10.93%. This amount is initially recorded as a financial liability on an amortized cost basis net of transaction costs using the effective interest rate until extinguished upon conversion, redemption, or at its maturity.

On October 30, 2020 and December 31, 2020, the fair value of the derivative liability was estimated at $13,341 and $16,101, respectively. The value was determined using the Partial Differential Equation model (the "PDE") with the following assumptions:

	October 30, 2020	December 31, 2020
Share price	CA$ 2.48	CA$ 2.74
US$-CA$ exchange rate	0.7508	0.7859
Translated US$ share price	$ 1.86	$ 2.15
Volatility	66.46%	65.68%
Volatility discount	35.00%	35.00%
Volatility post-discount	43.20%	42.69%
Risk free rate	0.46%	0.42%
Credit spread	10.47%	8.61%
All-in rate	10.93%	9.03%

Transaction costs of $3,055 have been allocated on a fair value basis with $2,346 to the debt component and $709 to the derivative liability component. Transaction costs allocated to the debt component are recognized as a discount on debt and are amortized over the life of the Debentures. Transaction costs allocated to derivative liability component were expensed on closing.

The following table summarizes changes to the Company's Debentures during the period:

	Debt liability	Derivative liability	Total
Gross proceeds	$ 44,159	$ 13,341	$ 57,500
Less: transaction costs allocated to debt liability component	(2,346)	-	(2,346)
Balance at October 30, 2020	$ 41,813	$ 13,341	$ 55,154
Accrued interest and accretion of debt liability component	841	-	841
Change in fair value of derivative liability component	-	2,760	2,760
	$ 42,654	$ 16,101	$ 58,755
Accrued interest recorded in accrued liabilities - current	449	-	449
Balance at December 31, 2020	$ 42,205	$ 16,101	$ 58,306

During the year ended December 31, 2020, capitalized interest and accretion expense on the Debentures was $841 (2019 - $nil). Interest is capitalized towards the Magino project until the time of construction completion.

Loan facility

Upon acquisition of Alio (note 5), the Company assumed a three-year, $15,000 loan facility (the "Loan Facility") with Sprott Private Resource Lending II (Collector), LP ("Sprott") to fund construction of leach pad expansion at the Florida Canyon mine. The Loan Facility had a maturity date of October 31, 2022, with eight quarterly repayments of the principal balance commencing on January 31, 2021, and required monthly interest payments based on an interest rate of 8% plus the greater of three-month LIBOR or 2%. On November 13, 2020, the Company repaid the remaining principal without penalty (including accrued interest of $54), thereby fully repaying the Loan Facility.

Equipment loan payable

Upon acquisition of Alio (note 5), the Company assumed an equipment loan with an annual interest rate of 8.29% and maturity on January 1, 2022. At the time of acquisition, there were seven remaining quarterly installments. The loan was secured with the underlying mobile equipment at the Florida Canyon mine. On July 13, 2020, the Company repaid the remaining principal without penalty (including accrued interest) of $883.

Other financial liability

Upon acquisition of Alio (note 5), the Company assumed an unsecured promissory note (the "ADM Note") for $2,500 payable on October 10, 2023. The ADM Note bore interest that is payable quarterly at a rate of 9% per annum until the maturity date. On July 24, 2020, the Company repaid the ADM Note without penalty (including accrued interest) of $2,552.

13 LEASE LIABILITIES

Equipment lease

Upon acquisition of Alio (note 5), the Company assumed a Master Services Agreement (the "Lease Agreement") to lease thirteen trucks and three loaders (the "Equipment") employed at the Florida Canyon Mine site.

For each unit of Equipment, the Lease Agreement stipulates a monthly service fee based on the hourly fees that will be calculated by multiplying the hourly fee for the applicable hour range by the hours used. The monthly service fee is variable and based on the actual usage of hours for each unit of Equipment, subject to a minimum number of hours. Should the actual monthly hours be less than the minimum monthly hours contracted for a given month, then the difference in hours will be tracked as credit hours to be applied in future months when the actual monthly hours exceed the minimum monthly hours. The hourly fees are comprehensive and include the lease charge, the service fees and the financing components.

The Lease Agreement was entered into by Alio in October 2019 and is for a maximum 72-month term based on the minimum hours of usage. The Company anticipates using the Equipment for greater hours than the minimum and therefore, as of the Closing Date, anticipates an approximate four-year term remaining, depending on the actual hours of operation, after which all the Equipment can be purchased through a buyout price for $1,986.

Upon acquisition of Alio (note 5), the Company valued the Lease Agreement using the present value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the estimated four-year term of the lease. All units were in service at the acquisition date.

The initial recognition of the value of the Lease Agreement upon acquisition of Alio was $36,359. The following table summarizes the change in the value of the lease liabilities since the acquisition on July 1, 2020 to December 31, 2020:

		2020
Balance, July 1, 2020	$	36,359
Interest		1,459
Payments - principal and interest		(5,049)
Balance, December 31, 2020	$	32,769
Current portion of equipment lease liabilities	$	9,842
Non-current portion of equipment lease liabilities	$	22,927

The Equipment is being amortized straight line over the life of the mine to an estimated net recoverable value of $500. For the year ended December 31, 2020, the Company recorded depreciation on the Equipment of $1,567.

Other operating leases

The following table summarizes the carrying amounts of the Company's other operating lease liabilities measured at the present value of the remaining lease payments that are recognized in the statement of financial position as at December 31:

		2020		2019
Current portion of lease liabilities	$	286	$	354
Non-current portion of lease liabilities		259		486
	$	545	$	840

Contractual undiscounted cash flows related to the Company's lease liabilities are disclosed in note 25. The difference between the contractual undiscounted cash flows related to lease liabilities and the carrying amount of the lease liabilities is the amortization of the discount related to the lease liabilities.

Certain leases of the Company contain variable lease payment terms that are linked to the usage of the equipment on a per tonne mined basis. The cost relating to variable lease payments that do not depend on an index or a rate amounted to $22,385 for 2020 (2019 - $35,287).

14 RECLAMATION PROVISION

The Company's reclamation provision relates to the restoration and closure of its mineral properties, plant and equipment, primarily related to the Company's operating mines. The reclamation provision has been recognized at net present value. The Company reviews and, if necessary, adjusts provisions at each reporting date. The total provision for reclamation at December 31, 2020 is $54,202 (December 31, 2019 - $17,651). The undiscounted value of this obligation is $57,556 (December 31, 2019 - $19,396), calculated using an inflation rate of 2.0% to 2.3% (December 31, 2019 - 2.2%). Accretion expense of $476 has been charged to the statement of income (loss) for 2020 (2019 - $453) to reflect an increase in the carrying amount of the reclamation provision, which has been determined using discount rates specific to the liabilities of 0.4% to 2.0% (December 31, 2019 - 1.9% to 2.0%). During 2020, the Company assumed the reclamation provision of Alio at its estimated fair value of $32,345 upon acquisition (note 5).

The following table summarizes changes to the Company's reclamation provision:

		2020		2019
Balance at the beginning of the year	$	17,651	$	16,801
Assumption of Alio reclamation provision (Note 5)		32,345		-
Accretion expense		476		453
Reclamation incurred		(221)		(30)
Adjustment on currency translation		6		13
Revisions in estimates[1]		3,945		414
Balance at the end of the year	$	54,202	$	17,651

[1] The revisions in estimates for 2020 are comprised of an increase of $1,181 at La Colorada (2019 - $2,064 decrease), an increase of $1,016 at the El Castillo mining complex (2019 - $2,478) and an increase of $1,748 at Florida Canyon. Included in other operating (expense) income for 2020 is an expense of $1,209 (2019 - $2,356 recovery) reflecting revised estimated costs related to a section of the La Colorada and Florida Canyon mines where mining activities have ceased.

15 INCOME TAXES

a) Income tax expense (recovery) included in the statement of income (loss) is as follows:

		2020		2019
Current income tax expense	$	11,931	$	3,712
Deferred income tax expense (recovery)		14,225		(19,151)
	$	26,156	$	(15,439)

b) The income tax expense (recovery) differs from that computed by applying the applicable Canadian federal and provincial statutory rates before taxes as follows:

		2020		2019
Income (loss) before income taxes	$	44,086	$	(108,531)
Canadian federal and provincial income tax rate		26.5%		26.5%
Income tax expense (recovery) based on Canadian federal and provincial income tax rates		11,683		(28,761)
Increase (decrease) attributable to:				
Change in unrecognized deferred tax assets		5,070		24,525
Effects of different foreign statutory tax rates on earnings (losses) of subsidiaries		1,026		(3,603)
Impact of Mexican inflation on tax values		(2,304)		(1,061)
Impact of Mexican Special Mining Duty and Nevada Net Proceeds of Minerals Tax		6,792		(3,478)
Non-taxable portion of foreign exchange		(355)		662
Impact of foreign exchange on deferred income taxes		929		(4,606)
Foreign withholding taxes		612		344
Non-deductible expenses		1,195		517
Adjustments related to prior periods		1,287		43
Other		221		(21)
Income tax expense (recovery)	$	26,156	$	(15,439)

c) The significant components of the Company's deferred income tax assets (liabilities), without taking into consideration the offsetting of balances within the same tax jurisdiction, as at December 31 are as follows:

	2020	2019
Deferred income tax assets		
Unused non-capital losses	$ 12,543	$ 5,942
Lease liabilities	6,881	-
Derivative liabilities	5,299	-
Reclamation provision	6,787	3,008
Share-based compensation	1,417	1,276
Mexican Special Mining Duty deduction	2,559	979
Inventories	-	1,203
Other	1,057	3,684
	36,543	16,092
Deferred income tax liabilities		
Mineral properties, plant and equipment	(38,521)	(7,050)
Inventories	(868)	-
Nevada Net Proceeds of Minerals Tax	(4,228)	-
	(43,617)	(7,050)
Deferred income tax (liabilities) assets, net	$ (7,074)	$ 9,042

d) On the statement of financial position, deferred tax assets and liabilities have been offset where they relate to income taxes within the same taxation jurisdiction and where the Company has the legal right and intent to offset. Deferred tax assets (liabilities) per the statement of financial position as at December 31 are as follows:

	2020	2019
Deferred income tax assets	$ 34,725	$ 10,906
Deferred income tax liabilities	(41,799)	(1,864)
Deferred income tax (liabilities) assets, net	$ (7,074)	$ 9,042

e) Management believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets such that they have not been fully recognized. The tax benefits not recognized reflect management's assessment regarding the future realization of Canadian, Mexican and United States tax assets and estimates of future earnings and taxable income in these jurisdictions as of December 31, 2020. As at December 31, 2020, the Company and its subsidiaries had unrecognized Canadian operating loss carry-forwards of $110,860 which expire between the years 2026 and 2040 and unrecognized Canadian preproduction investment tax credits of $5,087 which expire between 2022 and 2033.

Deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax assets are recognized in the statement of financial position as at December 31 are as follows:

	2020	2019
Unused tax losses	$ 186,560	$ 66,932
Preproduction investment tax credits	5,087	5,330
Cumulative eligible capital	709	238
Mineral properties, plant and equipment	40,449	74,956
Net capital losses[1]	3,319	1,634
Financing costs	1,964	-
Intercompany balances	3,097	1,422
Reclamation provision	19,794	9,630
Other	7,298	107
	$ 268,277	$ 160,249

[1] Capital losses have no expiry date.

16 SHAREHOLDERS' EQUITY

a) Authorized share capital: Unlimited common shares without par value.

b) Issued and outstanding share capital:

	Number of shares	Amount
Balance at January 1, 2019	177,802,911	$ 786,200
Restricted share units issued to directors	137,738	175
Restricted shares issued to employees - vested, net of shares withheld[1][2]	(72,448)	263
Restricted share units issued to employees, net of shares withheld[2]	335,853	652
Issuance of flow-through shares	1,176,500	1,986
Stock options exercised (Note 16c)	115,949	149
Balance at December 31, 2019	179,496,503	789,425
Issuance of common shares related to acquisition of Alio	58,533,234	109,956
Issuance of common shares by way of public offering	49,608,700	89,439
Issuance of common shares on exercise of Alio Replacement Options (Note 16d)	1,947,562	3,529
Issuance of common shares related to a community agreement	980,630	1,722
Issuance of common shares for services provided on Magino	480,985	793
Restricted share units issued to employees, net of shares withheld[2]	520,243	852
Restricted share units issued to directors	172,833	187
Issuance of flow-through shares	3,002,650	6,499
Stock options exercised (Note 16c)	19,167	46
Balance at December 31, 2020	294,762,507	$ 1,002,448

[1] During 2019, 301,382 restricted shares granted to employees vested. All of these restricted shares were issued in prior years.

[2] During 2020, 237,258 vested restricted share units were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted share units. During 2019, 72,448 and 141,765 vested restricted shares and restricted share units, respectively, were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted shares and restricted share units.

Issuance of common shares related to acquisition of Alio (note 5)

	Number of shares		Amount
Issuance of common shares for acquisition of Alio	57,615,460	$	108,232
Issuance of common shares to settle other liabilities of Alio	512,842		959
Issuance of common shares related to change of control	404,932		765
	58,533,234		109,956

Public offering

In July 2020, the Company completed a bought deal public offering with a syndicate of underwriters, under which the underwriters purchased a total of 49,608,700 common shares of the Company at a price of CA$2.55 per common share for gross proceeds of CA$126,502 ($94,459). Transaction costs related to the public offering (including the underwriter's fee) were approximately CA$6,722 ($5,020), resulting in net proceeds to the Company totaled approximately CA$119,780 ($89,439).

Community agreement

During 2020, the Company issued 980,630 common shares as part of a community agreement associated with the Magino project.

Flow-through common shares

In October 2020, the Company issued 3,002,650 flow-through common shares at a price of CA$3.83 per share by way of private placement for gross proceeds of CA$11,500 ($8,753). Share issuance costs of CA$812 ($618) were incurred in relation to the offering, resulting in net proceeds to the Company of CA$10,688 ($8,135). The net proceeds were bifurcated between share capital of $6,499 and flow-through share premium of $1,636. Under the terms of the flow-through share agreements, the Company agreed to incur CA$11,500 ($8,753) of qualified Canadian resource expenditures by December 31, 2021 and renounce those expenditures to the investors effective December 31, 2020. During the fourth quarter of 2020, the Company used $1,006 of the proceeds to fund exploration expenditures near the Magino project and is required to incur the remainder of the expenditures during 2021. As of December 31, 2020, the remaining flow-through share premium liability was $1,435.

In September 2019, the Company issued 1,176,500 flow-through common shares at a price of CA$3.40 per share by way of a private placement for gross proceeds of CA$4,000 ($3,041). Share issuance costs of CA$347 ($263) were incurred in relation to the offering, resulting in net proceeds to the Company of CA$3,653 ($2,778). The net proceeds were bifurcated between share capital of $1,986 and flow-through share premium of $792. Under the terms of the flow-through share agreements, the Company agreed to incur CA$4,000 ($3,041) of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019. Management used the proceeds to fund exploration expenditures at the Magino project and incurred the required expenditures during the remainder of 2019 and first half of 2020.

c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was adopted by the Board of Directors on February 12, 2010, was approved by shareholders in 2010 and was last re-approved by shareholders in May 2020. The Share Incentive Plan provides that the maximum number of common shares available to be granted by the Board of Directors as stock options, restricted shares, restricted share units ("RSU" or "RSUs"), performance share units ("PSU" or "PSUs"), deferred share units (DSU" or DSUs"), and any other share-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

Stock options

Stock options are granted to directors, selected employees and consultants. The options vest one-third per year for three years and have a contractual option term of ten years. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2020 that were granted by the Company:

Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Options exercisable	Weighted average exercise price (CA$)
$ 1.10 - 1.31	1,318,483	5.10	$ 1.10	1,318,483	$ 1.10
1.32 - 2.48	1,844,415	7.76	1.87	807,125	2.30
2.49 - 4.00	722,203	4.85	2.58	671,594	2.58
4.01 - 7.00	346,353	2.24	4.68	346,353	4.68
7.01 - 10.35	327,791	1.87	8.68	327,791	8.68
$ 1.10 - 10.35	4,559,245	5.68	$ 2.46	3,471,346	$ 2.74

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2019	4,011,413	$ 2.95
Granted	609,572	1.70
Exercised	(115,949)	1.12
Forfeited	(284,075)	3.80
Expired	(77,143)	3.50
Outstanding at December 31, 2019	4,143,818	2.75
Granted	805,855	1.46
Exercised	(19,167)	2.04
Forfeited	(361,261)	3.57
Expired	(10,000)	3.25
Outstanding at December 31, 2020	4,559,245	$ 2.46

The weighted average share price at the time of exercise for 2020, was CA$2.64 per share (2019 - CA$1.78 per share).

The total share-based compensation expense related to stock options granted by the Company for 2020, was $341 (2019 - $341). As at December 31, 2020, there was $214 of unamortized stock-based compensation expense related to stock options granted (December 31, 2019 - $184).

The following weighted average assumptions were used in computing the fair value of stock options granted during the year ended December 31, 2020:

		2020		2019
Weighted average share price	CA$	1.46	CA$	1.70
Expected dividend yield		Nil		Nil
Expected volatility		62.2%		65.6%
Risk-free interest rate		1.0%		1.8%
Estimated forfeiture rate		8.0%		8.5%
Expected life		5 years		5 years
Weighted average fair value per stock option granted	CA$	0.77	CA$	0.95

The Company uses its historical volatility as the basis for the expected volatility assumption in the Black-Scholes option pricing model.

Restricted share units and restricted shares

The following table summarizes the RSU and restricted share activity for the Company:

	Restricted shares and RSUs		Weighted average fair value (CA$)
Outstanding at January 1, 2019	1,532,673	$	2.23
Granted[(1)]	1,609,512		1.68
Vested[(2)]	(916,738)		1.93
Forfeited[(3)]	(474,496)		1.97
Outstanding at December 31, 2019	1,750,951		1.95
Granted[(1)]	1,575,459		1.46
Vested[(2)]	(930,334)		1.95
Forfeited[(3)]	(146,753)		1.75
Outstanding at December 31, 2020	2,249,323	$	1.62

[(1)] The RSUs granted during 2020 include 1,402,626 RSUs granted to employees (2019 - 1,471,774) and 172,733 RSUs granted to directors (2019 - 137,738) that will be issued once the shares vest according to the terms below.

[(2)] The RSUs vested during the 2020 include 757,501 RSUs granted to employees and 172,833 RSUs granted to directors. The restricted shares and RSUs vested during 2019 include 301,382 restricted shares granted to employees, 477,618 RSUs granted to employees and 137,738 RSUs granted to directors. As at December 31, 2019, all restricted shares had vested and only RSUs were outstanding.

[(3)] During 2020, 146,753 RSUs were forfeited (2019 - 474,496 RSUs and restricted shares).

RSUs granted to directors are immediately vested and are restricted for the shorter of two years after the grant date or six months after a director retires from the board. RSUs granted to employees vest based on service-related vesting terms set by the Board of Directors and can therefore vary grant to grant. In general, however, RSUs vest one-third per year for three

years. The references to outstanding RSUs and restricted shares in the above table refer to RSUs and restricted shares granted but not yet vested. The total share-based compensation expense related to restricted shares and RSUs for 2020, was $1,502 (2019 - $1,395). As at December 31, 2020, there was $774 of unamortized stock-based compensation expense related to RSUs (December 31, 2019 - $757).

The Company has adopted a net withholding settlement feature for vested RSUs and restricted shares, where a portion of the vested RSUs and restricted shares can be withheld, at the election of the employee, to satisfy tax withholding obligations, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations and remits the tax withholdings to the taxing authorities on behalf of the employee. As at December 31, 2020, if all RSUs were to have vested and all employees elected the net withholding settlement feature on vesting, based on the Company's share price at December 31, 2020, the Company estimates that it would have had to transfer approximately $1,228 to the tax authorities for withholding taxes on such vested RSUs.

Performance share units

The following table summarizes the PSU activity for the Company:

	PSUs	Weighted average fair value (CA$)
Outstanding at January 1, 2019	736,507	$ 3.07
Granted	967,720	2.11
Forfeited	(338,221)	2.54
Outstanding at December 31, 2019	1,366,006	2.52
Granted	959,268	1.30
Forfeited	(27,573)	3.07
Outstanding at December 31, 2020	2,297,701	$ 2.00

The PSUs are subject to certain vesting requirements and each years' grants vest at the end of three years. The vesting requirements are based on certain performance criteria over the vesting period established by the Company. The number of units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. The total share-based compensation expense related to PSUs for 2020 was $1,032 (2019 - $559). As at December 31, 2020, there was $1,013 of unamortized stock-based compensation expense related to PSUs (December 31, 2019 - $1,132).

d) Replacement Options and Alio Warrants

At December 31, 2020, pursuant to the Alio acquisition, the Company had outstanding Replacement Options along with Alio Warrants (note 5).

The following table summarizes the Replacement Option activity subsequent to the acquisition:

	Options	Weighted average exercise price (CA$)
Outstanding at July 1, 2020	3,121,352	$ 3.20
Exercised	(1,947,562)	1.20
Outstanding at December 31, 2020	1,173,790	$ 6.53

The following table summarizes information relating to Replacement Option outstanding and exercisable at December 31, 2020:

Exercise price per share (CA$)	Number outstanding and exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$ 1.06 - 1.31	389,548	3.93	$ 1.06
1.32 - 2.48	154,230	3.49	1.49
2.49 - 4.00	59,289	0.90	3.68
4.01 - 7.00	309,181	1.99	4.68
7.01 - 46.57	261,542	1.44	20.46
$ 1.10 - 46.57	1,173,790	2.65	$ 6.53

The following table summarizes the Alio Warrants activity subsequent to the acquisition:

	Warrants	Weighted average exercise price (CA$)
Outstanding at July 1, 2020	1,544,892	$ 5.42
Expired	(742,153)	3.11
Outstanding at December 31, 2020	802,739	$ 2.31

The following table summarizes information relating to Alio Warrants outstanding and exercisable at December 31, 2020:

Exercise price per share (CA$)	Number outstanding and exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)
$ 4.45	802,739	0.57	2.31

17 SHARES OUTSTANDING

	2020	2019
Basic weighted average shares outstanding	233,204,334	178,585,738
Weighted average shares dilution adjustments[(1)(2)]		
Stock options	1,553,691	-
Restricted share units	1,787,346	-
Performance share units	1,230,124	-
Diluted weighted average shares outstanding	237,775,495	178,585,738
Antidilutive securities	23,364,120	-

[(1)] Impact of dilutive stock options and other share-based compensation arrangements were determined using the Company's average share price for 2020 of CA$2.13 (December 31, 2019 - CA$1.94).

[(2)] As a result of the net loss incurred during 2019, stock options and other share-based compensation arrangements have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

18 PRODUCTION COSTS BY NATURE

	2020	2019
Mining	$ 82,482	$ 77,105
Crushing	20,258	30,677
Processing	60,637	57,687
Mine general and administrative and royalties	20,129	11,857
Refining and desorption	4,217	3,842
Change in inventories	(13,101)	(141)
	$ 174,622	$ 181,027

19 FINANCE EXPENSES

	2020	2019
Interest	$ 1,598	$ 693
Accretion on other liabilities	115	127
Accretion on reclamation provision	341	453
Amortization of debt financing and transaction costs	999	223
Other finance expenses	276	213
	$ 3,329	$ 1,709

20 OTHER (EXPENSE) INCOME

	2020	2019
Foreign exchange (loss) gain	$ (359)	$ 1,441
Proceeds related to insurance and legal matters	-	1,255
Revaluation of marketable securities	(906)	-
Other income	279	833
	$ (986)	$ 3,529

21 SUPPLEMENTAL CASH FLOW INFORMATION

The significant non-cash investing and financing transactions during the year are as follows:

	2020	2019
Decrease in expenditures on mineral properties for change in estimate of reclamation	$ (1,231)	$ (2,770)
Increase (decrease) in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities	(624)	752
Fair value of common shares issued related to a community agreement capitalized as mineral property additions	1,722	-
Fair value of restricted shares and RSUs allocated from contributed surplus to share capital upon vesting	1,039	1,090
Fair value of common shares for services provided on Magino	793	-
Fair value of common shares issued related to acquisition of Alio (Note 16b)	1,724	-
Fair value of common shares, options and warrants related to the acquisition of Alio (Note 5)	111,400	-

22 SEGMENT INFORMATION

Operating segments are those operations whose operating results are reviewed by the chief operating decision maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds or are deemed significant by management. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Certain operations that do not meet any of the quantitative thresholds may still be considered reportable segments if deemed significant by management. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. Early-stage exploration and other operations are reported in the Corporate and other segment.

During the year ended December 31, 2020, the San Antonio project no longer meets any of the quantitative thresholds for a reportable segment as defined by IFRS 8 - *Operating Segments*, and is not deemed significant by management, but has been disclosed as a separate segment for consistency with the comparative period disclosure. The Ana Paula project is not presented in this note due to it being a disposal group held for sale and a discontinued operation (note 6).

The Company operates in the mining industry and its principal product is gold. During the year ended December 31, 2020 sales were to three customers (2019 - two customers) and were recognized at a point in time. The Company's revenue is generated on the sale of product originating from Mexico and the United States. As at December 31, 2020, the Company's significant mineral properties are located in Canada (Magino), Mexico (El Castillo mining complex, La Colorada and Cerro del Gallo), and the United States (Florida Canyon).

The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	Florida Canyon	San Antonio	Cerro del Gallo	Magino	Corporate and other	Total
Year ended December 31, 2020								
Revenue	$ 188,803	$ 82,734	$ 48,155	$ -	$ -	$ -	$ -	$ 319,692
Production costs	95,005	45,370	34,247	-	-	-	-	174,622
Depreciation, depletion and amortization	29,805	14,414	6,464	-	-	-	-	50,683
Inventory write down (Note 8)	(1,611)	-	-	-	-	-	-	(1,611)
Total cost of sales	123,199	59,784	40,711	-	-	-	-	223,694
Gross profit	65,604	22,950	7,444	-	-	-	-	95,998
Exploration expenses	-	-	-	-	744	-	140	884
General and administrative expenses	2,390	1,451	-	(11)	-	-	10,625	14,455
Transaction costs on acquisition	-	-	-	-	-	-	4,604	4,604
Other operating expense (Note 14)	-	774	435	-	-	-	-	1,209
Care and maintenance expenses	6,518	1,683	-	-	-	-	-	8,201
Impairment (reversal) of mineral properties, plant and equipment	-	(5,950)	-	-	-	(383)	82	(6,251)
Income (loss) from operations	$ 56,696	$ 24,992	$ 7,009	$ 11	$ (744)	$ 383	$ (15,451)	$ 72,896
Capital expenditures	$ 15,337	$ 7,691	$ 9,651	$ -	$ 1,195	$ 34,260	$ 1,914	$ 70,048
December 31, 2020								
Mineral properties, plant and equipment	$ 97,445	$ 59,220	$ 146,725	$ 4,500	$ 18,486	$ 300,037	$ 8,554	$ 634,967
Total assets	$ 186,906	$ 96,112	$ 175,918	$ 6,643	$ 18,486	$ 307,522	$ 261,823	$ 1,053,410

	El Castillo mining complex	La Colorada	San Antonio	Cerro del Gallo	Magino	Corporate and other	Total
Year ended December 31, 2019							
Revenue	$ 191,802	$ 77,083	$ -	$ -	$ -	$ -	$ 268,885
Production costs	131,136	49,891	-	-	-	-	181,027
Depreciation, depletion and amortization	31,824	14,094	-	-	-	-	45,918
Inventory write down	15,345	12,119	-	-	-	-	27,464
Total cost of sales	178,305	76,104	-	-	-	-	254,409
Gross profit	13,497	979	-	-	-	-	14,476
Exploration expenses	143	454	-	-	37	59	693
General and administrative expenses	2,546	1,598	-	59	-	9,616	13,819
Other operating expenses	-	(2,356)	-	-	-	-	(2,356)
Impairment of mineral properties, plant and equipment	-	-	111,034	-	-	257	111,291
Income (loss) from operations	$ 10,808	$ 1,283	$ (111,034)	$ (59)	$ (37)	$ (9,932)	$ (108,971)
Capital expenditures	$ 27,130	$ 14,112	$ 1,687	$ 2,266	$ 6,313	$ 3,452	$ 54,960
December 31, 2019							
Mineral properties, plant and equipment	$ 113,212	$ 59,735	$ 4,500	$ 17,436	$ 259,697	$ 9,506	$ 464,086
Total assets	$ 201,631	$ 91,469	$ 4,583	$ 19,448	$ 260,858	$ 28,636	$ 606,625

23 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

a) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

The details of the Company's entities and ownership interests are:

	Location	Ownership	Status
Pediment Gold Corp.	Canada	100%	Consolidated
Castle Gold Corporation	Canada	100%	Consolidated
Prodigy Gold Inc.	Canada	100%	Consolidated
San Anton Resource Corporation	Canada	100%	Consolidated
Alio Gold Inc.	Canada	100%	Consolidated
Alio Gold (US) Inc.	Canada	100%	Consolidated
Argonaut Gold (U.S.) Corp.	USA	100%	Consolidated
Rye Patch Gold US Inc.	USA	100%	Consolidated
Rye Patch Mining US Inc.	USA	100%	Consolidated
Florida Canyon Mining Inc.	USA	100%	Consolidated
Standard Gold Mining Inc.	USA	100%	Consolidated
RP Dirt Inc.	USA	100%	Consolidated
Minera Real del Oro S.A. de C.V.	México	100%	Consolidated
Compania Minera Pitalla S.A. de C.V.	México	100%	Consolidated
Minexson S.A. de C.V.	México	100%	Consolidated
Megashear Mining-Exploration S.A. de C.V.	México	100%	Consolidated
Castle Gold Services S.A. de C.V.	México	100%	Consolidated
Minera Sud California S.A. de C.V.	México	100%	Consolidated
Kings-San Anton S.A. de C.V.	México	100%	Consolidated
San Anton de las Minas S.A. de C.V.	México	100%	Consolidated
San Anton del Oro S.A. de C.V.	México	100%	Consolidated
Timmins Goldcorp Mexico, S.A. de C.V.	México	100%	Consolidated
Minera Aurea, S.A de C.V.	México	100%	Consolidated

b) The compensation of the Company's directors and other key management personnel is detailed in the following table:

	2020	2019
Salaries and other short-term employee benefits	$ 2,549	$ 3,061
Post-employment benefits	94	113
Share-based compensation	2,750	2,271
	$ 5,393	$ 5,445

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and consist of directors and certain senior officers.

24 CAPITAL MANAGEMENT

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, contributed surplus and debt (including the undrawn amount of $125,000 as at December 31, 2020 on the ARCF), net of cash and cash equivalents. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern and to generate a superior return to shareholders. The Company may finance acquisition, development, and exploration activities through cash flows from operations, sale of non-core assets, joint ventures, and raising additional debt or share capital when market conditions are suitable.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

25 COMMITMENTS AND CONTINGENCIES

At December 31, 2020, the Company has the following commitments:

	2021	2022	2023	2024	2025	Thereafter	Total
Accounts payable and accrued liabilities	$ 54,090	$ -	$ -	$ -	$ -	$ -	$ 54,090
Lease obligations	10,052	10,000	9,928	10,432	534	144	41,090
Land agreement obligations[(1)(3)]	5,684	1,495	4,722	1,820	1,870	9,931	25,522
Purchase obligations[(2)(3)]	211,657	86,385	11,442	79	-	34	309,597
Debt[(4)]	-	-	-	-	57,500	-	57,500
Reclamation provision[(5)]	967	63	9,135	-	12,166	34,980	57,311
	$ 282,450	$ 97,943	$ 35,227	$ 12,331	$ 72,070	$ 45,089	$ 545,110

[(1)] The Company has entered into agreements for surface and access rights to land associated with operating mines, development projects and exploration projects.

[(2)] The Company has entered into commitments totaling $151,051 for Magino project, $40,091 for mining services, $110,545 for supplies, $7,241 for flow-through and $669 for other services.

[(3)] Certain commitments may contain cancellation clauses, however the Company discloses its commitments based on management's intent to fulfill the contracts.

[(4)] Debt represents the convertible debentures (note 12).

[(5)] Reclamation provision amounts represent management's estimate of when the reclamation expenditures are expected to be paid.

Notice of Civil Claim

In May 2019, Alio received a Notice of Civil Claim from a former shareholder of Rye Patch Gold Corp. whose shares were acquired by Alio. The plaintiff brought the claim in the Supreme Court of British Columbia pursuant to the Class Proceedings Act and is seeking damages against Alio for alleged misrepresentations with respect to anticipated gold production during the year ended December 31, 2018. The Company and its counsel have reviewed the claim and believe it is without merit. The outcome is not determinable at this time. Accordingly, no liability has been accrued in the Alio purchase price allocation (note 5) and no liability has been recognized in the Company's consolidated financial statements.

26 FINANCIAL INSTRUMENTS AND RISKS

Overview

The Company's activities expose it to risks, including financial and operational risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks related to financial instruments to which the Company is exposed are credit risk, market price risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

a) Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company manages credit risk for trade and other receivables through established credit monitoring activities. To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Company currently transacts with highly rated counterparties for the sale of gold and receivables. Management believes that the credit risk concentration with respect to these financial instruments is remote.

b) Market price risk

Market price risks arise when the Company enters into arrangements whereby the Company receives equity consideration for the sale of its mineral properties and other assets. These equity instruments are held as marketable securities and are subject to market price risk. Marketable securities are recorded at fair value at the respective period ends with the resultant unrealized gains or losses recorded in other income (loss) in the statement of income (loss). The price or value of these investments can vary from period to period.

If equity prices for these marketable securities had increased or decreased by 5% as at December 31, 2020 with all other variables held constant, the Company's marketable securities would have increased or decreased, respectively, by approximately $400 (2019 - $nil). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Foreign exchange risk

Because the Company operates on an international basis, foreign exchange risk exposures arise from transactions and balances denominated in foreign currencies. The Company's foreign exchange risk arises primarily with respect to the Canadian dollar and the Mexican peso. The Company's cash flows from Mexican operations are exposed to foreign exchange risk as commodity sales are denominated in US dollars and the majority of operating expenses and capital expenditures are denominated in Mexican pesos and US dollars. Administrative transactions, and assets under construction and exploration expenditures associated with the Magino project are primarily denominated in Canadian dollars. The Company manages a portion of its exposure to foreign exchange risk by various methods, including entering into foreign currency derivative contracts, and maintaining adequate funds in the Canadian dollars and Mexican pesos.

The Company is exposed to foreign exchange risk through the following financial instruments denominated in currencies other than the US dollar as at December 31:

	US dollar value of Canadian dollar balances		US dollar value of Mexican peso balances	
	2020	2019	2020	2019
Cash and cash equivalents	$ 78,573	$ 752	$ 2,361	$ 1,454
Marketable securities	7,998	-	-	-
Other receivables	8	-	(388)	1,912
Accounts payable and accrued liabilities	(3,685)	(1,802)	(17,300)	(16,568)
Other liabilities	-	-	(1,151)	(1,279)
	$ 82,894	$ (1,050)	$ (16,478)	$ (14,481)

Based on the above net exposures as at December 31, 2020, a 10% appreciation in the Canadian dollar would result in a $8,289 increase in the Company's other comprehensive income for the year ended December 31, 2020 (December 31, 2019 - $105 increase in other comprehensive loss). A 10% appreciation in the Mexican peso would result in a $1,648 decrease in the Company's income before income taxes for the year ended December 31, 2020 (December 31, 2019 - $1,448 increase in the Company's loss before income taxes).

Foreign exchange derivative contracts

On November 13, 2018, the Company entered into zero-cost collar contracts whereby it purchased a series of foreign exchange call option contracts and sold a series of foreign exchange put option contracts with equal and offsetting values at inception (referred to as the "foreign exchange contracts"). These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in United States dollar terms. The foreign exchange contracts were classified as Level 2 in the fair value hierarchy.

The details of the contracts were as follows:

Foreign exchange contracts at inception	Amount	Term	Strike price Mexican pesos per US dollar
Foreign exchange call options - purchased	$ 24,000	January 2019 - December 2019	20.00
Foreign exchange put options - sold	$ 24,000	January 2019 - December 2019	23.56

These derivative instruments were not designated as hedges by the Company and were marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income (loss). Details were as follows:

	2020	2019
Unrealized gains	$ -	$ 149
Reversal of unrealized gains from prior period	-	(659)
Realized gains	-	934
Net gains on foreign exchange derivatives	$ -	$ 424

As at December 31, 2019, all foreign exchange contracts have expired and the Company has no foreign exchange contracts outstanding as at December 31, 2020.

d) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and matches the maturity profile of financial assets and liabilities. As at December 31, 2020, the Company had a cash balance of $214,188 (December 31, 2019 - $38,787), an undrawn ARCF of $125,000 (December 31, 2019 - $30,625), other current assets of $146,235 (December 31, 2019 - $81,141) and current liabilities of $94,409 (December 31, 2019 - $41,022).

e) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company's income (loss) before income taxes in the statement of income (loss). The Company has additional exposure to interest rate risk on the ARCF, which is subject to a floating interest rate. Floating interest rates are based on the LIBOR plus a fixed margin. The Company does not enter into derivative contracts to manage this risk. The Company has not utilized the ARCF as at December 31, 2020.

f) Commodity price risk

The Company is exposed to commodity price risk as its revenues are derived from the sale of precious metals, the prices for which have been historically volatile. The Company may manage this risk by entering into agreements with various counterparties to mitigate price risk when management believes it a prudent decision.

Commodity derivative contracts

On August 23, 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of gold put option contracts and sold a series of gold call option contracts with equal and offsetting values at inception (referred to as the "commodity contracts"). The Company's strategy is to remain unhedged on gold production; however, by initiating this price protection program for these ounces over this term and at these prices, the Company was able to ensure it could profitably extend operations at the El Castillo mine.

The details of the commodity contracts that the Company entered into, are as follows:

Commodity contracts at inception		Quantity[2] (Ounces)	Term	Strike price per ounce[1][2]
Gold put options - purchased	Expired	17,100	October 2019 - December 2019	$1,450
Gold call options - sold	Expired	12,825	October 2019 - December 2019	$1,612
Gold call options - sold	Expired	4,275	October 2019 - December 2019	$1,685
Gold put options - purchased	Expired	58,800	January 2020 - December 2020	$1,450
Gold call options - sold	Expired	44,100	January 2020 - December 2020	$1,672
Gold call options - sold	Expired	14,700	January 2020 - December 2020	$1,755
Gold put options - purchased	Active	51,600	January 2021 - December 2021	$1,450
Gold call options - sold	Active	38,700	January 2021 - December 2021	$1,709
Gold call options - sold	Active	12,900	January 2021 - December 2021	$1,785
Gold put options - purchased	Active	18,000	January 2022 - June 2022	$1,450
Gold call options - sold	Active	13,500	January 2022 - June 2022	$1,745
Gold call options - sold	Active	4,500	January 2022 - June 2022	$1,816

[1] Contracts are exercisable based on the average price for the month being below the strike price of the put or above the strike price of the call.

[2] Quantities and strike prices do not fluctuate by month within each calendar year.

The resulting fair values of the outstanding commodity contracts at December 31, 2020, have been recognized, on a net basis, in derivative liabilities on the statement of financial position. These derivative instruments were not designated as hedges by the Company and are fair valued at the end of each reporting period with the fair value adjustment recorded in the statement of income (loss). The commodity contracts are valued using a Levy two moment valuation model which uses quoted observable inputs and are classified as Level 2 in the fair value hierarchy. Details are as follows:

	2020	2019
Commodity derivative contracts		
Unrealized losses	$ (15,775)	$ (1,862)
Reversal of unrealized losses from prior period	-	-
Realized losses	(6,880)	-
Net losses on commodity contracts	$ (22,655)	$ (1,862)

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and other receivables, derivative assets, accounts payable and accrued liabilities, debt, other liabilities and derivative liabilities.

The fair value hierarchy that reflects the significance of the inputs used in making the measurements has the following levels:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The following table shows the carrying amounts of financial assets and financial liabilities by category as at December 31:

	2020	2019
Financial assets at amortized cost[1]	$ 222,369	$ 42,978
Financial liabilities at amortized cost[2]	(128,951)	(48,049)
Financial assets at fair value through profit or loss[3]	16,455	-
Financial liabilities at fair value through profit or loss[4]	(33,739)	(1,862)

[1] Financial assets at amortized cost include cash and cash equivalents and receivables.

[2] Financial liabilities at amortized cost include accounts payable and accrued liabilities, debt and other liabilities.

[3] Financial assets at fair value through profit or loss include reclamation deposits, marketable securities and derivative assets.

[4] Financial liabilities at fair value through profit or loss include derivative liabilities.

Upon acquisition of Alio (note 5), the Company acquired marketable securities consisting of common shares of a publicly traded company. The fair value is determined based on the quoted market price with subsequent changes to fair values recognized in the statement of income (loss).

As at December 31, 2020 and 2019, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at December 31, 2020 and 2019, the carrying amounts of other liabilities and debt not arising from the acquisition are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate. The carrying value of other liabilities and debt arising from the acquisition of Alio are considered to be reasonable approximations of their fair value as the fair value has been revalued on acquisition and there have been no significant changes in market interest rates since then. These financial assets and liabilities are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs. As at December 31, 2020, the fair value of the convertible debentures is $63,250, determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

27 IMPAIRMENT AND REVERSAL OF IMPAIRMENT

Summary of impairments (reversals)

During 2020, the Company recognized a non-cash impairment reversal of mineral properties, plant and equipment of $6,251 (2019 - impairment of $111,291), as summarized in the following table:

	2020				2019		
	Exploration and evaluation assets	Mineral properties	Plant and equipment	Total	Exploration and evaluation assets	Plant and equipment	Total
La Colorada mine	-	(3,921)	(2,019)	(5,940)	-	-	-
San Antonio project	-	-	-	-	111,034	-	111,034
Other	(383)	-	72	(311)	-	257	257
Total impairment (reversal)	$ (383)	$ (3,921)	$ (1,947)	$ (6,251)	$ 111,034	$ 257	$ 111,291

2020 Indicators of impairment (impairment reversal)

During the year ended December 31, 2020, management of the Company determined the continued weakness in the Company's share price during 2020, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. As at December 31, 2020 the Company also reviewed the updated life-of-mine ("LOM") plans for its operating mines for indicators of impairment or reversal (note 3b).

The Company completed an assessment for each of the Company's CGUs whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount. The recoverable amount was determined as the FVLCD for each CGU. FVLCD was determined using a discounted future cash flow model. The determination of FVLCD for each CGU uses Level 3 valuation techniques. Management's impairment evaluation did not result in the identification of an impairment on its El Castillo, San Agustin or Florida Canyon mines or on its exploration and evaluation assets as at December 31, 2020.

Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

As a result of an increase in the estimated recoverable reserves and resources at the La Colorada mine, as well as the higher long-term gold price, the Company has observed an increase in the FVLCD of the La Colorada CGU. This increase has resulted in the full reversal of the remaining non-cash impairment of mineral properties, plant and equipment recorded during 2015, that was not already reversed in 2018, less depreciation and depletion that would have been recorded if that impairment had not been recorded. A non-cash impairment reversal of $3,921 and $2,019 within mineral properties and plant and equipment respectively was recorded for the La Colorada mine during the year ended December 31, 2020. The recoverable amount of the La Colorada mine is $61,552.

During the year ended December 31, 2020, the Company reclassified its exploration and evaluation assets related to the Magino gold project to assets under construction (note 9). Management assessed the carrying value of the assets for impairment before reclassification and determined that no impairment charge is required to be recognized.

2019 Indicators of impairment

As at December 31, 2019, management of the Company determined the continued weakness in the Company's share price during 2019, resulting in the Company's market capitalization being below the carrying amount of net assets, constituted an impairment indicator. Therefore, the Company completed an assessment for each of the Company's CGUs whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount. The recoverable amount was determined as the FVLCD for each CGU. FVLCD was determined using a discounted future cash flow model. The determination of FVLCD for each CGU uses Level 3 valuation techniques. Except for the San Antonio matter described below, management's impairment evaluation did not result in the identification of an impairment or impairment reversal at December 31, 2019. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments.

San Antonio 2019 impairment

During the fourth quarter of 2019, the Mexican Environmental Authority ("SEMARNAT") issued a ruling not to approve the Environmental Impact Assessment (Manifiesto de Impacto Ambiental or "MIA") for the San Antonio project. As a result of this decision and the uncertainty over the timing of the Company's ability to advance the project, the Company determined that there was an indicator of impairment at the San Antonio project in the quarter ended December 31, 2019. Accordingly, the Company was required to perform an impairment test on the San Antonio project whereby the carrying value was compared to its FVLCD. The determination of FVLCD for the San Antonio project uses Level 3 valuation techniques. The estimate of FVLCD, which was supported by an external valuation based on market valuations for comparable assets in Baja California Sur, Mexico, was approximately $4,500. As a result, the Company recorded a non-cash impairment of $111,034 in the year ended December 31, 2019 to write the carrying amount of the project down to its FVLCD.

Impairment testing: Key assumptions

The projected cash flows used in impairment testing are significantly affected by changes in assumptions for metal prices, estimates of production costs, future capital expenditures, changes in the amount of recoverable reserves, resources, and exploration potential, discount rates, inflation and exchange rates. The determination of FVLCD includes the following key applicable assumptions:

- Long term and short term gold price per ounce: $1,500 and $1,750, respectively;
- Operating and capital costs based on historical costs incurred and estimated forecasts;
- Production volume and recoveries as indicated in the LOM plan; and
- After-tax discount rate: 5%.

Sensitivity analysis

As at December 31, 2020, the Company has performed a sensitivity analysis on the CGU's discounted cash flow analysis. The table below indicates the long-term gold price assumption which would cause a CGU's carrying value to equal the recoverable amount while holding all other assumptions constant.

	Long-term price per ounce required for recoverable amount to equal carrying amount
El Castillo	$ 1,430
San Agustin	1,375
La Colorada	1,465
Florida Canyon	1,335
Magino	1,220

The Company believes that adverse changes in metal price assumptions would also impact certain other inputs in the LOM plans which may offset, to a certain extent, the impact of these adverse gold price changes.

Other 2020 impairment (reversal)

Other impairment (reversal) is mostly comprised of an impairment reversal related to cash received in the amount of $383 from a third party as part of an option agreement entered into in 2020 (note 9).

28 EVENTS AFTER THE REPORTING PERIOD

On February 17, 2021, the Company closed an offering of flow-through common shares of the Company (the "Flow-Through Shares") with a syndicate of underwriters pursuant to which the underwriters purchased, on a bought deal basis, 9,379,515 Flow-Through Shares at CA$2.82 per share for total gross proceeds of CA$26,450. The Flow-Through Shares will provide the subscribers a Canadian tax deduction for Canadian development expenditures ("CDE") incurred and renounced by the Company. The offering was completed in two concurrent tranches, whereby: (i) an aggregate of 6,276,515 CDE Flow-Through Shares were issued and qualified for distribution to the public under a prospectus, and (ii) an aggregate of 3,103,000 CDE Flow-Through Shares were issued on a private placement basis. The proceeds from the sale of the Flow-Through Shares will be used on development expenses on the Magino project as permitted under the Income Tax Act (Canada) in order to qualify as CDE. The Company will renounce all the CDE expenses in favor of the subscribers effective on or before December 31, 2021.