

## **ARGONAUT GOLD INC.**

### **MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019**

The following Management's Discussion and Analysis ("MD&A") of Argonaut Gold Inc. (the "Company" or "Argonaut") and its subsidiaries has been prepared as at February 21, 2020. All dollar amounts are expressed in United States ("US") dollars unless otherwise stated (CA\$ represents Canadian dollars). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information relating to the Company, including its Annual Information Form, is available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

This MD&A contains forward looking information as further described in the "Cautionary Statement" at the end of this MD&A. Reference to the risk factors described in the "Cautionary Statement" and to the other cautionary language under the heading "Technical Information and Qualified Person" at the end of this MD&A is advised.

#### **FOURTH QUARTER AND ANNUAL FINANCIAL HIGHLIGHTS**

- Revenue of \$72.1 million in the fourth quarter of 2019 (fourth quarter of 2018 - \$51.6 million). Revenue of \$268.9 million in 2019 (2018 - \$196.1 million).
- Sales of 47,073 ounces of gold in the fourth quarter of 2019 (fourth quarter of 2018 - 41,030). Sales of 187,802 ounces of gold in 2019 (2018 - 149,695).
- Net loss of \$107.5 million or \$0.60 per share in the fourth quarter of 2019 (fourth quarter of 2018 - \$17.5 million or \$0.10 per share). Net loss of \$93.1 million or \$0.52 per share in 2019 (2018 - \$7.6 million or \$0.04 per share).
- Adjusted net income of \$2.7 million or \$0.01 per basic share in the fourth quarter of 2019 (fourth quarter of 2018 - \$2.5 million or \$0.01 per basic share). See "Non-IFRS Measures" section. Adjusted net income of \$13.0 million or \$0.07 per basic share in 2019 (2018 - \$16.4 million or \$0.09 per basic share).
- Cash flows from operating activities before changes in non-cash operating working capital and other items were \$27.2 million in the fourth quarter of 2019 (fourth quarter of 2018 - \$9.2 million). Cash flows from operating activities before changes in non-cash operating working capital and other items were \$73.8 million in 2019 (2018 - \$58.1 million).
- Production of 47,521 gold equivalent ounces ("GEO" or "GEOs") (based on a silver to gold ratio of 75:1) in the fourth quarter of 2019 (fourth quarter of 2018 - 51,658 GEOs (based on a silver to gold ratio of 70:1)). Production of 186,615 GEOs (based on a silver to gold ratio of 75:1) in 2019 (2018 - 165,117 GEOs (based on a silver to gold ratio of 70:1)).
- Cash cost per gold ounce sold of \$1,441 in the fourth quarter of 2019 (fourth quarter of 2018 - \$945). See "Non-IFRS Measures" section. Cash cost per gold ounce sold of \$1,041 in 2019 (2018 - \$792). During 2019, the Company recognized an impairment write down at the El Castillo mining complex and La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory (see "Critical Accounting Estimates - Work-in-process inventory / Production costs" section). Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for the three months and year ended December 31, 2019 was \$972 and \$923, respectively. See "Non-IFRS Measures" section.
- All-in sustaining cost per gold ounce sold of \$1,690 in the fourth quarter of 2019 (fourth quarter of 2018 - \$1,073). See "Non-IFRS Measures" section. All-in sustaining cost per gold ounce sold of \$1,299 in 2019 (2018 - \$969). During 2019, the Company recognized an impairment write down at the El Castillo mining complex and La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory (see "Critical Accounting Estimates - Work-in-process inventory / Production costs" section). Excluding the impact of the impairment write down, adjusted all-in sustaining cost per gold ounce sold for the three months and year ended December 31, 2019 was \$1,221 and \$1,181, respectively. See "Non-IFRS Measures" section.
- Cash and cash equivalents was \$38.8 million as at December 31, 2019 (September 30, 2019 - \$35.6 million; December 31, 2018 - \$15.4 million).
- Net cash was \$28.8 million as at December 31, 2019 (September 30, 2019 - \$21.6 million; December 31, 2018 - \$2.4 million). See "Non-IFRS Measures" section.

## **2019 AND RECENT COMPANY HIGHLIGHTS**

### **Corporate**

- Set new records for quarterly and annual GEO production during 2019.
- Increased Mineral Reserves by 48% and Measured and Indicated Mineral Resources, inclusive of Mineral Reserves, by 36%.
- Entered into a zero-cost collar gold price protection program on 145,500 total ounces to extend the mine life at El Castillo. The monthly gold collars have a floor price of \$1,450 per gold ounce and a weighted average ceiling price of \$1,707 per gold ounce from the fourth quarter of 2019 to the second quarter of 2022.

### **El Castillo Mining Complex**

- Increased full year production by 12% to 131,277 GEOs.
- Increased full year production by 38% to 66,509 GEOs at the El Castillo mine.
- Completed a crusher expansion project under budget at the San Agustin mine.

### **La Colorada**

- Increased full year production by 15% to 55,338 GEOs.

### **Cerro del Gallo**

- Completed a positive pre-feasibility study.
- Published a maiden Mineral Reserve and Mineral Resource estimate, which increased the Company's consolidated Mineral Reserves by 48% and Measured and Indicated Mineral Resources, inclusive of Mineral Reserves, by 36%.

### **Magino**

- Completed Federal and Provincial Environmental Assessment processes with receipt of a positive Decision Statement and Statement of Completion, respectively.
- Signed Community Agreements with the Batchewana First Nation and Michipicoten First Nation.
- Confirmed high-grade geological continuity below the planned pit and identified multiple high-grade structures hosting multiple veins.

## DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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 the date of this MD&A, 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 advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Magino project in the Province of Ontario, Canada and several other exploration stage projects, all of which are located in North America.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected annual financial information extracted from the Company’s audited financial statements, which have been prepared in accordance with IFRS, for the years noted:

|  | 2019         | 2018 <sup>(1)</sup> | 2017 <sup>(1)(2)</sup> |
|--|--------------|---------------------|------------------------|
| Revenue (\$000s)   | \$ 268,885   | \$ 196,056          | \$ 155,089             |
| Inventory write down (\$000s)                                  | \$ (27,464)  | \$ (21,482)         | \$ -                   |
| Impairment of mineral properties, plant and equipment (\$000s) | \$ (111,291) | \$ (2,011)          | \$ -                   |
| Net income (loss) (\$000s)                                     | \$ (93,092)  | \$ (7,621)          | \$ 23,852              |
| Earnings (loss) per share - basic and diluted                  | \$ (0.52)    | \$ (0.04)           | \$ 0.14                |
| Total assets (\$000s)  | \$ 606,625   | \$ 694,516          | \$ 689,860             |
| Long-term liabilities (\$000s)                                 | \$ 34,687    | \$ 48,979           | \$ 33,223              |
| Gold ounces sold   | 187,802      | 149,695             | 120,041                |
| Average realized gold price per ounce                          | \$ 1,390     | \$ 1,267            | \$ 1,257               |
| Cash cost per gold ounce sold <sup>(3)</sup>                   | \$ 1,041     | \$ 792              | \$ 787                 |
| Dividends declared per share                                   | Nil          | Nil                 | Nil                    |

<sup>(1)</sup> The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see “Recent Accounting Pronouncements-New and amended standards adopted by the Company” section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

<sup>(2)</sup> The Company adopted IFRS 15, Revenue from Contracts with Customers in the annual period commencing January 1, 2018. The Company elected to apply IFRS 15 using a modified retrospective approach; therefore, comparative amounts were not restated.

<sup>(3)</sup> See “Non-IFRS Measures” section.

Annual results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, the cash cost per gold ounce sold (see “Non-IFRS Measures” section) and any unusual matters.

## SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected unaudited quarterly financial information for each of the eight most recent quarters:

|  | 2019<br>Q4   | 2019<br>Q3 | 2019<br>Q2 | 2019<br>Q1 | 2018<br>Q4 <sup>(1)</sup> | 2018<br>Q3 <sup>(1)</sup> | 2018<br>Q2 <sup>(1)</sup> | 2018<br>Q1 <sup>(1)</sup> |
|--|--------------|------------|------------|------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue (\$000s)   | \$ 72,130    | \$ 66,845  | \$ 55,993  | \$ 73,917  | \$ 51,629                 | \$ 41,310                 | \$ 50,171                 | \$ 52,946                 |
| Inventory (write down) reversal (\$000s)                       | \$ (32,161)  | \$ 267     | \$ 3,904   | \$ 526     | \$ (14,614)               | \$ (6,868)                | \$ -                      | \$ -                      |
| Impairment of mineral properties, plant and equipment (\$000s) | \$ (111,291) | \$ -       | \$ -       | \$ -       | \$ (2,011)                | \$ -                      | \$ -                      | \$ -                      |
| Net income (loss) (\$000s)                                     | \$ (107,459) | \$ 4,864   | \$ 5,440   | \$ 4,063   | \$ (17,545)               | \$ (2,686)                | \$ 381                    | \$ 12,229                 |
| Earnings (loss) per share - basic and diluted                  | \$ (0.60)    | \$ 0.03    | \$ 0.03    | \$ 0.02    | \$ (0.10)                 | \$ (0.02)                 | \$ 0.00                   | \$ 0.07                   |
| Gold ounces sold   | 47,073       | 44,303     | 41,647     | 54,779     | 41,030                    | 33,179                    | 37,414                    | 38,072                    |
| Average realized gold price per ounce                          | \$ 1,484     | \$ 1,474   | \$ 1,303   | \$ 1,309   | \$ 1,226                  | \$ 1,212                  | \$ 1,295                  | \$ 1,330                  |
| Cash cost per gold ounce sold <sup>(2)</sup>                   | \$ 1,441     | \$ 901     | \$ 931     | \$ 892     | \$ 945                    | \$ 867                    | \$ 704                    | \$ 650                    |

<sup>(1)</sup> The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see “Recent Accounting Pronouncements-New and amended standards adopted by the Company” section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

<sup>(2)</sup> See “Non-IFRS Measures” section.

Quarterly results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, the cash cost per gold ounce sold (see “Non-IFRS Measures” section) and any unusual matters. The quarterly year-over-year increase in revenue for the fourth quarter of 2019 was due to a higher average realized gold price (\$10.6 million), an increase in gold ounces sold (\$9.0 million) and an increase in by-product silver sales (\$0.9 million).

The increase in net loss in the fourth quarter of 2019 compared to the fourth quarter of 2018 was principally due to a non-cash impairment of mineral properties, plant and equipment of \$111.3 million primarily due to the denial of the permit application for the San Antonio project in the fourth quarter of 2019 (see “Critical Accounting Estimates - Impairment of non-current assets” section) and an impairment write down of work-in-process inventory of \$20.1 million at the El Castillo mining complex and \$12.1 million at the La Colorada mine primarily related to changes in the expected recovery of gold ounces, partially offset by an increase in gold ounces sold at a higher average realized gold price and other operating income in the fourth quarter of 2019. These increases in net loss were partially offset by the deferred tax effect of the non-cash impairment of the San Antonio exploration and evaluation asset and the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes during the fourth quarter of 2019. In the fourth quarter of 2018, a non-cash impairment write down of \$12.8 million was recorded related to the net realizable value of non-current work-in-process inventory at the El Castillo mine. Additionally, in the fourth quarter of 2018, a negative inventory adjustment of \$4.0 million at the El Castillo mining complex and \$1.3 million at the La Colorada mine was recorded related to finished goods inventory currently part of an ongoing bankruptcy filing and related legal process (see “Contingencies” section). The adjustments and non-cash impairments of inventory referenced above for 2018 were partially offset by a non-cash impairment reversal of \$2.6 million at the El Castillo mine and \$0.9 million at the La Colorada mine related to the net realizable value of current work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018 compared to September 30, 2018. The net loss in the fourth quarter of 2018 was primarily due to the adjustment and non-cash impairment of inventory referenced above and the net non-cash impairment of mineral properties, plant and equipment of \$2.0 million, along with an increase in cash cost per gold ounce sold and other operating expenses. Cash cost per gold ounce sold increased in the fourth quarter of 2018, due to a lower proportion of gold ounces sold from the San Agustin mine, which generally has had a lower cash cost per gold ounce sold and an increase in cash cost due to an increase in cost of consumables.

The Company recognized a non-cash impairment write down in the third quarter of 2018 of \$4.4 million at the El Castillo mine and \$2.5 million at the La Colorada mine related to the net realizable value of work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. Additionally, the Company recognized a non-cash impairment reversal at the El Castillo mine related to the net realizable value of the work-in-process inventory in the first, second and third quarters of 2019.

## DISCUSSION OF OPERATIONS

| Expressed in \$000s                                   | Three months ended<br>December 31, |                     | Year ended<br>December 31, |                     |
|---|------------------------------------|---------------------|----------------------------|---------------------|
|   | 2019                               | 2018 <sup>(1)</sup> | 2019                       | 2018 <sup>(1)</sup> |
| Revenue   | \$ 72,130                          | \$ 51,629           | \$ 268,885                 | \$ 196,056          |
| Cost of sales   |                                    |                     |                            |                     |
| Production costs                                      | 48,019                             | 37,962              | 181,027                    | 122,921             |
| Depreciation, depletion and amortization              | 12,663                             | 8,623               | 45,918                     | 33,177              |
| Inventory write down                                  | 32,161                             | 14,614              | 27,464                     | 21,482              |
| <b>Total cost of sales</b>                            | <b>92,843</b>                      | <b>61,199</b>       | <b>254,409</b>             | <b>177,580</b>      |
| <b>Gross profit (loss)</b>                            | <b>(20,713)</b>                    | <b>(9,570)</b>      | <b>14,476</b>              | <b>18,476</b>       |
| Exploration expenses                                  | 249                                | 156                 | 693                        | 547                 |
| General and administrative expenses                   | 3,297                              | 3,357               | 13,819                     | 12,958              |
| Other operating expense (income)                      | (2,356)                            | 3,112               | (2,356)                    | 3,112               |
| Impairment of mineral properties, plant and equipment | 111,291                            | 2,011               | 111,291                    | 2,011               |
| <b>Loss from operations</b>                           | <b>(133,194)</b>                   | <b>(18,206)</b>     | <b>(108,971)</b>           | <b>(152)</b>        |
| Finance income  | 35                                 | 8                   | 58                         | 33                  |
| Finance expenses                                      | (382)                              | (312)               | (1,709)                    | (1,201)             |
| Gains (losses) on derivatives                         | (2,441)                            | 487                 | (1,438)                    | 1,071               |
| Other income (expense)                                | 2,713                              | (797)               | 3,529                      | (716)               |
| <b>Loss before income taxes</b>                       | <b>(133,269)</b>                   | <b>(18,820)</b>     | <b>(108,531)</b>           | <b>(965)</b>        |
| Current income tax expense (recovery)                 | (5,065)                            | 1,045               | 3,712                      | 3,986               |
| Deferred income tax expense (recovery)                | (20,745)                           | (2,320)             | (19,151)                   | 2,670               |
| <b>Net loss for the period</b>                        | <b>\$ (107,459)</b>                | <b>\$ (17,545)</b>  | <b>\$ (93,092)</b>         | <b>\$ (7,621)</b>   |

<sup>(1)</sup> The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see “Recent Accounting Pronouncements-New and amended standards adopted by the Company” section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

*For the three months ended December 31, 2019, as compared to the three months ended December 31, 2018*

Revenue for the three months ended December 31, 2019 was \$72.1 million, an increase from \$51.6 million for the three months ended December 31, 2018. During the fourth quarter of 2019, gold ounces sold totaled 47,073 at an average realized price per ounce of \$1,484 (compared to 41,030 gold ounces sold at an average price per ounce of \$1,226 during the same period of 2018). Gold ounces sold for the three months ended December 31, 2019 increased compared to the same period in 2018 primarily due to the approximately 4,600 gold ounces delivered to a refinery but not sold in the fourth quarter of 2018 that is currently part of an ongoing bankruptcy filing and related legal process.

Production costs for the fourth quarter of 2019 were \$48.0 million, an increase from \$38.0 million in the fourth quarter of 2018, primarily due to the increase in gold ounces sold and a slight increase in adjusted cash cost per gold ounce sold (see “Non-IFRS Measures” section). Cash cost per gold ounce sold (see “Non-IFRS Measures” section) was \$1,441 in the fourth quarter of 2019. During 2019, the Company recognized an impairment write down at the El Castillo mining complex and La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory (see discussion later in this paragraph). Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold (see “Non-IFRS Measures” section) for the fourth quarter of 2019 was \$972, comparable to \$945 in the same period of 2018. Depreciation, depletion and amortization (“DD&A”) expense included in cost of sales for the fourth quarter of 2019 totaled \$12.7 million, an increase from \$8.6 million in the fourth quarter of 2018, primarily due to the increase in cost per ounce at the La Colorada mine due to the impairment reversal of mineral properties as at December 31, 2018 and the increase in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis. Included in cost of sales in the fourth quarter of 2019 is an impairment write

down of work-in-process inventory of \$20.1 million at the El Castillo mining complex and \$12.1 million at the La Colorada mine primarily related to changes in the expected recovery of gold ounces. Included in cost of sales in the fourth quarter of 2018 is a non-cash impairment write down of \$12.8 million related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form. Additionally, included in cost of sales in the fourth quarter of 2018 is a negative inventory adjustment of \$4.0 million at the El Castillo mining complex and \$1.3 million at the La Colorada mine related to finished goods inventory currently part of an ongoing bankruptcy filing and related legal process (see "Contingencies" section). The adjustments and non-cash impairments of inventory referenced above were partially offset by a non-cash impairment reversal of \$2.6 million at the El Castillo mine and \$0.9 million at the La Colorada mine related to the net realizable value of current work-in-process inventory, as a result of an increase in the price of gold as at December 31, 2018, compared to September 30, 2018.

General and administrative expenses for the fourth quarter of 2019 were \$3.3 million, comparable to \$3.4 million in the same period of 2018.

Other operating income for the fourth quarter of 2019 was \$2.4 million, an increase from other operating expense of \$3.1 million in the fourth quarter of 2018, primarily due to the revision of estimated reclamation costs associated with a section of the La Colorada mine where mining activities have ceased.

Impairment of mineral properties, plant and equipment for the fourth quarter of 2019 was \$111.3 million, primarily due to the denial of the permit application for the San Antonio project in the fourth quarter of 2019 (see "Critical Accounting Estimates - Impairment of non-current assets" section). The net impairment of mineral properties, plant and equipment for the fourth quarter of 2018 was \$2.0 million, primarily related to revised life-of-mine ("LOM") plans for the El Castillo and La Colorada mines.

Losses on derivatives for the fourth quarter of 2019 were \$2.4 million, compared to gains of \$0.5 million in the fourth quarter of 2018, primarily due to unrealized losses on the Company's outstanding zero-cost collar commodity contracts (see "Financial Instruments and Risks - Commodity derivative contracts" section).

Other income for the fourth quarter of 2019 was \$2.7 million, an increase from other expense of \$0.8 million in the fourth quarter of 2018, primarily due to proceeds from the disposal of mineral properties, plant and equipment in the fourth quarter of 2019 and differences in foreign currency translation effects.

Income tax recovery for the fourth quarter of 2019 was \$25.8 million compared to \$1.3 million in the same period of 2018. The change is primarily due to the deferred tax effect of the non-cash impairment of the San Antonio exploration and evaluation asset (see "Critical Accounting Estimates - Impairment of non-current assets" section) and the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes during the fourth quarter of 2019.

Net loss for the fourth quarter of 2019 was \$107.5 million or \$0.60 per share, an increase from \$17.5 million or \$0.10 per share for the fourth quarter of 2018.

*For the year ended December 31, 2019, as compared to the year ended December 31, 2018*

Revenue for 2019 was \$268.9 million, an increase from \$196.1 million for 2018. Gold ounces sold totaled 187,802 at an average realized price per ounce of \$1,390 (compared to 149,695 gold ounces sold at an average price per ounce of \$1,267 for 2018). Gold ounces sold for 2019 increased compared to the same period in 2018 primarily due to an increase in production at the El Castillo and La Colorada mines as a result of increases in grade and lower ounces in ending inventory that were produced but not sold at the El Castillo mining complex.

Production costs for 2019 were \$181.0 million, an increase from \$122.9 million in 2018, primarily due to the increase in gold ounces sold and an increase in cash cost per gold ounce sold. Cash cost per gold ounce sold (see "Non-IFRS Measures" section) was \$1,041 for 2019. During 2019, the Company recognized an impairment write down at the El Castillo mining complex and La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold (see "Non-IFRS Measures" section) for 2019 was \$923, an increase from \$792 in the same period of 2018, primarily due to an increase in adjusted cash cost per gold ounce sold at the San Agustin mine, as discussed further in the discussion

of operations. DD&A expense included in cost of sales for 2019 totaled \$45.9 million, an increase from \$33.2 million for 2018, primarily due to the increase in gold ounces sold, as many of the mining assets are amortized on a unit-of-production basis. Included in cost of sales during 2019 is an impairment write down of work-in-process inventory of \$15.4 million at the El Castillo mining complex and \$12.1 million at the La Colorada mine primarily related to changes in the expected recovery of gold ounces. Included in cost of sales during 2018 is a non-cash impairment write down of \$12.8 million related to the net realizable value of non-current work-in-process inventory at the El Castillo mine, as a result of the increase in management's estimate of future production costs to convert the inventory into saleable form. Additionally included in cost of sales during 2018 is a negative inventory adjustment of \$4.0 million at the El Castillo mining complex and \$1.3 million at the La Colorada mine related to finished goods inventory currently part of an ongoing bankruptcy filing and related legal process (see "Contingencies" section). Further, included in cost of sales is a net non-cash impairment write down of \$1.8 million at the El Castillo mine and \$1.6 million at the La Colorada mine related to net realizable value of the current work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018 and a subsequent increase in the price of gold as at December 31, 2018.

General and administrative expenses for 2019 were \$13.8 million, an increase from \$13.0 million for 2018, primarily due to employee related costs.

Other operating income for 2019 was \$2.4 million, an increase from other operating expense of \$3.1 million for 2018, primarily due to the revision of estimated reclamation costs associated with a section of the La Colorada mine where mining activities have ceased.

Impairment of mineral properties, plant and equipment for 2019 was \$111.3 million, primarily due to the denial of the permit application for the San Antonio project in the fourth quarter of 2019 (see "Critical Accounting Estimates - Impairment of non-current assets" section). The net impairment of mineral properties, plant and equipment for 2018 was \$2.0 million, primarily related to revised LOM plans for the El Castillo and La Colorada mines.

Losses on derivatives during 2019 were \$1.4 million, compared to gains of \$1.1 million for 2018, primarily due to unrealized losses on the Company's outstanding zero-cost collar commodity contracts in 2019 (see "Financial Instruments and Risks - Commodity derivative contracts" section).

Other income for 2019 was \$3.5 million compared to other expense of \$0.7 million in 2018, primarily due to proceeds from the disposal of mineral properties, plant and equipment, proceeds related to a bankruptcy filing (see "Contingencies" section) and differences in foreign currency translation effects in 2019.

Income tax recovery for 2019 was \$15.4 million compared to income tax expense of \$6.7 million in the same period of 2018. The change is primarily due to the deferred tax effect of the non-cash impairment of the San Antonio exploration and evaluation asset (see "Critical Accounting Estimates - Impairment of non-current assets" section) and the foreign exchange effects of the strengthening Mexican peso on the calculation of deferred taxes during 2019.

Net loss for 2019 was \$93.1 million or \$0.52 per share, an increase from \$7.6 million or \$0.04 per share for 2018.

The Company provided updated full-year guidance in November of 2019 of between 190,000 and 200,000 GEOs of production (based on a three-year historical average silver to gold ratio of 75:1) at a cash cost per gold ounce sold of between \$900 and \$925 (see "Non-IFRS Measures" section). All-in sustaining cost per gold ounce sold (see "Non-IFRS Measures" section) was expected to be between \$1,125 and \$1,150, with total capital spending of between \$50 million and \$55 million. In 2019, the Company produced 186,615 GEOs at a cash cost per gold ounce sold of \$1,041 (see "Non-IFRS Measures" section). All-in sustaining cost per gold ounce sold was \$1,299 in 2019 (see "Non-IFRS Measures" section), with total capital spending of \$51.8 million. Lower than anticipated GEO production was primarily due to water in the pits at the El Castillo and La Colorada mines, which led to slower mining rates and suboptimal crushing throughput rates due to a lack of ore coming from the mines, and lower than anticipated recoveries at the La Colorada mine. Cash cost per gold ounce sold and all-in sustaining cost per gold ounce sold were above guidance primarily due to lower than expected GEO production and the impairment write down of work-in-process inventory at the El Castillo mining complex and La Colorada mine during the fourth quarter of 2019. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold and adjusted all-in sustaining cost per gold ounce sold for 2019 were \$923 and \$1,181, respectively (see "Non-IFRS Measures" section).

## El Castillo Mining Complex

| Operating Statistics for the El Castillo Mine                            | Three months ended<br>December 31, |          | Year ended<br>December 31, |          |
|--|------------------------------------|----------|----------------------------|----------|
|  | 2019                               | 2018     | 2019                       | 2018     |
| Tonnes ore (000s)  | 1,890                              | 2,766    | 8,914                      | 8,801    |
| Tonnes waste (000s)  | 3,052                              | 3,105    | 13,293                     | 12,303   |
| Tonnes mined (000s)  | 4,942                              | 5,871    | 22,207                     | 21,104   |
| Waste/ore ratio  | 1.61                               | 1.12     | 1.49                       | 1.40     |
| Tonnes ore direct to leach pads (000s)                                   | 306                                | 0        | 680                        | 0        |
| Tonnes crushed (000s)  | 1,469                              | 2,848    | 8,187                      | 8,840    |
| Gold grade to leach pads (grams per tonne)                               | 0.52                               | 0.37     | 0.41                       | 0.37     |
| Contained gold ounces to leach pads                                      | 29,584                             | 34,231   | 118,092                    | 106,552  |
| Gold ounces produced   | 13,616                             | 18,823   | 65,145                     | 47,857   |
| Gold ounces sold   | 14,132                             | 14,373   | 68,971                     | 41,665   |
| Cash cost per gold ounce sold (see “Non-IFRS Measures” section)          | \$ 2,095                           | \$ 1,007 | \$ 1,201                   | \$ 1,016 |
| Adjusted cash cost per gold ounce sold (see “Non-IFRS Measures” section) | \$ 1,264                           | \$ 1,007 | \$ 1,030                   | \$ 1,016 |

During the fourth quarter of 2019, the Company mined 4.9 million tonnes including 1.9 million tonnes of ore from the El Castillo mine. During the same period, El Castillo loaded 1.8 million tonnes, which resulted in an estimated 29,584 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked decreased during the fourth quarter of 2019 compared to the fourth quarter of 2018 primarily due to water in the pit, which led to slower mining rates and suboptimal crusher throughput rates due to a lack of ore coming from the mine. During the three months ended December 31, 2019, El Castillo produced 13,616 gold ounces, compared to 18,823 gold ounces for the three months ended December 31, 2018. El Castillo sold 14,132 gold ounces during the fourth quarter of 2019, compared to 14,373 gold ounces during the fourth quarter of 2018. Cash cost per gold ounce sold was \$2,095 for the fourth quarter of 2019 (see “Non-IFRS Measures” section). During the fourth quarter of 2019, the Company recognized an impairment write down at the El Castillo mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for the fourth quarter of 2019 was \$1,264, an increase from \$1,007 for the fourth quarter of 2018 (see “Non-IFRS Measures” section). The increase in adjusted cash cost per gold ounce sold over the comparable period of 2018 is primarily related to a decrease in recoverable ounces placed in the fourth quarter of 2019 over the comparable period of the prior year and the effect of spreading the site costs over the decreased ounces produced and sold.

During 2019, the Company mined 22.2 million tonnes including 8.9 million tonnes of ore from the El Castillo mine. During the same period, El Castillo loaded 8.9 million tonnes, which resulted in an estimated 118,092 contained gold ounces to the leach pads. During 2019, El Castillo produced 65,145 gold ounces, compared to 47,857 gold ounces for 2018. The increase in gold ounces produced in 2019 as compared to 2018 is primarily due to drawing down ounces placed on the leach pads late in 2018 and placing ounces nearer to pad liners. El Castillo sold 68,971 gold ounces during 2019, compared to 41,665 gold ounces during 2018. Cash cost per gold ounce sold was \$1,201 during 2019 (see “Non-IFRS Measures” section). During 2019, the Company recognized an impairment write down at the El Castillo mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for 2019 was \$1,030, comparable to \$1,016 for 2018 (see “Non-IFRS Measures” section).

Capital expenditures at the El Castillo mine during the fourth quarter and year ended December 31, 2019 were \$4.1 million and \$13.2 million, respectively, primarily related to deferred stripping and leach pad construction. In addition to the above capital expenditures, during the fourth quarter and year ended December 31, 2019, there were \$1.3 million and \$3.1 million, respectively, in capital expenditures by another subsidiary of the Company that is primarily related to mining equipment currently being used at the El Castillo mine.



| Operating Statistics for the San Agustin Mine                            | Three months ended<br>December 31, |        | Year ended<br>December 31, |         |
|--|------------------------------------|--------|----------------------------|---------|
|  | 2019                               | 2018   | 2019                       | 2018    |
| Tonnes ore (000s)  | 2,460                              | 2,055  | 8,453                      | 7,379   |
| Tonnes waste (000s)  | 1,808                              | 1,434  | 6,166                      | 3,216   |
| Tonnes mined (000s)  | 4,268                              | 3,489  | 14,619                     | 10,595  |
| Waste/ore ratio  | 0.73                               | 0.70   | 0.73                       | 0.44    |
| Tonnes crushed (000s)  | 2,382                              | 2,073  | 8,291                      | 7,408   |
| Gold grade to leach pads (grams per tonne)                               | 0.35                               | 0.37   | 0.38                       | 0.39    |
| Contained gold ounces to leach pads                                      | 26,815                             | 24,658 | 100,363                    | 93,181  |
| Gold ounces produced   | 19,864                             | 18,201 | 61,842                     | 65,323  |
| Gold ounces sold   | 20,708                             | 14,750 | 65,273                     | 60,972  |
| Silver ounces produced   | 85,449                             | 55,463 | 219,463                    | 244,470 |
| Silver ounces sold   | 76,599                             | 43,088 | 221,429                    | 228,504 |
| GEOs produced (2019 - 75:1 ratio; 2018 - 70:1 ratio)                     | 21,003                             | 18,993 | 64,768                     | 68,815  |
| GEOs sold (2019 - 75:1 ratio; 2018 - 70:1 ratio)                         | 21,729                             | 15,365 | 68,225                     | 64,236  |
| Cash cost per gold ounce sold (see “Non-IFRS Measures” section)          | \$ 894                             | \$ 764 | \$ 863                     | \$ 545  |
| Adjusted cash cost per gold ounce sold (see “Non-IFRS Measures” section) | \$ 829                             | \$ 764 | \$ 842                     | \$ 545  |

During the fourth quarter of 2019, the Company mined 4.3 million tonnes including 2.5 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 2.4 million tonnes, which resulted in an estimated 26,815 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked increased during the fourth quarter of 2019 compared to the fourth quarter of 2018 due to the planned higher mining rate in connection with the expansion completed during the first half of 2019. During the three months ended December 31, 2019, San Agustin produced 19,864 gold ounces and 85,449 silver ounces or 21,003 GEOs, compared to 18,201 gold ounces and 55,463 silver ounces or 18,993 GEOs for the three months ended December 31, 2018. San Agustin sold 20,708 gold ounces during the fourth quarter of 2019, compared to 14,750 gold ounces during the fourth quarter of 2018. Cash cost per gold ounce sold was \$894 for the fourth quarter of 2019 (see “Non-IFRS Measures” section). During the fourth quarter of 2019, the Company recognized an impairment write down at the San Agustin mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for the fourth quarter of 2019 was \$829, an increase from \$764 for the fourth quarter of 2018 (see “Non-IFRS Measures” section). The increase in adjusted cash cost per gold ounce sold over the comparable period of 2018 is primarily due to a higher waste to ore ratio, which results in a higher cost per tonne of ore mined in the period, and lower gold grades.

During 2019, the Company mined 14.6 million tonnes including 8.5 million tonnes of ore from the San Agustin mine. During the same period, San Agustin loaded 8.3 million tonnes, which resulted in an estimated 100,363 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked increased during 2019 compared to the same period of the prior year due to the planned higher mining rate in connection with the expansion completed during the first half of 2019, along with a higher waste to ore ratio. During 2019, San Agustin produced 61,842 gold ounces and 219,463 silver ounces or 64,768 GEOs, compared to 65,323 gold ounces and 244,470 silver ounces or 68,815 GEOs for 2018. Production during the first nine months of 2019 was adversely affected by a shortage of water due to the underperformance of the third water well. During the third quarter of 2019, the Company completed a fourth water well, which has demonstrated sufficient water capacity to meet the needs of the operation. San Agustin sold 65,273 gold ounces during 2019, compared to 60,972 gold ounces during 2018. Cash cost per gold ounce sold was \$863 during 2019 (see “Non-IFRS Measures” section). During 2019, the Company recognized an impairment write down at the San Agustin mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for 2019 was \$842, an increase from \$545 for 2018 (see “Non-IFRS Measures” section). The increase in adjusted cash cost per gold ounce sold over the comparable period of 2018 is primarily due to the higher waste to ore ratio, which results in a higher cost per tonne of ore mined in the period, coupled with higher costs associated with key consumables.

Capital expenditures at the San Agustin mine during the fourth quarter and year ended December 31, 2019 were \$1.9 million and \$13.9 million, respectively, primarily related to leach pad construction and crushing and conveying circuit improvements.

### La Colorada Mine

| Operating Statistics   | Three months ended<br>December 31, |          | Year ended<br>December 31, |         |
|--|------------------------------------|----------|----------------------------|---------|
|  | 2019                               | 2018     | 2019                       | 2018    |
| Tonnes ore (000s)  | 1,115                              | 1,568    | 4,626                      | 4,926   |
| Tonnes waste (000s)  | 5,778                              | 6,216    | 23,445                     | 18,416  |
| Tonnes mined (000s)  | 6,893                              | 7,784    | 28,071                     | 23,342  |
| Waste/ore ratio  | 5.18                               | 3.97     | 5.07                       | 3.74    |
| Tonnes rehandled (000s)  | 0                                  | 0        | 0                          | 38      |
| Tonnes ore direct to leach pads (000s)                                   | 5                                  | 289      | 239                        | 289     |
| Tonnes crushed (000s)  | 1,141                              | 1,292    | 4,478                      | 4,764   |
| Gold grade to leach pads (grams per tonne)                               | 0.49                               | 0.46     | 0.51                       | 0.40    |
| Contained gold ounces to leach pads                                      | 17,872                             | 23,342   | 76,969                     | 65,108  |
| Gold ounces produced   | 12,144                             | 13,052   | 53,208                     | 45,886  |
| Gold ounces sold   | 12,233                             | 11,907   | 53,558                     | 47,058  |
| Silver ounces produced   | 35,863                             | 44,000   | 159,737                    | 147,348 |
| Silver ounces sold   | 35,213                             | 36,511   | 161,344                    | 144,674 |
| GEOs produced (2019 - 75:1 ratio; 2018 - 70:1 ratio)                     | 12,622                             | 13,681   | 55,338                     | 47,991  |
| GEOs sold (2019 - 75:1 ratio; 2018 - 70:1 ratio)                         | 12,702                             | 12,429   | 55,709                     | 49,125  |
| Cash cost per gold ounce sold (see “Non-IFRS Measures” section)          | \$ 1,613                           | \$ 1,093 | \$ 1,051                   | \$ 914  |
| Adjusted cash cost per gold ounce sold (see “Non-IFRS Measures” section) | \$ 879                             | \$ 1,093 | \$ 884                     | \$ 914  |

During the fourth quarter of 2019, the Company mined 6.9 million tonnes including 1.1 million tonnes of ore from the La Colorada mine. During the same period, La Colorada loaded 1.1 million tonnes, which resulted in an estimated 17,872 contained gold ounces to the leach pads. Total tonnes mined, crushed and stacked decreased during the fourth quarter of 2019 compared to the fourth quarter of 2018 primarily due to water in the pit, which led to slower mining rates and suboptimal crusher throughput rates due to a lack of ore coming from the mine. During the three months ended December 31, 2019, La Colorada produced 12,144 gold ounces and 35,863 silver ounces or 12,622 GEOs, compared to 13,052 gold ounces and 44,000 silver ounces or 13,681 GEOs for the three months ended December 31, 2018. La Colorada sold 12,233 gold ounces in the fourth quarter of 2019, compared to 11,907 gold ounces in the fourth quarter of 2018. Cash cost per gold ounce sold was \$1,613 for the fourth quarter of 2019 (see “Non-IFRS Measures” section). During the fourth quarter of 2019, the Company recognized an impairment write down at the La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for the fourth quarter of 2019 was \$879, a decrease from \$1,093 for the fourth quarter of 2018 (see “Non-IFRS Measures” section). The decrease in adjusted cash cost per gold ounce sold over the comparable period of 2018 is primarily due to higher gold grades.

During 2019, the Company mined 28.1 million tonnes containing 4.6 million tonnes of ore from the La Colorada mine. During the same period, La Colorada loaded 4.7 million tonnes, which resulted in an estimated 76,969 contained gold ounces to the leach pads. During 2019, La Colorada produced 53,208 gold ounces and 159,737 silver ounces or 55,338 GEOs, compared to 45,886 gold ounces and 147,348 silver ounces or 47,991 GEOs for 2018. Production increased during 2019 compared to 2018, as the Company saw the impact during the second half of 2018 of the lower grade ore placed by the Company during a portion of 2018 due to the temporary suspension of the La Colorada mine’s explosives permit. La Colorada sold 53,558 gold ounces for 2019, compared to 47,058 gold ounces for 2018. Cash cost per gold ounce sold was \$1,051 during 2019 (see “Non-IFRS Measures” section). During 2019, the Company recognized an impairment write down at the La Colorada mine related to changes in the expected recovery of gold ounces in work-in-process inventory. Excluding the impact of the impairment write down, adjusted cash cost per gold ounce sold for 2019 would have been \$884, comparable to \$914 for 2018 (see “Non-IFRS Measures” section).

Capital expenditures at the La Colorada mine during the fourth quarter and year ended December 31, 2019 were \$3.4 million and \$14.1 million, respectively, primarily for deferred stripping and leach pad construction.

### Advanced Exploration Projects

Capital expenditures for the San Antonio project were as follows:

| Expressed in \$ millions               | Three months ended<br>December 31, |        | Year ended<br>December 31, |        |
|--|------------------------------------|--------|----------------------------|--------|
|  | 2019                               | 2018   | 2019                       | 2018   |
| Camp costs, land costs and other       | \$ 0.2                             | \$ 0.1 | \$ 0.9                     | \$ 0.7 |
| Technical services and personnel costs | 0.1                                | 0.2    | 0.8                        | 0.7    |
|  | \$ 0.3                             | \$ 0.3 | \$ 1.7                     | \$ 1.4 |

During the first quarter of 2019, the Company submitted a Unified Technical Document that included a new Environmental Impact Assessment (Manifiesto de Impacto Ambiental or “MIA”), an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use for the San Antonio project. During the fourth quarter of 2019, the Mexican Environmental Authority (“SEMARNAT”) issued a ruling not to approve the MIA for the San Antonio project. The primary reason SEMARNAT cited for not approving the MIA is non-compatible zoning based on a revised 2018 zoning plan filed by the municipality of La Paz. The Company is reviewing all its options to advance the San Antonio project. These options include seeking an amendment to the La Paz 2018 zoning plan, submitting a revised environmental permit application and legal options.

As a result of the denial of the permit application for the San Antonio project in the fourth quarter of 2019 and the uncertainty over the timing of the Company’s ability to advance the project, the Company recognized a non-cash impairment of the San Antonio exploration and evaluation asset as at December 31, 2019 (see “Critical Accounting Estimates - Impairment of non-current assets” section).

Capital expenditures for the Magino project were as follows:

| Expressed in \$ millions               | Three months ended<br>December 31, |        | Year ended<br>December 31, |        |
|--|------------------------------------|--------|----------------------------|--------|
|  | 2019                               | 2018   | 2019                       | 2018   |
| Assays and geochemistry                | \$ 0.2                             | \$ -   | \$ 0.2                     | \$ -   |
| Camp costs, land costs and other       | 0.8                                | 0.4    | 1.6                        | 0.9    |
| Technical services and personnel costs | 1.0                                | 1.0    | 3.5                        | 3.1    |
| Drilling and geology                   | 0.6                                | -      | 1.0                        | -      |
|  | \$ 2.6                             | \$ 1.4 | \$ 6.3                     | \$ 4.0 |

During 2019, the Company received a positive decision statement and approval of both the federal and provincial environmental assessment processes. Additionally, the Company signed Community Agreements with the Batchewana First Nation in 2019 and the Michipicoten First Nation in January of 2020. The Company now has agreements in place with the Missanabie Cree First Nation, the Batchewana First Nation, the Métis Nation of Ontario, the Michipicoten First Nation and the Red Sky Métis Independent Nation, all of which have expressed their overwhelming support for the Magino project. During the third quarter of 2019, the Company also commenced an approximate 20,000 metre drill program that is targeting high-grade, deep mineralization, which is expected to run through the first half of 2020. The Company continues to advance the Schedule 2 permitting process and consult with and inform Indigenous communities and local stakeholders about the project.

Capital expenditures for the Cerro del Gallo project were as follows:

| <b>Expressed in \$ millions</b>        | Three months ended |        | Year ended   |        |
|--|--------------------|--------|--------------|--------|
|  | December 31,       |        | December 31, |        |
|  | 2019               | 2018   | 2019         | 2018   |
| Assays and geochemistry                | \$ -               | \$ 0.1 | \$ 0.1       | \$ 0.2 |
| Camp costs, land costs and other       | 0.1                | 0.1    | 0.5          | 0.6    |
| Technical services and personnel costs | 0.7                | 0.2    | 1.7          | 0.7    |
| Drilling and geology                   | -                  | -      | -            | 0.2    |
|  | \$ 0.8             | \$ 0.4 | \$ 2.3       | \$ 1.7 |

During the second quarter of 2019, the Company submitted a Unified Technical Document that included a MIA, an Environmental Risk Assessment and the Justified Technical Study for a Change of Soil Use for the Cerro del Gallo project. During 2019, the Company continued metallurgical test work and geologic modeling and announced the results of a pre-feasibility study for the Cerro del Gallo project. Additionally, SEMARNAT informed the Company that it will not approve the Unified Technical Document application in its current form and requested the Company make minor revisions and re-submit the application. The Company expects to re-submit a revised Unified Technical Document application that satisfies SEMARNAT's requests during the first quarter of 2020 and, as per SEMARNAT's stated policy, to receive a decision from SEMARNAT on the revised application within 60 working days of submission.

Argonaut continues to work towards permitting these projects and has engaged the community, regulators and various agencies toward defining projects within the jurisdictional guidelines that will be acceptable to all parties.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents balance as at December 31, 2019 was \$38.8 million, as compared to \$15.4 million as at December 31, 2018 and \$35.6 million as at September 30, 2019.

The Company signed an amended and restated credit agreement (the "Revolving Credit Facility" or "RCF") with a syndicate of Canadian banks for an aggregate amount of \$50.0 million upon execution of the RCF in February 2018. The RCF matures on March 31, 2021 and has a \$25.0 million accordion feature, providing for total availability of up to \$75.0 million upon execution of the RCF in February 2018. The RCF is subject to eight commitment reductions of \$3.1 million per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity. As at December 31, 2019, the aggregate amount available to draw on the RCF was \$40.6 million and the available accordion feature was \$15.6 million. The RCF bears interest at the 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 is secured by all the Company's assets and is subject to various covenants including those that require the Company to maintain certain net tangible worth and ratios for leverage and interest coverage. As at December 31, 2019, the Company was in compliance with these covenants.

As at December 31, 2019, the Company had utilized \$10.0 million of the RCF, as compared to \$13.0 million as at December 31, 2018 and \$14.0 million as at September 30, 2019. Net cash was \$28.8 million as at December 31, 2019, as compared to \$2.4 million as at December 31, 2018 and \$21.6 million as at September 30, 2019 (see "Non-IFRS Measures" section).

## Cash Flows

| Expressed in \$000s   | Three months ended<br>December 31, |                     | Year ended<br>December 31, |                     |
|---|------------------------------------|---------------------|----------------------------|---------------------|
|   | 2019                               | 2018 <sup>(1)</sup> | 2019                       | 2018 <sup>(1)</sup> |
| <b>Operating activities</b>   |                                    |                     |                            |                     |
| Cash flows from operating activities before changes in non-cash operating working capital and other items | \$ 27,217                          | \$ 9,194            | \$ 73,780                  | \$ 58,133           |
| Changes in non-cash operating working capital and other items   | (9,522)                            | (13,699)            | 1,003                      | (26,429)            |
| Net cash provided by (used in) operating activities   | 17,695                             | (4,505)             | 74,783                     | 31,704              |
| <b>Investing activities</b>   |                                    |                     |                            |                     |
| Expenditures on mineral properties, plant and equipment   | (11,198)                           | (6,248)             | (51,750)                   | (35,910)            |
| Other   | 842                                | 169                 | 1,086                      | 305                 |
| Net cash used in investing activities   | (10,356)                           | (6,079)             | (50,664)                   | (35,605)            |
| <b>Financing activities</b>   |                                    |                     |                            |                     |
| Proceeds from debt  | -                                  | 5,000               | 1,000                      | 17,000              |
| Repayment of debt   | (4,000)                            | -                   | (4,000)                    | (12,000)            |
| Proceeds (costs) from issuance of flow-through shares   | (56)                               | -                   | 2,778                      | -                   |
| Other   | (18)                               | (163)               | (46)                       | (961)               |
| Net cash provided by (used in) financing activities   | (4,074)                            | 4,837               | (268)                      | 4,039               |
| Effects of exchange rate changes on cash and cash equivalents   | (33)                               | 565                 | (442)                      | 1,180               |
| <b>Increase (decrease) in cash and cash equivalents</b>   | <b>3,232</b>                       | <b>(5,182)</b>      | <b>23,409</b>              | <b>1,318</b>        |
| Cash and cash equivalents, beginning of period  | 35,555                             | 20,560              | 15,378                     | 14,060              |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 38,787</b>                   | <b>\$ 15,378</b>    | <b>\$ 38,787</b>           | <b>\$ 15,378</b>    |

<sup>(1)</sup> The Company adopted IFRS 16, Leases in the annual period commencing January 1, 2019 (see “Recent Accounting Pronouncements-New and amended standards adopted by the Company” section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated.

*For the three months ended December 31, 2019, as compared to the three months ended December 31, 2018*

During the fourth quarter of 2019, cash increased by \$3.2 million due primarily to \$17.7 million of cash flows from operations, partially offset by \$11.2 million of capital expenditures incurred and the repayment of debt of \$4.0 million, as compared to the fourth quarter of 2018 in which cash decreased by \$5.2 million due primarily to \$6.2 million of capital expenditures incurred and \$4.5 million of cash used in operations, partially offset by proceeds from debt of \$5.0 million.

Cash provided by operating activities totaled \$17.7 million in the fourth quarter of 2019, as compared to cash used in operating activities of \$4.5 million in the fourth quarter of 2018. The increase in cash provided by operations is primarily related to an increase in gold ounces sold and a higher average realized gold price in the fourth quarter of 2019 as compared to the fourth quarter of 2018, coupled with an increase in work-in-process inventories during the fourth quarter of 2018.

Cash used in investing activities totaled \$10.4 million in the fourth quarter of 2019, versus \$6.1 million in the fourth quarter of 2018. The cash used in investing activities in the fourth quarter of 2019 primarily relates to capital expenditures including \$4.0 million for deferred stripping at the El Castillo and La Colorada mines, \$3.6 million for exploration and development activities, \$1.7 million for mining equipment and crushing and conveying circuit improvements, \$1.6 million for leach pad construction, and \$0.3 million for other capital at the Company’s properties. The cash used in investing activities in the fourth quarter of 2018 primarily relates to capital expenditures including \$1.7 million for exploration and development activities, \$1.7 million for leach pad construction, \$1.1 million for deferred stripping at the El Castillo mine, \$1.1 million for crushing and conveying circuit improvements and mining equipment and \$0.6 million for other capital at the Company’s properties.

Cash used in financing activities totaled \$4.1 million in the fourth quarter of 2019, as compared to cash provided by financing activities of \$4.8 million in the fourth quarter of 2018. During the fourth quarter of 2019, the Company repaid \$4.0 million of the RCF. During the fourth quarter of 2018, the Company received proceeds of \$5.0 million related to the drawdown of the RCF.

*For the year ended December 31, 2019, as compared to the year ended December 31, 2018*

During 2019, cash increased by \$23.4 million due primarily to \$74.8 million of cash flows from operations, partially offset by \$51.8 million of capital expenditures incurred, as compared to 2018 in which cash increased by \$1.3 million due primarily to \$31.7 million of cash flows from operations and \$4.0 million from financing activities, offset by \$35.9 million of capital expenditures incurred.

Cash provided by operating activities totaled \$74.8 million during 2019, as compared to \$31.7 million in 2018. The increase in cash provided by operations is primarily related to an increase in gold ounces sold and a higher average realized gold price in 2019 as compared to 2018, coupled with an increase in work-in-process inventories during 2018.

Cash used in investing activities totaled \$50.7 million in 2019, versus \$35.6 million in 2018. The cash used in investing activities during 2019 relates to capital expenditures including \$15.9 million for deferred stripping at the El Castillo and La Colorada mines, \$10.9 million for exploration and development activities, \$10.5 million for crushing and conveying circuit improvements and mining equipment, \$10.3 million for leach pad construction, \$2.1 million for land acquisitions and \$2.1 million for other capital at the Company's properties. The cash used in investing activities during 2018 relates to capital expenditures including \$10.5 million for leach pad construction, \$8.7 million for deferred stripping at the El Castillo and La Colorada mines, \$8.0 million for exploration and development activities, \$5.4 million for crushing and conveying circuit improvements and mining equipment and \$3.3 for other capital at the Company's properties.

Cash used in financing activities totaled \$0.3 million in 2019, as compared to cash provided by financing activities of \$4.0 million in 2018. During 2019, the Company made a net repayment of \$3.0 million of the drawn amount of the RCF and received \$2.8 million from the issuance of 1,176,500 flow-through common shares at a price of CA\$3.40 per share by way of a private placement. Under the terms of the flow-through share agreement, the Company agreed to incur CA\$4.0 million of qualified Canadian resource expenditures by December 31, 2020 and renounce those expenditures to the investors effective December 31, 2019. During 2018, the Company received net proceeds from debt of \$5.0 million related to the drawdown of the RCF.

Total assets decreased to \$606.6 million as at December 31, 2019, as compared to \$694.5 million as at December 31, 2018, principally due to a decrease in mineral properties, plant and equipment as a result of the non-cash impairment of the San Antonio exploration and evaluation asset (see "Critical Accounting Estimates - Impairment of non-current assets" section) and inventories, partially offset by an increase in cash and cash equivalents. Total liabilities decreased to \$75.7 million as at December 31, 2019, as compared to \$85.5 million as at December 31, 2018, primarily due to a decrease in deferred tax liabilities. Total shareholders' equity decreased to \$530.9 million as at December 31, 2019, as compared to \$609.0 million as at December 31, 2018, primarily due to the net loss for the year of \$93.1 million, partially offset by foreign currency effects of \$10.9 million.

### **Liquidity Outlook**

In 2020, the Company plans to produce between 175,000 and 185,000 GEOs (based on the three-year historical average silver to gold ratio of 80:1). Cash cost per gold ounce sold (see "Non-IFRS measures" section) in 2020 is expected to be between \$900 and \$1,000. All-in sustaining cost per gold ounce sold (see "Non-IFRS measures" section) in 2020 is expected to be between \$1,150 and \$1,250.

The Company plans to invest \$40 million to \$50 million on capital expenditures and exploration initiatives in 2020. Major capital expenditures in 2020 are expected to include \$12 million to \$16 million at the El Castillo mining complex, \$17 million to \$20 million at the La Colorada mine and \$11 million to \$14 million on Magino and Cerro del Gallo.

The following table summarizes the Company's payments for commitments and contractual obligations as at December 31, 2019:

| <b>Expressed in \$000s</b>                   | <b>2020</b>      | <b>2021</b>      | <b>2022</b>     | <b>2023</b>     | <b>2024</b>     | <b>Thereafter</b> | <b>Total</b>      |
|--|------------------|------------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| Lease obligations                            | \$ 270           | \$ 186           | \$ 134          | \$ 53           | \$ 42           | \$ 193            | \$ 878            |
| Land agreement obligations <sup>(1)(3)</sup> | 1,047            | 1,057            | 1,083           | 932             | 957             | 6,606             | 11,682            |
| Purchase obligations <sup>(2)(3)</sup>       | 85,527           | 66,372           | 471             | 84              | 86              | 37                | 152,577           |
| Debt   | -                | 10,000           | -               | -               | -               | -                 | 10,000            |
| Reclamation provision <sup>(4)</sup>         | 241              | 274              | 15              | 8,664           | 4,566           | 5,636             | 19,396            |
|  | <b>\$ 87,085</b> | <b>\$ 77,889</b> | <b>\$ 1,703</b> | <b>\$ 9,733</b> | <b>\$ 5,651</b> | <b>\$ 12,472</b>  | <b>\$ 194,533</b> |

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

<sup>(2)</sup> The Company has entered into commitments totaling \$95,324 for mining services, \$51,824 for supplies, \$1,934 for capital projects, \$1,845 for flow-through and \$1,650 for other services.

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

<sup>(4)</sup> Reclamation provision amounts represent management's estimate of when the reclamation expenditures are expected to be paid.

The Company's cash and cash equivalents balance, the cash expected to be generated from the operation of the El Castillo mining complex and the La Colorada mine during the next 12 months and undrawn amounts on the Company's RCF are anticipated to be sufficient to meet obligations and the planned investing and operating activities of the Company for the next 12 months. If required, the Company anticipates it can raise cash from proceeds from sale of shares or proceeds from sale of mineral properties or other assets to meet its cash requirements. The Company's results are highly dependent on the price of gold and future changes in the price of gold will therefore impact performance. Readers are encouraged to read the "Cautionary Statement" section and the "Risk Factors" contained in the Company's 2018 Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The profitability and operating cash flow of Argonaut are affected by various factors, including the amount of gold produced at the mines, the market price of gold, operating costs, interest rates, regulatory and environmental compliance, the level of exploration activity and capital expenditures, general and administrative costs and other discretionary costs and activities. Argonaut is also exposed to fluctuations in currency exchange rates, interest rates, regulatory, licensing and political risks and varying levels of taxation that can impact profitability and cash flow. Argonaut seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

The Company's financial performance, including its profitability and cash flow from operations, is tied to the price of gold and cost of inputs to its gold production. The price of gold itself is the greatest factor in profitability and cash flow from operations and should be expected to continue to be impacted by market factors. The price of gold is volatile and subject to price movements which can take place over short periods of time and are affected by multiple macroeconomic and industry factors that are beyond the control of the Company. Some of the major recent factors influencing the price of gold include currency exchange rates, the relative value of the US dollar, supply and demand for gold and more general economic results and projections such as interest rate and inflation projections and assumptions.

Commodity prices in general continue to see volatility. Volatility in the price of gold may impact the Company's revenue, while volatility in the price of other commodities, such as oil, may have an impact on the Company's operating costs and capital expenditure deployment.

## CONTINGENCIES

Various tax and legal matters are outstanding from time to time. Judgments and assumptions regarding these matters are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the consolidated financial statements on the date such changes occur.

The Company understands that refiner Republic Metals Corporation ("Republic") filed for protection under chapter 11 of the United States Bankruptcy Code on November 2, 2018 (the "Petition Date") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Republic processed material from certain of the Company's properties in the past and, as of the Petition Date, had in its possession approximately 4,600 and 13,600 ounces of the Company's gold and silver, respectively. The Company engaged counsel to assert its legal right for the return of its material and otherwise protect its rights in Republic's bankruptcy case. In August 2019, the Company reached an agreement with Republic, which was approved by the Court in September 2019. Pursuant to that agreement, the Company received \$0.6 million and allowed claims against Republic in the amount of \$5.5 million (the "Allowed Claims") to proceed. It is not possible at this time to accurately assess the size of the recovery on the Company's Allowed Claims nor the length of time it will take to receive such recovery.

## EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2019, the Company executed a Community Agreement with the Michipicoten First Nation associated with the Magino project. As part of the Community Agreement, the Company issued 505,237 common shares to the Michipicoten First Nation.

## 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, 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. Readers are encouraged to read and consider the "Cautionary Statement" section and the "Risk Factors" described in the Company's Annual Information Form for the year ended December 31, 2018. The risk factors could materially impact future operating results of the Company and cause events to differ materially from those described in forward-looking information of the Company.

### *Credit risk*

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all 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 other than from customers are primarily due from government agencies. Management believes that the credit risk concentration with respect to these financial instruments is remote.



### 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 exploration expenditures associated with the Magino project are primarily denominated in Canadian dollars.

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:

| Expressed in \$000s                      | US dollar value of<br>Canadian dollar balances |          | US dollar value of<br>Mexican peso balances |             |
|--|--|----------|---|-------------|
|  | 2019   | 2018     | 2019  | 2018        |
| Cash and cash equivalents                | \$ 752   | \$ 85    | \$ 1,454                                    | \$ 369      |
| Other receivables                        | -  | -        | 1,912                                       | 192         |
| Accounts payable and accrued liabilities | (1,802)  | (1,011)  | (16,568)                                    | (19,746)    |
| Other liabilities                        | -  | -        | (1,279)                                     | (1,270)     |
|  | \$ (1,050)                                     | \$ (926) | \$ (14,481)                                 | \$ (20,455) |

Based on the above net exposures as at December 31, 2019 and 2018, a 10% appreciation in the Canadian dollar would result in a \$0.1 million decrease in the Company's other comprehensive income (loss). A 10% appreciation in the Mexican peso would result in a \$1.4 million increase (December 31, 2018 - \$2.0 million) in the Company's loss before income taxes at December 31, 2019.

### Foreign exchange derivative contracts

On September 25 and December 28, 2017 (together referred to as the "2018 foreign exchange contracts") and on November 13, 2018 (referred to as the "2019 foreign exchange contracts"), 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. These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in US dollar terms. The foreign exchange derivative contracts are classified as Level 2 in the fair value hierarchy.

The details of the contracts were as follows:

| 2018 foreign exchange contracts at inception | Amount (\$000s) | Term                         | Weighted average strike price<br>Mexican pesos per US dollar |
|--|-----------------|------------------------------|--|
| Foreign exchange call options - purchased    | \$ 30,000       | January 2018 - December 2018 | 17.90  |
| Foreign exchange put options - sold          | \$ 30,000       | January 2018 - December 2018 | 22.46  |

  

| 2019 foreign exchange contracts at inception | Amount (\$000s) | Term                         | Strike price<br>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 loss. Details are as follows:

| Expressed in \$000s                            | Three months ended<br>December 31, |        | Year ended<br>December 31, |          |
|--|------------------------------------|--------|----------------------------|----------|
|  | 2019                               | 2018   | 2019                       | 2018     |
| <u>2018 foreign exchange contracts</u>         |                                    |        |                            |          |
| Unrealized gains                               | \$ -                               | \$ -   | \$ -                       | \$ 593   |
| Reversal of unrealized gains from prior period | -                                  | (23)   | -                          | (41)     |
| Realized gains                                 | -                                  | -      | -                          | 9        |
| <u>2019 foreign exchange contracts</u>         |                                    |        |                            |          |
| Unrealized gains                               | -                                  | 510    | 149                        | 510      |
| Reversal of unrealized gains from prior period | (99)                               | -      | (659)                      | -        |
| Realized gains                                 | 212                                | -      | 934                        | -        |
| Net gains on foreign exchange contracts        | \$ 113                             | \$ 487 | \$ 424                     | \$ 1,071 |

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

#### *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, 2019, the Company had a cash balance of \$38.8 million (December 31, 2018 - \$15.4 million), an undrawn RCF of \$30.6 million (December 31, 2018 - \$37.0 million) and current liabilities of \$41.0 million (December 31, 2018 - \$36.5 million).

#### *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 loss before income taxes. The Company has additional exposure to interest rate risk on the RCF, 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. Based on the utilized RCF balance of \$10.0 million at December 31, 2019, a 0.1% increase in LIBOR rates (10 basis point increase) would result in a nominal change in the Company's loss before income taxes.

#### *Commodity price risk*

The Company is exposed to commodity price risk as its revenues are derived from the sale of 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 is able to ensure it can profitably extend operations at the El Castillo mine.

The details of the commodity contracts are as follows:

| Commodity contracts at inception | Quantity <sup>(2)</sup><br>(Ounces) | Term  | Strike price per ounce <sup>(1)(2)</sup> |
|----------------------------------|-------------------------------------|---|--|
| Gold put options - purchased     | 17,100                              | October 2019 - December 2019 <sup>(3)</sup> | \$1,450                                  |
| Gold call options - sold         | 12,825                              | October 2019 - December 2019 <sup>(3)</sup> | \$1,612                                  |
| Gold call options - sold         | 4,275                               | October 2019 - December 2019 <sup>(3)</sup> | \$1,685                                  |
| Gold put options - purchased     | 58,800                              | January 2020 - December 2020                | \$1,450                                  |
| Gold call options - sold         | 44,100                              | January 2020 - December 2020                | \$1,672                                  |
| Gold call options - sold         | 14,700                              | January 2020 - December 2020                | \$1,755                                  |
| Gold put options - purchased     | 51,600                              | January 2021 - December 2021                | \$1,450                                  |
| Gold call options - sold         | 38,700                              | January 2021 - December 2021                | \$1,709                                  |
| Gold call options - sold         | 12,900                              | January 2021 - December 2021                | \$1,785                                  |
| Gold put options - purchased     | 18,000                              | January 2022 - June 2022                    | \$1,450                                  |
| Gold call options - sold         | 13,500                              | January 2022 - June 2022                    | \$1,745                                  |
| Gold call options - sold         | 4,500                               | January 2022 - June 2022                    | \$1,816                                  |

<sup>(1)</sup> 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.

<sup>(2)</sup> Quantities and strike prices do not fluctuate by month within each calendar year.

<sup>(3)</sup> Contracts expired with no realized gain or loss.

The resulting fair values of the outstanding commodity contracts at December 31, 2019 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 marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of loss. The commodity contracts are marked-to-market 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:

| Expressed in \$000s                            | Three months ended<br>December 31, |      | Year ended<br>December 31, |      |
|--|------------------------------------|------|----------------------------|------|
|  | 2019                               | 2018 | 2019                       | 2018 |
| Unrealized losses                              | \$ (1,862)                         | \$ - | \$ (1,862)                 | \$ - |
| Reversal of unrealized gains from prior period | (692)                              | -    | -                          | -    |
| Net losses on commodity contracts              | \$ (2,554)                         | \$ - | \$ (1,862)                 | \$ - |

### **Financial instruments**

As at December 31, 2019 and 2018, 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, 2019 and 2018, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate.

## **OUTSTANDING SHARE DATA**

As at December 31, 2019, the Company had 179,496,503 common shares issued and outstanding and 4,143,818 stock options, 1,750,951 restricted share units (“RSUs”) and 1,366,006 performance share units (“PSUs”) granted and outstanding.

Subsequent to December 31, 2019:

- 505,237 common shares were issued related to a community agreement;
- 749,476 RSUs vested and 513,234 common shares were issued, net of 236,242 RSUs that were withheld to satisfy tax withholdings;
- 6,446 RSUs were forfeited;
- 116,388 stock options were forfeited; and
- 10,000 stock options expired.

As at February 21, 2020, the Company had 180,514,974 common shares issued and outstanding and 4,017,430 stock options, 995,029 RSUs and 1,366,006 PSUs granted and outstanding.

The Company’s shares trade on the TSX under the symbol AR.

## **CRITICAL ACCOUNTING ESTIMATES**

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 are discussed below.

### **Fair value of assets and liabilities acquired through an acquisition**

Judgment and estimates are used to determine the fair value of the assets and liabilities acquired by way of an acquisition. In the determination of the fair value of the assets and liabilities, management makes certain judgments and estimates regarding reserves, resources, exploration potential, 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 their fair values. 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.

### **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. Changes in these estimates can result in a change in the carrying amount of inventories and cost of sales in future periods. 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 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, remaining costs of completion to bring inventory into its saleable form and assays of solutions and gold on carbon, among others.

During 2019, the Company recognized an impairment write down on work-in-process inventory of \$15.4 million at the El Castillo mining complex and \$12.1 million at the La Colorada mine primarily related to changes in the expected recovery of gold ounces in work-in-process inventory. During 2018, the Company recognized a non-cash impairment write down on work-in-process inventory of \$1.8 million at the El Castillo mine and \$1.6 million at the La Colorada mine as a result of changes in the price of gold during the year and a non-cash impairment write down on non-current work-in-process inventory of \$12.8 million at the El Castillo mine related to the net realizable value of the inventory. As at December 31, 2019, the carrying amount of work-in-process inventory was \$52.1 million (December 31, 2018 - \$75.5 million).

## 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 deferred. 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.

As at December 31, 2019, the carrying amount of mineral properties, including exploration and evaluation assets, was \$421.1 million (December 31, 2018 - \$515.9 million).

## Impairment 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. Calculating the estimated recoverable amount of the cash generating units ("CGU" or "CGUs") for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves and resources, 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.

The Company, from time to time, acquires exploration and evaluation assets. When several properties are acquired in a portfolio, the Company must determine the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties, it may determine that certain properties do not support the fair values applied at the time of acquisition. If such determination is made, the property is impaired and could have a material effect on the consolidated statement of financial position and consolidated statement of loss.

During 2019, the Company recognized a non-cash impairment of mineral properties, plant and equipment of \$111.3 million (2018 - net impairment of \$2.0 million), as summarized in the following table:

| Expressed in \$000s         | 2019                                    |                        |            | 2018                  |                        |           |
|-----------------------------|---|------------------------|------------|-----------------------|------------------------|-----------|
|                             | Exploration<br>and evaluation<br>assets | Plant and<br>equipment | Total      | Mineral<br>properties | Plant and<br>equipment | Total     |
| El Castillo mine            | \$ -                                    | \$ -                   | \$ -       | \$ 23,123             | \$ 4,585               | \$ 27,708 |
| La Colorada mine            | -                                       | -                      | -          | (19,863)              | (6,072)                | (25,935)  |
| San Antonio project         | 111,034                                 | -                      | 111,034    | -                     | -                      | -         |
| Other                       | -                                       | 257                    | 257        | -                     | 238                    | 238       |
| Total impairment (reversal) | \$ 111,034                              | \$ 257                 | \$ 111,291 | \$ 3,260              | \$ (1,249)             | \$ 2,011  |

For more information regarding indicators of impairment and impairment reversal, please read note 24 of the Company's audited consolidated financial statements for the year ended December 31, 2019.

### *Other 2019 impairments*

During the fourth quarter of 2019, SEMARNAT issued a ruling not to approve the 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 fair value less direct costs of disposal ("FVLCD"). The determination of FVLCD for the San Antonio project uses Level 2 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 \$4.5 million. As a result, the Company recorded a non-cash impairment of \$111.0 million 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, production costs estimates, 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:

- Gold price per ounce: \$1,375 for ounces not hedged under commodity contracts and \$1,450 for ounces hedged under commodity contracts (2018 - \$1,250);
  - When a property nears the end of its LOM, the Company may utilize the average consensus gold price per ounce for the respective year of the LOM.
- 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 rates between 3.8% and 7.0% based on the stage and associated risk of each project.

### *Sensitivity analysis*

As at December 31, 2019, the Company has performed a sensitivity analysis on CGUs. 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<br>per ounce required<br>for recoverable<br>amount to equal<br>carrying amount |
|-------------|--|
| El Castillo | \$ 1,471   |
| San Agustin | \$ 1,178   |
| La Colorada | \$ 1,375   |
| Magino      | \$ 1,245   |

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.

### **Deferred income taxes**

The determination of current income tax expense (recovery) and deferred income tax expense (recovery) involves judgment and estimates as to the future taxable earnings and interpretation of laws in the countries in which the Company operates. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these estimates may materially affect the final amount of current or deferred income taxes or the timing of tax payments.

## 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 interest 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.

As at December 31, 2019, the carrying amount of the Company's provision for reclamation and remediation cost obligations was \$17.7 million (December 31, 2018 - \$16.8 million).

## RECENT ACCOUNTING PRONOUNCEMENTS

### *New and amended standards adopted by the Company*

The Company has adopted the following new standard in the annual period commencing January 1, 2019 and as a result, changed the relevant accounting policy described in note 2 of the consolidated financial statements for the year ended December 31, 2019. This change was made in accordance with the applicable transitional provisions.

### IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The Company elected to apply IFRS 16 using a modified retrospective approach, with the cumulative effect of initially applying the new standard recognized on January 1, 2019. Comparatives for the year ended December 31, 2018 have not been restated.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of International Accounting Standard 17, Leases. These liabilities and additional lease liabilities identified as a result of the IFRS 16 implementation (collectively referred to as the "lease liabilities") were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.77%. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. Mineral properties, plant and equipment and lease liabilities each increased by \$0.7 million on January 1, 2019 on transition to IFRS 16.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

The operating lease obligations as at December 31, 2018 are reconciled as follows to the recognized lease liabilities as at January 1, 2019:

### **Expressed in \$000s**

|   |    |      |
|---|----|------|
| Operating lease obligation as at December 31, 2018                              | \$ | 349  |
| Current leases with a lease term of 12 months or less (short-term leases)       |    | (55) |
| Effect from discounting at the incremental borrowing rate as at January 1, 2019 |    | (16) |
| Leases identified as a result of IFRS 16 implementation                         |    | 467  |
| Lease liabilities due to initial adoption of IFRS 16 as at January 1, 2019      | \$ | 745  |

### *New and amended standards not yet adopted by the Company*

A number of new standards and amendments to standards and interpretations are effective for annual periods

beginning after January 1, 2019, and have not been applied in preparing these consolidated financial statements. There are no IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the consolidated financial statements of the Company.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Canadian Securities Administrators have issued National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109") which requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the Company. The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, to enable this information to be reviewed and discussed so that appropriate decisions can be made regarding the timely public disclosure of the information. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2019 and have concluded that these controls and procedures are effective.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

NI 52-109 also requires public companies in Canada to submit interim and annual certificates relating to the design of internal control over financial reporting ("ICFR") and an annual certificate that includes evaluating the effectiveness of ICFR. The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining ICFR. The Company used the 2013 Commission of Sponsoring Organizations of the Treadway Commission ("COSO") framework as the basis for designing its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's ICFR as at December 31, 2019 and have concluded that these controls and procedures are effective.

### **Changes to Internal Control over Financial Reporting**

NI 52-109 also requires public companies in Canada to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. There were no changes in ICFR during the quarter ended December 31, 2019 that materially affected or are reasonably likely to materially affect the Company's ICFR.

## **NON-IFRS MEASURES**

The Company has included certain non-IFRS measures including "Cash cost per gold ounce sold", "Adjusted cash cost per gold ounce sold", "All-in sustaining cost per gold ounce sold", "Adjusted all-in sustaining cost per gold ounce sold", "Adjusted net income", "Adjusted earnings per share - basic" and "Net cash" in this MD&A to supplement its financial statements which are presented in accordance with IFRS. The Company believes that these measures provide investors with an alternate view to evaluate the performance of the Company by providing information on control of production costs, trends in cash costs of the Company and the underlying operating performance of the core mining business. Management also uses these measures to monitor internal performance. Non-IFRS measures do not have any standardized meaning prescribed under IFRS. Therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company adopted IFRS 16 in the annual period commencing January 1, 2019 (see "Recent Accounting Pronouncements - New and amended standards adopted by the Company" section). The Company elected to apply IFRS 16 using a modified retrospective approach; therefore, comparative amounts were not restated. Beginning in 2019, as a result of adopting IFRS 16, sustaining lease liability costs previously recorded in cash cost per gold ounce sold and general and administrative expenses are included in accretion and other expenses in all-in sustaining cost per gold ounce sold (the impact was less than \$1 on cash cost per gold ounce sold and nil on all-in sustaining cost per gold ounce sold for 2019 compared to 2018).



The following table provides a reconciliation of production costs per the financial statements to cash cost per gold ounce sold:

| <b>El Castillo</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------|-----------|
|  | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s)   | \$ 18,169                          | \$ 13,798 | \$ 72,587                  | \$ 42,007 |
| Plus impact of impairment write downs related to recoverable ounces in work-in-process inventory (\$000s)                | 11,756                             | -         | 11,756                     | -         |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | 49                                 | 834       | 94                         | 834       |
| Less silver sales (\$000s)   | 361                                | 160       | 1,633                      | 493       |
| Net cost of sales (\$000s)   | \$ 29,613                          | \$ 14,472 | \$ 82,804                  | \$ 42,348 |
| Gold ounces sold   | 14,132                             | 14,373    | 68,971                     | 41,665    |
| Cash cost per gold ounce sold  | \$ 2,095                           | \$ 1,007  | \$ 1,201                   | \$ 1,016  |

  

| <b>San Agustín</b>  | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|---|------------------------------------|-----------|----------------------------|-----------|
|   | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s)  | \$ 18,493                          | \$ 11,911 | \$ 58,549                  | \$ 36,881 |
| Plus impact of impairment write downs related to recoverable ounces in work-in-process inventory (\$000s) | 1,338                              | -         | 1,338                      | -         |
| Less silver sales (\$000s)  | 1,328                              | 636       | 3,578                      | 3,627     |
| Net cost of sales (\$000s)  | \$ 18,503                          | \$ 11,275 | \$ 56,309                  | \$ 33,254 |
| Gold ounces sold  | 20,708                             | 14,750    | 65,273                     | 60,972    |
| Cash cost per gold ounce sold   | \$ 894                             | \$ 764    | \$ 863                     | \$ 545    |

  

| <b>La Colorada</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------|-----------|
|  | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s)   | \$ 11,357                          | \$ 12,253 | \$ 49,891                  | \$ 44,033 |
| Plus impact of impairment write downs related to recoverable ounces in work-in-process inventory (\$000s)                | 8,986                              | -         | 8,986                      | -         |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | -                                  | 1,297     | -                          | 1,297     |
| Less silver sales (\$000s)   | 608                                | 535       | 2,570                      | 2,311     |
| Net cost of sales (\$000s)   | \$ 19,735                          | \$ 13,015 | \$ 56,307                  | \$ 43,019 |
| Gold ounces sold   | 12,233                             | 11,907    | 53,558                     | 47,058    |
| Cash cost per gold ounce sold  | \$ 1,613                           | \$ 1,093  | \$ 1,051                   | \$ 914    |

  

| <b>All Mines</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |            |
|--|------------------------------------|-----------|----------------------------|------------|
|  | 2019                               | 2018      | 2019                       | 2018       |
| Production costs, as reported (\$000s)   | \$ 48,019                          | \$ 37,962 | \$ 181,027                 | \$ 122,921 |
| Plus impact of impairment write downs related to recoverable ounces in work-in-process inventory (\$000s)                | 22,080                             | -         | 22,080                     | -          |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | 49                                 | 2,131     | 94                         | 2,131      |
| Less silver sales (\$000s)   | 2,297                              | 1,331     | 7,781                      | 6,431      |
| Net cost of sales (\$000s)   | \$ 67,851                          | \$ 38,762 | \$ 195,420                 | \$ 118,621 |
| Gold ounces sold   | 47,073                             | 41,030    | 187,802                    | 149,695    |
| Cash cost per gold ounce sold  | \$ 1,441                           | \$ 945    | \$ 1,041                   | \$ 792     |

The following table provides a reconciliation of production costs per the financial statements to adjusted cash cost per gold ounce sold, which excludes the impact of the impairment write down related to changes in the expected recovery of gold ounces in work-in-process inventory:

| <b>El Castillo</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------|-----------|
|  | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s)   | \$ 18,169                          | \$ 13,798 | \$ 72,587                  | \$ 42,007 |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | 49                                 | 834       | 94                         | 834       |
| Less silver sales (\$000s)   | 361                                | 160       | 1,633                      | 493       |
| Adjusted net cost of sales (\$000s)  | \$ 17,857                          | \$ 14,472 | \$ 71,048                  | \$ 42,348 |
| Gold ounces sold   | 14,132                             | 14,373    | 68,971                     | 41,665    |
| Adjusted cash cost per gold ounce sold   | \$ 1,264                           | \$ 1,007  | \$ 1,030                   | \$ 1,016  |

  

| <b>San Agustin</b>                     | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------|-----------|
|  | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s) | \$ 18,493                          | \$ 11,911 | \$ 58,549                  | \$ 36,881 |
| Less silver sales (\$000s)             | 1,328                              | 636       | 3,578                      | 3,627     |
| Adjusted net cost of sales (\$000s)    | \$ 17,165                          | \$ 11,275 | \$ 54,971                  | \$ 33,254 |
| Gold ounces sold                       | 20,708                             | 14,750    | 65,273                     | 60,972    |
| Adjusted cash cost per gold ounce sold | \$ 829                             | \$ 764    | \$ 842                     | \$ 545    |

  

| <b>La Colorada</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |           |
|--|------------------------------------|-----------|----------------------------|-----------|
|  | 2019                               | 2018      | 2019                       | 2018      |
| Production costs, as reported (\$000s)   | \$ 11,357                          | \$ 12,253 | \$ 49,891                  | \$ 44,033 |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | -                                  | 1,297     | -                          | 1,297     |
| Less silver sales (\$000s)   | 608                                | 535       | 2,570                      | 2,311     |
| Adjusted net cost of sales (\$000s)  | \$ 10,749                          | \$ 13,015 | \$ 47,321                  | \$ 43,019 |
| Gold ounces sold   | 12,233                             | 11,907    | 53,558                     | 47,058    |
| Adjusted cash cost per gold ounce sold   | \$ 879                             | \$ 1,093  | \$ 884                     | \$ 914    |

  

| <b>All Mines</b>   | Three months ended<br>December 31, |           | Year ended<br>December 31, |            |
|--|------------------------------------|-----------|----------------------------|------------|
|  | 2019                               | 2018      | 2019                       | 2018       |
| Production costs, as reported (\$000s)   | \$ 48,019                          | \$ 37,962 | \$ 181,027                 | \$ 122,921 |
| Plus impact of non-cash impairment write downs related to the net realizable value of work-in-process inventory (\$000s) | 49                                 | 2,131     | 94                         | 2,131      |
| Less silver sales (\$000s)   | 2,297                              | 1,331     | 7,781                      | 6,431      |
| Adjusted net cost of sales (\$000s)  | \$ 45,771                          | \$ 38,762 | \$ 173,340                 | \$ 118,621 |
| Gold ounces sold   | 47,073                             | 41,030    | 187,802                    | 149,695    |
| Adjusted cash cost per gold ounce sold   | \$ 972                             | \$ 945    | \$ 923                     | \$ 792     |

All-in sustaining costs include net cost of sales at the Company's mining operations, which forms the basis of the Company's cash cost per gold ounce sold. Additionally, the Company includes general and administrative, exploration, accretion and other expenses and sustaining capital expenditures. Sustaining capital expenditures exclude all expenditures at the Company's pre-production, development stage and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature. The Company noted the World Gold Council issued amended guidance on all-in sustaining costs during the fourth quarter of 2018. Following the amended guidance, the Company has reallocated certain capital expenditures from expansionary capital to sustaining capital, primarily related to capital stripping and leach pad expansion.

The following table provides a reconciliation of all-in sustaining costs per gold ounce sold to the consolidated financial statements:

|  | Three months ended<br>December 31, |                     | Year ended<br>December 31, |                     |
|--|------------------------------------|---------------------|----------------------------|---------------------|
|  | 2019                               | 2018 <sup>(1)</sup> | 2019                       | 2018 <sup>(1)</sup> |
| Net cost of sales (\$000s)                   | \$ 67,851                          | \$ 38,762           | \$ 195,420                 | \$ 118,621          |
| General and administrative expenses (\$000s) | 3,297                              | 3,357               | 13,819                     | 12,958              |
| Exploration expenses (\$000s)                | 249                                | 156                 | 693                        | 547                 |
| Accretion and other expenses (\$000s)        | 192                                | 49                  | 723                        | 197                 |
| Sustaining capital expenditures (\$000s)     | 7,957                              | 1,681               | 33,274                     | 12,759              |
| All-in sustaining cost (\$000s)              | \$ 79,546                          | \$ 44,005           | \$ 243,929                 | \$ 145,082          |
| Gold ounces sold                             | 47,073                             | 41,030              | 187,802                    | 149,695             |
| All-in sustaining cost per gold ounce sold   | \$ 1,690                           | \$ 1,073            | \$ 1,299                   | \$ 969              |

<sup>(1)</sup> Comparative amounts were restated to follow the amended guidance on all-in sustaining costs issued by the World Gold Council during the fourth quarter of 2018.

Adjusted all-in sustaining costs include adjusted net cost of sales at the Company's mining operations, which forms the basis of the Company's adjusted cash cost per gold ounce sold. Additionally, the Company includes general and administrative, exploration, accretion and other expenses and sustaining capital expenditures. Sustaining capital expenditures exclude all expenditures at the Company's pre-production, development stage and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature.

The following table provides a reconciliation of adjusted all-in sustaining costs per gold ounce sold to the consolidated financial statements:

|   | Three months ended<br>December 31, |           | Year ended<br>December 31, |            |
|---|------------------------------------|-----------|----------------------------|------------|
|   | 2019                               | 2018      | 2019                       | 2018       |
| Adjusted net cost of sales (\$000s)                 | \$ 45,771                          | \$ 38,762 | \$ 173,340                 | \$ 118,621 |
| General and administrative expenses (\$000s)        | 3,297                              | 3,357     | 13,819                     | 12,958     |
| Exploration expenses (\$000s)                       | 249                                | 156       | 693                        | 547        |
| Accretion and other expenses (\$000s)               | 192                                | 49        | 723                        | 197        |
| Sustaining capital expenditures (\$000s)            | 7,957                              | 1,681     | 33,274                     | 12,759     |
| Adjusted all-in sustaining cost (\$000s)            | \$ 57,466                          | \$ 44,005 | \$ 221,849                 | \$ 145,082 |
| Gold ounces sold                                    | 47,073                             | 41,030    | 187,802                    | 149,695    |
| Adjusted all-in sustaining cost per gold ounce sold | \$ 1,221                           | \$ 1,073  | \$ 1,181                   | \$ 969     |

Adjusted net income and adjusted earnings per share - basic excludes foreign exchange impacts on deferred income taxes, foreign exchange (gains) losses, impairment write down (reversal) of work-in-process inventory, proceeds from legal proceedings, non-cash impairment loss (reversal) on certain non-current assets, unrealized (gains) losses on commodity derivatives and other operating expense (income).

The following table provides a reconciliation of adjusted net income to the consolidated financial statements:

|  | Three months ended<br>December 31, |             | Year ended<br>December 31, |             |
|--|------------------------------------|-------------|----------------------------|-------------|
|  | 2019                               | 2018        | 2019                       | 2018        |
| Net loss, as reported (\$000s)   | \$ (107,459)                       | \$ (17,545) | \$ (93,092)                | \$ (7,621)  |
| Impact of foreign exchange on deferred income taxes (\$000s)               | (6,721)                            | 3,516       | (6,918)                    | 592         |
| Foreign exchange losses (gains), net of tax (\$000s)                       | (5)                                | (255)       | 324                        | 2,048       |
| Inventory write down, net of tax (\$000s)                                  | 21,075                             | 9,476       | 18,012                     | 14,056      |
| Proceeds from legal proceeding, net of tax (\$000s)                        | -                                  | -           | (405)                      | -           |
| Impairment of mineral properties, plant and equipment, net of tax (\$000s) | 94,886                             | 5,174       | 94,886                     | 5,174       |
| Unrealized losses on commodity derivatives (\$000s)                        | 2,554                              | -           | 1,862                      | -           |
| Other operating expense (income), net of tax (\$000s)                      | (1,649)                            | 2,178       | (1,649)                    | 2,178       |
| Adjusted net income (\$000s)   | \$ 2,681                           | \$ 2,544    | \$ 13,020                  | \$ 16,427   |
| Weighted average number of common shares outstanding, as reported          | 179,495,066                        | 177,801,574 | 178,585,738                | 177,719,713 |
| Adjusted earnings per share - basic  | \$ 0.01                            | \$ 0.01     | \$ 0.07                    | \$ 0.09     |

Net cash is calculated as the sum of the cash and cash equivalents balance net of debt as at the statement of financial position date.

A reconciliation of net cash is provided below:

|                                    | December 31,<br>2019 | September 30,<br>2019 | December 31,<br>2018 |
|------------------------------------|----------------------|-----------------------|----------------------|
| Cash and cash equivalents (\$000s) | \$ 38,787            | \$ 35,555             | \$ 15,378            |
| Debt (\$000s)                      | (10,000)             | (14,000)              | (13,000)             |
| Net cash (\$000s)                  | \$ 28,787            | \$ 21,555             | \$ 2,378             |

## CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the “Risk Factors” as more fully described in the Company’s filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2018, available on SEDAR at [www.sedar.com](http://www.sedar.com). The following, while not exhaustive, are important Risk Factors to consider: Commodity Price Volatility; Uncertainty of Exploration and Development; Uncertainty in the Estimation of Mineral Reserves and Mineral Resources; Permitting Risk; Mineral and Surface Rights; Financing Requirements; The Revolving Credit Facility may present certain risks to the Corporation; Operational Risks; The Corporation may not achieve its Production Estimates; Increase in Production Costs; Uncertainty Relating to Mineral Resources; Environmental Risks and Hazards; Fluctuations in Operating Results can cause Common Share Price Decline; Local Legal, Political and Economic Factors; Changes in Climate Conditions; Unsettled First Nations Rights; Governmental Regulation of the Mining Industry; Foreign Subsidiaries; Operations in Mexico; Use of Ejido Owned Land; Competition for Explorations, Development and Operation Rights; Foreign Currency Exchange Rate Fluctuation; Title to Properties; Safety and Security; Infrastructure; Community Relations; Contractors; Labour and Employment Matters; Work Stoppages or Labour Disputes; Attracting and Retaining Talented Personnel; Contract Renegotiation; Construction and Start-up of New Mines; Volatility of Market for Common Shares; Foreign Private Issuer Status; Internal Control over Financial Reporting; Acquisitions and Integration; Risk Management; Insurance and Uninsured Risks; Dilution Risk; Asset Impairment Charges; Write-downs and Impairments; Exchange Controls; Possible Conflicts of Interest of Directors and Officers of the Corporation; Enforcement of Civil Liabilities in the United States; Cybersecurity Risks; Security and Privacy Breaches; Recent Global Financial Conditions; and Foreign Corrupt Practices and Anti-Bribery Legislation.

This MD&A includes certain “forward-looking information” within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical facts, included in this MD&A that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Company’s business, operations, plans and other such matters are forward-looking information.

When used in this MD&A, the words “estimate”, “plan”, “anticipate”, “expect”, “intend”, “believe” and similar expressions are intended to identify forward-looking information. This information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information.

Examples of such forward-looking information include statements pertaining to, without limitation, the future price of gold and silver, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production at the El Castillo mining complex and La Colorada mine, costs of production (including cash cost per ounce of gold sold, see “Non-IFRS Measures” section), expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, the ability to take advantage of forward sales agreements profitably, the ability to recover property potentially impaired by third party insolvency proceedings, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated, or intended. There can be no assurance that such information will prove to be accurate as actual results may differ materially from those anticipated. Many factors are beyond the Company’s ability to predict or control.

Readers of this MD&A are cautioned not to put undue reliance on forward-looking information due to its inherent uncertainty. Argonaut disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as and when required by applicable securities laws. This forward-looking information should not be relied upon as representing management’s views as of any date subsequent to the date of this MD&A.

## TECHNICAL INFORMATION AND QUALIFIED PERSON

The technical information contained in this document has been prepared under the supervision of, and has been reviewed and approved by, Mr. Brian Arkell, Argonaut's Vice President of Exploration, a qualified person as defined by National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

For further information on the Company's properties please see the reports as listed below on the Company's website [www.argonautgold.com](http://www.argonautgold.com) or on [www.sedar.com](http://www.sedar.com):

|                          |  |
|--------------------------|--|
| El Castillo Complex      | NI 43-101 Technical Report on Resources and Reserves, El Castillo Complex, Durango, Mexico dated March 27, 2018 and with an effective date of March 7, 2018                    |
| La Colorada Mine         | NI 43-101 Technical Report on Resources and Reserves, La Colorada Gold/Silver Mine, Hermosillo, Mexico dated March 27, 2018 and with an effective date of December 8, 2017     |
| Magino Gold Project      | Feasibility Study Technical Report on the Magino Project, Ontario, Canada dated December 21, 2017 and with an effective date of November 8, 2017                               |
| Cerro del Gallo Project  | Pre-Feasibility Study NI 43-101 Technical Report, Cerro del Gallo Heap Leach Project, Guanajuato, Mexico dated January 31, 2020 and with an effective date of October 24, 2019 |
| San Antonio Gold Project | NI 43-101 Technical Report on Resources, San Antonio Project, Baja California Sur, Mexico dated October 10, 2012 and with an effective date of September 1, 2012               |

Mineral Resources referenced herein are not Mineral Reserves and do not have demonstrated economic viability. Mineral Resource estimates do not account for mineability, selectivity, mining loss and dilution. The Mineral Resource estimates include Inferred Mineral Resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is also no certainty that these Inferred Mineral Resources will be converted to Measured and Indicated categories through further drilling, or into Mineral Reserves, once economic considerations are applied.