



# ARGONAUT GOLD

Consolidated Financial Statements

**December 31, 2021 and 2020**

(Expressed in thousands of United States dollars)

## Management's responsibility for financial reporting

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

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

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

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

/s/ Peter Mordaunt  
Interim Chief Executive Officer

/s/ David A. Ponczoch  
Chief Financial Officer

March 1, 2022



## Independent auditor's report

To the Shareholders of Argonaut Gold Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Argonaut Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

#### Independence

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

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



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of mineral properties, plant and equipment (MPPE) related to the La Colorada and Florida Canyon mines</b></p> <p><i>See note 2 – Significant accounting policies, note 3 – Significant estimates and judgments, note 9 – Mineral properties, plant and equipment, note 22 – Segment information and note 27 – Impairment and reversal of impairment to the consolidated financial statements</i></p> <p>As at December 31, 2021, the total net book value of MPPE excluding exploration and evaluation assets and assets under construction amounted to \$259.5 million, of which \$43.9 million and \$106.2 million related to the La Colorada and Florida Canyon mines, respectively (each being a separate cash generating unit (CGU)). At each reporting date, management reviews its non-current assets including MPPE for impairment indicators. If any such indicators exist, management estimates the recoverable amount of the assets or CGU in order to determine the extent of the impairment, if any. If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.</p> <p>During the year ended December 31, 2021, management determined that the increase in expected operating costs and reduction in metallurgical recovery estimates at the Florida Canyon mine and reduction in metallurgical recovery estimates, increase in stripping costs and change in estimated timing of ounces to be produced at the La Colorada mine constituted</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested how management determined the recoverable amounts of the La Colorada and Florida Canyon mines, which included the following:<ul style="list-style-type: none"><li>– Evaluated the appropriateness of the FVLCD method and management's discounted cash flow models and tested the mathematical accuracy thereof.</li><li>– Tested the underlying data used by management in the discounted cash flow models.</li><li>– Evaluated the assumptions by assessing the reasonableness of (i) the estimated future commodity prices and foreign exchange rates by comparing them with external market and industry data and (ii) the expected future operating costs by comparing them with the actual costs incurred for the CGUs.</li><li>– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable reserves and resources, future production volume and metallurgical recovery estimates. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures</li></ul></li></ul>



#### Key audit matter

impairment indicators. Therefore, management estimated the recoverable amounts of the La Colorada and Florida Canyon mines. The recoverable amounts were determined as the fair value less cost of disposal (FVLCD) using discounted cash flow models. Calculating the FVLCDs required management to make significant judgments in developing assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, the expected future operating, capital and reclamation costs, discount rates and foreign exchange rates. Estimated recoverable reserves and resources, future production volume and metallurgical recovery estimates are based on information compiled by geological and metallurgical experts (management's experts). During the year ended December 31, 2021, management recorded an impairment charge amounting to \$57.5 million related to the Florida Canyon mine. No impairment was recognized for the La Colorada mine.

We considered this a key audit matter due to the significant judgment made by management in developing assumptions to determine the recoverable amounts of the La Colorada and Florida Canyon mines, including estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, the expected future operating costs, discount rates and foreign exchange rates. This, in turn, resulted in significant audit effort and subjectivity in performing procedures to test these assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted in performing the procedures.

#### How our audit addressed the key audit matter

performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

- Utilized professionals with specialized skill and knowledge in the field of valuation to assist in the evaluation of the discount rates.



Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of assets under construction related to the Magino project</b></p> <p><i>See note 2 – Significant accounting policies, note 3 – Significant estimates and judgments, note 9 – Mineral properties, plant and equipment, note 22 – Segment information and note 27 – Impairment and reversal of impairment to the consolidated financial statements.</i></p> <p>As at December 31, 2021, the total net book value of assets under construction related to the Magino project (which is a separate CGU) amounted to \$611.9 million. At each reporting date, management reviews its non-current assets including assets under construction for impairment indicators. If any such indicators exist, management estimates the recoverable amount of the assets in order to determine the extent of the impairment, if any. If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.</p> <p>During the year ended December 31, 2021, management determined that the increase in budgeted capital costs and increase in estimated operating costs constituted impairment indicators. Therefore, management estimated the recoverable amount of the Magino Project. The recoverable amount was determined as the FVLCD using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets. Calculating the FVLCD required management to make significant judgments in developing assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, the expected future operating, capital and reclamation costs, the discount rate, foreign exchange rate and the in-situ fair value per ounce of gold equivalent</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> <li>• Tested how management determined the recoverable amount of the Magino project, which included the following: <ul style="list-style-type: none"> <li>– Evaluated the appropriateness of the FVLCD method, management's discounted cash flow model and the in-situ fair value approach and tested the mathematical accuracy thereof.</li> <li>– Tested the underlying data used in the discounted cash flow model.</li> <li>– Evaluated the reasonableness of estimated future commodity prices and the exchange rate by comparing them with external market and industry data.</li> <li>– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimates associated with the estimated recoverable reserves and resources, metallurgical recovery estimates, future production volumes as well as expected future operating, capital and reclamation costs. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.</li> <li>– Utilized professionals with specialized skill and knowledge in the field of valuation to assist in the evaluation of the discount rate</li> </ul> </li> </ul>



Key audit matter	How our audit addressed the key audit matter
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resources. Estimated recoverable reserves and resources, metallurgical recovery estimates, future production volume as well as expected future operating, capital and reclamation costs are based on information compiled by geological and metallurgical experts (management's experts). During the year ended December 31, 2021, no impairment charge was recorded related to the Magino project.	and the in-situ fair value per ounce of gold equivalent resources.
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We considered this a key audit matter due to the significant judgment made by management in developing assumptions to determine the recoverable amount of the Magino project, including estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, the expected future operating, capital and reclamation costs, the discount rate, foreign exchange rate and the in-situ fair value per ounce of gold equivalent resources. This, in turn, resulted in significant audit effort and subjectivity in performing procedures to test these assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted in performing the procedures.

<b>Impact of estimated recoverable ounces of gold on leach pads on work-in-process inventory</b>	Our approach to addressing the matter included the following procedures, among others:
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*Refer to note 2 – Significant accounting policies, note 3 – Significant estimates and judgments and note 8 – Inventories to the consolidated financial statements.*

The Company's work-in-process inventory balance amounted to \$86.2 million at December 31, 2021. Inventories are stated at the lower of weighted average cost and net realizable value. Work-in-process cost includes all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization of plant and equipment used in the production process, depletion of mineral properties and directly

- Tested how management determined the estimated recoverable ounces of gold on leach pads, which included the following:
  - The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable ounces of gold on leach pads. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated.



## Key audit matter

attributable overhead costs. Management applies significant judgment in determining the estimated recoverable ounces of gold on leach pads based on type of ore tonnes mined and placed on leach pad, grams of gold per tonne, expected recovery rates and timing of recoveries to determine the cost of work-in-process inventory per ounce, which is used to record cost of sales. The estimated recoverable ounces of gold on leach pads are determined by the Company's geological and metallurgical experts (management's experts).

The net realizable value of work-in-process inventory is calculated based on the estimated recoverable ounces of gold placed on leach pads less ounces of gold recovered, the estimated gold price at the time of sale less remaining costs of completion to bring the inventory into its saleable form discounted over the planned processing timeframe. The write down may be reversed if circumstances change. During the year, management recorded a reversal of a net realizable value adjustment recognized in the prior year related to its work-in-process inventory, of \$2.7 million.

We considered this a key audit matter due to the significant judgment applied by management in developing the estimated recoverable ounces of gold on leach pads and the net realizable value, including assumptions related to type of ore tonnes mined and placed on leach pad, grams of gold per tonne, expected recovery rates, timing of recoveries, estimated gold prices at the time of sale and remaining costs of completion to bring inventory into its saleable form, as applicable. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to these assumptions used by management.

## How our audit addressed the key audit matter

The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

- Tested how management determined the net realizable value of work-in-process inventory, which included the following:
  - Tested the mathematical accuracy of the net realizable value calculations.
  - Evaluated the reasonableness of assumptions used by management by comparing:
    - estimated gold price at the time of the sale with external market and industry data; and
    - remaining costs of completion to bring inventory into its saleable form with recent actual costs incurred.
- Tested that work-in-process inventory at year-end was recorded at the lower of cost and net realizable value by testing the mathematical accuracy of the weighted average cost calculations of work-in-process inventory and by comparing to its net realizable value.





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## **Other information**

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

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

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

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

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

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

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

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

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

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



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

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

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

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



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

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
March 1, 2022

**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(Expressed in thousands of United States dollars)**

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 199,235	\$ 214,188
Receivables (Note 7)	32,019	28,033
Inventories (Note 8)	101,514	69,836
Prepaid income tax	497	1,145
Prepaid expenses and other	7,020	3,289
Marketable securities	6,049	7,998
Assets held for sale (Note 6)	—	35,934
	346,334	360,423
Non-current portion of inventory (Note 8)	2,976	12,742
Mineral properties, plant and equipment (Note 9)	902,239	634,967
Deferred income taxes (Note 15)	13,010	34,725
Reclamation deposits (Note 10)	3,243	8,457
Other assets	1,525	2,096
Total assets	\$ 1,269,327	\$ 1,053,410
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 104,369	\$ 52,655
Income taxes payable	30,510	17,095
Flow-through share premium (Note 16b)	162	1,435
Current portion of lease liabilities (Note 13)	17,477	10,128
Current portion of reclamation provision (Note 14)	16,044	—
Current portion of derivative liabilities (Note 26f)	1,258	12,753
Liabilities held for sale (Note 6)	—	343
	169,820	94,409
Debt (Note 12)	136,111	58,306
Lease liabilities (Note 13)	37,460	23,186
Reclamation provision (Note 14)	83,008	54,202
Deferred income taxes (Note 15)	6,317	41,799
Derivative liabilities (Note 26f)	—	4,885
Other liabilities	4,981	4,445
Total liabilities	\$ 437,697	\$ 281,232
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 16b)	1,031,827	1,002,448
Contributed surplus	20,499	20,913
Deficit	(151,317)	(177,846)
Accumulated other comprehensive loss	(69,379)	(73,337)
Total shareholders' equity	831,630	772,178
Total liabilities and shareholders' equity	\$ 1,269,327	\$ 1,053,410

Commitments and contingencies (Note 25)

Events after the reporting period (Note 28)

Approved by the Board of Directors

/s/ Peter Mordaunt, Director

/s/ Dale C. Peniuk, Director

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

**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF INCOME****For the years ended December 31, 2021 and 2020**  
**(Expressed in thousands of United States dollars)**

	2021	2020 Re-presented (Note 6)
Revenue	\$ 436,911	\$ 319,692
Cost of sales		
Production costs (Note 18)	253,750	174,622
Depreciation, depletion and amortization	71,494	50,683
Reversal of inventory write-down (Note 8)	(2,693)	(1,611)
<b>Total cost of sales</b>	<b>322,551</b>	<b>223,694</b>
<b>Gross profit</b>	<b>114,360</b>	<b>95,998</b>
Exploration expenses	4,315	2,063
General and administrative expenses	18,130	14,455
Other operating expense (Note 14)	413	1,209
Care and maintenance expenses	—	8,201
Transaction costs on acquisition (Note 5)	—	4,604
Impairment (reversal) of mineral properties, plant and equipment (Note 27)	64,877	(6,251)
<b>Profit from operations</b>	<b>26,625</b>	<b>71,717</b>
Finance income	1,233	920
Finance expenses (Note 19)	(2,838)	(3,329)
Gains (losses) on derivatives (Notes 12 and 26)	17,207	(25,415)
Other income (expense) (Note 20)	309	(3,526)
<b>Income before income taxes</b>	<b>42,536</b>	<b>40,367</b>
Current income tax expense (Note 15)	34,812	11,931
Deferred income tax (recovery) expense (Note 15)	(18,805)	14,225
<b>Net income</b>	<b>\$ 26,529</b>	<b>\$ 14,211</b>
<b>Earnings per share</b>		
Basic	\$ 0.09	\$ 0.06
Diluted	\$ 0.08	\$ 0.06
<b>Weighted average number of common shares outstanding (Note 17)</b>		
Basic	307,975,052	233,204,334
Diluted	312,361,859	237,775,495

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

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**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the years ended December 31, 2021 and 2020**  
**(Expressed in thousands of United States dollars)**

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	2021	2020
Net income	\$ 26,529	\$ 14,211
Other comprehensive income		
Items that may be reclassified subsequently to net income		
Foreign currency translation differences	3,958	11,119
Comprehensive income	\$ 30,487	\$ 25,330

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

**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2021 and 2020**  
**(Expressed in thousands of United States dollars)**

	2021	2020
<b>Operating activities</b>		
Net income	\$ 26,529	\$ 14,211
Items not affecting cash:		
Depreciation, depletion and amortization	71,832	50,963
Gain on sale of net smelter return royalty (Note 20)	(2,250)	—
Gain on settlement of receivables (Note 7)	(1,751)	—
Share-based compensation	2,277	3,640
Net finance expense	1,605	1,672
Unrealized foreign exchange loss (gain)	1,849	(3,173)
Unrealized (gain) loss on derivatives	(21,015)	19,212
Deferred income taxes	(13,767)	10,929
Change in estimate of reclamation costs (Note 14)	413	1,209
Transaction costs for acquisition and derivative liability component of convertible debentures	—	4,444
Reduction of obligation to renounce flow-through exploration expenditures	(5,038)	(681)
Reversal of inventory write-down (Note 8)	(2,693)	(1,611)
Impairment (reversal) of mineral properties, plant and equipment (Note 27)	64,877	(6,251)
Other	2,065	453
	124,933	95,017
Changes in non-cash operating working capital items		
Receivables	(4,946)	(684)
Inventories	(18,247)	1,178
Prepaid expenses and other	(1,257)	(453)
Accounts payable and accrued liabilities	15,485	3,760
Income taxes	33,415	15,364
Changes in other non-current assets	405	(1,515)
Changes in other non-current liabilities	609	(1,339)
Reclamation paid	(890)	—
Income taxes paid	(20,052)	(807)
Interest received	1,233	920
Net cash provided by operating activities	130,688	111,441
<b>Investing activities</b>		
Expenditures on mineral properties, plant and equipment	(252,069)	(63,919)
Proceeds from sale of net smelter return royalty (Note 20)	2,250	—
Cash received for receivables from acquisition (Note 7)	7,675	—
Cash acquired through acquisition of Alio (Note 5)	—	5,830
Transaction costs paid for acquisition (Note 5)	—	(3,839)
Reclamation deposits refunded (Note 10)	5,664	4,247
Other	839	400
Net cash used in investing activities	\$ (235,641)	\$ (57,281)

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

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**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2021 and 2020**  
**(Expressed in thousands of United States dollars)**

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	2021	2020
<b>Financing activities</b>		
Proceeds from issuance of common shares, net of share issuance costs (Note 16b)	\$ 7,895	\$ 89,439
Proceeds from issuance of flow-through shares, net of share issuance costs (Note 16b)	20,883	8,247
Proceeds from exercise of stock options	668	1,791
Proceeds from debt, net of issuance costs (Note 12)	80,000	53,958
Debt repayments	—	(28,656)
Principal element of lease payments	(13,887)	(4,467)
Payments for settlement of derivatives (Note 26)	(4,232)	(6,204)
Interest paid	(5,638)	(2,189)
Net cash provided by financing activities	85,689	111,919
Effects of exchange rate changes on cash and cash equivalents	4,236	9,397
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(15,028)</b>	<b>175,476</b>
Cash and cash equivalents, beginning of year	214,188	38,787
Cash declassified (classified) as assets held for sale (Note 6)	75	(75)
<b>Cash and cash equivalents, end of year</b>	<b>\$ 199,235</b>	<b>\$ 214,188</b>

Supplemental cash flow information (Note 6 and 21)

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



**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****For the years ended December 31, 2021 and 2020**  
**(Expressed in thousands of United States dollars)**

	2021	2020
<b>Share capital (Note 12b)</b>		
Balance at the beginning of the year	\$ 1,002,448	\$ 789,425
Issuance of flow-through shares (Note 16b)	17,121	6,499
Issuance of common shares related to acquisition of Alio (Note 5)	—	109,956
Issuance of common shares by way of public offering	—	89,439
Issuance of common shares by way of private placement	7,895	—
Issuance of common shares related to community agreements	1,590	1,722
Issuance of common shares on exercise of Alio Replacement Options	1,226	—
Restricted share units vested, net of shares withheld to satisfy tax withholding	918	1,039
Performance share units vested, net of shares withheld to satisfy tax withholding	213	—
Issuance of common shares on exercise of stock options	254	3,575
Issuance of common shares for services provided at Magino	142	793
Issuance of common shares for converted debentures	20	—
Balance at the end of the year	1,031,827	1,002,448
<b>Contributed surplus</b>		
Balance at the beginning of the year	20,913	18,004
Options and warrants issued related to acquisition of Alio (Note 5)	—	3,168
Stock options exercised	(812)	(1,784)
Restricted share units and performance share units vested	(1,879)	(1,350)
Share-based compensation	2,277	2,875
Balance at the end of the year	20,499	20,913
<b>Deficit</b>		
Balance at the beginning of the year	(177,846)	(192,057)
Net income	26,529	14,211
Balance at the end of the year	(151,317)	(177,846)
<b>Accumulated other comprehensive loss</b>		
Balance at the beginning of the year	(73,337)	(84,456)
Other comprehensive income	3,958	11,119
Balance at the end of the year	(69,379)	(73,337)
<b>Total shareholders' equity</b>	<b>\$ 831,630</b>	<b>\$ 772,178</b>

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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**1 NATURE OF OPERATIONS**

Argonaut Gold Inc. (the “Company” or “Argonaut”) is a Canadian public company listed on the Toronto Stock Exchange (“TSX”) and engaged in gold mining, mine development, and mineral exploration activities at gold-bearing mineral properties in North America. As at December 31, 2021, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the producing Florida Canyon mine in Nevada, USA, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Ana Paula project in the State of Guerrero, Mexico, and the construction stage Magino project in the Province of Ontario, Canada. The Company continues to hold several other exploration stage projects, all of which are located in North America.

On July 1, 2020, the Company acquired all of the outstanding common shares of Alio Gold Inc. (“Alio”). Through the acquisition, the Company acquired the Florida Canyon mine and the Ana Paula project. The Ana Paula project was a disposal group classified as assets held for sale as at December 31, 2020 and its results from operations were included in discontinued operations for the year ended December 31, 2020 and was re-presented as a part of continuing operations as at and for the year ended December 31, 2021 (note 6).

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

*COVID-19 pandemic update*

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

During 2021, as an indirect result of the COVID-19 pandemic, the Company was impacted by increased inflationary pressures and cost increases to its construction capital estimate for the Magino project.

As a direct result of the COVID-19 pandemic, the Company temporarily suspended all mining, crushing and stacking activities at its Mexican mines in response to the Mexican federal government decree on April 1, 2020. By June 1, 2020, the Company had resumed all operations in Mexico and since then they have not been significantly impacted by COVID-19.

Factors that may be impacted by COVID-19 and the global response, among other things, are the Company’s operating plan, production, supply chain, construction, and maintenance activities. The Company continues to monitor the situation closely, including any potential impact on its operations. The extent to which COVID-19 may impact the Company’s business and operations will depend on future developments that are highly uncertain and cannot be accurately estimated, at this time, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

## **2 SIGNIFICANT ACCOUNTING POLICIES**

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

### **a) Basis of presentation**

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

These consolidated financial statements have been prepared in accordance with the significant accounting policies presented below and are based on the IFRS issued and effective as of December 31, 2021. The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for certain financial assets and financial liabilities measured at fair value.

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

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

The consolidated financial statements were authorized for issue by the Company's board of directors on March 1, 2022.

### **b) Segment reporting**

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

### **c) Foreign currency translation**

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

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

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

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

d) Business combinations

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

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

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

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

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

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

e) Cash and cash equivalents

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

f) Marketable securities

Marketable securities consist of common shares and warrants of publicly-traded mining companies received in connection with mineral property transactions.

The common shares and warrants are recorded at quoted market value at each reporting period, and gains or losses arising from changes in quoted market value are recognized in the consolidated statements of income.

g) Receivables and accounts payable

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

h) Inventories

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

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

i) Asset held for sale and discontinued operations

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

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

Management assesses the appropriateness of classification of the assets held for sale and discontinued operations on a periodic basis. If the assets and liabilities no longer meet the criteria of a disposal group, the assets and liabilities are reclassified back to be included in the consolidated balances within the statement of financial position for the current year. Reclassification out of assets and liabilities as held for sale results in non-current assets being measured at the lower of carrying amount prior to classification as held-for-sale adjusted for or amortization and the recoverable amount at the date of reclassification. Classification of a component of a business as no longer a discontinued operation results in the reclassification of the after-tax income (loss) from discontinued operation for the comparative period being re-presented in the consolidated statements of income (note 6).

j) Mineral properties, plant and equipment

i) Plant and equipment

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

ii) Exploration and evaluation assets

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

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

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

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

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

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

iii) Assets under construction

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

iv) Mineral properties and mine development costs

The costs of acquiring, exploring and developing mineral properties or property rights, and increasing future output by providing access to additional sources of reserves or resources, are capitalized up to the time the asset is ready to use. Revenues and expenses derived from mining activities prior to the assets being ready for use in the manner intended by management are recognized as sales proceeds and related costs in the consolidated statements of income.

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

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

v) Amortization of mineral properties, plant and equipment

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

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

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

vi) Borrowing costs

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

k) Impairment of non-current assets

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

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

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

l) Reclamation deposits

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



m) Debt

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

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

n) Convertible debentures

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

o) Leases

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

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

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

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

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

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

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

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

p) Provisions

*Reclamation provision*

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

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

*Other provisions*

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

q) Revenue recognition

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

r) Share-based compensation

The Company grants share-based awards to employees, directors and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as compensation expense and contributed surplus.

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

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

s) **Income taxes**

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

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

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

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

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

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

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

t) Financial instruments

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

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

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

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

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

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

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

*Impairment of financial assets*

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

u) Share capital

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

v) Flow-through common shares

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

w) Earnings per share

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

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

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

### **3 SIGNIFICANT ESTIMATES AND JUDGEMENTS**

- a) The preparation of consolidated financial statements requires significant areas where judgment is applied. Apart from those involving estimations, these areas are:

*Functional currency*

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

*Acquisition accounting*

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

The Company determined that a business combination accounting approach was the appropriate acquisition accounting for its acquisition of Alio during the year ended December 31, 2020 (note 5).

*Deferred income taxes*

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

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

*Stripping costs*

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

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

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

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

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

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

*Work-in-process inventory / Production costs*

The Company's management makes estimates of the expected recoverable ounces of gold on leach pads and the expected timing of recoveries in work-in-process inventory, which is also used in the determination of the cost of sales during the period. Expected recoverable ounces of gold on leach pads are determined based on the type of ore tonnes mined and placed on the leach pad, rock density, grams of gold per tonne and expected recovery rates. Management relies on internal geological and metallurgical experts to develop estimates related to expected recoverable ounces of gold on leach pads and timing of recoveries. The Company monitors the recovery of gold ounces from the leach pads and may refine its estimates based on these results. Assumptions used in the net realizable value assessment include the estimated gold price at the time of sale, remaining costs of completion to bring inventory into its saleable form and discount rate. Changes in these estimates can result in a change in the carrying amount of inventories and future cost of sales.

*Mineral properties*

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

*Impairment (impairment reversal) of non-current assets*

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts. Recoverable amounts are determined by reference to relevant market data, discounted future cash flows, and in-situ fair value per ounce of gold equivalent mineral reserves and resources not considered in the discounted cash flow model. 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 CGUs for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, the expected future operating, capital and reclamation costs, discount rates and exchange rates. Management relies on internal geological and metallurgical experts to develop estimates of recoverable reserves and resources, metallurgical recovery estimates, and future production volumes as well as expected future operating, capital and reclamation costs. These estimates are subject to various risks and uncertainties which may ultimately influence the estimated recoverability of the carrying amounts of non-current assets.

Future gold prices, exchange rates, discount rates, estimates of recoverable reserves and resources, operating and capital costs, and other key assumptions used in the Company's impairment assessment are subject to greater uncertainty given the current economic environment (note 1). Changes in these assumptions could significantly impact the valuation of the Company's assets in the future. During 2021, management identified impairment indicators with its exploration and evaluation assets, mineral properties, and plant and equipment, and management's impairment evaluation resulted in the Company recognizing a non-cash impairment of exploration and evaluation assets, mineral properties, and plant and equipment of \$64,877 in relation to the CGUs of the Florida Canyon mine and the Ana Paula project (note 27).

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

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

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

#### *Reclamation provision*

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

#### *Contingencies*

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

#### *Change in accounting estimate*

Effective July 1, 2020, the Company revised its estimate of the method used in depreciating its mobile equipment from units of production basis to straight-line. The change in accounting estimate was treated prospectively and did not have a material impact on depreciation during the years ended December 31, 2021 and December 31, 2020.



**4 RECENT ACCOUNTING PRONOUNCEMENTS****a) Accounting policies adopted**

In May 2020, the International Accounting Standards Board ("IASB") published a narrow scope amendment to IAS 16 - *Property, Plant and Equipment - Proceeds before Intended Use*. The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds with related costs in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible. The Company early adopted this amendment January 1, 2021 and determined that it does not have a material impact on the Company's consolidated financial statements.

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

**b) New and amended standards not yet adopted**

In October 2020, the IASB published amendments to IAS 1 - *Presentation of Financial Statements - Classification of debt with covenants as current or non-current*. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. This new requirement may change how companies classify their debt. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. The IASB has now clarified that when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognised as equity. Therefore, companies may need to reassess the classification of liabilities that can be settled by the transfer of the company's own equity instruments. The effective date is for annual periods beginning on or after January 1, 2023, with early adoption permissible. The Company is assessing the effect of the amendments on its consolidated financial statements and the possibility of early adoption.

In May 2021, the IASB published amendments to IAS 12 - *Income Taxes*. The amendments will require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The effective date is for annual periods beginning on or after January 1, 2023, with early adoption permissible. The Company is assessing the effect of the amendments on its consolidated financial statements and the possibility of early adoption.

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

**5 ALIO GOLD INC. ACQUISITION**

On July 1, 2020 (the “Closing Date”), the Company completed the acquisition of Alio and its Florida Canyon operation, an open-pit operating gold mine located in Nevada, USA and its Ana Paula project located in the State of Guerrero, Mexico. On the Closing Date, the Company issued 57,615,460 common shares in exchange for all of Alio’s issued and outstanding common shares, exchanged Alio options into 3,121,352 Argonaut options (the “Replacement Options”), and entitled Alio warrant holders to purchase 1,544,892 Argonaut common shares upon exercise of their warrants (the “Alio Warrants”).

The total consideration of the acquisition was \$111,400. The Company began consolidating the operating results, cash flows and net assets of Alio beginning July 1, 2020, onwards. For the year ended December 31, 2020, transaction costs of \$4,604 were expensed in the consolidated statements of income and included advisory, legal, and other professional fees of \$1,543, and change of control payments of \$2,296 in cash and the issuance of 404,932 common shares with a fair value of \$765. The Company assumed other liabilities of \$3,076 consisting of outstanding obligations under Alio’s restricted share units, performance share units and deferred share units (“Alio Share Unit(s)”), which were settled on or about the Closing Date through the issuance of 512,842 common shares of the Company with a fair value of \$959 and total cash payments of \$2,117 to Alio Share Unit holders. Alio had no contingent liabilities in place on the date of the acquisition.

**6 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

The Ana Paula project was previously classified as a disposal group held for sale as at December 31, 2020 and as discontinued operations for the year ended December 31, 2020. During 2021, the Company paused its active program to market the sale of the Ana Paula project, an exploration and evaluation asset included with the acquisition of Alio (note 5). In accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, the Ana Paula project no longer meets the criteria to be classified as a disposal group held for sale as at December 31, 2021 and as a discontinued operation for the year ended December 31, 2021. Upon reclassification of the Ana Paula project to continuing operations, the Company assessed the recoverable value of the Ana Paula project segment for impairment, and determined a non-cash impairment write-down of \$7,330 to be recognized during 2021 (2020 - \$nil) (note 27).

At December 31, 2021, all assets and liabilities related to the Ana Paula project have been included as a part of the assets and liabilities from continuing operations in the consolidated statements of financial position. Expenses related to the Ana Paula project incurred during the year ended December 31, 2021 have been presented as a part of continuing operations within the consolidated statements of income. There is no impact on the presentation in the consolidated statements of cash flows.

At December 31, 2020, all assets and liabilities related to the previously classified Ana Paula project disposal group were classified as held for sale and were presented in current assets and current liabilities in the consolidated statements of financial position.

Expenses of \$3,719 related to the Ana Paula project disposal group incurred during the year ended December 31, 2020 have been re-presented as a part of continuing operations within the consolidated statements of income, for comparative purposes. There is no impact on the presentation in the consolidated statements of cash flows.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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

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

**7 RECEIVABLES**

	December 31, 2021	December 31, 2020
Mexican value added tax receivable	\$ 18,958	\$ 17,399
Canadian value added tax receivable	11,037	2,454
Receivables from acquisition <sup>(1)</sup>	—	6,896
Due from customer	1,687	715
Other receivables	337	569
	\$ 32,019	\$ 28,033

<sup>(1)</sup> During 2021, the Company received total proceeds of \$7,675 and recognized a gain on settlement of receivables from acquisition of \$1,751 over the book value of components comprising the receivables from acquisition (note 20).

**8 INVENTORIES**

	December 31, 2021	December 31, 2020
Supplies	\$ 17,173	\$ 12,712
Work-in-process	86,243	68,564
Finished goods	1,074	1,302
	104,490	82,578
Non-current portion of work-in-process inventory	(2,976)	(12,742)
	\$ 101,514	\$ 69,836

Cost of inventories recognized as expense in cost of sales for 2021 totaled \$322,551 (2020 - \$223,694). During 2021, the Company recognized a non-cash impairment reversal of \$2,693 (2020 - \$1,611) at the El Castillo mining complex related to the net realizable value of the work-in-process inventory, primarily due to a revision in management's estimate of the price of gold, the future recoverable ounces, costs to convert the non-current work-in-process inventory into saleable form and the expected timing of recoveries of the inventory. The impairment reversal has been presented in a separate component of cost of sales in the consolidated statements of income.

**ARGONAUT GOLD INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**For the years ended December 31, 2021 and 2020**
**(Expressed in thousands of United States dollars, except where noted)**
**9 MINERAL PROPERTIES, PLANT AND EQUIPMENT**

	Exploration and evaluation assets	Assets under construction (1)	Mineral properties (1)(2)(3)	Plant and equipment (1)(2)	Total <sup>(4)</sup>
<b>Cost</b>					
Balance at January 1, 2021	\$ 134,299	\$ 300,335	\$ 651,787	\$ 201,885	\$ 1,288,306
Additions <sup>(6)</sup>	1,584	295,338	29,156	51,221	377,299
Transfer	—	—	(2,559)	2,559	—
Option proceeds <sup>(8)</sup>	(606)	—	—	—	(606)
Impairment reversal <sup>(8)</sup>	606	—	—	—	606
Disposals	—	—	—	(6,951)	(6,951)
Reclassification of assets held for sale	31,417	—	—	2,391	33,808
Adjustment on currency translation	—	(1,830)	—	12	(1,818)
Balance at December 31, 2021	167,300	593,843	678,384	251,117	1,690,644
<b>Accumulated depreciation, depletion, amortization and impairment</b>					
Balance at January 1, 2021	111,034	—	427,522	114,783	653,339
Additions	—	—	51,511	24,049	75,560
Disposals	—	—	—	(5,977)	(5,977)
Impairment (Note 27)	7,330	—	57,481	672	65,483
Balance at December 31, 2021	118,364	—	536,514	133,527	788,405
Net book value at December 31, 2021	\$ 48,936	\$ 593,843	\$ 141,870	\$ 117,590	\$ 902,239
<b>Cost</b>					
Balance at January 1, 2020	\$ 392,942	\$ —	\$ 531,716	\$ 149,992	\$ 1,074,650
Acquisitions (Note 5)	31,726	—	95,331	49,652	176,709
Additions	11,078	24,362	24,740	9,868	70,048
Transfer to assets under construction <sup>(7)</sup>	(263,198)	263,198	—	—	—
Option proceeds <sup>(8)</sup>	(383)	—	—	—	(383)
Impairment reversal <sup>(8)</sup>	383	—	—	—	383
Disposals	(121)	—	—	(5,236)	(5,357)
Transfer to assets held for sale	(31,417)	—	—	(2,391)	(33,808)
Adjustment on currency translation	(6,711)	12,775	—	—	6,064
Balance at December 31, 2020	134,299	300,335	651,787	201,885	1,288,306
<b>Accumulated depreciation, depletion, amortization and impairment</b>					
Balance at January 1, 2020	111,034	—	392,518	107,012	610,564
Additions	—	—	38,925	14,403	53,328
Disposals	—	—	—	(4,685)	(4,685)
Impairment (reversal) <sup>(5)</sup>	—	—	(3,921)	(1,947)	(5,868)
Balance at December 31, 2020	111,034	—	427,522	114,783	653,339
Net book value at December 31, 2020	\$ 23,265	\$ 300,335	\$ 224,265	\$ 87,102	\$ 634,967

<sup>(1)</sup> During 2021, the Company recorded right-of-use asset additions of \$35,153 within plant and equipment and \$49 within mineral properties (note 13). During 2020, the Company assumed right-of-use assets as part of the acquisition of Alio and recorded additions of \$36,435 within plant and equipment (note 13). During the year ended December 31, 2021, total depreciation on right-of-use assets within plant and equipment was \$7,889 (2020 - \$1,838). A portion of this total depreciation was capitalized to assets under construction for the right-of-use assets related specifically to the Magino project (note 13). During the year ended December 31, 2021, total depreciation on right-of-use assets within mineral properties was \$60 (2020 - \$44). As at December 31, 2021, the net book value of right-of-use assets was \$62,254 and \$172 within plant and equipment and mineral properties, respectively (December 31, 2020 - \$34,607 and \$183, respectively).

<sup>(2)</sup> As at December 31, 2021, plant and equipment includes \$6,482 and mineral properties includes \$2,031 of mine development costs, primarily related to the El Castillo mining complex, the La Colorada mine and the Florida Canyon mine (December 31, 2020 - \$1,532 and \$10,729, respectively), which were not subject to depreciation and depletion at the statement of financial position date.

<sup>(3)</sup> During the year ended December 31, 2021, the Company capitalized \$11,909 (2020 - \$8,907) of deferred stripping costs to mineral properties. The depreciation expense related to deferred stripping for the year ended December 31, 2021 was \$16,587 (2020 - \$10,341). Included in the mineral properties balance at December 31, 2021 is \$10,576 and \$10,248 (December 31, 2020 - \$8,073 and \$17,429) related to deferred stripping costs at the El Castillo mine and the La Colorada mine, respectively.

<sup>(4)</sup> Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (note 12).

<sup>(5)</sup> As at December 31, 2021, the Company recognized a non-cash impairment of \$64,811 within mineral properties, comprised of \$7,330 for the Ana Paula project and \$57,481 at the Florida Canyon mine (2020 - a non-cash impairment reversal at the La Colorada mine of \$2,019 and \$3,921 within plant and equipment and mineral properties, respectively). As at December 31, 2021, the Company also recognized other impairment of \$672 (2020 - \$72) within plant and equipment (note 27).

<sup>(6)</sup> In October 2021, the Company completed the purchase of additional concessions around the San Agustin mine for \$5,750 in cash, which were recorded in mineral properties.

<sup>(7)</sup> In October 2020, the Company announced that it had received board approval for construction of the 100%-owned Magino project in Ontario, Canada. As a result, the Company reclassified \$263,198 from exploration and evaluation assets to construction in progress during 2020, representing the capitalized cost of the Magino project at the time. The Company anticipated a two-year construction period, which commenced January 2021, following the closure plan filing and posting of financial assurance. With the Company's construction decision for Magino, payments of both cash and shares, valued in aggregate at approximately \$2,367, became due under various community agreements. The Company assessed that there was no impairment of the asset prior to reclassification (note 27).

<sup>(8)</sup> During the year ended December 31, 2020, the Company entered into a mineral property option agreement whereby a third party has the option to earn up to a 90% interest in a non-core mineral property of the Company located in Ontario, Canada, for cash or common share payments, at the discretion of the Company, totaling up to \$6,375 (CA\$8,500), incurring \$5,250 (CA\$7,000) of exploration expenditures and delivering a National Instrument 43-101 compliant pre-feasibility study on the mineral property before December 31, 2026. In October 2020 and October 2021, the Company received \$383 (CA\$500) and \$606 (CA\$750), respectively, of cash in connection with this option agreement. As the Company had previously recorded a full impairment of the carrying value of this mineral property, the payment received has resulted in a partial reversal of this impairment, which is included in impairment reversal of mineral properties, plant and equipment in the consolidated statements of income.

## **10 RECLAMATION DEPOSITS**

The Company has reclamation deposits representing funds that have been placed in trust as security to the United States Bureau of Land Management relating to site closure obligations of the Florida Canyon mine. These deposits will be released when the government approves successful site restoration or surety bonding is no longer required.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

At December 31, 2021, the reclamation deposits are carried at fair value of \$3,243 (December 31, 2020 - \$8,457) and consist of \$651 of cash, \$1,439 of fixed-income funds, and \$1,153 of equity funds. During 2021, interest income was \$160 (2020 - \$52) and the Company recorded a gain on funds of \$289 (2020 - \$465). During 2021, the Company received notice that \$5,664 of the reclamation deposits were released to the Company. The amount has been recorded within cash and cash equivalents as at December 31, 2021.

**11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2021	December 31, 2020
Trade accounts payable	\$ 62,839	\$ 30,182
Accrued liabilities	41,530	22,473
	<b>\$ 104,369</b>	<b>\$ 52,655</b>

At December 31, 2021, accounts payable and accrued liabilities included \$45,234 (December 31, 2020 - \$6,433) related to mineral properties, plant and equipment additions. At December 31, 2021 and December 31, 2020 accrued liabilities also included \$222 and \$449, respectively, in accrued interest on convertible debentures (note 12).

**12 DEBT***Overview*

	December 31, 2021	December 31, 2020
Revolving credit facility	\$ 80,000	\$ —
Convertible debentures		
Debt liability	44,650	42,205
Derivative liability	11,461	16,101
Debt	<b>\$ 136,111</b>	<b>\$ 58,306</b>

*Revolving credit facility*

In October 2020, the Company amended and restated its credit agreement (the “Revolving Credit Facility” or “RCF”), with a syndicate of banks, whereby the lenders agreed to increase the amount of the RCF from \$75,000 to \$100,000 with an accordion feature of \$25,000 (the “Amended Revolving Credit Facility” or “ARCF”). The ARCF interest rate is according to the terms described in the agreement and is on a scale ranging from London Interbank Offered Rate, or an alternative benchmark rate as selected by the administrative agent (“LIBOR”), plus 2.25% to 3.50% on drawn amounts, and 0.56% to 0.79% on undrawn amounts, based on the Company’s senior secured debt leverage ratio, as defined in the agreement. During the period from January 1, 2020 to October 14, 2020, the Company repaid \$10,000 on the RCF. The Company incurred transaction costs and upfront fees of \$488 on the setup of the ARCF, which are being amortized over the term of the ARCF.

The ARCF was not utilized by the Company until it drew \$80,000 in December 2021. As at December 31, 2021, the Company had utilized \$80,000 of the ARCF (December 31, 2020 - \$nil). Subsequent to December 31, 2021, the Company exercised the accordion feature of the ARCF, making available the full \$25,000. The ARCF is secured by certain of the Company’s assets and is subject to various covenants, including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at December 31, 2021, the Company was in compliance with these covenants. At December 31, 2021, there were two letters of credit, totaling \$16,894, which were secured by the ARCF to support a reclamation obligation for the Magino project.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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

Commitment Reduction Date	Accordion + Commitment
Initial	\$125,000
Apr 30, 2023	\$115,000
May 31, 2023	\$100,000
Jun 30, 2023	\$85,000
Jul 31, 2023	\$70,000
Aug 31, 2023	\$55,000

*Convertible debentures*

On October 30, 2020, the Company closed a bought deal public offering of unsecured convertible debentures with an aggregate amount of \$57,500 (the “Debentures”). At December 31, 2021, the Company had \$57,480 of the Debentures outstanding. The Debentures mature on November 30, 2025 and bear interest at a rate of 4.625% per annum, payable semi-annually. The Debentures are not redeemable by the Company before November 30, 2023. The Company has used the net proceeds of the Debentures for the advancement of the Magino project.

The principal amount is convertible, at the option of the holder, into common shares of the Company, at any time, at a rate of 350.1155 common shares per \$1,000 of convertible debt, resulting in a conversion price of \$2.86 per common share.

The conversion price is subject to adjustment in certain instances such as dilution or a change of control. The Company also has an early redemption right whereby the Company may elect to redeem the Debentures in certain instances, all as described in the Debenture Indenture.

The option available to the holder of the Debentures to convert the Debentures at the conversion price in a currency different than the functional currency of the legal entity is separately recognised and accounted for as a derivative liability. The debt liability component is initially recognized as the difference between the fair value of the convertible debenture as a whole and the fair value of the derivative liability component. The derivative liability component can only be reclassified into the entities’ equity instruments when the convertible debt is converted; otherwise the derivative liability will be extinguished on repayment of the debt component and, as a result, will not result in any additional cash outflows by the Company.

On issuance, the Company allocated the net proceeds from the Debentures to the debt liability component and the derivative liability component based on the prorated fair value of the debt liability and derivative liability components.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

On December 31, 2021 and December 31, 2020, the fair value of the derivative liability was estimated at \$11,461 and \$16,101, respectively. The value was determined using the Partial Differential Equation model with the following assumptions:

	December 31, 2021	December 31, 2020
Share price	CA \$ 2.40	CA \$ 2.74
US\$-CA\$ exchange rate	0.7917	0.7859
Translated US\$ share price	\$ 1.90	\$ 2.15
Volatility	46.66 %	42.69 %
Risk free rate	1.29 %	0.42 %
Credit spread	8.69 %	8.61 %
All-in rate	9.98 %	9.03 %

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

	Debt liability	Derivative liability	Total
Gross proceeds	\$ 44,159	\$ 13,341	\$ 57,500
Less: transaction costs allocated to debt liability component	(2,346)	—	(2,346)
Balance upon issuance on October 30, 2020	41,813	13,341	55,154
Accrued interest and accretion of debt liability component	841	—	841
Change in fair value of derivative liability component	—	2,760	2,760
Accrued interest recorded in accrued liabilities - current	(449)	—	(449)
Balance at December 31, 2020	42,205	16,101	58,306
Accrued interest and accretion of debt liability component - year to date	5,114	—	5,114
Accrued interest - prior year	449	—	449
Change in fair value of derivative liability component	—	(4,635)	(4,635)
Interest paid - year to date	(2,881)	—	(2,881)
Accrued interest recorded in accrued liabilities - current	(222)	—	(222)
Debentures converted to equity	(15)	(5)	(20)
Balance at December 31, 2021	\$ 44,650	\$ 11,461	\$ 56,111

During 2021, capitalized interest and accretion expense on the Debentures was \$5,114 (2020 - \$841). Interest is capitalized towards the Magino project until the time where it is ready for its intended use.

*Loan facility*

Upon acquisition of Alio (note 5), the Company assumed a three-year, \$15,000 loan facility (the "Loan Facility") with Sprott Private Resource Lending II (Collector), LP ("Sprott") to fund construction of leach pad expansion at the Florida Canyon mine. The Loan Facility had a maturity date of October 31, 2022, with eight quarterly repayments of the principal balance commencing on January 31, 2021, and required monthly interest payments based on an interest rate of 8.0% plus the greater of three-month LIBOR or 2.0%. In November 2020, the Company repaid the remaining principal without penalty (including accrued interest of \$54), thereby fully repaying the Loan Facility.



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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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*Equipment loan payable*

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

*Other financial liability*

Upon acquisition of Alio (note 5), the Company assumed an unsecured promissory note (the “ADM Note”) for \$2,500 payable on October 10, 2023. The ADM Note bore interest that is payable quarterly at a rate of 9.0% per annum until the maturity date. In July 2020, the Company repaid the ADM Note without penalty (including accrued interest) of \$2,552.

**13 LEASE LIABILITIES***Overview*

	December 31, 2021	December 31, 2020
Florida Canyon mine leases	\$ 36,986	\$ 32,769
Magino project leases	17,033	—
Other operating leases	918	545
Balance, December 31, 2021	\$ 54,937	\$ 33,314
Current portion of lease liabilities	\$ 17,477	\$ 10,128
Non-current portion of lease liabilities	\$ 37,460	\$ 23,186

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

Certain leases of the Company contain variable lease payment terms that are linked to the usage of the equipment on a per tonne mined basis. The cost relating to variable lease payments that do not depend on an index or a rate amounted to \$44,980 for 2021 (2020 - \$22,385).

*Florida Canyon mine leases*

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

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

Upon acquisition, the Company valued the lease liability and right-of-use assets using the present value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the initially estimated four-year term of the lease. All units were in service at the acquisition date. A lease liability and right-of-use assets in relation to the Lease Agreement was recognised at \$36,359.

During 2021, the Company amended its Lease Agreement to enact modifications to the scope and structure of the lease (the “Amended Lease Agreement”). The Amended Lease Agreement included the following modifications:

- The introduction of four new trucks (the “New Trucks”) were added to the existing thirteen trucks and three loaders resulting in a comprehensive lease of seventeen trucks and three loaders (the “Florida Canyon Equipment”). The New Trucks entered service during 2021. The component of the Amended Lease Agreement related to the New Trucks included an implicit interest rate of 4.04% and a fee structure separate from the amended fees on the original units within the Florida Canyon Equipment, resulting in a separate expected value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the expected remaining term of the lease. The expected lease term for the New Trucks varies per each unit, ending between July 2026 and August 2026.
- The Amended Lease Agreement modified the implicit interest rate of the Lease Agreement to 4.50% and included a revised fee structure for each of the original units of the Florida Canyon Equipment that changed the expected value of the lease payments and buyout amount per original unit of the Florida Canyon Equipment, based on the expected hours of use and pattern of use, over the expected remaining term of the lease. The expected remaining term of the Amended Lease Agreement resulted in varied lease terms per each original unit of the Florida Canyon Equipment, ending between June 2024 and February 2025.

The Company applied the accounting for lease amendments found in IFRS 16 - *Leases* (“IFRS 16”), to account for the modifications found in the Amended Lease Agreement. The two components of the Amended Lease Agreement were assessed to be independent and therefore treated independently for valuation purposes as segregated components of a lease contract. The value of the Amended Equipment Lease was determined using the present value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the expected remaining term of the Amended Lease Agreement.

The revaluation of the Amended Lease Agreement relating to the original Florida Canyon Equipment resulted in a deemed increase in value of \$1,672. Per IFRS 16, the corresponding right-of-use asset and lease liability were adjusted at January 1, 2021, the effective date of the modifications, to reflect this amount. A discount rate of 4.50%, representing the modified implicit interest rate for the original Florida Canyon Equipment, was used for the revaluation of the value of the original Florida Canyon Equipment.

The value of the New Trucks was deemed to be \$10,787. A discount rate of 4.04%, representing the implicit interest rate for the New Trucks, was used for the valuation of the New Trucks.

At December 31, 2021, the Company assessed the valuation of the Florida Canyon mine leases and determined that there was a \$1,206 increase in the value of the lease liabilities due to the change in variables affecting the estimated cash flows over the remaining term of the Florida Canyon mine leases.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

The following table summarizes the change in the value of the lease liabilities at the Florida Canyon mine:

Lease liabilities assumed on acquisition of Alio at July 1, 2020	\$	36,359
Interest		1,459
Payments - principal and interest		(5,049)
Balance, December 31, 2020		32,769
Lease modification		1,672
New trucks		10,787
Interest		1,669
Payments - principal and interest		(11,117)
Change in estimated cash flows and assumptions		1,206
Balance, December 31, 2021	\$	36,986
Current portion of equipment lease liabilities	\$	10,898
Non-current portion of equipment lease liabilities	\$	26,088

The Florida Canyon Equipment is being amortized straight-line over the life of the mine to an estimated net recoverable value. Effective January 1, 2021, the Company revised its estimate of the net recoverable value of its Florida Canyon Equipment from \$500 to \$100, for each truck and loader. This change in accounting estimate was treated prospectively. For 2021, the Company recorded depreciation on the Florida Canyon Equipment of \$4,902 (2020 - \$1,567).

*Magino project leases*

During 2021, the Company entered into a number of lease agreements at its Magino project. The lease agreements included the following:

- The Company entered into individual lease agreements with a single vendor for 22 units of equipment, including trucks, loaders and excavators. The leases contain a 48-month term for 20 units, and a 60-month term for two units. The individual lease agreements bear a range of implicit interest rates from 0.99% to 4.85%. The initial recognition of the value of these leases were \$15,318.
- The Company entered into various lease agreements with multiple vendors for 11 units of equipment, including eight trucks, loaders, and excavators, two drill rigs, and an office trailer. The leases contain a 13-month term for the heavy equipment, and a 24-month term for the drill rigs and trailer. The individual lease agreements bear a range of implicit interest rates from 2.00% to 4.50%. The initial recognition of the value of the leases was \$3,610.
- The Company entered into a lease agreement for 13 dorm and container units. The lease is for a 18-month term and was valued using an interest rate of 4.50%, which is the Company's deemed incremental borrowing rate. The initial recognition of the value of the lease was \$1,180.
- The Company entered into a lease agreement for certain land and buildings. The lease is for a 36-month term and was valued using an interest rate of 4.50%, which is the Company's deemed incremental borrowing rate. The initial recognition of the value of the lease was \$612.

Together the various units in the lease agreements comprise the Magino Leases. The Company valued the various lease agreements using the present value of the lease payments and buyout amounts, over the initially estimated terms of the various leases.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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The following table summarizes the change in the value of the lease liabilities at the Magino project:

Balance, December 31, 2020	\$	—
Capitalization of Magino Leases		20,720
Interest		283
Payments - principal and interest		(3,982)
Adjustment on currency translation		12
Balance, December 31, 2021	\$	17,033
Current portion of Magino Leases liabilities	\$	6,142
Non-current portion of Magino Leases liabilities	\$	10,891

The right-of-use assets associated with the Magino Leases are being amortized straight-line over the expected remaining lives of each unit down to each unit's estimated net recoverable value. For 2021, the Company capitalized depreciation on the right-of-use assets associated with the Magino Leases of \$2,737 (2020 - \$nil) (note 9).

*Other operating leases*

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

	December 31, 2021	December 31, 2020
Current portion of lease liabilities	\$ 437	\$ 286
Non-current portion of lease liabilities	481	259
	\$ 918	\$ 545

For 2021, the Company recorded depreciation on other operating leases of \$310 (2020 - \$315).

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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**14 RECLAMATION PROVISION**

The Company's reclamation provision relates to the restoration and closure of its mineral properties, plant and equipment, primarily related to the Company's operating mines and its construction stage project. The reclamation provision has been recognized at net present value. The Company reviews and, if necessary, adjusts provisions at each reporting date. The total provision for reclamation at December 31, 2021 is \$99,052 (December 31, 2020 - \$54,202). The undiscounted value of this obligation is \$122,553 (December 31, 2020 - \$57,556), calculated using an inflation rate of 2.1% to 2.5% (December 31, 2020 - 2.0% to 2.3%). Accretion expense of \$376 has been charged to the consolidated statements of income for 2021 (2020 - \$476) to reflect an increase in the carrying amount of the reclamation provision, which has been determined using discount rates specific to the liabilities of 0.1% to 1.7% (December 31, 2020 - 0.4% to 2.0%). During 2020, the Company assumed the reclamation provision of Alio at its estimated fair value of \$32,345 upon acquisition (note 5).

	December 31, 2021	December 31, 2020
Balance at the beginning of the year	\$ 54,202	\$ 17,651
Assumption of Alio reclamation provision (Note 5)	—	32,345
Accretion expense	376	476
Reclamation incurred	(890)	(221)
Adjustment on currency translation	777	6
Revisions in estimates <sup>(1)</sup>	44,587	3,945
Balance at the end of the year	\$ 99,052	\$ 54,202
Current portion of reclamation provision	\$ 16,044	\$ —
Non-current portion of reclamation provision	\$ 83,008	\$ 54,202

<sup>(1)</sup> The revisions in estimates for 2021 are comprised of an increase of \$939 at La Colorada (2020 - \$1,181 increase), an increase of \$122 at the El Castillo mining complex (2020 - \$1,016 increase), an increase of \$1,735 at the Florida Canyon mine (2020 - \$1,748 increase), and an increase of \$41,791 at the Magino project (2020 - \$nil). Included in other operating (expense) income for 2021 is an expense of \$413 (2020 - \$1,209 expense) reflecting revised estimated costs related to a section of the La Colorada and Florida Canyon mines where mining activities have ceased.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)****15 INCOME TAXES**

- a) Income tax expense (recovery) included in the consolidated statements of income is as follows:

	2021	2020
Current income tax expense	\$ 34,812	\$ 11,931
Deferred income tax expense (recovery)	(18,805)	14,225
	<u>\$ 16,007</u>	<u>\$ 26,156</u>

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

	2021	2020 Re-presented (Note 6)
Income before income taxes	\$ 42,536	\$ 40,367
Canadian federal and provincial income tax rate	26.5 %	26.5 %
Income tax expense based on Canadian federal and provincial income tax rates	11,272	10,697
Increase (decrease) attributable to:		
Change in unrecognized deferred tax assets	(5,719)	6,056
Effects of different foreign statutory tax rates on earnings of subsidiaries	7,415	1,026
Impact of Mexican inflation on tax values	(3,297)	(2,304)
Impact of Mexican Special Mining Duty and Nevada net proceeds tax	3,807	6,792
Non-taxable portion of foreign exchange	(5,440)	(355)
Impact of foreign exchange on deferred income taxes	5,162	929
Foreign withholding taxes	(2,628)	612
Non-deductible expenses	2,210	1,195
Adjustments related to prior periods	721	1,287
Other	2,504	221
Income tax expense	<u>\$ 16,007</u>	<u>\$ 26,156</u>
Effective tax rate	37.6 %	64.8 %

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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

	2021	2020
Deferred income tax assets		
Unused non-capital losses	\$ 28,788	\$ 12,543
Lease liabilities	7,935	6,881
Derivative liabilities	377	5,299
Reclamation provision	6,830	6,787
Share-based compensation	1,387	1,417
Mexican Special Mining Duty deduction	3,639	2,559
Other	—	1,057
	48,956	36,543
Deferred income tax liabilities		
Mineral properties, plant and equipment	(42,326)	(38,521)
Inventories	(1,483)	(868)
Nevada net proceeds tax	—	(4,228)
Other	1,546	—
	(42,263)	(43,617)
Deferred income tax (liabilities) assets, net	\$ 6,693	\$ (7,074)

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

	2021	2020
Deferred income tax assets	\$ 13,010	\$ 34,725
Deferred income tax liabilities	(6,317)	(41,799)
Deferred income tax (liabilities) assets, net	\$ 6,693	\$ (7,074)

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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- e) Management believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets such that they have not been fully recognized. The tax benefits not recognized reflect management's assessment regarding the future realization of Canadian, Mexican and United States tax assets and estimates of future earnings and taxable income in these jurisdictions as of December 31, 2021. As at December 31, 2021, the Company and its subsidiaries had unrecognized Canadian operating loss carry-forwards of \$131,551 which expire between the years 2026 and 2041 and unrecognized Canadian preproduction investment tax credits of \$5,109 which expire between 2022 and 2034.

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

	2021	2020
Unused tax losses	\$ 135,399	\$ 186,560
Preproduction investment tax credits	5,109	5,087
Cumulative eligible capital	878	709
Mineral properties, plant and equipment	48,449	40,449
Net capital losses <sup>(1)</sup>	2,810	3,319
Financing costs	1,651	1,964
Intercompany balances	1,634	3,097
Reclamation provision	64,203	19,794
Lease liabilities	17,034	—
Other	5,454	7,298
	<u>\$ 282,621</u>	<u>\$ 268,277</u>

<sup>(1)</sup> Capital losses have no expiry date.



**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)****16 SHAREHOLDERS' EQUITY**

- a) Authorized share capital: Unlimited common shares without par value.
- b) Issued and outstanding share capital:

	Number of shares	Amount
Balance at January 1, 2020	179,496,503	\$ 789,425
Issuance of common shares related to acquisition of Alio	58,533,234	109,956
Issuance of common shares by way of public offering	49,608,700	89,439
Issuance of common shares on exercise of Alio Replacement Options (Note 16d)	1,947,562	3,529
Issuance of common shares related to a community agreement	980,630	1,722
Issuance of common shares for services provided on Magino	480,985	793
Restricted share units issued to employees, net of shares withheld <sup>(1)</sup>	520,243	852
Restricted share units issued to directors	172,833	187
Issuance of flow-through shares	3,002,650	6,499
Stock options exercised (Note 16c)	19,167	46
Balance at December 31, 2020	294,762,507	1,002,448
Issuance of flow-through shares	9,847,047	17,121
Issuance of common shares by way of private placement	4,255,319	7,895
Issuance of common shares related to community agreements	809,717	1,590
Issuance of common shares for services provided on Magino	50,000	142
Restricted share units issued to employees, net of shares withheld <sup>(1)</sup>	669,684	918
Performance share units issued to employees, net of shares withheld <sup>(2)</sup>	146,719	213
Issuance of common shares for converted debentures	7,002	20
Issuance of common shares on exercise of Alio Replacement Options (Note 16d)	513,052	1,226
Stock options exercised (Note 16c)	136,028	254
Balance at December 31, 2021	311,197,075	\$ 1,031,827

<sup>(1)</sup> During December 31, 2021, 330,562 vested restricted share units (year ended December 31, 2020 - 237,258 vested restricted share units) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted share units.

<sup>(2)</sup> During December 31, 2021, 75,944 vested performance share units were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested performance share units.

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

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

*Private placement*

In March 2021, the Company completed a private placement of 4,255,319 common shares, issued at a price of CA\$2.35 per common share, for gross proceeds of \$7,917 (CA\$10,000) with a primary vendor related to the Magino project. The Company and the vendor had previously executed a fixed-bid engineering, procurement, construction, and commission contract for the construction of the Magino processing facility and other parts of the Magino project at which time a private placement was contemplated. Transaction costs related to the private placement were approximately \$22 (CA\$28), resulting in net proceeds to the Company of approximately \$7,895 (CA\$9,972).

*Public offering*

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

*Community agreements*

In March 2021, the Company issued 809,717 common shares (2020 - 980,630 common shares) as part of community agreements associated with the Magino project.

*Flow-through common shares*

In September 2021, the Company issued 467,532 Canadian exploration expenditures ("CEE") flow-through common shares of the Company ("CEE Flow-Through Shares") at a price of CA\$3.85 per share by way of private placement for gross proceeds of \$1,421 (CA\$1,800). Share issuance costs of \$16 (CA\$21) were incurred in relation to the offering, resulting in net proceeds to the Company of \$1,405 (CA\$1,779). The net proceeds were bifurcated between share capital of \$1,096 and flow-through share premium of \$311. Under the terms of this CEE Flow-Through Shares agreement, the Company agreed to incur \$1,421 (CA\$1,800) of qualified CEE by December 31, 2022 and renounce those expenditures to the investors effective December 31, 2021. During the year ended December 31, 2021, the Company used \$681 (CA\$862) of the proceeds to fund exploration activities in a joint operation in Quebec, Canada, and is required to incur the remainder of the expenditures before December 31, 2022. As at December 31, 2021, the remaining flow-through share premium liability was \$162 (CA\$205).

In February 2021, the Company closed an offering of Canadian development expenditures ("CDE") flow-through common shares of the Company (the "CDE Flow-Through Shares") with a syndicate of underwriters pursuant to which the underwriters purchased, on a bought deal basis, 9,379,515 CDE Flow-Through Shares at CA\$2.82 per share for total gross proceeds of \$20,808 (CA\$26,450). Share issuance costs of \$1,330 (CA\$1,691) were incurred in relation to the offering, resulting in net proceeds to the Company of \$19,478 (CA\$24,759). The CDE Flow-Through Shares will provide the subscribers a Canadian tax deduction for qualified CDE incurred and renounced by the Company. The offering was completed in two concurrent tranches, whereby: (i) an aggregate of 6,276,515 CDE Flow-Through Shares were issued and qualified for distribution to the public under a prospectus; and (ii) an aggregate of 3,103,000 CDE Flow-Through Shares were issued on a private placement basis. The proceeds from the sale of the CDE Flow-Through Shares were used on development expenses on the Magino project as permitted under the Income Tax Act (Canada) in order to qualify as CDE. The net proceeds were bifurcated between share capital of \$16,025 and flow-through share premium of \$3,453. During the year ended December 31, 2021, the Company used all of the proceeds to fund development of the Magino project, achieving its development expenditure requirements and as such at December 31, 2021 the remaining flow-through share premium liability was \$nil (CA\$nil).

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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In October 2020, the Company issued 3,002,650 CEE Flow-Through Shares at a price of CA\$3.83 per share by way of private placement for gross proceeds of \$8,753 (CA\$11,500). Share issuance costs of \$618 (CA\$812) were incurred in relation to the offering, resulting in net proceeds to the Company of \$8,135 (CA\$10,688). The net proceeds were bifurcated between share capital of \$6,499 and flow-through share premium of \$1,636. Under the terms of this CEE Flow-Through Shares agreement, the Company agreed to incur \$8,753 (CA\$11,500) of qualified CEE by December 31, 2021 and renounce those expenditures to the investors effective December 31, 2020. The COVID-19 amendment to the Income Tax Act (Canada) has extended the deadline to incur qualified CEE and CDE for an additional 12 months for agreements entered into in 2019 and 2020 only. During the year ended December 31, 2021, the Company incurred all the required qualified CEE expenditures using the remaining proceeds to fund exploration activities near the Magino project. As at December 31, 2021, the total expenditures to date were \$8,753 (CA\$11,500) and the remaining flow-through share premium liability was \$nil (CA\$nil).

c) Share-based compensation

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

*Stock options*

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

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2021 that were granted by the Company:

Exercise price per share (CA\$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Options exercisable	Weighted average exercise price (CA\$)
\$ 1.10 - 1.31	1,318,483	4.00	\$ 1.10	1,318,483	\$ 1.10
1.32 - 2.48	1,659,557	6.85	1.98	1,113,751	2.09
2.49 - 4.00	793,657	4.32	2.60	722,203	2.58
4.01 - 7.00	240,578	2.16	4.74	240,578	4.74
7.01 - 10.35	312,791	0.87	8.65	312,791	8.65
\$ 1.10 - 10.35	4,325,066	4.82	\$ 2.46	3,707,806	\$ 2.56

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA\$)
Outstanding at January 1, 2020	4,143,818	\$ 2.75
Granted	805,855	1.46
Exercised	(19,167)	2.04
Forfeited	(361,261)	3.57
Expired	(10,000)	3.25
Outstanding at December 31, 2020	4,559,245	2.46
Granted	386,013	2.44
Exercised	(136,028)	1.59
Forfeited	(378,389)	2.16
Expired	(105,775)	4.56
Outstanding at December 31, 2021	4,325,066	\$ 2.46

The weighted average share price at the time of exercise for 2021 was CA\$2.90 per share (2020 - CA\$2.64 per share).

The total share-based compensation expense related to stock options granted by the Company for 2021 was \$216 (2020 - \$341). As at December 31, 2021, there was \$125 of unamortized stock-based compensation expense related to stock options granted (December 31, 2020 - \$214).

The following weighted-average assumptions were used in computing the fair value of stock options granted during the year ended December 31, 2021:

	2021		2020	
Weighted average share price	CA	\$ 2.44	CA	\$ 1.46
Expected dividend yield		Nil		Nil
Expected volatility		62.9 %		62.2 %
Risk-free interest rate		0.6 %		1.0 %
Estimated forfeiture rate		11.9 %		8.0 %
Expected life		5 years		5 years
Weighted average fair value per stock option granted	CA	\$ 1.28	CA	\$ 0.77

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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*Restricted share units*

The following table summarizes the RSU activity for the Company:

	RSUs	Weighted average fair value (CA\$)
Outstanding at January 1, 2020	1,750,951	\$ 1.95
Granted <sup>(1)</sup>	1,575,459	1.46
Vested <sup>(2)</sup>	(930,334)	1.95
Forfeited	(146,753)	1.75
Outstanding at December 31, 2020	2,249,323	1.62
Granted <sup>(1)</sup>	1,014,195	2.39
Vested <sup>(2)</sup>	(1,000,246)	1.74
Forfeited	(839,893)	1.85
Outstanding at December 31, 2021	1,423,379	\$ 1.95

<sup>(1)</sup> The 1,014,195 RSUs granted during December 31, 2021 were all granted to employees (December 31, 2020 - 1,402,626 to employees and 172,833 to directors) that will be issued once the shares vest according to the terms below.

<sup>(2)</sup> The 1,000,246 RSUs vested during December 31, 2021 were all granted to employees. The RSUs vested during the 2020 include 757,501 RSUs granted to employees and 172,833 RSUs granted to directors.

RSUs granted to directors are immediately vested and are restricted for the shorter of two years after the grant date or six months after a director retires from the board. RSUs granted to employees vest based on service-related vesting terms set by the Board of Directors and can therefore vary grant to grant. In general, however, RSUs vest one-third per year for three years. The references to outstanding RSUs in the above table refer to RSUs granted but not yet vested.

The total share-based compensation expense related to RSUs for 2021 was \$872 (2020 - \$1,502). As at December 31, 2021, there was \$609 of unamortized stock-based compensation expense related to RSUs (December 31, 2020 - \$774).

The Company has adopted a net withholding settlement feature for vested RSUs, where a portion of the vested RSUs can be withheld, at the election of the employee, to satisfy tax withholding obligations, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations and remits the tax withholdings to the taxing authorities on behalf of the employee. As at December 31, 2021, if all RSUs were to have vested and all employees elected the net withholding settlement feature on vesting, based on the Company's share price at December 31, 2021, the Company estimates that it would have had to transfer approximately \$668 to the tax authorities for withholding taxes on such vested RSUs.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)***Performance share units*

The following table summarizes the PSU activity for the Company:

	PSUs	Weighted average fair value (CA\$)
Outstanding at January 1, 2020	1,366,006	\$ 2.52
Granted	959,268	1.30
Forfeited	(27,573)	3.07
Outstanding at December 31, 2020	2,297,701	2.00
Granted	677,835	2.63
Vested	(222,663)	2.49
Forfeited	(1,256,947)	2.30
Outstanding at December 31, 2021	1,495,926	\$ 1.96

The PSUs are subject to certain vesting requirements and each years' grants vest at the end of three years. The vesting requirements are based on certain performance criteria over the vesting period established by the Board of Directors of the Company. The number of units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. The total share-based compensation expense related to PSUs for 2021 was \$591 (2020 - \$1,032). As at December 31, 2021, there was \$743 of unamortized stock-based compensation expense related to PSUs (December 31, 2020 - \$1,013).

*Deferred share units*

The following table summarizes the DSU share activity for the Company:

	DSUs	Weighted average fair value (CA\$)
Outstanding at January 1, 2021	—	\$ —
Granted	345,944	2.35
Cancelled	(22,432)	2.35
Outstanding at December 31, 2021	323,512	\$ 2.35

In 2020, the Company established a DSU Plan whereby DSUs are issued to directors as long-term incentive compensation. DSUs issued under the DSU Plan are fully vested upon issuance and entitle the holder to either, at the option of the Company, a settlement in cash or common shares of the Company following cessation of service on the Board of Directors and must be converted by December 31 of the year service ceases. The value of the DSUs when converted to common shares will be equal to the number of DSUs granted multiplied by the quoted market value of the Company's common share at the time the conversion takes place. Compensation expense related to DSUs is based on the fair value of the Company's common shares at grant date and is recorded immediately. Because the manner of settlement of the DSUs is in the control of the Company and the Company has no past practice of settling such awards in cash or stated intent to settle the DSUs in cash, the Company has recorded the DSUs as equity-settled awards.

The total share-based compensation expense related to DSUs for 2021 was an expense of \$598 (2020 - \$nil).

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

## d) Alio Replacement Options and Alio Warrants

At December 31, 2021, the Company had outstanding Alio Replacement Options along with Alio Warrants (note 5).

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

	Options	Weighted average exercise price (CA\$)
Outstanding at July 1, 2020	3,121,352	\$ 3.20
Exercised	(1,947,562)	1.20
Outstanding at December 31, 2020	1,173,790	6.53
Exercised	(513,052)	1.17
Forfeited	(3,120)	3.34
Expired	(538,848)	12.12
Outstanding at December 31, 2021	118,770	\$ 4.41

The weighted average share price at the time of exercise for 2021, was CA\$2.92 per share (2020 - CA\$2.66 per share). The Alio Replacement Options have varied expiry dates ranging from January 2022 to February 2028.

The following table summarizes information relating to Alio Replacement Options outstanding and exercisable at December 31, 2021:

Exercise price per share (CA\$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)	Options exercisable	Weighted average exercise price (CA\$)
\$ 1.06 - 1.31	746	3.15	\$ 1.06	746	\$ 1.06
1.32 - 2.48	29,980	2.49	1.49	29,980	1.49
2.49 - 4.00	1,979	3.66	3.24	1,979	3.24
4.01 - 7.00	71,225	3.38	4.49	71,225	4.49
7.01 - 12.13	14,840	4.23	10.27	14,840	10.27
\$ 1.06 - 12.13	118,770	3.26	\$ 4.41	118,770	\$ 4.41

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

	Warrants	Weighted average fair value (CA\$)
Outstanding at July 1, 2020	1,544,892	\$ 5.42
Expired	(742,153)	6.47
Outstanding at December 31, 2020	802,739	4.45
Expired	(802,739)	4.45
Outstanding at December 31, 2021	—	\$ —

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)****17 SHARES OUTSTANDING**

	2021	2020
Basic weighted average shares outstanding	307,975,052	233,204,334
Weighted average shares dilution adjustments: <sup>(1)</sup>		
Stock options	726,412	1,553,691
Restricted share units	1,804,741	1,787,346
Performance share units	1,574,686	1,230,124
Deferred share units	280,968	—
Diluted weighted average shares outstanding	312,361,859	237,775,495
Antidilutive securities	20,751,453	23,364,120

<sup>(1)</sup> Impact of dilutive stock options and other share-based compensation arrangements were determined using the Company's average share price for 2021 of CA\$2.85 (2020 - CA\$2.13).

**18 PRODUCTION COSTS BY NATURE**

	2021	2020
Mining	\$ 121,842	\$ 82,482
Crushing	29,740	20,258
Processing	77,535	60,637
Mine general and administrative and royalties	27,397	20,129
Refining and desorption	8,958	4,217
Change in inventories	(11,722)	(13,101)
	\$ 253,750	\$ 174,622

**19 FINANCE EXPENSES**

	2021	2020
Interest	\$ 1,714	\$ 1,598
Accretion on other liabilities	103	115
Accretion on reclamation provision	376	341
Amortization of debt financing and transaction costs	175	999
Other finance expenses	470	276
	\$ 2,838	\$ 3,329



**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)****20 OTHER INCOME (EXPENSE)**

	2021	2020 Re-presented (Note 6)
Foreign exchange loss	\$ (2,773)	\$ (2,899)
Gain on sale of net smelter return royalty <sup>(1)</sup>	2,250	—
Gain on settlement of receivables from acquisition (Note 7)	1,751	—
Revaluation of marketable securities	(1,950)	(906)
Other income	1,031	279
	<b>\$ 309</b>	<b>\$ (3,526)</b>

<sup>(1)</sup> During 2021, the Company entered into an agreement to sell a 2.5% net smelter royalty (“NSR”) on the La Fortuna property that it had retained on the sale of this non-core exploration property in 2016. The Company received \$2,250 in gross consideration for the sale of the NSR, less transaction costs of \$25, for net proceeds of \$2,225, paid fully in cash.

**21 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	2021	2020
(Decrease) increase in expenditures on mineral properties, plant and equipment related to a (increase) decrease in accounts payable and accrued liabilities	\$ (38,801)	\$ (624)
Decrease in expenditures on mineral properties for change in estimate of reclamation provision (Note 14)	(44,174)	(1,231)
(Decrease) increase in expenditures on plant and equipment related to a (increase) decrease in fair value of leases capitalized as equipment additions	(35,202)	—
Fair value of common shares issued related to community agreements capitalized as mineral property additions	1,590	1,722
Fair value of RSUs allocated from contributed surplus to share capital upon vesting	918	1,039
Fair value of PSUs allocated from contributed surplus to share capital upon vesting	213	—
Fair value of common shares issued for services provided on Magino	142	793
Fair value of common shares issued related to acquisition of Alio (Note 16b)	—	1,724
Fair value of common shares, options and warrants related to the acquisition of Alio (Note 5)	—	111,400

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)****22 SEGMENT INFORMATION**

Operating segments are those operations whose operating results are reviewed by the chief operating decision-maker (the individual or individuals performing the duties of the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds, or are deemed significant by management. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10.0% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Certain operations that do not meet any of the quantitative thresholds may still be considered reportable segments if deemed significant by management. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. The Ana Paula project, early-stage exploration and other operations are reported in the Corporate and other segment. During the year ended December 31, 2020, the San Antonio project no longer meets any of the quantitative thresholds for a reportable segment as defined by IFRS 8 - *Operating Segments*, and is not deemed significant by management.

The Company operates in the mining industry and its principal product is gold. During 2021 sales were to two customers (2020 - three customers) and were recognized at a point in time. The Company's revenue is generated on the sale of product originating from Mexico and the United States. As at December 31, 2021, the Company's significant mineral properties are located in Canada (Magino), Mexico (El Castillo mining complex, La Colorada and Cerro del Gallo), and the United States (Florida Canyon).

The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	Florida Canyon	Cerro del Gallo	Magino	Corporate and other	Total
Year ended December 31, 2021							
Revenue	\$ 222,422	\$ 116,151	\$ 98,338	\$ —	\$ —	\$ —	\$ 436,911
Production costs	129,471	49,836	74,443	—	—	—	253,750
Depreciation, depletion and amortization	39,375	19,946	12,173	—	—	—	71,494
Reversal of inventory write-down (Note 8)	(2,693)	—	—	—	—	—	(2,693)
Total cost of sales	166,153	69,782	86,616	—	—	—	322,551
Gross profit	56,269	46,369	11,722	—	—	—	114,360
Exploration expenses	—	—	—	—	—	4,315	4,315
General and administrative expenses	2,741	1,218	—	102	3	14,066	18,130
Other operating expenses	—	166	—	—	—	247	413
Impairment (reversal) of mineral properties, plant and equipment (Note 27)	—	—	57,481	—	—	7,396	64,877
Income (loss) from operations	\$ 53,528	\$ 44,985	\$ (45,759)	\$ (102)	\$ (3)	\$ (26,024)	\$ 26,625
Capital expenditures	\$ 21,906	\$ 5,847	\$ 28,987	\$ 1,580	\$ 316,462	\$ 2,517	\$ 377,299
December 31, 2021							
Mineral properties, plant and equipment	\$ 84,831	\$ 43,907	\$ 106,277	\$ 20,054	\$ 611,910	\$ 35,260	\$ 902,239
Total assets	\$ 181,741	\$ 98,350	\$ 167,882	\$ 21,964	\$ 626,251	\$ 173,139	\$ 1,269,327

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

	El Castillo mining complex	La Colorada	Florida Canyon	Cerro del Gallo	Magino	Corporate and other	Total
Year ended December 31, 2020							
Revenue	\$ 188,803	\$ 82,734	\$ 48,155	\$ —	\$ —	\$ —	\$ 319,692
Production costs	95,005	45,370	34,247	—	—	—	174,622
Depreciation, depletion and amortization	29,805	14,414	6,464	—	—	—	50,683
Reversal of inventory write-down (Note 8)	(1,611)	—	—	—	—	—	(1,611)
Total cost of sales	123,199	59,784	40,711	—	—	—	223,694
Gross profit	65,604	22,950	7,444	—	—	—	95,998
Exploration expenses	—	—	—	744	—	1,319	2,063
General and administrative expenses	2,390	1,451	—	—	—	10,614	14,455
Other operating expenses	—	774	435	—	—	—	1,209
Care and maintenance expenses	6,518	1,683	—	—	—	—	8,201
Transaction costs on acquisition (Note 5)	—	—	—	—	—	4,604	4,604
Impairment (reversal) of mineral properties, plant and equipment (Note 27)	—	(5,950)	—	—	—	(301)	(6,251)
Income (loss) from operations	\$ 56,696	\$ 24,992	\$ 7,009	\$ (744)	\$ —	\$ (16,236)	\$ 71,717
Capital expenditures	\$ 15,337	\$ 7,691	\$ 9,651	\$ 1,195	\$ 34,260	\$ 1,914	\$ 70,048
December 31, 2020							
Mineral properties, plant and equipment	\$ 97,445	\$ 59,220	\$ 146,725	\$ 18,486	\$ 300,037	\$ 13,054	\$ 634,967
Total assets	\$ 186,906	\$ 96,112	\$ 175,918	\$ 18,486	\$ 307,522	\$ 268,466	\$1,053,410

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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**23 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

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

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

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

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

	2021	2020
Salaries and other short-term employee benefits <sup>(1)</sup>	\$ 5,460	\$ 2,549
Post-employment benefits	96	94
Share-based compensation <sup>(1)</sup>	1,619	2,750
	\$ 7,175	\$ 5,393

<sup>(1)</sup> Includes the impact of the departure of the Chief Executive Officer in December 2021.

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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**24 CAPITAL MANAGEMENT**

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, contributed surplus and debt (including the undrawn amount of \$45,000 as at December 31, 2021 on the ARCF), net of cash and cash equivalents. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

**25 COMMITMENTS AND CONTINGENCIES**

At December 31, 2021, the Company has the following commitments:

	2022	2023	2024	2025	2026	Thereafter	Total
Accounts payable and accrued liabilities	\$ 104,369	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 104,369
Lease obligations	17,530	17,440	16,250	6,733	2,638	223	60,814
Land agreement obligations <sup>(1)(3)</sup>	1,199	1,226	1,254	1,283	805	5,888	11,655
Purchase obligations <sup>(2)(3)</sup>	271,497	19,079	31	31	31	—	290,669
Debt <sup>(4)</sup>	—	80,000	—	57,480	—	—	137,480
Reclamation provision <sup>(5)</sup>	20,904	14,917	9,559	5,098	6,638	65,437	122,553
	\$ 415,499	\$ 132,662	\$ 27,094	\$ 70,625	\$ 10,112	\$ 71,548	\$ 727,540

<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 \$205,189 for the Magino project, \$30,553 for mining services, \$53,892 for supplies, \$741 for flow-through and \$293 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> Debt represents the ARCF and convertible debentures (note 12).

<sup>(5)</sup> Reclamation provision amounts represent management's estimate of when the reclamation expenditures are expected to be paid.

*Flow-through common shares*

The Company is required to incur expenses and renounce all qualified CDE and CEE in relation to its CDE Flow-Through Shares and CEE Flow-Through Shares in favor of the subscribers. The Company renounces all expenditures to flow-through shareholders at the end of the year in which the shares are issued. As at December 31, 2021, the remaining qualified CDE to be incurred by December 31, 2021 is \$nil (note 16b) and the remaining qualified CEE to be incurred by December 31, 2022 is \$741 (note 16b).

*Notice of contractor claim*

The Company received notice of a lien and legal claim from a former contractor at the Florida Canyon mine. The plaintiff is seeking \$5,000 in compensation for claimed work completed on the heap leach pad. The Company believes the work was not completed as intended and originally agreed upon. In response the Company has placed a surety bond for the amount of the lien and initiated a counterclaim for \$2,000 against the plaintiff for the work not completed on the heap leach pad. The dispute is currently in the discovery phase of proceedings. The outcome of the claim, and the counterclaim, are not determinable at this time. Accordingly, no liability has been accrued or recognized in the Company's consolidated financial statements for this dispute.

*Notice of Civil Claim*

Alio received a Notice of Civil Claim from a former shareholder of Rye Patch Gold Corp. whose shares were acquired by Alio. The plaintiff brought the claim in the Supreme Court of British Columbia pursuant to the Class Proceedings Act and is seeking damages against Alio for alleged misrepresentations with respect to anticipated gold production during the year ended December 31, 2018. In March 2021, the court dismissed, in its entirety, the plaintiff's application to certify the action as a class proceeding. In April 2021, the Company received notice that the plaintiff is pursuing an appeal of the court's decision to dismiss the plaintiff's certification application. The appeal was argued in the Court of Appeal in January 2022 and the Company is currently awaiting judgment. The Company has reviewed the claim and is of the view that it is without merit. However, the outcome of the claim and the plaintiff's appeal of the court's decision on certification is not determinable at this time. Accordingly, no liability was accrued in the Alio purchase price allocation and no liability has been recognized in the Company's consolidated financial statements.

**26 FINANCIAL INSTRUMENTS AND RISKS***Overview*

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

**a) Credit risk**

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

**b) Market price risk**

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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If equity prices for these marketable securities had increased or decreased by 5.0% as at December 31, 2021, with all other variables held constant, the Company's marketable securities would have increased or decreased, respectively, by approximately \$302 (2020 - \$400). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Foreign exchange risk

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

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

	US dollar value of Canadian dollar balances		US dollar value of Mexican peso balances	
	2021	2020	2021	2020
Cash and cash equivalents	\$ 37,142	\$ 78,573	\$ 1,543	\$ 2,361
Marketable securities	6,049	7,998	—	—
Other receivables	1	8	279	(388)
Accounts payable and accrued liabilities	(39,587)	(3,685)	(23,017)	(17,300)
Other liabilities	—	—	(1,052)	(1,151)
	\$ 3,605	\$ 82,894	\$ (22,247)	\$ (16,478)

Based on the above net exposures as at December 31, 2021, a 10.0% appreciation in the Canadian dollar would result in a \$360 increase in the Company's other comprehensive income for the year ended December 31, 2021 (December 31, 2020 - \$8,289 increase in other comprehensive income). A 10.0% appreciation in the Mexican peso would result in a \$2,225 decrease in the Company's income before income taxes for 2021 (2020 - \$1,648 decrease in the Company's income before income taxes).

d) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and matches the maturity profile of financial assets and liabilities. As at December 31, 2021, the Company had a cash balance of \$199,235 (December 31, 2020 - \$214,188), an undrawn ARCF of \$45,000 (December 31, 2020 - \$125,000), other current assets of \$147,099 (December 31, 2020 - \$146,235) and current liabilities of \$169,820 (December 31, 2020 - \$94,409). The Company anticipates additional financing will be required to fund the Magino construction capital anticipated for 2022.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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## e) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10.0% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company's income (loss) before income taxes in the consolidated statements of income. The Company has additional exposure to interest rate risk on the ARCF, which is subject to a floating interest rate. Floating interest rates are based on the LIBOR plus a fixed margin. Based on the spread between the high and the low of the LIBOR rate during 2021, in which there was a 52.5% fluctuation, a relatively similar rate change would result in a nominal increase or decrease in interest expense in the consolidated statements of income. The Company does not enter into derivative contracts to manage this risk. The Company has utilized \$80,000 of the ARCF as at December 31, 2021.

## f) Commodity price risk

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

*Commodity derivative contracts*

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

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

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

<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.



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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

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The resulting fair values of the outstanding commodity contracts at December 31, 2021, have been recognized, on a net basis, in derivative liabilities on the consolidated statements of financial position. These derivative instruments were not designated as hedges by the Company and are fair valued at the end of each reporting period with the fair value adjustment recorded in the consolidated statements of income. The commodity contracts are valued using a Levy two moment valuation model which uses quoted observable inputs and are classified as Level 2 in the fair value hierarchy. During 2021, reversal of prior period unrealized losses of \$16,380 (2020, unrealized losses - \$15,775) were recognized in the consolidated statements of income on the fair value of the commodity contracts. During 2021, realized losses on the commodity contracts of \$3,808 (2020 - \$6,880) were recognized in the consolidated statements of income.

*Financial instruments*

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

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

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

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

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

The following table shows the carrying amounts of financial assets and financial liabilities by category:

	December 31, 2021	December 31, 2020
Financial assets at amortized cost <sup>(1)</sup>	\$ 201,260	\$ 222,369
Financial liabilities at amortized cost <sup>(2)</sup>	(287,924)	(128,951)
Financial assets at fair value through profit or loss <sup>(3)</sup>	9,292	16,455
Financial liabilities at fair value through profit or loss <sup>(4)</sup>	(12,719)	(33,739)

<sup>(1)</sup> Financial assets at amortized cost include cash and cash equivalents and receivables.

<sup>(2)</sup> Financial liabilities at amortized cost include accounts payable and accrued liabilities, lease liabilities, debt and other liabilities.

<sup>(3)</sup> Financial assets at fair value through profit or loss include reclamation deposits, marketable securities and derivative assets.

<sup>(4)</sup> Financial liabilities at fair value through profit or loss include derivative liabilities.

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

As at December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, the carrying amounts of other liabilities and debt not arising from the acquisition are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

The carrying value of other liabilities and debt arising from the acquisition of Alio are considered to be reasonable approximations of their fair value as the fair value has been revalued on acquisition and there have been no significant changes in market interest rates since then. These financial assets and liabilities were classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs.

As at December 31, 2021, the fair value of the Debentures is \$58,630, determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

**27 IMPAIRMENT AND REVERSAL OF IMPAIRMENT***Summary of impairments (reversals)*

During 2021, the Company recognized a non-cash impairment of mineral properties, plant and equipment of \$64,877 (2020 - impairment reversal of \$6,251), as summarized in the following tables:

	2021			
	Exploration and evaluation assets	Mineral properties	Plant and equipment	Total
Florida Canyon mine	\$ —	\$ 57,481	\$ —	\$ 57,481
Ana Paula project	7,330	—	—	7,330
Other	(606)	—	672	66
Total impairment	\$ 6,724	\$ 57,481	\$ 672	\$ 64,877

	2020			
	Exploration and evaluation assets	Mineral properties	Plant and equipment	Total
La Colorada mine	\$ —	\$ (3,921)	\$ (2,019)	\$ (5,940)
Other	(383)	—	72	(311)
Total reversal of impairment	\$ (383)	\$ (3,921)	\$ (1,947)	\$ (6,251)

*2021 Impairment*

During the year ended December 31, 2021, management of the Company completed an assessment of impairment indicators for each of the Company's CGUs, as the Company's market capitalization continued to be below the carrying value of net assets. As a result of this assessment, management identified impairment indicators for the La Colorada mine, the Florida Canyon mine, the Magino project, and the Ana Paula project CGUs. No impairment indicators were identified for El Castillo and San Agustin. Accordingly, the Company estimated the recoverable amounts of these CGUs and compared them to the carrying values of the CGUs. The recoverable amount was determined as the FVLCD for each CGU. The FVLCD was determined using a discounted future cash-flow model. For the Ana Paula project, management used relevant market data for the determination of the FVLCD. For the Magino project, management used a discounted future cash-flow model and an in-situ value of its mineral reserves and resources for the determination of the FVLCD. The determination of FVLCD requires use of Level 2 and Level 3 valuation inputs.

The Company identified indicators of potential impairment and recorded an impairment expense, if applicable, as follows:

- For the Florida Canyon mine's CGU, an increase in expected operating costs and changes in metallurgical recovery estimates were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties related to the Florida Canyon mine's CGU were written down to its recoverable value of \$54,825, which was determined based on the FVLCD, and a non-cash impairment of mineral properties of \$57,481 was recognised in the consolidated statements of income. The FVLCD was determined using a discounted cash flow model.
- For the La Colorada mine's CGU, a reduction in metallurgical recovery estimates, changes in estimated timing of ounces to be produced, and an increase in stripping costs were identified as impairment indicators. After a review of the Company's impairment assessment, impacts of cost increases, consideration of mineral reserves and resources and the updated LOM, it was determined that no impairments are to be recognized for the La Colorada mine as at December 31, 2021. The FVLCD was determined using a discounted cash flow model.
- The Ana Paula project was assessed for impairment upon the reclassification of the Ana Paula project as no longer an asset held for sale (note 6). The Company assessed the recoverable amount for the non-current assets including the exploration and evaluation assets of the Ana Paula project, and determined a recoverable value based on the FVLCD of the Ana Paula project of \$28,945, which was lower than the carrying value of the CGU. Accordingly, a non-cash impairment of \$7,330 was recognized in the consolidated statements of income. The FVLCD was determined using relevant market data.
- For the Magino project's CGU, an increase in budgeted capital costs and an increase in the estimated operating costs were identified as impairment indicators. After a review of the impacts of cost increases, inflation, COVID-19, adjustments to the development plans and contingencies, and the updated capital costs to completion, it was determined that no impairments are to be recognized for the Magino project as at December 31, 2021. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.

*Other 2021 impairment (reversal)*

For the year ended December 31, 2021, the Company recorded a net other non-cash impairment of \$66, comprised of the following components:

- An impairment reversal related to cash received in connection with a mineral property option agreement with a third party. The payment received has resulted in a partial reversal of this impairment of \$606 (note 9).
- A non-cash impairment of \$672 resulting from the Company reevaluating the salvage values on aged and fully depreciated plant and equipment.

*Impairment testing: 2021 Key assumptions*

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

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2021 and 2020****(Expressed in thousands of United States dollars, except where noted)**

The determination of FVLCD includes the following key applicable assumptions:

- Long term and short term gold price per ounce: \$1,600 and \$1,700, respectively;
- Operating and capital costs based on budgeted and LOM costs;
- Production volume and recoveries as indicated in the LOM plans;
- In-situ value per ounce of gold equivalent mineral reserves and resources for the Magino project: \$76 per ounce; and
- Real after-tax discount rate: 5.0% for the La Colorada and Florida Canyon CGUs, and 6.0% for the Magino project CGU.

*Sensitivity analysis 2021*

The Company has performed a sensitivity analysis on the CGUs where an impairment was recorded. The Company assumed a 5.0% change in the long term gold price assumption, a 5.0% change in the operating cost assumption, and change in the discount rate from 5.0% to 6.0% while holding all other assumptions constant. Based on the impairment testing performed as at December 31, 2021, the sensitivity to changes in these key assumptions appear below for the Florida Canyon mine.

	Change in recoverable amount from a 5% change in long term gold price	Change in recoverable amount from a 5% change in operating costs	Change in recoverable amount from a change in discount rate from 5% to 6%
Florida Canyon mine	\$ 35,313	\$ 31,056	\$ 6,320

The table below indicates the gold price per ounce, the discount rate, the construction capital, the in-situ value per ounce, and the percentage change in operating costs assumption which would cause the carrying values of the La Colorada mine and the Magino project CGUs to equal the recoverable amount while holding all other assumptions constant.

	Gold price per ounce required for recoverable amount to equal carrying amount	Discount rate required for recoverable amount to equal carrying amount	Construction capital required for recoverable amount to equal carrying amount <sup>(1)</sup>	Percentage change in operating costs required for recoverable amount to equal carrying amount	In-situ value per ounce required for recoverable amount to equal carrying amount
La Colorada mine	\$ 1,533	9.49%	N/A	4.19%	N/A
Magino project	\$ 1,582	6.36%	\$ 665,577	2.10%	\$ 67

<sup>(1)</sup> The construction capital required for recoverable amount to equal carrying amount is \$665,577 or CA\$831,971 at an exchange rate of \$0.80 per CA\$1.00.

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.

*2020 Impairment (impairment reversal)*

During the year ended December 31, 2020, management of the Company determined the continued weakness in the Company's share price during 2020, resulting in the Company's market capitalization being below the carrying value of net

assets, constituted an impairment indicator. As at December 31, 2020 the Company also reviewed the updated LOM plans for its operating mines for indicators of impairment or reversal (note 3b).

The Company completed an assessment for each of the Company's CGUs whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount. The recoverable amount was determined as the FVLCD for each CGU. FVLCD was determined using a discounted future cash flow model. The determination of FVLCD for each CGU uses Level 3 valuation techniques.

Management's impairment evaluation did not result in the identification of an impairment on its El Castillo and San Agustin or Florida Canyon mines or on its exploration and evaluation assets as at December 31, 2020.

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

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

*Other 2020 impairment (reversal)*

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

## **28 EVENTS AFTER THE REPORTING PERIOD**

On February 14, 2022, the Company entered into an agreement with a syndicate of underwriters, under which the underwriters have agreed to buy on a bought deal basis by way of private placement, 3,400,000 CEE and 13,800,000 CDE flow-through common shares of the Company, at a price of CA\$2.95 per CEE Flow-Through Shares and CA\$2.54 per CDE Flow-Through Shares, for gross proceeds of approximately CA\$45,000. In addition, the Company has also granted the underwriters an option, exercisable up to 48 hours prior to the closing of the offering, to purchase up to an additional 15% of the number of the flow-through common shares, in the same percentages and at the same price, as initially issued pursuant to the offering. The Company intends to use the net proceeds of the offering for continued exploration and development activities at the Company's Magino project and for general corporate purposes. The offering is subject to Argonaut receiving all necessary regulatory approvals, including the approval of the Toronto Stock Exchange.